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Summary of Commentary on _____

Current Economic Conditions

By Federal Reserve District

November 2012

**SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICTS**

November 2012

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SUMMARY¹

Economic activity expanded at a measured pace in recent weeks, according to reports from contacts in the twelve Federal Reserve Districts. Cleveland, Richmond, Atlanta, Chicago, Kansas City, Dallas, and San Francisco grew at a modest pace, while St. Louis and Minneapolis indicated a somewhat stronger increase in activity. In contrast, Boston reported a slower rate of growth. Weaker conditions in New York were attributed to widespread disruptions at the end of October and into November caused by Hurricane Sandy. Philadelphia reported general weakness that was exacerbated by the hurricane. However, in the Boston and Richmond Districts, the storm's effects were mostly limited. Contacts in a number of Districts expressed concern and uncertainty about the federal budget, especially the fiscal cliff.

Among key sectors, consumer spending grew at a moderate pace in most Districts, while manufacturing weakened, on balance. Seven of the twelve Districts reported either slowing or outright contraction in manufacturing, and two others gave mixed reports. In some cases, such as high-tech equipment and steel production, an industry slowed in one District while strengthening in another. Several Districts reported slight gains in residential and commercial real estate. Travel and tourism varied by District; for example, Minneapolis contacts marked levels of activity above a year ago, and tourism fell in the Kansas City District. Non-financial services also differed among Districts, with Philadelphia businesses indicating softer demand, while firms in other Districts reported pockets of robust demand for professional, scientific, and technical services. In transportation, reports were, again, mixed. In addition, hurricane disruptions slowed freight shipments in some Districts, while simultaneously boosting demand for shipments of emergency supplies. In banking and financial services, higher demand for home mortgage loans and auto loans increased consumer lending in some Districts, although small business loan demand was generally described as weaker to only moderately higher. Credit quality improved on net.

Reports on agricultural conditions were mixed, as drought conditions persisted in several Districts, such as Atlanta, Chicago, and Kansas City; other areas reported solid production and,

¹ Prepared at the Federal Reserve Bank of Richmond and based on information collected before November 14, 2012. This document summarizes comments received from businesses and other contacts outside the Federal Reserve and is not a commentary on the views of Federal Reserve officials.

in some cases, increased investment. In the energy sector, extraction expanded on balance in San Francisco and activity remained at high levels in the Minneapolis and Dallas Districts. However, there were fewer active oil rigs in Kansas City, Dallas, and San Francisco. In addition, coal production fell in the Cleveland and Kansas City Districts. Most Districts reported modest gains in hiring, while wage and price pressures remained mostly subdued. Employment increased in more than half of the twelve Districts. Wage growth was described as modest at best, constrained in part by an abundant labor supply. However, a few Districts reported pockets of strength in wage growth, notably in North Dakota, where oil drilling had pushed up demand for workers, and in the Kansas City District, where wages were rising for specialized workers in transportation, high-tech, and energy. San Francisco reported stronger wage growth for truck drivers and health-care workers. Price increases, for the most part, remained in line with the modest pace reported in our last assessment. Examples of some exceptions were input prices for construction in Cleveland, Chicago, Minneapolis, Kansas City, and San Francisco. Richmond reported generally slower retail price increases, and in Chicago, retail food prices eased, except for meats. In contrast, Kansas City contacts indicated that retail prices had edged up.

Consumer Spending and Tourism. Consumer spending increased at a moderate pace in most Districts in recent weeks, with mixed reports from Dallas. In New York, sales were ahead of plan prior to Hurricane Sandy, and merchants expect to recoup sales lost during the storm as residents replace destroyed or damaged property. Philadelphia contacts reported slower growth since the last report. Apparel sales picked up in Boston, and Richmond indicated that home and garden stores reported stronger sales ahead of Hurricane Sandy. Durable goods sales varied across Districts. For example, Boston and Chicago noted an improvement in furniture, while sales in that category declined in Cleveland. Chicago reported flattening in electronics sales, whereas San Francisco contacts reported significant sales gains for consumer technology products.

Automobile sales varied by District, with Cleveland, St. Louis, Minneapolis, and San Francisco indicating strength. Sales of both new and used vehicles in the San Francisco District were reported as running well above year-ago levels. Car sales were strong in Atlanta, although a bit less robust than earlier in the year. Richmond car sales were mixed. New York contacts said sales had flattened, and sales held steady in Kansas City. In contrast, auto sales slowed in Philadelphia and new vehicle sales fell at dealerships contacted by Chicago and Dallas. Sales of

used vehicles were also mixed. Used car sales remained robust in New York and rose in Cleveland, with Cleveland District inventories remaining tight; in St. Louis, a majority of dealerships noted that used car sales had decreased relative to new car purchases, and in Minneapolis, used car sales softened.

Looking to the holiday sales season, the Districts whose contacts gave an outlook noted mostly upbeat expectations. New York retailers anticipated recovering lost sales during the holiday season, and in Philadelphia, expectations remained bright overall for holiday sales, despite somewhat less optimism among general retailers. Boston contacts indicated that they were positioning their businesses for increased internet sales, and a Richmond retailer commented that he was competing with his suppliers for online sales. While retailers anticipated a good holiday season in Minneapolis, mall contacts reported recent declines in traffic and sales. Contacts in Boston, Cleveland, and Chicago remarked on their uncertain sales expectations because of the potential for tax changes in 2013, as the national budget outlook remained uncertain.

Tourism slowed in some Districts while strengthening in others. New York District tourism was mixed prior to Hurricane Sandy; hotel bookings initially dropped off following the storm, but business bounced back the next week. In addition, late cancellation of the New York marathon likely brought large numbers of visitors to the city in early November. Hurricane Sandy affected areas of the Philadelphia District along the coastlines of Delaware and southern New Jersey, in some cases demolishing houses and devastating businesses. New Jersey also suffered losses in revenue from the closure of Atlantic City casinos and the cancellation or delay of conventions there; expectations were that most areas along the Jersey shore would be rebuilt and ready for the summer season. Richmond reported seasonally slower autumn bookings, along with scattered cancellations caused by Hurricane Sandy, and in the Kansas City District, tourism spending fell, leading to price reductions by hoteliers. In contrast, travel and tourism remained strong in Atlanta, with international visitors bolstering activity in Florida and District convention bookings picking up. The exception there was at cruise lines, for which bookings continued to fall below expectations. Travel and tourism rose in Minneapolis.

Nonfinancial Services. Reports from nonfinancial services providers differed among Districts. Boston reports were generally weaker than expected for tech services, while New York businesses indicated that the effects of Hurricane Sandy had negatively impacted both workers

and customers. In the New York District, prolonged power and communications outages and extreme flooding hurt firms and residents, particularly on Long Island and in northern New Jersey. Slowing demand for nonfinancial services in the Philadelphia District was further hampered by the hurricane. St. Louis reported a net decline, but with expansion in some categories such as business support, telecommunications, casinos, legal, and crisis management services. Dallas noted steady demand overall, and contacts reported robust demand for insurance, audit, and legal services. However, Richmond, Minneapolis, and San Francisco reported net expansion, with examples of growth at engineering, technology, and architectural firms. A number of contacts across Districts expressed uncertainty about business conditions for the months ahead as the firms and their customers waited for the outcome of federal budget negotiations.

Transportation sector activity was generally mixed since the last assessment. Dallas noted that intermodal cargo volumes were down. Declines in rail cargo volumes were led by such products as coal, metals, and forest materials. Atlanta also cited declines in coal shipments, due to softening global demand for metallurgical coal and less demand from domestic utility plants. Cleveland reported fewer freight shipments, which their contacts attributed to hurricane disruptions and weakness in Europe, even as freight demand was boosted by housing, motor vehicles, and retail. Kansas City also noted a pickup in trucking traffic due to emergency food shipments in the wake of Hurricane Sandy. Shippers in that District also reported an increase in their capital expenditures. According to contacts for the Dallas District, domestic airline demand was flat to down, and in the St. Louis District, air transportation firms announced plans to reduce operations.

Manufacturing. Conditions in the manufacturing sector were mixed, though on balance, most Districts reported that conditions had weakened since the previous report. The Boston, New York, Philadelphia, Atlanta, Chicago, Minneapolis and Kansas City Districts reported that activity had either slowed or declined somewhat, with most reports leaning toward the latter. Activity was mixed in the Dallas and San Francisco Districts, while reports from the Cleveland, Richmond, and St. Louis Districts were positive. The Boston, Dallas, and San Francisco Districts noted slower growth for information technology equipment, while business activity expanded at high-tech firms in the Kansas City District. Car and auto parts producers in the Atlanta District said that orders softened slightly. Similarly, auto production in the Cleveland District declined

somewhat for domestic nameplates but increased for foreign nameplates. In contrast, heavy equipment and auto industries remained sources of strength in the Chicago and the Kansas City Districts. Demand was flat to down for transportation equipment in the Dallas District, and the Philadelphia District indicated that makers of primary metals, industrial machinery, and electronic equipment reported further declines.

Noteworthy gains in manufacturing related to the aerospace industry were reported in the Richmond and San Francisco Districts, while demand for aviation equipment held steady in Dallas. Steel production was down slightly in Cleveland, while the demand for steel in the San Francisco District improved a bit from low levels. Manufacturing contacts from five of the twelve Districts expressed concern about the outlook for 2013, in part, due to the uncertainty regarding the outcome of the fiscal cliff.

Real Estate and Construction. Overall, markets for single-family homes continued to improve across most Districts with the exception of Boston and Philadelphia. Residential real estate markets in the New York District were mixed but generally firm prior to the storm. Selling prices were steady or rising. Boston, New York, Richmond, Atlanta, Kansas City, and Dallas noted declining or tight inventories. The Cleveland District indicated that the number of single-family housing starts had increased since our last report and from a year ago; most sales contracts were in higher price-point categories. Similarly, Richmond noted more residential work in the high-end home category for the first time in three years, and builders cited significant pent-up demand in the first-time buyer segment. Atlanta indicated that existing home sales were up slightly compared to a year ago and reported that investors were more active in Florida than in the rest of the District. In Chicago, residential construction increased at a slow but steady pace in October and early November, and construction increased for single-family as well as multi-family homes. St. Louis reported that residential real estate market conditions continued to improve, and Minneapolis indicated that segments of construction and real estate were growing at a double-digit clip. Kansas City characterized residential real estate activity as brisk and noted that a solid rise in home sales had reduced home inventories. Dallas noted that single-family housing activity remained strong, with both new and existing home sales activity increasing. San Francisco reported that home demand continued to strengthen and that home sales continued to grow on a sustained basis in most areas, spurring new home construction. However, sales growth generally slowed for both the condominium and single-family home markets in the

Boston District, and the Philadelphia District noted that October began as a disappointing month for some Realtors, only to be punctuated by Hurricane Sandy.

Construction and commercial real estate activity generally improved across Districts since the last report. Gains, albeit modest in most cases, were reported by Philadelphia, Richmond, Chicago, and Minneapolis. The gains among Cleveland's contacts were tempered by reports in recent weeks of a slowdown in inquiries and a decline in public-sector projects. Kansas City described activity as holding firm and noted that real estate markets remained stronger than a year ago. Demand for office and industrial space continued to increase in Dallas, although contacts at some businesses said they were "holding back on expansions due to uncertainty." Several Districts noted segments of little change in commercial real estate activity. Boston described market fundamentals as flat, and San Francisco depicted market conditions as stable but with pockets of strength for large infrastructure projects such as roads and bridges. Commercial and industrial conditions were mixed in the St. Louis District and throughout most of New York prior to the hurricane. New York added that, while office markets across upstate New York were unaffected by the storm, there were some signs of recent softening.

Banking and Financial Services. Loan demand generally was either mixed or slightly stronger across most Districts in recent weeks. Among those noting mixed results, New York reported that demand for consumer and especially commercial and industrial loans weakened, but commercial and residential mortgage demand was steady. Richmond said that a small commercial banker was encountering a slight improvement in overall loan demand but added that consumer loans were unchanged from "meager" levels and small business loans were virtually non-existent. Chicago noted that small business loan demand experienced modest growth, but a decrease in credit demand occurred among middle-market customers. According to St. Louis contacts, overall lending activity was essentially unchanged over the period. St. Louis added that, while credit standards for commercial and industrial loans were largely unchanged, both the demand for these loans and the number of inquiries ranged from moderately lower to moderately higher. Used car loan demand was weak in the Dallas District, although first mortgage and energy-related lending increased. San Francisco cited weak-to-moderate business loan demand, but consumer lending expanded further with the help of auto loans and home mortgage refinancing; however, San Francisco noted that lending activity as a whole was unchanged. Most remaining Districts, including Philadelphia, Cleveland, Atlanta, and Kansas

City reported moderate increases in total loan demand. In the Philadelphia District, banks reported widespread bank and ATM closings due to Hurricane Sandy.

Credit standards and credit quality were somewhat improved, on net, since the last report. Chicago, St. Louis, and Kansas City noted that credit standards on most types of loans were unchanged, and Dallas cited a loosening of credit standards, which contributed to very competitive loan pricing. Atlanta cited contacts who reported that underwriting standards had become more restrictive and burdensome since its last report, both in terms of credit scores and information requests. With respect to loan quality, New York reported that delinquency rates increased in the consumer and commercial and industrial segments but held steady in the residential and commercial mortgage segments. Philadelphia contacts cited moderate improvement. Cleveland and Richmond noted improvements in delinquency rates across consumer and business loan categories. Richmond added, however, that some contacts were concerned that banks were increasing their risk exposure by making longer-term loans in an effort to get higher yields. Kansas City and San Francisco also mentioned moderate improvement in loan quality.

Agriculture and Natural Resources. Assessments of agricultural activity were mixed. Varying degrees of drought conditions persisted in several Districts, while Hurricane Sandy's agricultural damage was minimal and localized mainly in coastal areas. In the Atlanta District, much of Georgia experienced drought conditions, while Chicago reported that corn and soybean production in their District did not suffer as much from the drought as previously expected. Correspondingly, Minneapolis indicated that their District crop producers remained in mostly good shape, despite this year's drought. Low soil-moisture levels in the Kansas City District hindered winter wheat emergence, raising concerns that persistent drought could strain U.S. crop production, keep crop and feed prices high, and force further livestock herd liquidations. However, Richmond stated that most farmers in Virginia were relieved that Hurricane Sandy brought much needed rain without significant damage to the corn and soybeans still in the fields. San Francisco noted that production activity and sales of most crop and livestock products have been growing at a solid pace, as had investment spending on new production equipment. Moreover, the St. Louis District reported that harvest completion rates were considerably higher than the five-year average there.

Activity in the energy industry was generally mixed since the last report. Coal production was above year-ago levels in the St. Louis District but was lower in the Cleveland and Kansas City Districts. More electricity was being generated from natural gas in Kansas City. In the Atlanta District, Hurricane Sandy's damage to refineries and infrastructure in the Northeast caused southeastern regional refiners to increase production and transportation of oil products to supply affected areas. Minneapolis reported that oil and gas production remained at record levels but noted that exploration activity was flat to down in some areas since our last report. Similarly, extraction activity in the San Francisco District expanded on balance for petroleum and natural gas, although the number of rigs used for natural gas extraction fell as producers shifted their activities toward higher-valued oil formations. The number of active oil rigs also fell in the Kansas City and Dallas Districts. Minneapolis mentioned that iron mines in northern Minnesota remained busy, although production fell slightly compared to recent months.

Employment, Wages, and Prices. Modest improvements in hiring activity were reported by most Districts. Labor markets were generally described as improving modestly by Boston, Atlanta, Chicago, Minneapolis, and Dallas. Staffing firms, according to Boston and Cleveland, experienced improved business conditions. However, Richmond reported that labor markets in general were weaker than in the last report, citing examples of soft demand and an unwillingness of some manufacturers to hire long-term unemployed workers. Contacts for Boston noted that demand for office and clerical assistants and accountants remained weak, and Cleveland reported that hiring across industries was generally sluggish except in autos. Atlanta indicated that employment agencies were seeing a pickup in orders for temporary help. Some large employers, however, announced plans to move toward hiring more part-time, rather than full-time, employees. Chicago reported that a number of firms were putting hiring on hold and had delayed temp-to-perm conversion decisions until next year. With respect to the upcoming holiday season, Cleveland reported that retailers were planning to hire the same number of temporary workers as last year, while Boston and Atlanta noted that some retailers were expecting to hire more help over the holidays. Finally, contacts in a number of Districts reported difficulties finding qualified workers in some specialized occupations.

Wage pressures were generally characterized as "subdued" or "contained" throughout much of the nation, according to the latest District reports. Virtually every District described wage growth as modest at best. Contacts in the Atlanta District attributed flatness in wages to the

large number of applicants for newly posted positions. Richmond reported that manufacturing and retail wage growth edged up, but wage growth slowed at non-retail firms. In addition, non-labor costs were increasing in the Chicago District, mostly due to health-care costs. St. Louis cited stable wages but added that non-labor costs in manufacturing were rising. Minneapolis noted pockets of stronger wage growth in some geographical areas, such as North Dakota where oil drilling was pushing up demand for workers. However, even this pressure was easing in recent weeks. Kansas City noted strengthening in wage growth among specialized positions in transportation and high-tech firms. Finally, San Francisco noted that limited hiring and abundant labor supply were holding down wage and compensation increases. However, San Francisco added that a few cases of wage pressures were occurring among truck drivers, health-care workers, and entry level positions in areas with low unemployment.

As with wages, price pressures changed little from the modest pace that was reported in the last assessment. Almost every District described price growth as modest, although examples of higher price growth were occasionally cited. For example, Atlanta noted that, even though overall input price increases had eased, firms were being challenged by higher energy and crop-related input prices and by rising health-care costs. Cleveland, Chicago, Minneapolis, Kansas City, and San Francisco all reported increasing prices of construction-related materials, and Chicago and Minneapolis also cited increases in metals prices. In addition, Kansas City remarked on rising prices in construction materials and manufacturing raw materials in general. Richmond reported increasing raw materials prices and slower increases in finished goods prices. Retail prices in general eased in the Richmond District, and Chicago noted that retail food prices eased, except for meats. According to contacts in the Kansas City District, however, retail prices edged higher. In the Richmond District, the pace of increases in services prices also moved up.

FIRST DISTRICT – BOSTON

Reports from business contacts in the First District reflect a growing economy, although the pace of growth appears to be somewhat slower than in the last round. Retailers cite mixed sales results, manufacturers note slow growth, and software and IT services firms report disappointing results. By contrast, staffing firms are seeing a pick-up in growth. Commercial real estate contacts indicate that fundamentals remain flat, and sentiment has soured somewhat in recent weeks; residential real estate respondents say growth in home sales has slowed but home prices are rising modestly in some areas. Hurricane Sandy reportedly had very modest effects on economic activity in New England. Prices are said to be level in general, with minimal inflationary pressures. While some firms cite shortages of specialized workers, few are hiring, none extensively, and no one mentions upward wage pressures.

Retail and Tourism

First District retailers contacted for this round report that year-over-year October sales changes ranged from single-digit decreases to single-digit increases. A durable goods retailer reported a large single-digit decrease which they attributed to a decline in customer traffic related to preparations for and the aftermath of Hurricane Sandy. Sales of adult apparel and home furnishings continue to be strong. Some retailers have increased their hiring in anticipation of the holiday season.

Respondents say that prices are holding steady and they do not see inflationary pressures. Many contacts are actively managing inventories to remain nimble and some are undertaking multi-year plans to better position their businesses for the future in which the Internet will account for an increasing share of sales. Because of the so-called fiscal cliff, there is some uncertainty about what to expect in terms of tax policy; this is viewed as particularly affecting planning by small businesses.

Manufacturing and Related Services

Manufacturing respondents give a general picture of weak growth. Of the 10 firms contacted this cycle, all but one report growth versus the period a year earlier but only four report higher year-on-year growth versus the previous quarter. Similarly mixed numbers appear across other measures, with three firms reporting an improved outlook, four reporting higher employment and four reporting higher capital expenditures.

Firms that are growing attribute growth to idiosyncratic factors and not to the economy. A pet healthcare firm plans for 7.5 percent growth in 2012 but says it is all the result of “innovation” and not the economy. A manufacturer of medical equipment said government spending on VA hospitals had led to a large increase in demand for its products. A semiconductor equipment manufacturing firm reported a dramatic reduction in its expected sales in the fourth quarter. As in recent Beige Book rounds, they blame this on the semiconductor equipment “cycle.”

We continue to hear occasional complaints of difficulty finding qualified workers. A pharmaceutical manufacturer reports hiring 75 new people this year but still having 58 openings which they have been trying to fill “for a long time” and which “they do not anticipate to be able to fill this

year...” They attribute the difficulty to their need for “highly qualified scientists with specific sets of skills.” A manufacturer of analytical laboratory equipment finds it “increasingly difficult to find qualified people in China.”

In general, manufacturing contacts’ recent weakness has not yet led them to revise substantially their capital expenditure plans. That said, many of these plans involve spending outside the United States. For example, a manufacturer of lab equipment is spending almost 50 percent more this year than is typical, but all that increment involves a new plant in England; capital expenditure in the U.S. is entirely on maintenance.

Software and Information Technology Services

New England software and information technology services contacts generally report weaker-than-expected activity through October, with revenues in the third quarter roughly on par with year-earlier levels. The downtick in activity reportedly reflects heightened political and economic uncertainty, which has rendered many potential clients unwilling to commit to projects. Many contacts report increasing difficulty in executing large license agreements, particularly in Europe, where one contact says sluggishness in the manufacturing sector led to a year-over-year decline in license revenue of nearly 40 percent. Delays in contract signings and project starts have led many respondent firms to slow the pace at which they are hiring; one contact may reduce headcount modestly in coming months, after hiring “in advance of anticipated need” earlier this year. Capital and technology spending and selling prices have gone largely unchanged since February.

Looking forward, New England software and IT contacts are generally less upbeat than they were three and six months ago, with many expressing growing concerns regarding the “fiscal cliff” and macroeconomic conditions in Europe. Most expect only modest growth through Q1 2013.

Staffing Services

New England staffing firms generally report improved business conditions, with most describing business since Labor Day as “pretty good.” Year-over-year revenue changes in the third quarter varied widely, from down slightly to up by about 20 percent. Labor demand is up slightly in the IT and engineering sectors, and one contact reports renewed activity in the manufacturing sector. However, demand for office and clerical assistants and accountants remains weak. In terms of labor supply, candidates with high-end skill sets such as nurses, mechanical and electric engineers, and software developers remain hard to find. In addition, one contact reports that turnover has recently decreased, as those with jobs are hunkering down for the holiday season. Nevertheless, bill rates and pay rates have gone largely unchanged since August. The outlook among New England staffing contacts is generally consistent with that of three months ago, with most expecting more robust growth in 2013.

Commercial Real Estate

According to contacts across the First District, commercial real estate fundamentals were roughly flat in recent weeks amid light leasing activity. In Hartford, downtown office vacancy rates (as percentages) remain in the mid-20s, although absorption could improve in the coming months if pending lease deals go through. A Providence contact also sees some chance of significant absorption in the

downtown office market but noted downside risks linked to macroeconomic conditions. In Portland, leasing activity in recent months remained light and fell below expectations, resulting in flat rental rates. In Boston, office fundamentals showed modest improvements in the third quarter, but leasing inquiries have reportedly fallen off recently amid concern over the fiscal cliff. Sales activity in Boston also softened, despite prior expectations that property owners would rush to take capital gains at current tax rates in light of pending 2013 rate increases. The multifamily sector remains strong in Hartford and Boston, with rents rising as much as 10 percent over the year for some properties in greater Boston. Loan terms remain highly favorable for high-quality properties and a regional lender to commercial real estate continues to experience record loan volume.

A majority of contacts note that business sentiment soured recently, with the national election results and the fiscal situation cited as key factors. The outlook for commercial real estate among our contacts turned more pessimistic on balance in light of these same factors and also, according to some, risks to growth stemming from Europe and other parts of the world. While contacts report no immediate impacts of Hurricane Sandy on the commercial real estate markets in their respective cities, two contacts point out that insurance rates for commercial structures along the Eastern seaboard are likely to rise going forward, restraining development in some areas.

Residential Real Estate

Sales growth slowed in September throughout much of the First District among both the condominium and single-family home markets. In the Greater Boston area, single-family home sales actually declined, representing the first decrease in 15 consecutive months. By contrast, condominium sales in Greater Boston rose, reaching historic levels for the month of September. Slowing growth across much of the region was attributed to the dwindling number of properties in the market and damped confidence in the local economy. Most contacts note modest price appreciation. However, in Rhode Island and Connecticut, prices declined compared to a year ago, but consistent growth in sales is expected to place upward pressure on prices. First District contacts remain fearful that ongoing declines in inventory levels will hurt the selection of homes on the market and discourage buyers in the market. Some contacts say homeowners interested in selling have been reluctant to list their homes in anticipation of greater future price appreciation.

Outlooks for the coming month remain similar to previous reports in spite of less robust growth recently. Contacts generally say the housing market continues to recover and expect positive year-over-year growth in sales in the coming months because of low interest rates and affordable prices; they also expect modest appreciation in prices. Inventory levels are not expected to increase until the Spring. Overall, contacts remain optimistic about the recovery in the housing market, but caution that gains could be undermined by worsening economic conditions.

SECOND DISTRICT--NEW YORK

Economic activity in the Second District has weakened since the last report, largely reflecting widespread disruptions from Sandy. Prices of finished goods and services have generally been stable. The labor market is difficult to gauge at this point—while hiring activity tapered off noticeably due to the storm, relatively few business contacts indicate that they plan to reduce headcounts in the months ahead. Retailers report fairly strong sales for October but indicate that business in the last two weeks has been severely hampered by storm disruptions; auto dealers in upstate New York report some softening in auto sales in October. Tourism activity in New York City was fairly strong prior to the storm; hotel business tapered off only modestly in early November, as the adverse effects of travel cancellations were partly offset by increased demand from local residents without power or access to their homes. Residential real estate markets were generally firm through the latter part of October, though the storm has caused a substantial slowing in sales activity in and around New York City. Finally, bankers report some weakening in loan demand and increased delinquency rates in the consumer and commercial & industrial loan segments; for residential and commercial mortgages, both loan demand and delinquency rates are little changed.

Consumer Spending

Retail sales are reported to have been ahead of plan in October but exceptionally weak in early November in the New York City area, mainly due to widespread power outages, store closings and accessibility problems for both customers and workers. With the holiday sales season coming up—and with many residents in the region needing to replace destroyed or damaged property—all the lost sales are expected to be made up in the weeks ahead. One major chain reports that it is hiring more holiday-season staff than in 2011. The pricing environment is described as stable. Auto dealers in upstate New York report some flattening out in sales in October, though used car sales reportedly remain fairly robust. There has also been some softening in business at dealers' service departments. Wholesale and retail credit conditions remain favorable.

Tourism activity in New York City was mixed in October but dropped off noticeably following the late-October storm. Hotels across much of lower Manhattan lost business in late October and early November, when they were without power for a number of days. Overall revenue for Manhattan hotels slumped nearly 10 percent below 2011 levels during the week of the storm but bounced back in the subsequent week. The New York City marathon, although cancelled at the last minute, likely brought large numbers of visitors to the city during the first weekend in November. Attendance and revenues at Broadway theaters, which had already weakened modestly in October, fell sharply during the week of the

storm; attendance rebounded modestly in the second week of November but remained roughly 15 percent below last year's level. Finally, consumer confidence in the region climbed to its highest level in well over a year in October (prior to the storm), based on both the Conference Board's survey of residents of the Middle Atlantic states (NY, NJ, Pa) and Siena College's survey of New York State residents.

Construction and Real Estate

Residential real estate markets in the District were mixed but generally firm prior to the storm, and its effects on the market remain unclear at this point. Manhattan's rental market remained on a positive trajectory in October, with rents up roughly 5 percent from a year earlier and vacancy rates continuing to decrease. Sales markets in both Manhattan and the outer boroughs were fairly active in October, with prices steady and the inventory of available homes characterized as low. On the other hand, housing markets in the Buffalo area showed signs of softening in October. An expert on New Jersey's housing sector notes that conditions were improving gradually prior to Sandy and expects that post-storm rebuilding will boost multi-family construction.

The storm caused a noticeable slowdown in sales activity throughout the New York City metropolitan region, but this is expected to be temporary. With many homes along the New York City, Long Island and New Jersey shorelines severely damaged or destroyed, the lean housing inventory is a concern, as displaced residents seek short-term rentals. There is some concern as to how much of the shore communities will be rebuilt and how quickly, but one industry expert anticipates that residents in the severely-damaged areas will be strongly motivated to return and rebuild. Some of the biggest potential challenges are likely to be shortages of construction equipment and materials, and steeper prices for insurance.

Commercial real estate markets were mixed prior to the storm. A number of large office buildings in lower Manhattan remain out of commission due to extensive flooding; however, a major brokerage contact indicates that displaced businesses do not seem to have had much trouble finding temporary quarters. Overall market conditions are not reported to have changed much, thus far, since the storm—between the end of September and mid-November, asking rents have risen modestly in Manhattan but declined modestly in northern New Jersey. Office markets across upstate New York, which was not directly affected by the storm, have shown some signs of softening in recent weeks.

Other Business Activity

Manufacturers across the District indicate continued weakness in general conditions since the last report; virtually all contacts in the New York City area report some loss in business due to storm-related disruptions. Manufacturers in upstate New York, which was not significantly affected by Sandy directly, reported only scattered and indirect effects from the storm, though these contacts also report some further weakening in business conditions.

Business contacts throughout the southern part of the District—in both manufacturing and other sectors—report widespread effects of the storm, particularly in northern New Jersey and on Long Island. In these parts of the District, many businesses indicate that the impact has been both severe and protracted, due to prolonged power and communications outages, as well as transportation disruptions that have prevented both workers and customers from accessing the business. A trucking industry expert notes that many terminals and warehouses sustained severe flooding, which has disrupted business; at least one firm has gone out of business as a result. Business contacts in both manufacturing and other sectors report steady input price pressures and little change in selling prices.

Labor market conditions have weakened, probably temporarily, in the aftermath of Sandy. A major New York City employment agency specializing in office jobs reports a sharp drop-off in business after the storm, because many firms either shut down or operated without key personnel. Separately, a growing number of manufacturing contacts—not only in the New York City area but also in upstate New York—report declines in employment at their firms. However, businesses in other sectors report little or no change in employment. Contacts in both manufacturing and other sectors expect headcounts to remain steady, on net, over the next six months.

Financial Developments

Small- to medium-sized banks across the District report weaker demand for consumer and especially commercial & industrial loans but steady demand for commercial and residential mortgages. Bankers report increased demand for refinancing. Respondents do not report any change in credit standards in any loan category. Bankers indicate a decrease in spreads of loan rates over costs of funds for all loan categories—particularly commercial mortgages. Respondents also indicate decreases in average deposit interest rates: nearly two in five bankers report a decrease while none reports an increase. Bankers note increased delinquency rates for consumer loans and commercial & industrial loans but no change in delinquency rates for residential or commercial mortgages.

When asked what effects Sandy had on their business, almost half of the bankers report no noticeable effect so far; however, many of these respondents expect that effects of the storm could become evident in the future, especially for commercial businesses and as damage to collateral is assessed. On the other hand, more than 40 percent of those surveyed were affected directly by the storm, with widespread branch closings and power outages reported. Banks in the most severely affected areas—largely New Jersey, as well as lower Manhattan and Queens—have received a high volume of calls from customers with home damage, and banks are physically inspecting buildings for damage before making new loans.

THIRD DISTRICT – PHILADELPHIA

Aggregate business activity in the Third District continued to grow modestly – comparable to the previous Beige Book – until the end of October. After pummeling the Mid-Atlantic coast, Hurricane Sandy made landfall in southern New Jersey as a tropical storm on October 29, moving quickly inland and over the Greater Philadelphia area. While the storm took a path through the heart of the Third District, the most severe impacts were felt along the central New Jersey shoreline and beyond our region in northern New Jersey, New York City, and Long Island where the wind and storm surges were greatest. Overall, the storm left over a hundred people dead, 8.5 million customers without power across 21 states, thousands of homes damaged or destroyed, and tens of billions of dollars of damage and economic disruption. Third District residents and businesses bore a substantial share of the damage; the Third District economy lost a couple of days' output.

Most individual sectors, abetted by Hurricane Sandy, declined a little further or slowed their pace slightly. Manufacturing activity declined a bit. Retail sales slowed to a slight pace of growth, while auto sales slowed to a modest pace. Lending volumes at Third District banks have continued to grow slightly, and credit quality has continued to improve. Signed contracts for new home construction have slowed, while brokers report strong percentage growth in sales of existing homes. Commercial real estate contacts reported slightly more leasing activity and some initial interest for new office construction, as well as robust construction for industrial space. Service-sector firms reported generally slower growth with significant challenges facing tourism. Price pressures have changed little.

The overall outlook appears less optimistic relative to the views expressed in the last Beige Book. Recovery from Hurricane Sandy and a renewed focus on the looming fiscal cliff contribute to greater uncertainty than before. Expectations over the next six months among manufacturers declined for overall activity as well as for capital spending and hiring. Auto dealers, contractors, real estate firms, and financial service contacts remain optimistic, as their ongoing positive trends are supported further by recovery spending. Holiday sales expectations remain strong but have diminished slightly among general retailers. Service-sector contacts express a mix of outlooks with a substantial cloud hanging over the Jersey Shore's tourism industry.

Manufacturing. Hurricane Sandy's impact on Third District manufacturers seems to have somewhat accelerated the slight overall declines in orders and shipments reported during the prior Beige Book period. The immediate economic impact from Sandy is largely negative – a combination of economic disruptions and destruction of capital. Nevertheless, makers of food

products, lumber and wood products, fabricated metal products, and instruments reported further gains. Makers of primary metals, industrial machinery, and electronic equipment reported further declines. A significant global manufacturer reported that growth in the U.S. and worldwide is weak and continues to slow; this firm and another large exporter specifically reported that growth in China is slowing further.

Expectations among Third District manufacturers that business conditions will improve during the next six months softened in October then held steady through mid-November despite the election and the storm. Firms in several sectors anticipate additional demand over the next three to six months from storm-related rebuilding activity. However, firms also reported lower expectations of future hiring increases and slight declines in future capital spending.

Retail. Prior to the storm's advance, Third District retailers reported a small improvement in October's year-over-year sales trends following a disappointing decrease in September sales. The storm is said to have wrecked those gains temporarily. Sales shifted to necessities then slowed overall on October's final weekend as the storm approached. In many areas throughout the District, malls closed for most of two days – which are otherwise slow days of a slow week prior to the start of the holiday shopping season. By opening while many local school districts were still closed, these retailers attracted high food sales, but general retail sales remained slow and focused on hard goods through the weekend following the storm. One drug store chain closed 790 locations during the storm's peak on October 29th; only one remained completely closed two weeks later in a nearly inaccessible stretch of the Jersey Shore. Chain stores, restaurants, and independent retailers remain closed in scattered locations from Cape May to Point Pleasant Beach. More severe property damage clustered along the narrowest strips of the barrier islands where the ocean met the bay at the height of the storm. While rebuilding raised sales expectations for home repair supplies, the storm tarnished expectations for the atypically long holiday sales season, as households are preoccupied with recovery efforts.

Auto dealers reported that October sales had been somewhat “flat” in New Jersey at 5.7 percent year-over-year growth and slowed a little in Pennsylvania prior to the storm. Sales fell off on the weekend prior to the storm and for the following two weeks. A significant sales bump is expected in November, as insurance companies begin to cut claims checks for an estimated 30,000 cars damaged in New Jersey. The stronger sales may extend over several months. In addition, an estimated 15,000 new cars awaiting delivery to dealerships were reported to be irreparably damaged by storm surge at the Port Newark–Elizabeth Marine Terminal in northern New Jersey. This loss will further tighten inventories at new car dealers throughout the eastern seaboard.

Finance. Third District financial firms have reported continued growth with a slight overall improvement since the prior Beige Book. This growth has occurred despite contacts reporting that many customers have been in a “wait-and-see mode” regarding capital investment decisions with respect to the nation’s upcoming fiscal decisions. Power outages associated with Hurricane Sandy created widespread bank and ATM closings, but few long-term disruptions or significant losses. While credit quality continued to improve, contacts suggest that the storm impacts may create a surge in cash flow borrowing and an increase in delinquencies, especially for New Jersey businesses and homeowners. Lenders maintain a positive outlook.

Real Estate and Construction. October began as a disappointing month for some residential builders, punctuated by Hurricane Sandy, which closed their offices and reduced their traffic. Brokers continued to report significantly stronger sales activity (from previously low levels) and expect to conclude their strongest year of the recovery despite the storm impacts. Inventory levels of real estate listings are significantly lower than one year ago. Jersey Shore real estate has been thrown into turmoil by an excess of displaced residents, in addition to utility, construction, and FEMA workers competing for all available rental units as temporary housing. Construction activity has already begun on the easy repairs, but it is likely to take years to repair or replace the thousands of homes damaged and demolished. Overall, builders and brokers remain cautiously optimistic.

Nonresidential real estate contacts reported that prospect activity was up slightly; large blocks of Class A office space in Philadelphia’s central business district were becoming scarce; and growing companies have begun to talk about new buildings. Construction activity for industrial space continued apace with over 7 million square feet of active construction from Chambersburg, PA, to Easton, PA, and from Pittston, PA, to Middletown, DE. Storm impacts were generally described as minimal away from the shore; however, some contractors noted that extensive repair work has already begun on some critical facilities requiring significant amounts of well-paid union jobs on weekend and overtime schedules. Nonresidential real estate contacts retain a positive outlook for slow, steady growth.

Services. The growth of Third District service-sector firms has succumbed to the perils of Hurricane Sandy and has slowed, if not declined, since the last Beige Book. Tourist areas on the Delaware and New Jersey coasts suffered a severe blow; most of the Delaware shore and parts of the South Jersey shore saw limited damage and are largely open for business. However, many areas were awash – houses demolished and businesses and their infrastructure and/or inventories ruined. Revenue reports suggest that Atlantic City casinos alone may have lost about

\$35 million by the end of October, despite suffering little damage. Contacts suggest the casinos have been losing another \$5 million a day since. The storm also caused the cancellation of the city's largest regular, annual convention and the delay (at best) of several others. Some of the barrier island homes well north of Atlantic City are now inaccessible – cut off by new channels carved by the storm from the bay to the sea. Most of the Jersey Shore will likely be rebuilt and ready for the summer season; however, some year-round businesses will not survive this off-off-season; others may never rebuild.

Most District staffing firms reported an ongoing slowdown in activity, although a few business lines associated with warehousing and distribution in advance of the pending holiday season were the strongest in over a decade. Staffing firms tended to suffer disproportionately greater revenue losses as their contract workers were unable to log hours when the storm impacts shuttered their offices. With the possibility of sequestration looming, many firms reported taking this time as an opportunity to restructure for efficiency (with potential layoffs), as many defense-related firms have already done or are in the process of doing. While attention has been focused on Hurricane Sandy and the fiscal cliff, some firms reported strong gains from the enormous advertising dollars during this election year, while others reported losses from the NHL lockout. Overall, the steady, modest growth of other service-sector firms has slowed slightly in recent weeks, and the positive outlook for continued growth six months out has grown a little more uncertain.

Prices and Wages. Price levels have continued to show little overall change since the previous Beige Book. Cost factors have risen somewhat among manufacturing firms as have prices received. Homebuilders and retailers indicated that modest cost pressures continue and that strong competition restrains the prices that they can charge. Builders and contractors were beginning to grow concerned about labor shortages and rising wages, as general activity increased; Hurricane Sandy has escalated their concerns in New Jersey, as rebuilding begins to draw labor to storm-damaged areas. With few exceptions, most low-end home markets have stable or slightly rising prices, while most high-end home markets are still trending lower. One contact speculated that prices will probably fall further in storm-damaged areas along the Jersey Shore. Commercial real estate contacts expressed little change in leasing trends. Similarly, wage pressures remain minimal for most positions; medical benefits continue to trend higher.

FOURTH DISTRICT – CLEVELAND

The economy in the Fourth District grew at a modest pace since our last report. On balance, manufacturing orders and production rose. Residential and nonresidential construction activity increased, with particular strength noted in the multi family segment. Realtors reported a rise in purchases of existing homes. Retailers and auto dealers saw higher sales during October relative to year-ago levels. Conventional oil and gas well output held steady, while coal production trended lower. Freight transport volume slowed. And the demand for business credit moved slightly higher.

Hiring was sluggish across industry sectors. Exceptions were found in the auto industry, where hiring continued at a more robust pace, and construction, where payrolls began to grow. Staffing-firm representatives said that the number of job openings has picked up slightly during the past six weeks. Vacancies were found primarily in manufacturing, information technology, and healthcare. Wage pressures are contained. Input prices were stable, apart from increases in construction materials.

Manufacturing. District factories reported that new orders and production increased on net during the past six weeks. Companies citing increases were mainly linked to the aerospace, construction machinery, medical device, motor vehicle, and oil and gas industries. Compared to prior-year levels, production activity was mixed. Several producers pointed to rising inventories but said that they are manageable. Many of our contacts are expecting a slight weakening in business activity during the next few months due to seasonal factors and uncertainty surrounding the outcome of the fiscal cliff. Steel producers and service centers reported that shipping volume was down slightly, which they attributed in part to weaker international demand. Inventories have been reduced relative to sales. Steel producers expect market conditions to remain flat through at least the end of the year. District auto production showed a moderate decline during September on a month-over-month and year-over year basis for domestic nameplates, while their foreign counterparts increased production.

Little change in capacity utilization was reported; rates were within or slightly below their normal range. Several companies, particularly those serving the energy and transportation sectors, reported plans to expand capacity. Capital spending was largely on track. Raw material prices were either flat or trended lower, while finished goods prices were mainly steady. Manufacturers noted that they are feeling pressure from customers to lower prices. The auto industry provided a boost to District employment. Otherwise, manufacturing payrolls expanded at a modest pace, even at companies experiencing a pick-up in demand. Wage pressures are contained, and rising health insurance premiums remain a challenge.

Real Estate. Reports from home builders indicated that the number of single-family housing starts since mid-September increased relative to earlier in the third quarter and on a year-over-year basis. Sales contracts were found mainly in higher price-point categories. Some contractors commented that shrinking inventories of existing homes have spurred new residential developments. Opportunities in constructing multifamily and special-needs housing remain strong. Nonetheless, tight lending standards are seen as restraining the effect of low interest rates for builders and home buyers. Builders are hopeful that the recent improvement in sales will continue after the winter slowdown. List prices of new homes are beginning to rise, and builders have cut back on discounting. Sales of existing homes have picked up, with a few reports of bidding wars.

Nonresidential contractors reported that business activity is expanding. Although inquiries have

slowed in the past few weeks, most builders are satisfied with their backlogs going into 2013. Project work is driven by multifamily housing and industrial contracts. Public-sector projects have declined. Obtaining financing remains difficult, particularly for projects that are deemed speculative by lenders. Nonetheless, contractors are cautiously optimistic about activity going into 2013.

Residential and nonresidential builders reported higher prices for construction materials, especially drywall and lumber, with rising prices being attributed in part to a cutback in output by suppliers. Many builders have added to their payrolls during the past couple of months, although some layoffs of seasonal workers are expected. Wage pressure was felt among the skilled trades due to a lack of qualified workers.

Consumer Spending. Most retailers reported a modest rise in sales during the past six weeks relative to the same time period a year ago. Increased volume was seen across product categories, except for home furnishings, which declined slightly. There is concern about potential tax increases in 2013 and the effect they might have on household spending, especially those in higher-income brackets. Our contacts are cautiously optimistic about the holiday shopping season. Two retailers said that they have expanded their inventories (after seasonal adjustments) in anticipation of rising sales volume. Vendor pricing has been fairly stable. Any increases were absorbed into store margins. Capital spending remains on target. A few retailers reported that they are considering increasing outlays during 2013, particularly for improvements to their distribution systems. No permanent hiring is expected other than at new stores. The number of temporary workers being hired for the holiday season is similar to 2011.

New-vehicle sales were stronger during October when compared with the same time period a year ago. Dealers reported that sales of fuel-efficient cars and compact SUVs are doing well. Truck sales have picked up, with the onset of the winter season. New-vehicle inventories are rising, although one dealer said that trucks are in short supply. Dealers expect little change in monthly sales for the remainder of this year. Purchases of used vehicles rose slightly, though inventories are still tight. Leasing continued to grow in popularity, which should help to replenish the used-vehicle inventory by mid-2013. Bank credit was more readily available as is captive financing. Hiring for sales and service positions is slow. We heard reports about dealers partnering with technical colleges to train people for all facets of dealership work.

Banking. Demand for business credit moved slightly higher since our last report. Many applications were for refinancing loans originated by competitors. Small business owners found that credit is available, but collateral requirements are more stringent than prior to the recession and personal guarantees are often required. In contrast, micro-businesses reported that it remains very difficult for them to obtain credit. On the consumer side, several of our contacts reported a decline in auto lending, while demand for other consumer products held steady. Activity was strong in the residential mortgage market. Although a large majority of applicants are looking to refinance, bankers noted an increase in new-purchase requests. Delinquency rates improved across consumer and commercial loan categories. Growth in core deposits was driven more by business customers. Little change in banking payrolls is expected for the remainder of this year and into 2013.

Energy. Conventional oil and natural gas production held steady during the past six weeks. Most of our contacts reported plans to increase drilling in the upcoming months, which will boost capital outlays beginning early in 2013. Wellhead prices for natural gas are up slightly, while oil declined about

\$5 per barrel. Shale gas activity continued at a robust pace. Coal production for the year is below 2011 levels due to lower demand from domestic utilities and offshore customers and a stricter regulatory environment. Reports of idled mines were common. However, an increase in thermal coal production is expected beginning in December for the winter heating season. As a result, one producer reported that he has rehired about 25 percent of his laid-off workers. Declining prices for metallurgical coal have leveled off, while steam coal prices were mixed. Production equipment and materials prices were flat across most categories. Wage pressures are contained.

Freight Transportation. Reports on freight transport indicated that volume has slowed since late in the third quarter, though part of the slowing was attributed to seasonal factors. Our contacts told us that Hurricane Sandy and weakness in European markets might be contributing to the downturn. Industries driving demand include housing, motor vehicles, and retail. Most of our contacts believe that activity will be slow through year's end, with a pick-up during the first quarter of 2013. However, rebuilding in the aftermath of Sandy could provide a year-end volume boost. Costs associated with truck maintenance held steady. One contact is experiencing pushback from customers when negotiating rate increases. Reports on capital spending were mixed. Some freight haulers said that 2012 expenditures are on track. Others reported a postponement in purchasing replacement equipment due to a sluggish economy and uncertainty about the outcome of the fiscal cliff. Hiring is mainly for replacement. Recruiting qualified personnel remains difficult, which is contributing to wage pressures.

FIFTH DISTRICT–RICHMOND

Overview. Fifth District economic activity strengthened at a tempered pace since our last report. Manufacturing activity improved, retail sales increased moderately, and customer demand rose modestly at non-retail services firms. Reports on banking conditions were mixed, and mortgage refinancing bolstered consumer lending. Real estate markets also strengthened, with both residential and commercial contacts reporting an uptick in activity. In contrast, labor market activity slowed since our last report. Also, tourism contacts noted a seasonal decline in reservations. Agricultural conditions were favorable before Hurricane Sandy arrived, although some farmers in the District were affected by the storm. Manufacturers' input prices and finished goods prices rose at a slower rate, while wages rose more quickly. The pace of service providers' price increases edged up and non-retail wage growth slowed. Price increases slowed at retailers, while wages rose at a faster pace. Several businesses lost power during Hurricane Sandy, but most returned quickly to normal operations. In addition, we received reports of supplier issues and less customer traffic.

Manufacturing. District manufacturing activity continued to improve modestly. A manufacturer of dental products reported an increase in orders and commented that his company would finish the year slightly ahead of 2011. A manufacturer of organizational products said that he expected shipments to remain high; he remarked that his company was picking up market share through consolidation in the industry. A producer of plastic components noted a pickup in activity after several months of reduced orders. In addition, an aerospace manufacturer reported that the company is expanding and is completing a new manufacturing facility. According to our latest survey, both raw materials and finished goods prices rose at a slower pace since our last report.

Retail. Retail contacts reported a moderate acceleration in sales during late October and early November. Hardware and home and garden stores noted higher demand for storm-related items ahead of Hurricane Sandy. Quipped one executive, "Bad weather is good for business." A store manager at a department store reported that his sales were stable, although he is competing with his suppliers for online sales. Car and light truck dealers gave mixed reports. Dealers in Maryland and West Virginia saw a drop in sales, however a West Virginia dealer recently completed expansion at his location to accommodate additional inventory for ongoing strong sales, and a North Carolina dealer commented that year-over-year sales were mostly strong across the board. The pace of retail price increases slowed since our last report.

Services. Executives at services firms generally reported a modest rise in customer demand since our last report, especially at professional, scientific, and technical firms. Additionally, several architectural and engineering firms indicated that their business strengthened somewhat. Although financial services firms reported that activity had improved, a central Virginia broker commented that

clients "remained conservative" and were evaluating alternative plans in case the economy worsens. Contacts at healthcare organizations noted little change in demand other than typical seasonal expansion. However, freight trucking firms reported slight softening in the industry. Service providers noted a minor pickup in the pace of price increases.

Finance. Reports on banking conditions varied widely since our last report. An official for a large bank stated that business borrowing softened over the last six weeks, while mortgage demand edged higher. A West Virginia banker said that home equity loans were down, in part due to consumers rolling that debt into their mortgage. A small commercial banker in Virginia described demand in general as improving slightly, but added that consumer loans were unchanged from "meager" levels and small business loans were virtually non-existent. Several loan officers noted that an exception to weak consumer demand was auto loans, but one banker said that even those had weakened in recent weeks. A credit union loan manager reported that consumer loan applications were up and he expected modest gains to continue. Overall loan demand strengthened, according to a northern Virginia banker, mostly for auto loans, home mortgage refinancing, and equipment purchases. Several officials also expressed concern that banks were increasing their risk by making longer termed loans in an effort to get higher yields. Yet, most bankers stated that the quality of their loan portfolio remained healthy, with few delinquencies in recent months.

Real Estate. Residential real estate activity improved modestly since our last report. A Realtor in the Richmond area said that closings were up double digits compared to a year ago. He noted that inventory is very low and prices continued to rise. A contact in South Carolina reported that the single-family segment in the Myrtle Beach market was particularly robust, although the area continued to work down a glut of inventory in the condominium market. A builder in South Carolina cited significant pent-up demand in the first time buyer segment, because many could not get financing, although the move-up market improved. Another builder in South Carolina stated that inventories were moving toward balance and he believed that a real recovery was underway. Similarly, another source reported that there was a steady, slow improvement, and that foreclosures were falling. A contact in Charlotte noticed more residential work in the high-end home category for the first time in more than three years.

Commercial real estate and construction improved slightly over the last few months. While some contacts stated that activity remained weak and little changed from the summer months, most contacts reported modest gains in at least some segments of their local market. A real estate representative in the Baltimore area said that her third quarter market report showed "grinding and gradual improvement," with the majority of growth in the Baltimore-DC region. A developer in the Carolinas reported that absorption rates in the office segment were improving, even though vacancy rates remained elevated. Other contacts also noted tightening of available office space, especially among Class A properties, but

attributed some of that gain to the lack of new construction. A Charlotte Realtor described his market as “choppy,” with downtown office space faring better than suburban locations. He also noted some tightening in industrial space, due mostly to expansion of distribution and call center demand. Several contacts, especially in Virginia, noted slight improvements in retail vacancy rates for restaurants and apparel stores. Most Realtors reported modest firming in leasing rates, although concessions on long-term leases were occasionally available. While several contractors noted a slowdown in government and education-related projects, private sector projects were edging forward, most notably for strip malls in underserved areas and for distribution centers near major retail markets. Additionally, a contact reported expanding activity at industrial and health care facilities.

Labor Markets. Labor markets were more negative on balance than in our last report. Employment agencies reported somewhat stronger demand for temporary workers, but reiterated their difficulty finding qualified workers to fill open positions in manufacturing, aerospace, defense, automotive, and construction. A contact in South Carolina said that labor demand remained fairly soft, with the exception of some IT positions, noting that hiring came to a stop in the third quarter. A Charlotte area temp agency executive reported that manufacturers were unwilling to hire long-term unemployed workers because their skills may have diminished. Manufacturers worried that taking on talent at reduced wages might lead to more turn-over when the economy picks up. A North Carolina contact commented that college graduates who were unable to find full-time work were choosing to remain on unemployment rather than take part-time positions. According to contacts, retail wage growth picked up, while wages at non-retail services firms rose more slowly; manufacturing wage growth also edged up.

Tourism. Most tourism contacts reported seasonally slower autumn bookings. Several added that, at this time of year, they focus on attracting tourists who are located within a day's drive. There were scattered reports of storm-related hotel cancellations caused by Hurricane Sandy, as tourists from outside the District were affected by the weather at home. In addition, a couple of contacts noted some patches of beach and highway erosion on the Outer Banks of North Carolina and storm-related snow in parts of West Virginia, which might affect near-term visits. However, most planned events continued on schedule. A few District hoteliers stated that they were able to raise rates slightly since our last report.

Agriculture. Agricultural conditions prior to Hurricane Sandy remained favorable. Strong income boosted farm loan repayment rates. Lenders reported a drop in the number of loan renewals and extensions, even as spending for agricultural equipment rose. During October, beef prices rose as farmers struggled with higher feed costs—some producers culled herds, including breeding stock. More recently, Hurricane Sandy's damage was minimal and localized mainly in coastal areas. In Maryland, an analyst reported that small grain emergence may be affected by standing water and salt water flooding. Snow and cold temperatures in North Carolina hindered farm activity and livestock producers were forced to begin

feeding hay due to snow covered pastures; fruit production was not affected. In contrast, most farmers in Virginia were relieved that Hurricane Sandy brought much needed rain without significant damage to the corn and soybeans still in the field.

SIXTH DISTRICT – ATLANTA

Summary. Most businesses across the Sixth District described economic activity as increasing marginally in October, and most contacts expect little change in the near term.

Retailers cited mild sales growth, while automobile dealers continued to experience strong results. Overall, tourism activity remained robust. Residential brokers indicated an increase in existing home sales and prices, while homebuilders signaled sales were flat to slightly up. Multifamily development continued to dominate the commercial real estate market. Manufacturing activity softened as new orders, production, and employment levels decelerated. Bankers noted that overall loan demand had picked up slightly. On net, payrolls continued to expand at a modest pace, and price pressures remained in check for most businesses in the region.

Consumer Spending and Tourism. District contacts indicated demand and sales were up slightly in October compared with September. Most retailers felt that consumer confidence is improving as they head into the holiday season, which led to expectations that sales would improve over last year's results. Retailers anticipate a healthy holiday season and most shared plans to hire the same amount of seasonal staff compared with last year, although there were some contacts that anticipate hiring a bit more help over the holidays than they did in 2011. Automobile dealers continued to report strong sales growth, albeit a bit less robust than earlier in the year. Low interest rates, aging vehicles, available credit, and the popularity of new fuel-efficient models were factors cited as driving growth.

Travel and tourism activity remained strong for all sectors except cruise lines, which continued to underperform against projections made earlier in the year. Hotel occupancy and room rates were up in most areas, resulting in increased revenue per available room. International visitors continued to bolster activity in Florida. Convention bookings were also up over year-ago levels in most major District cities. The general consensus among hospitality contacts is that the sector is performing well, and that trend is expected to continue into 2013.

Real Estate and Construction. District residential brokers indicated that recent existing home sales were up slightly compared with year-earlier levels. Brokers reported that current home owners accounted for the largest share of home buyers in the District, while investors and first-time home buyers both were about a quarter of the market, respectively. Reports cited that

investors were more active in Florida compared with other parts of the District. Most brokers again noted declining inventories and rising home prices. The outlook for sales among brokers remained positive. Most expect sales growth to be flat to slightly positive on a year-over-year basis in the short term.

Reports from District homebuilders remained positive as well. While recent new home sales were only flat to slightly up from a year earlier, the majority of builders reported that new home inventories were below the year-earlier level and prices were slightly up compared with a year earlier. In addition, contacts reported robust buyer traffic in October. In spite of reports of challenges to obtaining development and construction financing, the outlook for construction activity remained strong and most builders were looking forward to additional increases in new home sales in 2013.

Apartment development continued to dominate the District's commercial real estate market. Multifamily rent growth remained positive but had slowed somewhat in recent months in many parts of the region. Contacts indicated that most office, industrial, and retail markets in the District experienced modest positive absorption of space during the third quarter. Contractors continued to expect modest gains in commercial construction activity in 2013.

Manufacturing and Transportation. Manufacturing activity in the Southeast softened in October. Contacts in the region reported that new orders, production, and employment levels decelerated. Finished inventory levels were flat. Auto and auto parts producers experienced slightly softer orders, resulting in somewhat lower output after several months of very strong demand. Other durable goods contacts experienced modest growth, especially those tied to the improving housing market. Energy-related manufacturers continued to report robust activity.

Rail contacts reported that domestic coal shipments were down because of softening global demand for metallurgical coal and less demand for coal to fire domestic utility plants as electricity producers shifted to natural gas. However, there have been increased movements of crude oil via rail. Ports experienced weaker container volumes, but slight increases in the level of break-bulk volumes. Truck freight activity was described as similar to year-ago levels. Increased fuel costs remained a significant concern for ocean carriers, but most other industries have been able to pass along increases. Reports indicated that there appears to have been a shift in the holiday shipping timeframe, representing a “just-in-time” approach to ordering as retailers maintain tight inventories as the shopping season approaches.

Banking and Finance. Small business loan demand increased slightly in some areas, but many firms remained hesitant to borrow, citing economic and political uncertainty as a drawback. Competition for high quality borrowers remained fierce among banks. Banks experienced some residential loan growth from refinancing activity. Some contacts in the District reported an increase in demand for construction loans and noted a slight increase in lending levels compared with last year. Regulatory compliance was cited as adding an additional burden by many community bankers, which hampered their ability to originate loans. Some contacts reported underwriting standards had become more restrictive and burdensome for borrowers since the last report, in terms of both credit scores and information requests.

Employment and Prices. Employment conditions across the District continued to improve, albeit at a modest pace, in October. Auto- and energy-related firms reported additional hiring, as did some firms tied to residential construction. On the services side, accounting, and healthcare firms were the most positive. Employment agencies reported a pickup in orders for temporary help. Along those lines, some large employers announced plans to move towards hiring more part-time versus full-time employees. Firms also reported that they continued to receive a large number of applications for most newly-posted positions, causing wages to remain flat. That said, we continued to hear reports of some higher skilled positions going unfilled because of a lack of qualified applicants.

Controlling costs remained a central theme for businesses in the District as they were challenged by higher energy and crop-related input prices along with rising healthcare costs. However, most firms throughout the region noted that the pressure from overall input prices had eased over the last several months. Contacts also noted that the relative weakness in natural gas prices had helped to keep costs in check, particularly for more electricity-intensive firms. Results from our October Business Inflation Expectations survey indicated that unit costs were up 1.4 percent over the past 12 months—with manufacturers experiencing a bit more cost pressures over the last year than service-providing companies. Looking forward, business expectations for unit cost increases over the next year have been stable, varying between 1.7 and 1.9 percent over the past six months.

Natural Resources and Agriculture. Hurricane Sandy's damage to refineries and infrastructure in the Northeast caused southeastern regional refiners to increase production and transportation of oil products to affected areas. Natural gas prices and rig counts decreased

switching focus to higher priced oil commodities. Contacts noted inexpensive domestic natural gas prompted downstream manufacturers to relocate foreign operations to the United States, prioritizing locations near refining operations.

Much of Georgia continued to experience varying degrees of drought conditions, while the rest of the region enjoyed normal conditions. Some agriculture contacts reported labor shortages. Compared with last year, prices paid to farmers for grain corn, rice, soybeans, beef, and broilers were up while cotton prices were down.

SEVENTH DISTRICT—CHICAGO

Summary. Economic activity in the Seventh District continued to expand at a slow pace in October and early November. Contacts noted heightened uncertainty over the near-term economic outlook as the deadline for the fiscal cliff approaches, but remained cautiously optimistic that growth would pick up to a moderate pace in 2013. By sector, gains in consumer spending were up slightly from the previous reporting period, while growth in business spending moderated further. Manufacturing production decelerated, while construction increased at a slow but steady pace. Credit conditions continued to improve gradually. Cost pressures were little changed, although food prices eased. Corn and soybean production in the District did not suffer as much from the drought as previously had been expected.

Consumer spending. The pace of consumer spending, while still moderate, increased slightly from the previous reporting period. Furniture sales improved slightly, while sales of electronics were flat from the previous reporting period. In contrast, retail auto sales fell, in part because incentives have become more directed towards leasing. Overall, retail sales surpassed expectations, which contacts attributed to promotions and generally improving consumer confidence. Nonetheless, some retailers noted a slower sales pace in early November, and many lowered their expectations for the first half of 2013. In particular, contacts expressed concern over the impact of potential changes in federal tax policy on consumers' willingness to spend.

Business spending. Growth in business spending moderated further in October and early November. Inventory investment continued to slow. Retail contacts reported no transportation delays stemming from Hurricane Sandy; and inventories, although slightly elevated, were indicated to be within typical seasonal ranges. Steel service center inventories were also slightly elevated, and manufacturers reported that material lead times decreased significantly. Capital spending on equipment and structures also slowed. A number of contacts reported that given the heightened uncertainty surrounding the near-term economic outlook, they were reluctant to make capital expenditures beyond productivity enhancements. Labor market conditions improved slightly from the previous reporting period. Job growth in manufacturing slowed, but there was an increase in professional services employment. However, a number of firms noted that they have put hiring plans on hold and have delayed temp-to-perm conversion decisions until next

year. Those that did report ongoing plans to hire continued to note difficulty in finding skilled workers, and many have created internal training programs as a result.

Construction/real estate. Construction activity continued to increase at a slow, but steady pace in October and early November. Multi-family construction remained a source of strength with the continued rise in residential rents and declines in apartment vacancies. Single-family construction also increased. For the first time in several years, homebuilders reported new land development projects were underway, although these remained limited to a handful of desirable locations. Demand for nonresidential construction continued to increase at a slow pace, with contacts noting that many of their customers are waiting for the resolution of the fiscal cliff and stabilization in Europe before moving ahead on capital spending projects. Vacancy rates remained elevated for many property types, and contacts indicated that few leasing and acquisition deals are being made in the retail and office spaces. That said, contacts also noted some signs of improvement in commercial real estate conditions, pointing to moderate declines in vacancies and space available for sublease.

Manufacturing. Manufacturing production decelerated in October and early November. Contacts expected activity to remain subdued in the coming year, and voiced concerns about the potential impact of the fiscal cliff and weaker global demand for their products. Exports to Europe and Asia as well as many parts of South America softened, but remained stronger to North America, particularly to Mexico. Capacity utilization in the steel industry decreased, but an industry contact reported that orders were anticipated to pick up some over the next two quarters. Specialty metal manufacturers also reported weaker orders. There was continued strength in demand from the power generation industry, and the heavy equipment and auto industries also remained sources of strength. However, contacts expect demand for heavy machinery to flatten in 2013 as dealer rental fleet growth returns to more a normal pace. In contrast, improving housing demand continued to benefit manufacturers of construction materials.

Banking/finance. Credit conditions continued to gradually ease in October and early November. Credit spreads and financial market volatility remained low, and asset quality steadily improved. Banking contacts reported modest growth in small business loan demand, but also slower growth in debt restructuring and leveraged finance deals as well as lower utilization of credit lines. Contacts attributed the decrease in credit demand from middle market customers

to heightened uncertainty about future tax rates on capital spending. Loan pricing and standards remained broadly unchanged, with the exception of commercial and industrial and auto lending, where credit terms and availability continued to ease. Contacts noted that community and regional banks have been particularly aggressive in pricing and covenants to compete with larger banks for a limited supply of new loan opportunities.

Prices/costs. Cost pressures were little changed in October and early November. Several contacts noted that even though steel and scrap prices were lower than they were a few months ago, both had increased in recent weeks. A contact in the steel industry noted that the recent rise in scrap prices may reflect the impact of Hurricane Sandy as well as slightly higher global demand. Construction contacts also reported an increase in prices of raw materials such as lumber. Retail food prices eased, on balance, as higher prices for meat were offset by lower prices for produce, dairy, and some other grocery items. More generally, retailers indicated that discounting and promotions for non-food items also eased some over the reporting period, but were expected to pick up again after Thanksgiving. Wage pressures remained moderate, but nonwage costs increased as many contacts again cited higher healthcare costs.

Agriculture. The corn harvest was completed ahead of last year's pace, while the soybean harvest was proceeding more quickly than typical. Much of the District reported higher yields than had been expected during the previous reporting period, reflecting in part timely local rains, later planting, and irrigation. Nonetheless, the drought still cut the District's output of corn and soybeans substantially relative to last year. Concerns about crop quality due to the drought seemed to diminish, although there were some reports of deliveries rejected for crop diseases. Corn and soybean prices—and with them livestock feeding costs--fell further, though they remained elevated from the levels of a year ago. Milk, hog, and cattle prices edged up from the prior reporting period, which also helped the cash flow of livestock operations. Sugar beet output in Michigan was higher than a year ago, and sugar prices were higher as well. Farmland values continued to rise despite the drought. Moreover, there seemed to be more farmland available to buy, partly due to uncertainty about future tax rates.

EIGHTH DISTRICT - ST. LOUIS

The economy of the Eighth District has continued to expand at a moderate pace since our previous survey. Retail and auto sales in October and early November increased over year-earlier levels. Recent reports of planned activity from manufacturing firms have been positive. In contrast, reports from services contacts have been negative on net. Residential real estate market conditions have continued to improve, while commercial and industrial real estate conditions have remained mixed. Reports of lending activity at a sample of large District banks indicated little change during the third quarter of 2012. Prices, wages, and employment levels have remained generally stable.

Consumer Spending

Contacts reported that retail sales in October and early November were up, on average, over year-earlier levels. Fifty-four percent of the retailers reported increases in sales, while 27 percent saw decreases and 19 percent saw no changes. Forty-eight percent of the retailers noted that sales levels met their expectations, 48 percent reported that sales were below expectations, and 4 percent reported that sales were above expectations. The sales outlook through the end of the year was mostly optimistic: 66 percent of the retailers expect sales to increase over 2011 levels, while 17 percent expect sales to decrease and 17 percent expect sales to be similar to last year's levels.

Car dealers in the District reported that sales in October and early November were up, on average, compared with last year. Fifty percent of the car dealers surveyed saw increases in sales, while 21 percent saw decreases and 29 percent saw no changes. Twenty-four percent of the car dealers noted that new car sales had increased relative to used car sales, while 6 percent reported the opposite. The sales outlook through the end of the year was mostly optimistic: 64 percent of the car dealers expect sales to increase over 2011 levels, while 14 percent expect sales to decrease and 22 percent expect sales to be similar to last year's levels.

Manufacturing and Other Business Activity

Reports of plans for manufacturing activity have been positive since our previous report. Several manufacturing firms reported plans to hire new workers or expand operations, while fewer manufacturers

reported plans to lay off workers or reduce operations. Firms in the plastic, poultry processing, shoe and apparel, aerospace, paper product, and beverage manufacturing industries announced plans to hire new employees or expand operations. In contrast, firms in the compressor, coal, semiconductors and related devices, auto parts, and food manufacturing industries announced plans to lay off workers or reduce operations.

Reports of planned activity in the District's service sector have been negative on net since our previous report. Firms in business support, telecommunications, casinos, legal, and crisis management services announced plans to increase employment or expand operations. In contrast, a greater number of service firms, including firms in air transportation, sports, information, health insurance, health care, and financial services, announced plans to lay off workers or reduce operations.

Real Estate and Construction

Home sales increased throughout most of the Eighth District on a year-over-year basis. Compared with the same period in 2011, September 2012 year-to-date home sales were up 15 percent in Louisville, 4 percent in Little Rock, 11 percent in Memphis, and 14 percent in St. Louis. Residential construction also increased. Compared with the same period in 2011, September 2012 year-to-date single-family housing permits increased 40 percent in Louisville, 25 percent in Little Rock, 36 percent in Memphis, and 19 percent in St. Louis.

Commercial and industrial real estate conditions were mixed throughout most of the District. A contact in Louisville reported that office and industrial space leasing in the third quarter of 2012 was less robust than in the previous quarter. A contact in northeast Arkansas reported strong commercial real estate activity in the Jonesboro-Paragould area but soft activity in other areas in the region. Commercial and industrial construction activity continued to improve throughout most of the District. Contacts in Little Rock noted a couple of commercial construction projects in the downtown area. A contact in south central Kentucky noted that commercial construction remains strong. A contact in Memphis noted new

speculative construction in the suburban market. Contacts in Memphis also reported several commercial construction projects in Jonesboro and large industrial construction projects in Shelby County.

Banking and Finance

A survey of senior loan officers at a sample of large District banks found little change in overall lending activity during the third quarter of 2012. During this period, credit standards for commercial and industrial loans remained largely unchanged, while the demand for these loans and the number of inquiries ranged from moderately decreased to moderately increased. Credit standards for commercial real estate loans were unchanged, while demand remained largely unchanged. Credit standards for prime residential mortgage loans remained generally unchanged, while demand ranged from about the same to substantially stronger. Meanwhile, credit standards and demand for consumer loans remained largely unchanged, although a third of the banks reported that demand for auto loans was moderately stronger.

Agriculture and Natural Resources

As of early November, the rice crop in the District states was fully harvested; similarly, over 90 percent of the corn, cotton, sorghum, and soybean crops have also been harvested. Harvest completion rates were 3 to 12 percentage points higher than their 5-year averages. Planting of winter wheat across the District states was 8 percent ahead of its 5-year average, while over 90 percent of all winter wheat was rated in fair or better condition. Excluding eastern Kentucky, the District's year-to-date coal production for the end of October was 6.4 percent higher compared with the same period last year. Meanwhile, the District's coal production for October 2012 was 6.2 percent higher than in October 2011.

Prices, Wages, and Employment

Contacts indicated that price levels over the past three months have stayed the same relative to the same period last year. Similarly, non-labor costs have generally stayed the same, although the majority of manufacturing contacts noted increases in costs. The majority of contacts reported that wages per employee and benefits per employee over the past three months have stayed the same relative to last year. Employment levels over the past three months showed signs of improvement; 38 percent of contacts

reported increases in employment compared with the same period last year, while about half of contacts reported that their total employment has remained the same relative to last year.

NINTH DISTRICT--MINNEAPOLIS

The Ninth District economy experienced moderate growth since the last report. Increased activity was noted in consumer spending, tourism and professional services. Some significant parts of construction and real estate are growing at a double-digit clip. Activity in the energy and mining sectors continued at a rapid pace. District crop producers remained in mostly good shape, despite this year's drought. Meanwhile, activity slowed slightly in the manufacturing sector. While labor markets continued to show signs of tightening in several areas, some layoff notices were reported. Overall wage increases were moderate, although stronger increases were reported in some areas. Price increases were generally modest.

Consumer Spending and Tourism

Consumer spending posted moderate gains. During the past two months, a Minnesota auto dealer reported strong sales activity for new vehicles and somewhat softer sales activity for used vehicles. A Minnesota-based restaurant and bar chain reported that recent same-store sales were up over 5 percent from last year. Same-store sales at a Minnesota-based retailer increased over 2 percent in October compared with a year ago. However, a mall manager in the Minneapolis area noted slight decreases in traffic and sales during September and October compared with last year. In Montana, a mall manager reported that sales were down slightly during September after a generally flat summer.

Recent travel and tourism activity was above a year ago. Convention and tourism business in the Sioux Falls, S.D., area was trending above last year's levels with prospects for a good 2013, according to an official. A travel agency in Minnesota noted that corporate and leisure travel sales in October were above year-ago levels. Travel and tourism activity in the Duluth, Minn., area was above last year, and businesses are optimistic for 2013, according to an official.

Construction and Real Estate

Commercial construction activity increased significantly since the last report. The permitted value of new commercial construction in October increased substantially from the same period last year in Sioux Falls and nearly quadrupled in Billings, Mont. A recent survey of Minnesota building professionals conducted by a trade association noted an improvement in market conditions. Residential construction increased from a year ago. The value of October residential building permits in the Sioux Falls area was up 16 percent from last year. In the Minneapolis-St. Paul area, the value of October residential permits was up 70 percent compared with a year ago, while it tripled in Billings.

Commercial real estate markets expanded at a slow pace. A group of Minnesota commercial real estate investors and real estate professionals noted a recent uptick in activity and a reduction in vacancy rates since the last report. Residential real estate market activity increased. Home sales in October were

up 15 percent from the same period a year ago in the Minneapolis-St. Paul area; the inventory of homes for sale was down 30 percent, and median sales prices rose 15 percent. In the Sioux Falls area, October home sales were up 19 percent, inventory was down 13 percent and the median sales price was flat relative to a year earlier.

Services

Activity at professional business services firms grew since the last report. The aforementioned survey of building professionals revealed that 59 percent of engineers reported improving conditions compared with 16 percent who saw declines, while 36 percent of the architect respondents reported increases and 21 percent noted declines. A marketing consulting firm noted a large increase in demand from firms that are launching new products or services. Demand for scientific researchers increased for a large diversified manufacturing company. A logistics consulting firm noted some disruptions in rail traffic due to Hurricane Sandy.

Manufacturing

Manufacturing slowed slightly since the last report. An October survey of purchasing managers by Creighton University (Omaha, Neb.) found that manufacturing activity decreased for a fourth straight month in Minnesota and South Dakota, but continued to increase in North Dakota. A wood-products facility in northern Minnesota closed. More than half of manufacturing respondents to a late-October Minneapolis Fed ad hoc survey reported that they had cut capital expenditures in the past six months. In contrast, an agricultural machinery producer announced a \$20 million expansion to a facility in North Dakota, a Minnesota vehicle manufacturer announced a \$20 million expansion and a plastic pipe producer broke ground on a new plant in South Dakota. A maker of outdoor gear is expanding its operations in Minnesota due to strong demand from the military.

Energy and Mining

Activity in the energy and mining sectors continued at a rapid clip. Oil and gas production remained at record levels, but exploration activity since the last report was flat in North Dakota and decreased in Montana. An oil pipeline operator announced capacity expansions on a pipeline in Minnesota and is considering construction of a high-capacity line from the North Dakota oil patch to Wisconsin. Sand mining growth continued; plans for a new loading facility in Minnesota were announced, along with plans for a rail depot in North Dakota. Iron mines in northern Minnesota remained busy, but production fell slightly from recent months.

Agriculture

District crop producers remained in mostly good shape, despite this year's drought. Farm incomes were bolstered by high crop prices, and farmers were looking at record harvests in areas less affected by drought. However, livestock and dairy producers continued to suffer from higher input costs. Reports of ranchers culling herds due to low hay production and increased feed prices continued to surface. After years of delays, a South Dakota beef slaughter and processing plant began operations in October. Prices received by farmers for wheat, corn, soybeans, beef, dairy products and chicken increased in October from a year earlier; hog, dry bean, turkey and egg prices decreased.

Employment, Wages and Prices

While labor markets continued to show signs of tightening in several areas, some layoff notices were reported. According to the aforementioned survey of building professionals, 31 percent expect to hire more workers during the upcoming year compared with 18 percent in last year's survey. Demand for nurses has picked up in western North Dakota. A representative of Montana State University noted that job prospects for graduates have improved. In Minnesota, a manufacturer of equipment used for transporting and storing natural gas as a liquid broke ground on an expansion that will add 80 jobs, and a paints and coatings manufacturer recently announced plans for an expansion that will create about 135 jobs. However, a dairy plant closing in Minnesota will lead to 130 job reductions by the end of the year, and an equipment manufacturer announced plans to close a plant, which will affect 100 jobs. Meanwhile, the closing of a pest control product plant in North Dakota will result in almost 150 job cuts.

Wage increases were moderate, with some exceptions noted. Reports of solid wage increases continued from the oil-drilling area of North Dakota, although the pace of growth has started to ease recently.

Overall price increases were modest. Minnesota gasoline prices decreased about 50 cents per gallon from early October to mid-November. Some metals prices also decreased since the last report. In contrast, a bank director noted that smaller cattle herds will likely keep beef prices elevated. A wood products industry observer noted some recent increases in prices for oriented strand board.

TENTH DISTRICT - KANSAS CITY

The Tenth District economy expanded modestly in October. Stronger retail sales underpinned a rebound in consumer spending that was expected to continue during the upcoming holidays. Commercial and residential construction remained solid, and real estate agents expected real estate prices to rise further with stronger sales. Bankers reported stronger commercial lending activity and additional demand for residential real estate loans. District manufacturing activity slowed, but factory managers expected a moderate rebound in orders, production, and shipments. High feed and fuel costs drove agricultural loan demand higher, and dry conditions hindered winter crop development. District contacts expected natural gas drilling activity to strengthen seasonally with prices during the winter heating months. The prices of raw materials for manufacturing and construction rose, and some finished goods prices edged higher. Wage pressures were subdued except for specialized positions at transportation, high-tech and energy firms. Several business contacts commented that uncertainty regarding political, economic, and tax policies was inhibiting growth, limiting business investment, and delaying hiring plans.

Consumer Spending. Consumer spending rebounded modestly in October and retailers expected further sales gains during the holidays. District retailers reported that sales rose above year-ago levels, although they were generally below expectations. Several store owners noted particularly strong sales for major appliances and seasonal apparel, in addition to an uptick in demand for premium and custom goods, such as fine jewelry. Auto sales held steady after rising in the last survey period, and sales were expected to improve by year's end. Fuel-efficient cars sold well, while demand for large, expensive cars and trucks remained weak. Tourism contacts reported that visitor counts and tourism spending fell below year-ago levels. Furthermore, hoteliers reduced room rates and noted the fall in hotel occupancy rates was likely to continue in coming months. Restaurant owners reported lower sales revenue and a decline in average check amounts. Some leisure and hospitality contacts attributed the slowdown in sales to high gas prices that limited spending and kept some customers at home.

Manufacturing and Other Business Activity. Although manufacturing activity slowed slightly since the last survey period, sales at transportation and high-tech service firms rebounded. While still above year-ago levels, District manufacturing activity edged lower in

October as production of both durable and non-durable goods slowed, most notably at machinery, electronics and food processing plants. In addition, order backlogs fell further and were expected to remain low. The volume of new orders and shipments dropped in October, but were expected to rebound and provide a modest boost to production during the next six months. Capital spending at District factories generally held steady; however, fewer plant managers were hiring and the average work week declined. Trucking traffic picked up, due in part to emergency food shipments to areas affected by Hurricane Sandy. Several transportation firms reported an increase in capital spending and a shortage of qualified truck drivers. After easing in the last survey period, business activity at high-tech firms expanded and sales were expected to strengthen in the months ahead. Several business contacts attributed customer delays in ordering to uncertainty regarding the current political, economic and tax environment.

Real Estate and Construction. Residential real estate activity remained brisk in October, and commercial real estate activity held firm. A solid rise in home sales reduced home inventories further, with real estate agents noting particular buyer interest in foreclosed properties. Low- and mid-priced homes continued to sell well, while the market for luxury homes and condominiums remained weak. Residential mortgage lenders saw loan applications for home purchases rise above year-ago levels and saw an upswing in loan refinancing activity. Stronger sales supported further home price increases for both existing and new homes. Housing starts were up from the previous survey, but were expected to level off with a seasonal slowdown in construction over the winter months. Sales at construction supply firms rebounded, particularly for lumber products. Commercial real estate markets remained stronger than a year ago and District contacts expected additional strength in coming months. New commercial construction edged up and was expected to hold steady. Commercial sales activity and real estate prices remained above year-ago levels with strong expectations through the end of the year. District contacts expected commercial real estate rents to rise as vacancy rates trended lower. Developers, however, were concerned about the size of down payments and reported a slight deterioration in access to credit.

Banking. In the recent survey period, some District bankers reported stronger loan demand, improvements in loan quality and a slight rise in deposit levels. Total loan demand rose moderately, led by gains in demand for real estate loans for both residential and commercial properties. In addition, more bankers reported higher loan demand and lower interest rates for

commercial and industrial loans. A few bankers noted continued weakness in consumer installment loan demand. Many bankers reported a moderate improvement in loan quality compared with the last survey with additional quality improvements expected during the next six months. Otherwise, credit standards remained largely unchanged in all major loan categories.

Agriculture. High input costs reduced farm profitability and boosted farm loan demand since the last survey period. Demand for farm operating loans rose as surging feed costs cut livestock operator incomes and crop producers paid higher fuel costs to run irrigation and harvest equipment. With reduced incomes, especially for livestock producers, farm loan renewals and extensions edged up and loan repayment rates eased from recent peaks. Still, bankers reported that sufficient funds were available to meet short-term financing needs. Low soil-moisture levels hindered winter wheat emergence, raising concerns that persistent drought could strain U.S. crop production, keep crop and feed prices high, and force further livestock herd liquidations. Farmland values, however, continued to set new record highs in the District.

Energy. District energy activity fell in October, but was expected to improve heading into the winter heating season. The number of active oil rigs in the District eased from recent highs as oil prices declined. After falling from summer peaks, the number of natural gas rigs held steady since the last survey and some District contacts expected a seasonal uptick in natural gas prices as winter approached. Wyoming's coal production remained well below year-ago levels as more electricity was being generated from natural gas. District ethanol production edged up, but persistently high corn prices limited profits.

Wages and Prices. Wage pressures remained subdued during the survey period, raw materials prices rose, and some finished goods prices edged up. Many firms were reluctant to increase wages or hire staff amid political and economic uncertainty. Some businesses, however, were offering higher salaries to recruit workers with specialized skills, such as engineers, software developers, and commercial truck drivers. The cost of raw materials for manufacturing continued to climb, and a few firms were raising finished goods prices. Builders and construction supply companies expected further price increases for construction materials due to Hurricane Sandy. Retail prices edged up but were expected to hold steady during the holiday shopping season. Restaurant owners, however, planned to increase menu prices due to high food costs. Low occupancy rates prompted hotel operators to reduce average room rates.

ELEVENTH DISTRICT—DALLAS

The Eleventh District economy expanded at a modest pace over the past six weeks. Reports on manufacturing and transportation services activity were mixed. Demand for staffing services declined, while that for other business services held steady or increased slightly. Retailers' reports on demand were mixed, while automobiles sales were flat. Residential sales and construction increased, and energy activity remained steady at high levels. Financial firms reported mixed demand. Agricultural conditions remained mostly dry. Most respondents said prices held steady, and employment levels were steady to up. Many firms' outlooks remain uncertain, given regulatory and fiscal concerns and short-term disruptions caused by Hurricane Sandy.

Prices Most reporting firms said prices were steady, however there were a few scattered reports of higher prices. Retailers said prices had not changed much since the last report, but the drought is expected to increase food costs. Some transportation services firms noted that prices were up due to increased fuel and labor costs. Several manufacturers of construction products said that stronger demand was supporting higher prices. Some paper manufacturers noted an increase in selling prices. Grain prices declined over the reporting period and cotton prices remained weak.

The price of WTI was volatile during the reporting period but ended up in the mid-\$80 per barrel range. Natural gas prices, while still depressed, rose to \$3.40 per thousand cubic feet over the same period. On-highway diesel and gasoline prices trended down over the reporting period, and prices of petrochemical products were mostly flat.

Labor Market Employment held steady or increased at most responding firms. Accounting and legal firms reported hiring, and one staffing firm was adding to its payrolls despite a recent slowdown in demand for temporary workers. Shortages of truck drivers continued to be noted by transportation service firms and there were scattered shortages of workers at energy-related firms. Wage pressures remained subdued.

Manufacturing Overall demand for construction-related products was mixed. Demand for stone, clay, cement, glass, and lumber held steady or improved, and outlooks were more optimistic compared with the previous report. Demand for fabricated metals products held steady over the past month, but contacts noted that overall demand has been steadily improving since

the beginning of 2012. Primary metals manufacturers characterized demand as poor over the past six weeks and said that they expect continued weakness in sales through year-end.

High-tech manufacturers said that shipments and new orders declined since the last report. Demand for industrial and computing products was particularly weak, and contacts noted weakness in personal computer sales was negatively impacting sales of other related hardware such as printers. One respondent noted that while orders have declined recently, cancellations have not increased, suggesting that declines in orders may be due to thinning of inventories not due to slowing of final demand. Continued high uncertainty about economic prospects was restraining capital investment, and respondents expected sustained weakness over the next six months.

Demand for paper products was flat to up, and most contacts were slightly more optimistic in their outlook. Food producers reported stable demand over the past month, and noted that sales were higher than a year ago. Overall, transportation equipment manufacturers said demand was flat to down over the past six weeks. Demand for aviation equipment held steady. Outlooks were cautiously optimistic, and contacts expect demand to pick up in the second half of 2013. A producer of recreational vehicles noted a slight lull in sales, and an emergency vehicle manufacturer reported stable demand.

Petrochemicals producers noted Gulf Coast chemical production was up slightly, but uncertainty cautioned firms' outlooks. Gulf Coast refiners said they were operating at rates above 90 percent, and strong export demand was keeping inventories from building.

Retail Sales Retailers said demand was mixed over the past six weeks. Sales in the Eleventh District continued to outperform the nation, according to two national retailers. Contacts said the loss in sales resulting from Hurricane Sandy was temporary and would not impact holiday spending. Outlooks through year-end were mixed.

Overall automobile sales were flat, while new vehicle sales declined slightly since the last report. One contact noted that obtaining credit approval has not been an issue and customers wanting to buy cars can get financing. Prices are stable, but margins are thin. Outlooks remain positive for the fourth quarter, but contacts expect the cost of doing business to increase next year.

Services Staffing firms said demand "came to a sudden stop" over the past six weeks, as several clients delayed hiring until after the election. Declines were reported in orders from mid-

sized manufacturing and construction firms. However, one contact noted steady demand for professional, technical, and information technology positions. Outlooks were mixed.

Overall, accounting firms noted steady demand for their services. Demand for insurance and audit services was robust, while that for tax services was flat to slightly down. Real estate related activity remained weak. Outlooks were more positive than earlier in the year, with contacts expecting an increase in tax and transactional related services in the near-term. Legal firms reported a modest pickup in activity, with continued strength in intellectual property litigation, energy and real estate-related services. Outlooks for next year were upbeat among legal industry contacts.

Reports from transportation service firms were mixed. Intermodal cargo volumes declined, while container volumes increased over the reporting period. Railroads said cargo volumes declined slightly over the past four weeks, with declines in shipments of coal, metals, primary forest materials, and metallic ores outpacing increases in shipments of grain, chemicals, lumber and wood, and motor vehicles. Airlines noted that demand was flat to down since the last report. Demand for domestic travel declined, while that for international travel was strong. Airline contacts were cautious and uncertain in their outlooks.

Construction and Real Estate Single-family housing activity remained strong. Both new and existing home sales activity increased over the past six weeks. Contacts noted that despite a pickup in new construction, low inventories of both existing and new homes have led to moderate price increases overall. Apartment construction remained robust, but contacts said that leasing activity slowed. Outlooks are positive through year-end.

Contacts in the commercial real estate industry said that demand for office and industrial space continued to increase since the last report. Contacts said that some businesses were holding back on expansions due to uncertainty, but overall outlooks remained positive. Investment activity remains less aggressive than earlier in the year, although some contacts noted that investment in apartment development remains quite strong.

Financial Services Financial institutions reported mixed loan demand. Contacts said used auto lending was weak, while first mortgages and energy-related lending increased. Loan pricing continues to be very competitive, partly due to loosening credit standards. Despite low deposit rates, deposit levels at most institutions remain high. Contacts expressed concern about new regulations for community banks.

Energy Respondents at energy-related service firms said activity remained steady at high levels despite a decline in the rig count that was mostly natural gas related. Although oil prices remain at healthy enough levels to support current activity, recent price declines coupled with high volatility are making some firms nervous about drilling in higher cost fields. Contacts expect activity to be flat through year-end, with improvement in 2013.

Agriculture The District remained largely in drought, although dry conditions eased in some areas. The crop harvest generally progressed at a good pace. Winter wheat crop conditions were much better than last year, when the drought was more severe in the District. Grain prices trended down over the reporting period but were still at relatively high levels. Cotton prices remained weak and may lead to fewer cotton acres being planted next year. Cattle prices were still higher than normal but contacts noted that high feed costs were keeping producers from expanding their operations and were creating negative margins for feedlots.

TWELFTH DISTRICT–SAN FRANCISCO**Summary**

Economic activity in the Twelfth District expanded at a modest pace during the reporting period of October through mid-November. Price inflation for final goods and services was subdued overall, and upward wage pressures were quite limited. Sales of retail items and most business and consumer services rose further on net, and contacts noted expectations for sales growth during the holiday retail season. District manufacturing activity was uneven but appeared to expand on balance. Agricultural output and sales increased, and extraction activity rose for providers of energy resources. Housing demand continued to firm, and conditions were largely stable for commercial real estate. Contacts from financial institutions reported that overall loan demand was largely unchanged, while credit quality improved.

Wages and Prices

Upward price pressures were very limited on balance during the reporting period. Prices fell for some energy items, mainly crude oil and retail gasoline; prices rose significantly for natural gas but remained very low by historical standards. Earlier price increases for food commodities prompted moderate price increases by restaurants, in the range of 2 to 3 percent. Price movements for raw materials used in the agricultural, industrial, and construction sectors were uneven but appeared to be slightly upward on balance. Retail prices were characterized as largely flat.

Upward wage pressures were modest overall. In most sectors, limited hiring activity and extensive worker availability held down recent and planned increases in wages and overall compensation, with reported numerical increases of 2 to 3 percent in general. Only a few cases of significant upward wage pressures were noted, including for truck drivers, health-care workers, and entry-level employees in a few geographic areas where unemployment rates have declined substantially.

Retail Trade and Services

Retail sales expanded further. A pickup was noted for department store sales during the reporting period, on the heels of a slight slowdown earlier. Significant sales gains were reported for consumer technology products such as tablet computers and games, and retailers added to inventories of these

products in anticipation of solid sales growth during the upcoming holiday season. Sales of new and used automobiles remained strong, running well above levels from 12 months earlier, with further gains expected at year-end.

Demand for business and consumer services expanded on net. Sales continued to grow for various technology services, as consumer demand remained high and businesses in many sectors focused their limited capital spending on information technology equipment and software. Demand for health-care services stayed somewhat weak, due to an ongoing decline in the use of discretionary medical services; however, health-care providers continued to invest in new information technology products to enhance efficiency and respond to emerging legislative requirements. Sales expanded further for restaurants. Activity in the travel sector was robust, with strong growth for visitor counts and spending in Hawaii and continued sales growth and profitability reported for U.S. airlines in recent months.

Manufacturing

District manufacturing activity was mixed across sectors but appeared to expand on balance during the reporting period of October through mid-November. Production activity for commercial aircraft and parts has been running well above levels from last year, with further gains in production and sales expected over the next few years. Demand continued to grow at a modest pace for pharmaceutical manufacturers. For producers of wood products, capacity utilization and sales have held up in recent months and generally have been running above their levels from last year. By contrast, the slowdown continued for makers of information technology equipment, with further sales declines reported for some equipment categories. Demand for scrap metal and steel remained low by historical standards but improved a bit, largely as a result of increased demand for use in automobile manufacturing and infrastructure construction projects. Production activity fell at petroleum refineries in response to recent declines in consumer demand for gasoline.

Agriculture and Resource-related Industries

Agricultural producers saw further sales gains, and extraction activity of natural resources used for energy production continued to expand. Contacts noted that the agricultural sector appears to be

immune from factors that have restrained growth in other sectors of late: production activity and sales of most crop and livestock products have been growing at a solid pace, as has investment spending on new production equipment. Extraction activity expanded on balance for petroleum and natural gas, although the number of rigs used for natural gas extraction has been falling as producers have shifted their extraction activities toward higher-valued oil formations.

Real Estate and Construction

Home demand in the District continued to strengthen, while demand for commercial real estate was largely stable. Home sales have been growing on a sustained basis in most areas, spurring incremental gains in home construction activity. Home prices also have firmed, with significant gains reported over the past 12 months in some areas, substantially reducing foreclosure pressures. Construction activity for multifamily rental projects grew further in response to rising rents and tight availability of lower-priced homes. Demand for nonresidential space was largely stable overall, and contacts noted that the amount of new commercial construction was limited, although significant construction activity continued for large infrastructure projects such as roads and bridges.

Financial Institutions

District banking contacts reported that loan demand was largely unchanged on balance. Business loan demand was characterized as weak to moderate. Firms in most sectors remain uncertain about near-term prospects for their revenues and costs; hence, they are reluctant to make new capital investments other than those that directly enhance business efficiency and pay returns within a short time frame. The reports continued to highlight ample liquidity and stiff competition among lenders to provide credit to well-qualified business loan applicants, with community banks facing increasing competition from larger national banks for small business lending. Consumer lending expanded further, primarily for automobile purchases and new or refinanced home mortgages. Contacts noted that credit quality has been showing slow but steady improvement for business and consumer loans.