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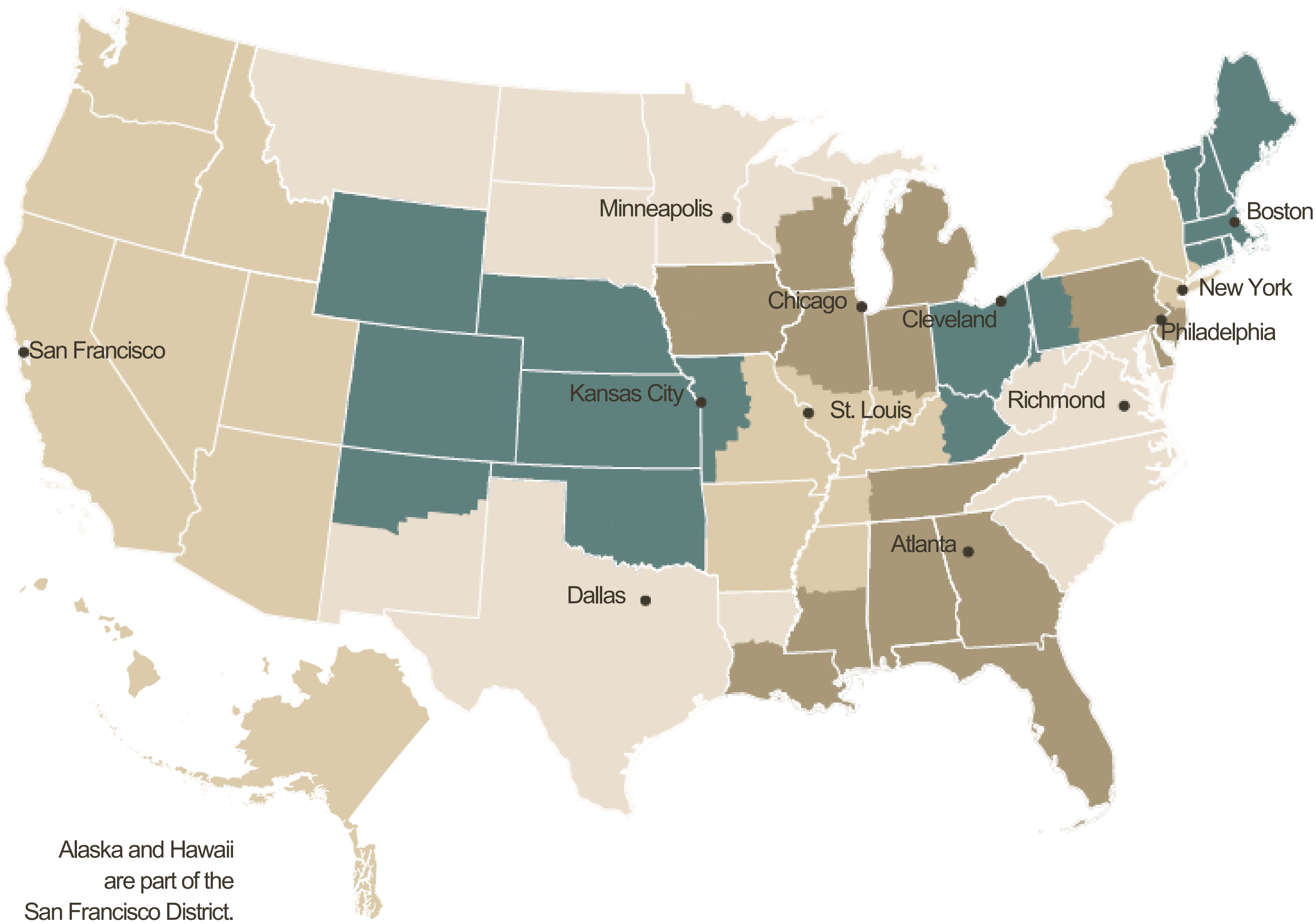
# The Beige Book

Summary of Commentary on Current Economic Conditions
By Federal Reserve District

January 2018

## Federal Reserve Districts




The System serves commonwealths and territories as follows: the New York Bank serves the Commonwealth of Puerto Rico and the U.S. Virgin Islands; the San Francisco Bank serves American Samoa, Guam, and the Commonwealth of the Northern Mariana Islands.

### What is The Beige Book?

The Beige Book is a Federal Reserve System publication about current economic conditions across the 12 Federal Reserve Districts. It characterizes regional economic conditions and prospects based on a variety of mostly qualitative information, gathered directly from District sources.

The qualitative nature of the Beige Book creates an opportunity to characterize dynamics and identify emerging trends in the economy that may not be readily apparent in the available economic data. Because this information is collected from a wide range of business and community contacts through a variety of formal and informal methods, the Beige Book can complement other forms of regional information gathering.

### How is the information collected?

Each Federal Reserve Bank gathers anecdotal information on current economic conditions in its District through reports from Bank and Branch directors, plus phone and in-person interviews with and online questionnaires completed by businesses, community contacts, economists, market experts, and other sources.

### How is the information used?

The anecdotal information collected in the Beige Book supplements the data and analysis used by Federal Reserve economists and staff to assess economic conditions in the Federal Reserve Districts. This information enables comparison of economic conditions in different parts of the country, which can be helpful for assessing the outlook for the national economy. The Beige Book also serves as a regular summary of the Federal Reserve System's efforts to listen to businesses and community organizations.

This report was prepared at the Federal Reserve Bank of Atlanta based on information collected on or before January 8, 2018. This document summarizes comments received from contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.

# National Summary



### Overall Economic Activity

Reports from the 12 Federal Reserve Districts indicated that the economy continued to expand from late November through the end of the year, with 11 Districts reporting modest to moderate gains and Dallas recording a robust increase. The outlook for 2018 remains optimistic for a majority of contacts across the country. Most Districts reported that non-auto retail sales expanded since the last report and that auto sales were mixed. Some retailers highlighted that holiday sales were higher than expected. Residential real estate activity remained constrained across the country. Most Districts reported little growth in home sales due to limited housing inventory. Nonresidential activity continued to experience slight growth. Most manufacturers reported modest growth in overall business conditions. Reports indicated that some manufacturers increased capital expenditures over the reporting period. Most reporting Districts noted continued growth in transportation activity. Loan volumes in many Districts were steady. Among reporting Districts, agricultural conditions were mixed and energy contacts described a slight uptick in activity.

### Employment and Wages

On balance, employment continued to grow at a modest pace since the previous report. Most Districts cited on-going labor market tightness and challenges finding qualified workers across skills and sectors, which, in some instances, was described as constraining growth. Several Districts noted elevated demand for manufacturing and construction labor. Most Districts said that wages increased at a modest pace. A few Districts observed that firms were raising wages in a broader range of industries and positions since the previous report. Some Districts reported that firms expect wages to increase in the months ahead.

### Prices

Most Districts reported modest to moderate price growth since the last report; exceptions were Chicago, which noted that prices increased only slightly while San Francisco noted price inflation was down slightly. Reports of pricing pressures were mixed across the country although several Districts noted increases in manufacturing, construction, or transportation input costs. Firms in some Districts noted an ability to increase selling prices. Retailers in some Districts reported modest price increases and there were reports of rising home prices across most of the country. Agriculture and energy commodity prices were mixed.

## Highlights by Federal Reserve District

### Boston

Economic activity expanded at a modest pace as 2017 ended, with the majority of contacts at manufacturing, retail, and software and information technology firms reporting revenue increases even as some saw flat or declining revenue. Employers cited tight labor markets as a constraint on expansion. Respondents' outlooks continued to be positive.

### New York

Economic activity continued to expand moderately, while labor markets have remained tight. Input prices have increased at a somewhat faster pace, while selling prices continued to rise modestly. Housing markets and commercial real estate markets have been mixed but generally steady overall.

### Philadelphia
Economic activity continued to grow at a modest pace, in particular for manufacturing, nonfinancial services, and tourism. Nonauto retail sales improved to a modest pace as auto sales slipped to a modest decline. The construction and real estate sectors changed little. On balance, employment, wages, and prices continued to grow modestly.

### Cleveland
The economy continued to expand at a moderate pace. Labor markets tightened, with wage pressures coming primarily from workers in low- and middle-skills jobs. Retailers reported higher-than-expected revenues for the early part of the holiday shopping season. Homebuilders saw little evidence of a seasonal downturn in the housing market.

### Richmond
The regional economy grew at a moderate pace in recent weeks. Robust growth was reported by trucking and tourism firms. Retailers generally reported better-than-expected holiday sales. Meanwhile, commercial real estate activity and commercial lending improved moderately. Labor markets tightened further and wage pressures broadened. Price growth remained modest.

### Atlanta
Economic activity improved modestly since the previous report. The labor market remained tight and wage increases were stable. Non-labor input costs picked up slightly. Retailers were optimistic when reporting on holiday sales. Home sales were mixed and prices increased modestly. Commercial real estate contacts continued to indicate improving demand. Manufacturers noted an increase in new orders.

### Chicago
Economic activity picked up to a moderate pace. Employment, consumer spending, and manufacturing production increased moderately, construction and real estate activity rose slightly, and business spending was unchanged. Wages increased modestly, prices rose slightly, and financial conditions improved some. Crop and dairy farmers continued to face challenging conditions.

### St. Louis
Economic conditions continued to improve at a modest pace. In positive news, retailers' reports of holiday sales were generally upbeat, and real estate activity has picked up somewhat. However, auto dealers continued to report mixed sales results, and agriculture conditions in the District remain weak.

### Minneapolis
Ninth District economic activity grew moderately. Although employment levels dipped, hiring demand appeared to remain strong. District manufacturers indicated that a solid 2017 would continue, with upbeat expectations for the year to come. Holiday retail spending was strong, but winter tourism got off to an uneven start. Commercial construction increased; homebuilding was mixed, but residential sales were up.

### Kansas City
Economic activity and employment expanded modestly in late November and December. Retail sales increased sharply, and consumer spending remained well above year-ago levels. The manufacturing and energy sectors expanded further, and capital spending plans were positive. A majority of contacts in the services sector reported labor shortages, and strong wage growth was anticipated in the months ahead.

### Dallas
Economic activity grew robustly, a pickup in pace from the more moderate expansion seen throughout most of 2017. The manufacturing sector remained a bright spot, although growth accelerated in most other sectors as well. Employment growth picked up, and wage and price pressures remained elevated. Labor shortages persisted, with several reports that difficulty hiring was impeding growth to some extent.

### San Francisco
Economic activity in the Twelfth District continued to expand at a moderate pace. Sales of retail goods picked up noticeably, and growth in the consumer and business services sectors remained strong. Conditions in the manufacturing sector remained solid. Activity in residential real estate markets remained robust, while conditions in the commercial sector were strong. Lending activity grew at a modest pace.

## Summary of Economic Activity

Business activity expanded modestly in the First District as 2017 came to a close. Most contacted retailers, manufacturers, and software and information technology (IT) services firms saw revenues increase, although a minority reported flat to slight declines in revenues or sales from a year earlier. Among responding retailers, online sales performed better than in-store sales. Revenue increases among software and IT services firms were strong, ranging from 10 percent to 20 percent year over year. Commercial and residential real estate markets continued much as in the last report, with commercial rents and residential prices increasing in general, while sales were mixed. Labor markets continued to be tight and difficulty in hiring workers has constrained expansion for some firms. Few contacts mentioned price changes. Most responding firms in the region retained a positive outlook for their business.

### Employment and Wages

Contacts in many sectors cited tight labor markets, but only modest wage increases, if any. A local retailer said 2018 merit raises would be on the order of 2.5 to 3.0 percent. A restaurant contact said labor shortages continued to constrain the industry. Only one manufacturing contact reported significant increases in employment and many said labor markets were very tight. One manufacturer was three months behind schedule in trying to hire workers for a new plant. Another industrial firm had 20 unfilled openings in a plant with 100 employees and said they were making up for it with significant overtime. When asked why they didn't increase wages to fill the openings, the contact said they would have to pay all the existing workers more which would be uneconomic. Another industrial-firm contact said that when a worker leaves, they typically end up paying the replacement 10 percent more than the departing worker. Software and IT services contacts have kept headcount close to flat in recent months, though they plan to increase staff by up to 10 percent during 2018. These contacts noted that shortages for technical roles such as engineers were getting worse.

### Prices

Price movements were somewhat mixed. Retailers reported that prices remained steady. Some manufacturers noted input price increases, but most appeared to be idiosyncratic (new environmental regulations in China limiting supply, for example). Manufacturing firms said they had some ability to pass through cost increases to their customers.

### Retail and Tourism

Retail respondents for this round reported that from mid-November through early January, year-over-year comparable-store sales remained flat or posted low-to-middle single-digit increases. For contacts concluding their fiscal year, 2017 comparable-store sales increased by about 2.5 percent from 2016, though some firms, due to business expansion, saw overall sales revenue increase by double digits. Sales via online channels have expanded faster, and contacts said they planned to invest in information technology supporting the growth of data analytics and e-commerce channels in 2018; some view an online presence as an increasingly critical complement to their traditional brick-and-mortar stores, even as they continue to plan on opening new store locations. The outlook for 2018 is generally optimistic.

A contact in the Massachusetts restaurant industry reported that year-over-year restaurant sales ranged from flat to up 2 percent. Net margins have narrowed and restaurant contacts said that new business expansion is likely to be very subdued in 2018.

## Manufacturing and Related Services

Of nine firms contacted this quarter, five reported higher sales versus the year-earlier period, two reported flat sales and two lower. Of the firms with improved sales, most said it was a continuation of recent trends. A manufacturer of industrial parts said that sales had finally recovered to their 2014 peak; the fall in oil prices that started in 2014 had led to a big slowdown in sales to extractive industries. To date, most of their recent growth comes from replacement parts. A manufacturer of toys said that sales in the holiday period were lackluster. The weakness was partly due to the fact that there was only one blockbuster movie with tie-in potential but, in addition, the contact cited uncertainty among consumers, particularly regarding tax reform. No contacts reported major revisions to capital spending plans.

In general, manufacturing respondents continued to have a broadly positive outlook. No contacts expected the just-passed tax reform package to have a big effect on investment. Two said that tax reform would mainly benefit shareholders. One suggested that the reduced deductibility of state and local taxes would lead them to increase pay in high-tax states to compensate workers. A firm that provides support to financial services firms expected an increase in demand for tax-related services as firms try to manage the changes in the code.

## Software and Information Technology Services

Tech contacts in the First District are doing well on the whole, with strong demand across the board and revenue growth between 10 percent and 21 percent year-over-year, excepting one enterprise software firm which has been struggling of late. Even that firm has a healthy outlook. All respondents identified software and technology as a strong space to be in, and anticipate growth from 5 percent to 20 percent over the foreseeable future. Multiple contacts noted particular strength in recent cloud and browser-based offerings, as companies continued to embrace newer technologies. Multiple contacts also indicated that the new tax legislation would help their business, though only as a one-time boost.

## Commercial Real Estate

Contacts reported that commercial real estate markets ended the year on a relatively high note. Leasing activity held roughly steady in recent weeks, with deals proceeding mostly as expected. In the Portland area, office and industrial rents increased 10 percent on a year-over-year basis, while retail and apartment rents were roughly unchanged over the same period. Also in Portland, however, transactions volume for both leasing and sales was down in 2017 as a result of low vacancy rates and low sales inventories. In Boston, office rents edged up further in recent weeks and significant absorption of office space was seen in the Seaport and Back Bay neighborhoods. In Providence, office rents started to increase in recent weeks amid an increasingly tight vacancy environment. Contacts in all three of these metro areas expressed uncertainty concerning the impetus for new office and industrial construction in 2018, but nonetheless expect some. On the one hand, vacancy rates in both of these sectors are low by historical standards and rents are on the rise, but on the other hand construction costs are described as very high, a fact attributed in part to a tight market for construction labor. A Boston-area contact noted that some apartment construction projects are taking longer to complete than anticipated because of worker shortages. Contacts were generally cautiously optimistic about 2018.

## Residential Real Estate

Heading into the end of the year, residential real estate markets in the First District showed slight to moderate increases in sales and ongoing struggles with inventory. (Data for all six states refer to changes from November 2016 to November 2017, while Boston data were for October-to-October changes.) For single family homes, closed sales increased in all reporting areas except Connecticut. For condos, closed sales increased in all areas. As usual, shortage of inventory prevailed and contacts expressed concern that short supplies will hurt the market in the long run.

Median sales prices increased across the region, with the exceptions of Connecticut for single family homes and Vermont for condos. Despite high prices, contacts expressed confidence about the residential outlook. However, many contacts indicated that new legislation passed by Congress could discourage homeownership, as shrinking the cap on the mortgage interest deduction for primary homes and the loss of most deductions for interest on home equity loans will increase costs for most property owners. ■

For more information about District economic conditions visit:
**www.bostonfed.org/regional-economy**

## Summary of Economic Activity

Economic activity in the Second District continued to grow at a moderate pace in the latest reporting period, and the labor market has remained tight. Input prices increased at a slightly faster pace, while selling prices continued to rise modestly. Fairly robust growth was reported in most service and distribution industries. Manufacturers reported that growth has slowed somewhat from its rapid pace during last summer and fall but remains fairly robust. Manufacturers also plan to increase capital spending substantially in 2018. Consumer spending has generally been flat. Housing markets have been steady overall, with continued weakness at the high end of both the sales and rental markets. Commercial real estate markets were also steady, on balance. Finally, banks reported a decline in loan demand, particularly from the household segment, while delinquency rates continued to decline across all loan categories.

### Employment and Wages

The labor market has been steady and tight. Employment agencies generally report that labor market conditions have been strong, though one agency noted that the market is hard to gauge this early in the year—particularly due to the recent snowstorm. Businesses across all industries have had increasing trouble finding qualified workers, with some retailers struggling to find adequate seasonal staff. One large retail chain noted that they hired more holiday season workers than in 2016.

Business contacts generally indicated that they continue to increase staffing levels modestly, though firms in the manufacturing and information sectors have scaled back hiring. However, hiring plans for the months ahead have grown increasingly strong.

Wages have accelerated modestly, and a growing proportion of firms said they expect to hike wages in the months ahead. The minimum wage across New York State rose by 7 to 18 percent, varying by location. An employment agency contact noted that recent New York City legislation restricting employers from asking about job candidates' salary histories may boost salary offers overall.

### Prices

Input prices have accelerated, according to contacts in the manufacturing, wholesale, transportation, education & health, and leisure & hospitality sectors. In other industries, however, cost increases have remained subdued. Selling prices continued to rise only modestly in most industry sectors and even edged down in the transportation and information sectors. Two exceptions have been in manufacturing and wholesale trade, where selling prices have picked up noticeably. Retailers mostly report that prices have been flat or up modestly, whereas prices for Broadway theater tickets have continued to increase at a roughly 20 percent pace. Looking ahead, the only sectors in which businesses planned noticeable price hikes were in wholesale trade and leisure & hospitality.

### Consumer Spending

Retail contacts reported that holiday season sales were mixed but steady overall. Retailers in upstate New York indicated that customer traffic was brisk, while sales were more lackluster. On the other hand, a large retail chain reported that sales picked up in December and were ahead of plan and up modestly from a year ago. The ongoing shift from brick-and-mortar to online sales reportedly accelerated this past season. Retailers remained mildly optimistic about the outlook. Inventories were generally reported to be at satisfactory levels.

Auto sales in upstate New York were steady to somewhat softer as 2017 drew to a close. Vehicle inventories were said to be in fairly good shape. Dealers continued to characterize retail and wholesale credit conditions as favorable.

Consumer confidence in the Middle Atlantic states (NY, NJ, PA) held steady near a multi-year high in December.

### Manufacturing and Distribution

Both manufacturers and wholesalers reported that activity grew at a fairly strong pace, though not as briskly as in the prior reporting period. Transportation firms, on the other hand, noted that activity picked up noticeably, growing at a robust pace. Looking ahead, manufacturers continued to express widespread optimism about the near-term outlook and plan to substantially ramp up capital spending in 2018. Wholesale distributors have become increasingly sanguine, while transportation firms remained moderately optimistic.

### Services

Service-sector firms noted continued modest growth. Contacts in leisure & hospitality and professional & business services continued to report fairly widespread increases in activity, while information industry firms indicated some weakening in activity. Education & health service firms noted that activity picked up modestly after declining for a number of months. Service sector businesses were generally optimistic about the near-term outlook—particularly those in business & professional services and leisure & hospitality.

Broadway theaters reported mixed results for December. Attendance was down about 7 percent from a year earlier, but revenues were up nearly 10 percent, reflecting a sizable increase in ticket prices.

### Real Estate and Construction

The housing market across the District has been mixed but, on balance, stable. Real estate contacts in upstate New York report that, despite a typical seasonal slowing in sales activity, strong demand and tight inventories continues to boost prices. In northern New Jersey, sales volume has been subdued and prices have been flat to up slightly. In the lower Hudson Valley and southwestern Connecticut, sales volume has plateaued at a high level; selling prices have risen moderately, except at the high end of the market, where they have languished. Long Island's market has been somewhat more robust, with prices rising and some pickup in activity at the high end of the market.

New York City's sales market has been softer. Median prices of existing condos and co-ops have been flat overall—rising at the entry level, where inventories are lean, but declining at the high end, where there is a large supply.

New York City's rental market has continued to soften, mainly at the high end. Landlord concessions on higher-end rentals have remained prevalent, and more recently face rents have declined. A major real estate appraiser estimated that effective rents are down 5-7 percent from a year ago on higher end units but up modestly on smaller, entry-level apartments.

In areas around New York City, there has been some concern that the new federal tax legislation, which limits deductions for mortgage interest and especially property and state income taxes, will weaken the housing market, especially the high end. However, this is seen as much less of a concern in upstate New York.

Commercial real estate markets have been mixed but mostly steady overall. Office availability rates have climbed modestly in New York City, remained steady in Long Island and Fairfield County, and have edged down in northern New Jersey. Asking rents for office space have remained essentially flat. The industrial market has been more robust: vacancy rates have steadied at very low levels, and asking rents have risen briskly. The retail market, in contrast, has softened further, with vacancy rates rising, while asking rents have been flat to up slightly.

### Banking and Finance

Small to medium-sized banks in the District reported weakening demand for consumer loans, residential mortgages, and C&I loans, but no change in demand for commercial mortgages. Bankers also reported a decrease in refinancing activity. Credit standards were tightened somewhat on commercial mortgages but left unchanged for other types of loans. Bankers reported rising loan spreads for commercial loans and mortgages. Finally, bankers reported continued improvement in delinquency rates across all loan categories. ■

For more information about District economic conditions visit:
**www.newyorkfed.org/data-and-statistics/regional-data-center/index.html**

## Summary of Economic Activity

Aggregate business activity in the Third District continued at a modest pace of growth during the current Beige Book period. Nonauto retail sales, tourist activity, manufacturing, and nonfinancial services grew modestly, while new home construction and existing home sales appeared to grow slightly. Little change was noted by contacts in nonresidential construction and nonresidential leasing markets. Auto sales appeared to have declined modestly. On balance, employment, wages, and prices continued to grow modestly. Most firms anticipated continued growth over the next six months—a somewhat higher percentage than during the prior period.

### Employment and Wages

Employment continued to grow at a modest pace during the current Beige Book period, although reports of net additions to staff edged lower for both manufacturing and nonmanufacturing firms. Average hours worked edged lower over the period for manufacturing firms but rose among nonmanufacturers.

On balance, wage growth held steady at a modest pace, although the percentage of nonmanufacturing firms reporting increases slipped below 40 percent. One manufacturing firm noted that significant annual increases in health-care costs precluded the firm's ability to offer wage increases; several other firms cited difficulties with rising benefit costs. A few contacts commented on the recent news that numerous large firms had announced plans to offer bonuses this year and/or to raise their minimum wage rates.

In one of the District's tighter labor markets, a staffing firm reported that wages had risen 4 percent over the year, while various firms from that same market noted that they were very busy, but the lack of qualified labor was constraining their growth. In the Poconos, the tight labor market was impacting firms' ability to fill low-skilled jobs and middle management positions.

### Prices

On balance, price levels continued to rise modestly, although most contacts indicated no change in prices paid and received. Across all contacts, the percentage of firms reporting increases in prices received for their own goods and services was somewhat higher during the current period than the prior period. For prices paid, the percentage of manufacturing firms reporting increases rose, while the percentage of nonmanufacturing firms reporting increases fell.

Retailers and banking contacts reported few signs of inflationary pressure, and builders noted little change to the typical price increases for construction materials. Overall, existing home prices continued to rise, with some variation across markets and price categories.

### Manufacturing

On balance, manufacturing activity continued at a modest pace of growth, with a few signs of slight improvement. The percentage of firms reporting increases in new orders rose slightly compared with the prior period but changed little for shipments.

The makers of paper products, chemicals, primary metal products, industrial machinery, and electronic equipment continued to note gains in new orders and shipments;

firms in the lumber and fabricated metal sectors reported declines in activity.

A majority of manufacturing contacts continued to expect general activity to increase over the next six months. The percentage of firms expecting future increases for general activity rose above 60 percent. By comparison, the percentage of firms expecting increases in future capital expenditures and future employment held mostly steady at levels just above 40 percent. However, a somewhat higher percentage of firms expected decreases in future employment compared with the prior period.

### Consumer Spending

On balance, nonauto retail sales appeared to grow modestly over the holiday season—an improvement over the prior period. Contacts reported that sales started flat, but growth materialized in the weeks before and after Christmas. The abnormally cold December temperatures lifted sales of warm weather apparel, and long lines of last-minute shoppers were noted at mall jewelry stores.

Auto dealers reported modest declines overall in year-over-year sales this period, a further deterioration from slight decreases during the prior period. Nevertheless, sales remain at high levels. While early reports from Pennsylvania dealers suggested a slight increase, later reports from New Jersey dealers noted that the cold weather dampened sales, which are normally very strong in late December due to year-end bonuses. However, this year dealers felt that “people with cash on hand ran to the municipal tax office to prepay property taxes, not buy cars.”

Tourism contacts continued to report modest growth overall. A Poconos contact reported that ski resorts were sold out on weekends and that visitors exhibited confidence by extending their stays and keeping restaurants busy. In November, Atlantic City’s casino revenues continued to grow modestly relative to the prior year. However, the January 4 bomb cyclone limited activity over this period’s final weekend as shore areas dug out from heavy snows and skiers in mountain resorts were greeted by single-digit temperatures.

### Nonfinancial Services

On balance, service-sector firms have continued to report modest growth in general activity since the prior Beige Book period. The percentage of firms reporting a higher level of sales has increased since the last period; however, the percentage reporting greater orders has declined. Expectations about future growth have remained positive, with well over half of the firms anticipating increased activity, marking little change since the prior Beige Book period.

### Financial Services

Financial firms reported modest growth of overall loan volumes (excluding credit cards)—similar to the prior Beige Book period. Loan volumes grew modestly in home equity lines and auto loans, while mortgages and commercial real estate loans grew slightly. Growth in commercial and industrial loan volumes was stronger, while the volume of other consumer loans fell.

The significant seasonal increase in credit card volumes anticipated for the recent holiday period did occur and was comparable in size to the increase during the same period last year.

Banking contacts described solid ongoing economic growth in most parts of the District. Several noted that previously hot sectors, including commercial real estate and multifamily housing, appear to have plateaued or cooled off a bit. Credit quality was portrayed as very good; one contact reported telling bank staff to “take a picture,” as the bank’s loan portfolio was so sound.

### Real Estate and Construction

Homebuilders continued to report slight growth in activity during the current period. One builder noted that the company’s backlog of sales is off considerably from last year and that other local builders are also feeling a slowdown that began last summer.

On balance, brokers in Third District housing markets continued to report slight growth of existing home sales. In most local markets, exceedingly low inventories of houses constrain sales and place upward pressure on house prices.

Nonresidential real estate contacts reported no significant changes in the high levels of overall construction activity. Commercial contractors focused on Philadelphia noted that 2017 was a strong year and that activity should continue through 2018. New project announcements are needed to extend current activity levels into 2019. Rising lease rates and new construction of industrial/warehouse space continued to be noted in many Third District markets. Essentially, little change was noted in the level of leasing activity, although markets vary significantly by sector and geography. ■

For more information about District economic conditions visit:
**www.philadelphiafed.org/research-and-data/regional-economy**

Federal Reserve Bank of Cleveland



## Summary of Economic Activity

Business activity in the Fourth District grew at a moderate pace since our last report. Labor markets continued to tighten. Challenges in attracting and retaining qualified workers, especially for low-skills jobs, contributed to wage pressures. Manufacturers and professional services providers experienced pushback when attempting to increase their selling prices. Retailers reported higher-than-expected sales for the early part of the holiday shopping season. Manufacturing output grew, albeit at a slow pace. Freight transport and nonfinancial services firms saw moderate to strong gains in activity. The housing and commercial real estate markets remained healthy.

### Employment and Wages

District labor markets continued to tighten during the survey period. The strongest activity was found in the construction and nonfinancial services sectors. After softening late in the second quarter, hiring by manufacturers has been trending slowly higher. A large majority of contacts reported they are replacing departed workers; the share of firms creating new jobs was stable. The main labor-related challenge reported was attracting and retaining workers for low-skills and, to a lesser extent, middle-skills jobs. In response, firms are raising wages and creating career paths within these job categories. A professional services contact reported boosting wages for select low-skills jobs by up to 20 percent, while a fast food executive said that wages at her restaurants are now up to $11 per hour. Higher labor costs were difficult to pass through to customers because of competitive markets. Turnover is reportedly much less of an issue in high-skills and STEM jobs.

### Prices

Upward pressure on input costs remained strong, especially in the construction and nonfinancial services sectors. Building contractors generally attributed higher materials prices to rebuilding efforts from last summer's hurricanes. Trucking firms cited rising prices for fuel and maintenance products. Price spikes for petrochemical products resulting from the hurricanes are beginning to moderate. Reports on selling prices were mixed. Building contractors, trucking firms, and railroads all reported rate increases in response to higher input costs, including labor costs, and a desire to widen margins. One construction contractor reported raising rates up to 10 percent during the past two months. A trucking firm cited across-the-board rate increases of 6 percent to 12 percent. In contrast, reports indicated a decline in manufacturer selling prices on net, mainly because of competitive pressures. Professional services firms described their billing rates as flat. Some of these firms are feeling pressure from clients to lessen the rate of increase in billing rates or to reduce rates overall for the next year or two.

### Consumer Spending

An improving outlook, on the part of most retailers, continued into the holiday shopping season. Retail chains that invested in technology to enhance customers' shopping experiences saw improving same-store sales. One chain reported that a growing share of online orders are for in-store pickup. This model has been good for generating increased in-store sales when the customer comes in to pick up an order. Another smaller chain is testing same-day delivery options in order to keep up with consumer expectations set by big retail players. A fast food chain observed that the average revenue per transaction from recently installed self-service kiosks was higher than transactions generated by cashiers. Anecdotes suggest that revenues for the early part of the holiday shopping season are moderately higher when compared to those of the same period a year ago, and they are also higher than expected. Cold weather across the District and the use of promotional discounting are believed to be contributing to higher revenues. One large chain reported that this is the first holiday season for which gains from e-commerce are expected to offset losses from brick-and-mortar operations. Year-to-date unit sales through November of new motor vehicles rose 3 percent compared to those of a year ago. One dealer commented that interest rate changes have not yet made an impact on new-car transactions.

### Manufacturing

Manufacturing output continued to strengthen, albeit at a slow pace. Several contacts cited an improving economy as the primary reason for new orders, while others pointed to ongoing strength in the construction and motor vehicle industries and stability in the energy sector. Contacts linked to the petrochemical industry reported a residual boost in activity resulting from hurricane-related damage. Steel producers saw rising activity, which they generally credited to increased manufacturing output. One steel producer noted that some of his customers are concerned that the domestic economy may be reaching the peak of the current business cycle, resulting in a dampening in capital investment. Year-to-date production through November at District auto assembly plants declined about 20 percent when compared to that of the same period a year earlier. The decrease can be attributed to retooling for a next-generation sport utility vehicle and cutbacks in small passenger car production. Contacts reported a pull back on spending for plant expansions and product development after spending rose during most of the second half of 2017. Our contacts' outlook calls for a moderate pickup in the pace of growth in the near term.

### Real Estate and Construction

Several homebuilders reported that they have not seen the typical seasonal decline in demand. One builder attributed this situation to low interest rates, a healthy economy, and low inventory of existing homes. Looking across the District, unit sales of new and existing single-family homes during November 2017 were almost 4 percent higher when compared to unit sales of November 2016. The average sales price rose more than 6 percent. Homebuilders are concerned about declining lot inventory and the availability of land.

Demand for nonresidential construction services remains at a high level. A majority of contacts cited their customers' confidence in the economy as the primary driver for the strong demand. Property development was broad based. We heard reports about a pickup in office construction and owners' expanding the scope of their projects. Backlogs increased during the survey period and were at high levels. A moderate increase was reported in selling prices for office and industrial properties during the first nine months of 2017 compared to those of the same period in 2016. During the same time frame, reports indicated a decline in the number of apartments coming on the market. Apartment rents continued to trend moderately higher.

### Financial Services

Business lending trended up slowly across loan products, and bankers saw higher loan balances on a year-over-year basis. Increasing confidence in the economy was frequently cited for rising credit demand. Merger and acquisition financing remains strong. An accounting executive said that his firm has performed more acquisition work during 2017 than in the past five years combined. A large-bank contact reported that although his pipeline for loans remains strong, the closure rate is relatively weak. He attributed this situation to seasonal factors and uncertainty spawned by political activity at the federal level. Consumer lending weakened along seasonal trends, with several contacts reporting declines in credit card balances and drawdowns on HELOCs.

### Nonfinancial Services

Freight volume increased at a moderate to strong pace during the period. Demand was broad based but was driven especially by demand for steel products and by the energy sector. Strong growth in e-commerce was also mentioned as driving up volume. Capacity constraints and labor shortages were cited as factors contributing to escalating shipping rates. Current freight volumes are expected to continue in the near term. Professional services firms experienced moderate gains in activity. The strongest gains were reported by firms that assist customers in applying digital technologies to both production and back-office activities. ■

## Summary of Economic Activity

Since our previous report, the Fifth District economy expanded at a moderate pace. Manufacturing activity picked up modestly, overall. Trucking firms continued to report robust growth compared to the prior period, while district ports experienced a mild seasonal slowdown, but strong year-over-year increases. Retailers saw a moderate increase in sales, with many stores citing better than expected holiday shopping this year. Tourist activity was strong in recent weeks, particularly at ski resorts. Home prices generally rose. Meanwhile, commercial real estate activity increased moderately. According to lenders, residential loan demand was flat while commercial loan demand rose moderately. Nonfinancial services firms reported moderate revenue growth. Labor demand increased modestly and firms had difficulties finding workers across a broad range of occupations. Wage pressures broadened moderately and many employers planned to raise starting wages. On balance, prices increased at a modest pace.

### Employment and Wages

On balance, the demand for labor increased modestly in recent weeks, but several firms indicated that hiring was constrained by the tight labor market. Some of the most hard-to-fill positions were restaurant workers and chefs, construction workers and managers, nurses, retail workers, administrative assistants, software engineers, electricians, and truck drivers. A trucking company said that the labor shortage left many trucks sitting idle and was putting upward pressure on driver wages. In general, wage pressures broadened moderately as more businesses reported increasing starting wages. Many also planned to raise wages for existing employees, particularly for high performers.

### Prices

Prices grew at a modest pace overall, since our previous report. According to our latest surveys, prices paid for manufacturing inputs slightly outpaced a modest rise in selling prices. Manufacturers of textiles, paper, wood products, chemicals, and plastics saw the largest increases in input goods prices. Food manufacturers, on the other hand, reported some of the smallest input price increases. In the service sector, price growth continued at a modest pace. Manufacturers and service sector firms expected prices to grow at a slightly faster pace over the next six months. Natural gas prices increased modestly, in recent weeks, while steam coal prices inched up and metallurgical prices rose modestly.

### Manufacturing

District manufacturing activity increased at a modest pace, overall. A West Virginia rubber manufacturer said that sales picked up in recent weeks after a somewhat weak year, and they were optimistic that growth would continue in the coming months. Packaging and metal manufacturers reported moderate growth while a Virginia food company noted a slight uptick in sales. In contrast, a North Carolina machinery manufacturer reported one of the worst months on record, and a South Carolina paper product manufacturer reported a continued decline in business. According to our survey, vendor lead times increased on average, and many firms reported longer delivery times despite higher delivery costs.

### Ports and Transportation

District ports reported robust year-over-year growth in shipping volumes despite a slight seasonal slowdown in recent weeks. Ports continued to handle more imports than exports, but some expected the gap to narrow in coming months. A Maryland port reported increased exports to the Middle East, coinciding with the rise of oil prices. Trucking companies continued to see robust growth in the past several weeks, which was especially noteworthy since they usually see a seasonal downturn at the end of the year. Some firms were unable to meet rising demand, as they were constrained by lack of truck drivers. Trucking companies expressed concerns that the newly mandated use of electronic logs could lead to an even greater shortage of drivers and lead to more mergers and acquisitions in the trucking industry.

### Retail, Travel, and Tourism

District retailers generally reported moderate sales growth since our previous report, with many stores experiencing better-than-expected holiday sales. A Virginia hardware store had robust sales growth, particularly for power equipment and high-end grills. Meanwhile, a furniture store reported strong growth and a slight increase in its profit margin. A high-end women's clothing store noted slightly weaker sales, attributing much of the softening to online competition. A North Carolina auto-dealer saw a surge in sales and a Virginia auto dealer reported a rise in sales of parts.

Fifth District tourism remained strong in recent weeks. A West Virginia ski resort was booked to capacity through the holidays and is on track for a record breaking season. Demand for hotel rooms rose across the District, although some North Carolina hotels reported slowing business and pressure to lower rates due to competition from newly built hotels and by-owner rental units. Hotels in D.C. and Virginia noted typical seasonal declines in rates and occupancy.

### Real Estate and Construction

Residential real estate markets improved modestly in the past few weeks. Most contacts noted a seasonal slowdown, although one broker reported "unusually strong traffic for December." Sales prices were generally up and inventories were down. In fact, there were numerous reports of low inventories inhibiting activity, particularly at the more affordable price points. Real estate professionals generally indicated that the higher the price level, the broader the availability of homes for sale. In some markets, construction continued at a moderate pace—including in multifamily—while others reported very limited new home construction.

On the whole, commercial real estate activity picked up moderately in recent weeks, with low vacancy rates, strong absorption rates, and rising rents, despite the usual seasonal slowdown in leasing. However, there were some reports of softening activity particularly in office and in retail. A broker from Baltimore expects more retail store closures in 2018. In contrast, a broker in South Carolina said that retail construction was very active but office rents were flattening due to minimal white collar job creation in his market. He noted, however, that industrial leasing and construction activity was strong, and that speculative building was occurring for the first time since 2008. He also stated that multifamily construction, while slowing, was still active. Finally, a contact from D.C. reported that the skilled-labor shortage in construction has been the root of rising costs for a while, but the shortage recently started to manifest itself in deteriorating work quality and project delays.

### Banking and Finance

Loan demand grew modestly in recent weeks as gains in commercial lending drove the overall increase. Residential mortgage lending was generally reported as flat to down slightly compared to about a month ago, but up from a year earlier. Deposits rose moderately, on balance, in recent weeks. On the commercial side, demand picked up moderately. In South Carolina, industrial lending was the most active. In West Virginia, the demand for coal and natural gas operating and expansion loans were increasing. Credit quality remained high throughout the District. However, credit standards loosened slightly as competition for loans led to more concessions on lending terms. Interest rates increased slightly, overall.

### Non-Financial Services

Nonfinancial services firms continued to report moderate growth in revenues. The most upbeat reports came from professional and business services, administrative and support services, and legal services. A law firm in West Virginia said they had the best quarter since the recession. An administrative support firm said that clients were willing to pay higher fees for temporary staff, which was helping to boost their profits. Utility companies continued to report rising demand as temperatures declined.

### Agriculture and Natural Resources

Coal production was little changed in recent weeks but was up considerably compared to the same time last year. Exports of coal, particularly to China, were responsible for much of the growth. Meanwhile, natural gas drilling and pipeline development work picked up moderately. A hardwood producer reported a modest rise in export demand. ■

For more information about District economic conditions visit:
**www.richmondfed.org/research/regional_economy**

## Summary of Economic Activity

Sixth District business contacts remained largely positive with most noting that economic conditions were improving at a modest pace over the reporting period. Most contacts expect continued slow and steady growth in the near-term. Business contacts experienced on-going labor market tightness but limited wage growth. Non-labor input costs increased slightly from the previous report. Contacts reported that holiday retail sales exceeded expectations, but auto sales softened. Reports from the hospitality sector were positive, reflecting strong advance bookings. Residential real estate brokers and builders noted mixed sales activity for both existing and new homes. Home prices rose and inventory levels were described as flat or down. Commercial real estate contacts reported increased demand in nonresidential construction, especially industrial and warehousing. Manufacturers indicated that new orders picked up since the previous report.

### Employment and Wages

Job growth across the District returned to a steady pace in November, following large hurricane-related losses in September. In a survey of business contacts, a little over half indicated that they expect their firms to increase employment over the next 12 months, while about one-third responded that they expect employment to remain unchanged. The remaining respondents expect some staff reductions over the next 12 months. Contacts indicated the most important factor for adding to payrolls was an expectation for high sales growth in their business while the top constraints to hiring were a desire to keep operating costs low and an inability to find workers with requisite skills. A number of contacts continued to describe challenges filling and retaining highly-skilled/specialized and low-skilled/entry-level positions. To find and retain workers, firms continued to broaden their geographical search for candidates and develop or expand training programs.

On balance, contacts noted steady but modest wage growth; however, compensation negotiations were more prevalent among highly-skilled/specialized workers.

### Prices

Increases in non-labor input costs were reported as mostly modest. Firms reported that pricing power continued to be limited. The Atlanta Fed's Business Inflation Expectations survey showed that year-over-year unit costs were up 1.8 percent in December, and respondents expect unit costs to rise 2.1 percent over the next twelve months.

### Consumer Spending and Tourism

District retail contacts reported an uptick in sales levels since the last report. Merchants noted that early holiday sales activity was above expectations. According to automobile dealers in the District, however, momentum of auto sales slowed compared with year-earlier levels.

Holiday reports from District travel and hospitality contacts indicated much higher-than-anticipated tourism activity. Further, the outlook among contacts remains positive for the first quarter of 2018 with strong advance bookings in the conference and business travel segments.

### Construction and Real Estate

Reports from residential real estate contacts in the District signaled modest growth since the previous report. The majority of builders reported construction activity was slightly up in November compared with one year earlier. Brokers indicated that home sales activity was flat to slightly down from the year-ago level, yet builders said home sales were flat to slightly up over the same period. Many brokers reported buyer traffic was flat to down; meanwhile, builders said buyer traffic was flat to up. Most brokers indicated inventory levels were down from one year ago, while builders reported that inventory levels remained unchanged. Builders and brokers continued to note home price increases in November. Over the next three months, residential real estate contacts expect home sales activity to either hold steady or increase slightly relative to the year-ago level, while many builders expect the pace of construction activity to remain unchanged or increase slightly.

Many commercial real estate contacts from the District reported improvements in demand that resulted in rent growth, specifically in industrial and warehouse/distribution properties and to a lesser degree in office and multifamily. Contacts cautioned that the rate of improvement varies by metropolitan area, submarket, and property type. The majority of commercial contractors indicated that the pace of nonresidential construction activity had increased from one year ago. Most contacts continued to report a healthy pipeline of activity, with the majority indicating backlogs greater than or similar to the previous year's level. While the majority of reports indicated that the pace of multifamily construction matched or exceeded the year-ago level, a growing share continued to report that activity was down from one year earlier. Commercial construction contacts' outlook for nonresidential and multifamily construction activity improved across the District since the last report.

### Manufacturing

Manufacturing contacts reported increases in overall business activity. New orders continued to rise, while production levels at District firms remained somewhat subdued. Most contacts indicated that hiring activity continued to increase at a healthy pace and suggested that supplier delivery times were getting somewhat longer. Finished inventory levels were reported to have increased slightly and input prices also continued to rise. Contacts' outlook for future production was similar to from the previous period, with about half expecting higher production levels over the next six months.

### Transportation

Transportation contacts in the District noted increased activity during the reporting period. Ports saw growth in volumes across most sectors; however, automobile shipments were flat year-over-year. Containerized exports and imports were up by double digits from year earlier levels, and solid growth in lumber, iron and steel break bulk cargo was attributed to increased manufacturing and construction activity. Available warehouse capacity was at record low levels. Year-to-date total rail volume was flat compared with last year; intermodal traffic was up modestly. Trucking companies experienced a robust peak season due to substantial increases in e-commerce volumes, and logistics contacts noted greater demand for services due in part to hurricane rebuilding efforts and tighter capacity. All District contacts surveyed anticipate continued growth in activity for 2018.

### Banking and Finance

Credit remained readily available for most qualified borrowers. Credit union contacts noted strong auto and first mortgage lending and increased credit card activity. Some banking contacts reported a diminished ability to raise deposits.

### Energy

Contacts indicated that overall, utilities continued to move to natural gas power generation. Pipeline take-away capacity from production to refineries continued to be constrained. It was noted that liquid natural gas exports ticked up slightly with additional liquefaction capacity that came online.

### Agriculture

Agriculture conditions across the District were mixed. Drought conditions expanded in parts of Alabama, Florida, Georgia, Louisiana, and Mississippi and were classified as abnormally or moderately dry. The District's December cotton production forecast was up over last year, mostly because of increased acres, although there were some reductions in yields. The December forecast for Florida's orange crops was down from the previous report. The USDA designated many counties in Florida and Georgia as natural disaster areas due to damages and losses attributed to Hurricane Irma. On a year-over-year basis, prices paid to farmers in November were up for rice, oranges, beef, broilers, and eggs and down for corn, cotton, and soybeans. ■

For more information about District economic conditions visit:
www.**frbatlanta.org/economy-matters/regional-economics**

## Summary of Economic Activity

Growth in economic activity in the Seventh District picked up to a moderate pace in late November and December and contacts expected growth to continue at that pace over the next 6 to 12 months. Employment, consumer spending, and manufacturing production increased moderately, construction and real estate activity rose slightly, and business spending was unchanged. Wages increased modestly, prices rose slightly, and financial conditions improved some. Crop and dairy farmers continued to face challenging conditions.

### Employment and Wages

Employment increased at a moderate pace over the reporting period, and contacts expected it to continue at that rate over the next 6 to 12 months. Contacts continued to indicate that the labor market was tight, with difficulties filling positions at all skill levels. Hiring was focused on professional and technical, production, and sales workers. There was a notable increase in the number of firms looking to hire professional and technical workers, and a staffing firm that primarily supplies manufacturers with production workers reported an increase in billable hours for the first time in many months. Wage increases were spread across most occupation categories. Wage growth remained modest overall, though the number of contacts reporting increases for production workers continued to climb and a number of manufacturers reported raising their starting wages. In addition, most firms reported higher benefits costs.

### Prices

Overall, prices increased slightly in late November and December. Retail prices were little changed for most categories, though one large grocery chain reported slight price declines. A number of contacts indicated that raw materials prices had risen.

### Consumer Spending

Consumer spending rose at a moderate pace over the reporting period. Growth in non-auto retail sales picked up to a moderate pace, as holiday sales outpaced expectations. One contact indicated that holiday sales were the best in many years. Contacts reported gains in the electronics, appliances, building supply, tourism, and personal service sectors, but declines in the food and beverage sector. Growth in e-commerce remained strong. New light vehicle sales in the District were flat in spite of generous incentives. Used vehicle sales were also flat. Dealers expected new light vehicle sales in 2018 to be about the same as in 2017.

### Business Spending

Business spending was little changed in late November and December. Retail contacts indicated that inventories were generally at comfortable levels. While one auto dealer noted that, with the pickup in light vehicle sales in the final months of the year, inventories had finally returned to a comfortable level, another said that its inventory of crossovers was so low that it may not be able to meet demand in January. Manufacturing inventories were also generally at comfortable levels, with the exception of steel service centers, where inventories remained below historical norms. Capital spending was little changed, though contacts expected spending to grow at a moderate pace over the next 6 to 12 months. Outlays were primarily for replacing industrial and IT equipment and for renovating structures. Demand for residential, commercial, and industrial energy and for transportation services all increased slightly.

Almost all contacts thought that the Federal tax bill would have a positive impact on their firms. Most respondents expected to spread the tax savings across outlays for capital, labor, debt repayment, and profit distributions to owners.

### Construction and Real Estate

Construction and real estate activity increased slightly over the reporting period. Residential construction increased modestly and contacts expected growth to pick up to a moderate pace over the next six to twelve months. New building was concentrated in the single family segment in suburban locations. Overall, home sales remained flat—low inventories in the starter home segment restrained sales, while sales of higher-end homes moved up. Home prices rose slightly overall, with stronger increases in the starter home segment. The pace of nonresidential construction was little changed, but contacts expected a slight pickup over the coming year. Commercial real estate activity increased slightly from an already strong level, and contacts expected modest gains going forward. One contact noted that most lenders are maintaining conservative loan-to-value ratio requirements. Commercial vacancy rates decreased slightly overall, but more so for office space. Commercial rents increased a bit.

### Manufacturing

Growth in manufacturing production picked up to a moderate rate in late November and December. Steel production increased at a strong pace as imports fell and service centers struggled to replenish already low inventories in response to solid end-user demand. One steel producer said demand was the strongest it had been in 10 years. Order books for specialty metals manufacturers increased moderately—growth was spread across a wide variety of sectors, with particularly strong demand from the oil and gas sector. Manufacturers of construction materials continued to report slow but steady increases in shipments, in line with the pace of improvement in construction. Auto production was flat.

### Banking and Finance

Financial conditions improved slightly over the reporting period. Financial market participants noted that volatility continued to be low. Business loan volume increased slightly, with growth spread across sectors. Contacts reported little change in loan quality or lending standards, though one contact noted that competition for loans was strong and that they had lost deals to lenders offering looser terms and lower rates. Consumer loan volume also increased slightly, led by growth in auto loans. Consumer loan quality and lending standards were little changed.

### Agriculture

Crop and dairy producers faced further belt-tightening at the start of 2018, while cattle and hog producers were in relatively better shape, owing to the underlying trends in prices received. Soybean prices dipped and corn prices rose over the reporting period, but both remained below last year's levels as plentiful stocks kept a lid on prices. Looking ahead, lower fertilizer costs and slightly lower farmland rents provided limited improvement to crop producers' profit expected margins. Contacts indicated that challenging conditions had led to more financing requests from crop producers. Dairy producers also struggled, and some smaller and less efficient operations closed down. Cattle, egg, and hog prices moved higher, to the point that producers could earn profits. ■

For more information about District economic conditions visit:
**chicagofed.org/cfsbc**

## Summary of Economic Activity

Reports from contacts indicate that economic conditions have continued to improve at a modest pace since our previous report. Labor market conditions remain tight, the pace of hiring remains slow, while wage growth has been moderate. Reports on consumer spending were positive. Residential real estate conditions have improved modestly after a few months of sluggish home sales. District bankers reported moderate loan growth across most categories. Unseasonably cold weather has negatively impacted the quality of winter wheat in the District.

### Employment and Wages

Anecdotal evidence suggests little change in employment since the previous report. Contacts continued to report difficulties finding experienced or qualified employees. Construction contacts in Louisville and Little Rock reported labor shortages, while manufacturing contacts reported difficulties hiring for both skilled and unskilled positions. Labor demand in Missouri was particularly high in healthcare services, leisure and hospitality, retail, and wholesale trade.

Contacts reported moderate growth in wages since the previous report. A contact in Louisville reported increasing starting salaries multiple times a year to attract new hires, as well as increasing wages to retain skilled employees in information technology. Construction and manufacturing contacts across the District reported increasing wages to attract new employees.

### Prices

Price pressures have increased moderately since the previous report. Residential real estate prices rose moderately, with especially strong growth in northwest Arkansas. Construction materials price pressures increased as well. Steel prices rose moderately throughout the District, and a Louisville contact reported an uptick in construction costs. A contact in Arkansas reported solid wood products prices increased moderately but sawtimber and pulpwood prices were flat or decreased.

In the energy sector, coal prices were flat. In the agricultural sector, prices generally rose at a moderate pace. Corn feed, sorghum, and rice prices increased moderately, soybean prices were flat, and wheat and cornmeal prices decreased slightly. Contacts in Memphis reported strong increases in cotton prices, and Little Rock contacts reported rapid increases in large egg prices.

### Consumer Spending

Reports from general retailers, auto dealers, and hoteliers indicate consumer spending has grown modestly since our previous report. November real sales tax collections increased in Arkansas, Kentucky, Missouri, and Tennessee relative to a year ago. Consumer confidence continued to increase in West Tennessee, as households indicated their willingness to spend more in the next few months relative to a year ago. Reports from auto dealers were mixed: While multiple auto dealers from Louisville and Little Rock reported improved traffic and sales, Memphis auto dealers reported that sales have softened the past two months. Auto dealers throughout the District hold an optimistic outlook for 2018. Louisville hoteliers continued to report weaker occupancy rates in the fourth quarter.

## Manufacturing

Manufacturing activity has increased modestly since our previous report. Overall manufacturing activity was stronger than one month earlier in both Arkansas and Missouri, although the pace of growth slowed in Missouri. Production increased in both states, but at a slower rate than previously. Several companies in the District reported new capital expenditure and facility expansion plans, including firms that manufacture food and beverage products, chemical products, and transportation equipment. Sales to auto manufacturers, however, were flat to slightly down, according to contacts that supply the auto industry. Most manufacturing contacts expect conditions in 2018 to be similar to those in 2017, although a contact in the plastic products manufacturing industry expects a decline in business in 2018, citing increased foreign competition.

## Nonfinancial Services

Activity in the service sector has expanded modestly since the previous report. Firms that provide transportation, logistics, and information technology services announced plans to increase employment, open new facilities, and renovate existing facilities. Demand for commercial trucking remains elevated because of Hurricane Harvey relief efforts, exacerbating a shortage of drivers. Reports from healthcare firms remain mixed. One major healthcare employer is cutting employees to improve operational management, while other healthcare providers began capital expansions.

## Real Estate and Construction

Residential real estate activity has improved moderately since the previous report. Seasonally adjusted home sales for November increased sharply from the previous month across the District's four major MSAs. Local contacts continued to report shortages in inventory.

Residential construction activity was flat. November permit activity within District MSAs was unchanged relative to the previous month. Local contacts continued to report that a shortage of labor is limiting new construction.

Commercial construction activity improved slightly. November nonresidential construction starts increased moderately within the District relative to the previous month while multifamily permits dropped slightly. Little Rock construction contacts reported healthy levels of activity that they expect will continue through the first half of 2018 at least.

## Banking and Finance

Banking conditions in the Eighth District have improved at a moderate pace since the previous report. District banking contacts report that outstanding loan volumes expanded by 7 percent relative to year-ago levels, indicating that loan growth, which had been slowing since the start of 2017, levelled off in December. Year-over-year growth in residential mortgage lending continued at 4 percent for the second consecutive quarter while commercial real estate lending grew by 9 percent. Commercial and industrial credit growth was also strong as loan volumes rose by 9 percent compared with 6 percent nationwide. Lending activity in open-ended home equity loans declined by 1 percent relative to year-ago levels and was the only major loan category that experienced negative growth.

## Agriculture and Natural Resources

District agriculture conditions declined moderately from the previous reporting period. Due to unusually low temperatures across much of the District, the percentage of winter wheat rated fair or better fell 4 percentage points from the middle of November to the end of December; it is now 89 percent. Contacts are concerned that crop conditions worsened further during the first week of January, when temperatures plunged.

Natural resource extraction conditions declined slightly from October to November, with seasonally adjusted coal production falling 2 percent. November production was also down by 4 percent from a year ago. ■

For more information about District economic conditions, visit:
**www.research.stlouisfed.org/regecon/**

## Summary of Economic Activity

Ninth District economic activity increased moderately overall since the last report. Employment declined slightly, but labor demand remained strong. Wage and price pressures were both moderate. The District economy showed growth in consumer spending, services, commercial construction, residential real estate, and manufacturing. Residential construction was mixed, energy and mining activity were steady, and agricultural conditions were stable at low levels.

### Employment and Wages

Employment declined slightly since the last report, as seasonally adjusted November employment fell in Minnesota, Montana, and North Dakota compared with October. However, labor markets nonetheless appeared healthy, with labor demand still quite strong and a notable lack of large layoff announcements. A staffing agency with offices in Minnesota and Wisconsin noted a "continued strong uptick in hiring." Several large Minnesota employers announced expanded seasonal hiring during the holidays. A December poll of South Dakota retailers found that almost half were hiring despite flat sales compared with a year ago; a similar share said the labor market was very tight and getting tighter. According to a state source, Minneapolis-St. Paul had more job openings than at any time since at least 2001. Limited labor supply also continued to hamper hiring. "Every business we talk to, they can't hire enough workers," said a western Wisconsin banker. A transportation company executive said it was failing to see growth because it can't find drivers. A manufacturing firm in southeastern Minnesota said it consistently had 40 openings to fill, and was losing out on available work because there were "not [enough] people to take the jobs." A central Minnesota finance company announced layoffs of 130 workers, said a local source, and other "companies were already discussing hiring the potential labor."

Wages rose moderately since the last report. More than half of the respondents to the Minneapolis Fed's annual survey of District manufacturers saw wages rise by more than 3 percent over the past year, and similar growth was expected in the coming year. A transportation union in Minneapolis-St. Paul agreed to a three-year contract with annual 2.5 percent increases. A transportation executive in Montana said wages were rising between 2 percent and 3 percent. Contacts in rural areas of the Dakotas said wage growth was more sluggish. Retailers in South Dakota reported wage increases of about 3 percent in the past year, with slightly lower increases expected in the coming year.

### Prices

Price pressures were moderate since the last report. A majority of respondents (55 percent) to the Minneapolis Fed's annual manufacturing survey reported that prices charged for their products were unchanged over the past year, while slightly more than a third reported increases. For the coming year, 44 percent of manufacturers surveyed expected to increase their prices, while 57 percent expected the rate of inflation in the broader economy to increase. Retail fuel prices in District states as of early January were slightly lower than in the previous reporting period. Prices received by farmers for wheat, hay, milk, hogs, cattle, chickens, eggs, and turkeys increased in November compared with a year earlier; prices for corn and soybeans decreased.

### Consumer Spending and Tourism

Consumer spending showed moderate growth since the last report. Many retailers reported strong holiday sales. A Minnesota contact said in-state retailers “are mirroring the country, or doing slightly better.” In contrast, a survey of South Dakota retailers indicated flat holiday sales there compared with a year ago. A Minnesota department store reported strong in-store traffic during the holidays and a 1 percent increase in same-store sales in November and December compared with a year earlier. Retail expansion continued in Minneapolis-St. Paul. An outdoor equipment retailer reopened the first of multiple, rebranded stores that were previously closed. Warehouse retail firms also opened new locations, and a shopping center unveiled a major renovation, which included new stores.

Winter tourism reports suggested an uneven start across the District. Good snowpack was reported across much of Montana ski country, with reports of early and broader trail openings than last year. Snow conditions were spottier in eastern District states, especially in northern areas used to heavy snow. Bitter cold across much of the District to end the year also dampened outdoor activity. However, November hotel occupancy rates rose in Minnesota, as did revenue per available room. A hotel waterpark was reopened under new ownership after a $30 million renovation.

### Services

Activity in the professional services industry increased since the last report. Contacts in the accounting and financial services sectors reported a year-end rush for tax planning services in response to new federal tax legislation. Several new retail technology startups have opened or relocated to Minneapolis-St. Paul recently. A commercial bank was expanding its presence in Minneapolis-St. Paul.

### Construction and Real Estate

Commercial construction was up modestly since the last report. An industry database showed that nonresidential construction spending rose in November over a year earlier, but was considerably lower than the previous month due to normal seasonal slowdown. Industry tracking showed that total active projects as of mid-December were moderately higher than the same period a year earlier. A Minnesota labor construction contact said average monthly hours among members reached 200 hours, up from an average of 170 hours. The 2018 outlook appeared to be a “continuation of a good 2017 … not huge, but better than average.”

Residential construction was mixed. On the one hand, single-family permit activity in November rose overall across the District compared with a year earlier, with notable growth in Fargo, N.D., Rapid City, S.D., Rochester, Minn., and Minneapolis-St. Paul. However, single-family activity was flat or slightly negative in eight District metros. On the other hand, the number of permitted multifamily units fell considerably in November compared with a year earlier, with only La Crosse, Wis., Missoula, Mont., and Sioux Falls, S.D., registering prominent gains. Limited data (Billings, Mont., Minneapolis-St. Paul, and Sioux Falls) suggested a similarly mixed pattern in December. Residential real estate sales rose moderately since the last report. Closed sales in November were up virtually across the board; only Missoula saw sales decrease in November compared with a year earlier. However, this performance follows somewhat volatile, sluggish home sales for much of the year due to limited inventory of homes for sale.

### Manufacturing

District manufacturing activity increased since the last report. Respondents to the Minneapolis Fed’s annual manufacturing survey indicated growth in orders, production, investment, and productivity over the past year, with expectations for more growth in 2018. An index of manufacturing conditions indicated increased activity in December compared with a month earlier in Minnesota and the Dakotas. A producer of wind turbine blades announced that a plant that was scheduled to shut down would instead stay open at least through the end of this year to accommodate new orders. An electronics manufacturer and a producer of aerial lifts announced expansions at facilities in Minnesota.

### Agriculture, Energy and Natural Resources

District agricultural conditions were stable at low levels. Recent estimates of farm income for District states were roughly unchanged from a year ago. Activity in the energy and mining sectors was steady since the last report. Oil and gas drilling in North Dakota and Montana as of late December was unchanged from a month earlier, though industry contacts indicated oil production was up slightly. District iron ore mines continued to operate near full capacity. ■

## Summary of Economic Activity

Economic activity and employment in the Tenth District increased at a modest pace in late November and December, and most contacts expected growth in the coming months. Labor shortages were reported by the majority of contacts in the services sector, while wages rose modestly across most sectors. Retail sales grew sharply since the previous survey, but auto sales, restaurant sales, and tourism activity declined moderately. Overall activity and capital spending plans within the manufacturing sector rose moderately. Contacts in the transportation and professional and high-tech sectors noted growth in sales, while wholesale trade firms reported a sharp decline in overall activity. Real estate activity in the District was mixed as the residential sector declined modestly while commercial real estate activity rose slightly. Banking contacts reported steady overall loan demand, unchanged loan quality and credit standards, and stable-to-increasing deposit levels. Activity in the District energy sector increased modestly since the last survey period, and expectations for capital spending, especially in exploration and development, were positive. Low crop prices continued to weigh on District farm income expectations, and winter wheat production expectations declined further.

### Employment and Wages

Employment across the District rose modestly in late November and December, and employee hours increased slightly. Respondents in the retail trade, wholesale trade, transportation, professional services, real estate, health services, manufacturing, and energy sectors noted an increase in both employment and employee hours compared to the previous survey period, while contacts in the auto sales, restaurant, and tourism sectors reported a decline. Employment was expected to increase over the next six months in all sectors except for retail trade which was projected to be flat. Additionally, respondents anticipated an increase in employee hours in most sectors.

The majority of respondents in the services sector reported labor shortages, including shortages for commercial drivers, skilled technicians, and service workers. Wages rose modestly in most sectors, and strong wage growth was anticipated in the coming months.

### Prices

Input prices and selling prices were modestly higher in most sectors compared to the previous survey period. In the retail sector, both input and selling prices increased modestly, but at a slower pace than in the prior survey. Restaurant contacts reported a slight rise in input prices, while selling prices rose moderately. Respondents in the transportation sector noted moderate growth in both input and selling prices. Prices in the construction sector declined modestly for the first time in over two years, but were expected to rise moderately in the next few months. Manufacturers reported a slight increase in prices for finished goods, while raw material costs continued to edge higher. Manufacturers anticipated moderate increases in both finished goods and raw material prices in the coming months.

### Consumer Spending

Consumer spending activity grew slightly in late November and December, and was expected to increase moderately in the next few months. Retail sales increased sharply compared to the previous survey period, and remained well above year-ago levels. Several retailers noted an increase in sales for lower-priced and discounted items, while higher-priced products sold poorly. Contacts anticipated retail sales to continue to rise, while inventory levels were expected to decrease moderately in the coming months. Auto sales fell moderately since the previous survey but were above year-ago levels. Dealer contacts anticipated a moderate pickup in sales in the months ahead, and auto inventories were expected to remain stable. Restaurant sales also declined moderately in late November and December but were well above year-ago levels. In addition, restaurant contacts expected a strong pickup in activity heading forward. District tourism activity was moderately lower than the previous survey period and slightly below year-ago levels. However, tourism contacts expected activity to increase moderately heading into the winter months.

### Manufacturing and Other Business Activity

Manufacturing activity expanded at a moderate pace in late November and December, while other business activity was mixed. Manufacturers reported sustained growth in production, particularly for food, aircraft, and electronics products. Shipments, new orders, and order backlogs grew at a modest pace since the previous survey period, and overall activity was higher than a year ago. Manufacturers' capital spending plans rose moderately, and firms' expectations for future activity remained favorable.

Outside of manufacturing, transportation firms reported strong sales increases and professional and high-tech contacts noted moderate sales growth. In contrast, activity among wholesale trade firms declined sharply. However, all firms expected a strong improvement in sales in the next six months. Professional, high-tech, and transportation firms reported moderate growth in capital spending plans, while wholesale trade firms anticipated spending to be relatively flat heading forward.

### Real Estate and Construction

District real estate activity was mixed, with residential real estate conditions declining modestly and commercial real estate activity increasing slightly. Residential home sales were well below levels from the previous survey period and slightly below year-ago levels. Expectations for residential sales were positive in the coming months due to abating adverse seasonal factors. Sales of low- and medium-priced homes continued to outpace sales of higher-priced homes. Residential selling prices rose slightly, while inventories fell modestly. Residential construction activity was flat as both new home starts and construction supply sales remained at similar levels to the previous survey period. Activity in the commercial real estate sector increased slightly as sales rose modestly, absorption and construction underway edged slightly higher, rents and vacancy rates remained flat, and completions dropped slightly.

### Banking

Bankers reported steady overall loan demand during the period of late November and December. A majority of respondents indicated a stable demand for commercial and industrial, commercial real estate, residential real estate, agricultural loans and consumer installment loans. Most bankers indicated loan quality was unchanged compared to a year ago. In addition, most respondents expected loan quality to remain stable over the next six months. Credit standards remained largely unchanged in all major loan categories. Overall, bankers reported steady-to-increasing deposit levels.

### Energy

Energy activity increased modestly since the last survey period, and expectations remained positive. The number of active oil and gas rigs rose slightly, particularly in New Mexico and Wyoming. Respondents expected spending in all categories to increase in 2018, with the largest increases for exploration and development capital spending. Firms also expected slightly positive impacts in the near term due to tax reform. Abundant supply continues to weigh on natural gas prices, but several respondents stated that increasing LNG exports could help push up prices.

### Agriculture

Farm income expectations remained weak in most of the Tenth District, but the outlook for agricultural commodities was mixed. Revenues for corn and soybeans are expected to be slightly lower than last year due to lower prices and yields. Large inventories continued to weigh on prices, and District contacts reported lower yields due to abnormally dry conditions and wind damage. Production expectations for winter wheat declined further since the last reporting period due to limited precipitation and extremely cold conditions that could cause freeze damage. Lower production expectations, however, supported moderately higher prices for winter wheat compared to a year ago. In the livestock sector, prices were higher than last year for cattle and hogs due to strong demand. Despite generally weak agricultural conditions, farmland values remained stable due to limited land sales. However, some bankers in the District expected more sales and declining values in the months ahead. ■

For more information about District economic conditions visit:
**www.KansasCityFed.org/Research/RegionalEconomy**

## Summary of Economic Activity

The Eleventh District economy expanded at a robust pace over the past six weeks. A broad-based acceleration in growth was seen across the manufacturing, retail, nonfinancial services and energy sectors. Home sales continued to increase over the reporting period, and loan demand grew. Hiring picked up, and wage and price pressures remained elevated. Outlooks improved, although some uncertainty remained, and numerous contacts were optimistic that tax reform would provide a tailwind to business growth.

### Employment and Wages

Overall employment growth picked up from six weeks ago, and upward wage pressure persisted at slightly elevated levels. Hiring rose at a markedly faster pace in manufacturing and retail, and at a somewhat faster pace in the service sector, led by health, transportation, and hospitality firms. In the energy sector, hiring slowed among exploration and production firms in the fourth quarter 2017 but ramped up notably among services firms. Labor market tightness continued in most industries and across a wide range of positions, with several contacts saying difficulty finding workers was constraining growth to some extent. Numerous contacts cited rising labor costs, with some noting acceleration over the past couple of months.

### Prices

Pressure on selling prices remained elevated over the past six weeks, notably so in manufacturing and retail. A pickup to above-average price growth was noted among services firms, particularly in finance and transportation, although airlines continued to report falling ticket prices due to increased competition. Looking ahead, overall price expectations increased, with some manufacturers and retailers specifically noting plans to increase prices in 2018 in response to higher labor and input costs.

Among energy firms, prices received for services continued to rise and were increasing at a much faster clip than a year ago. Natural gas prices stayed in roughly the same range as the prior reporting period, while oil prices rose slightly. Energy executives responding to the Dallas Fed Energy Survey expect oil prices to be about $59 per barrel by year-end 2018, on average, and about $66 per barrel longer term (three to five years).

### Manufacturing

Expansion in the manufacturing sector accelerated further at yearend 2017. Contacts reported stronger growth in both demand and output, particularly among high tech and transportation equipment manufacturing. Chemical production has also been very robust, and contacts along the border continued to see strong maquiladora activity. Growth generally moderated among firms closely tied to energy or exports, but a sharp rise in growth in the rest of the manufacturing sector more than offset that deceleration. Overall capital spending plans increased noticeably—half of the 104 firms responding to the December Texas Manufacturing Outlook Survey expect increased capital expenditures six months from now, the highest share since 2006. Optimism in firms' outlooks picked up notably, with some manufacturers indicating the tax bill may be a tailwind for manufacturing going forward. However, difficulty hiring remains a headwind, and uncertainty about NAFTA remains.

## Retail Sales

Retail sales accelerated slightly over the past six weeks. The auto industry remained very strong, with a notable pickup in auto sales after a lull in the prior reporting period. In general, retail sales growth outpaced sales growth among wholesalers, and contacts noted a continued increase in internet sales. A clothing retailer said sales in the oil patch markets have stabilized versus last year. Along the border, some contacts reported continued weakness in retail. Outlooks among retailers in general remained quite positive.

## Nonfinancial Services

Nonfinancial services activity picked up pace over the reporting period, ending 2017 with fairly robust growth. A sharp rise in revenue growth among leisure and hospitality firms was a boon to the service sector, while relatively slow growth among administrative and support services firms was a drag. However, staffing services companies reported broad-based demand growth, particularly in the manufacturing and health sectors. Contacts in smaller tourist areas affected by Hurricane Harvey such as Rockport and Port Aransas reported continued struggles in rebuilding and retaining business. Cargo volumes among transportation services firms generally increased. For rail cargo, petroleum and frac sand shipments were up over the reporting period, as were shipments of building products, with recent increases driven largely by hurricane reconstruction. Courier cargo volumes were up from six weeks ago and year over year. Overall, outlooks were more optimistic, although uncertainty remained—particularly surrounding trade negotiations and government regulations. A number of contacts expect the new tax bill to boost activity in 2018.

## Construction and Real Estate

Home sales continued to increase over the past six weeks, with sales remaining strong at low- to mid-price points. Contacts in Houston noted that sales and traffic were returning to a normal pace after Hurricane Harvey, and were flat or slightly ahead of last year. Contacts said new home sales in Dallas-Fort Worth were somewhat better than expected. Homebuilders generally did not report concern about the changes in the mortgage interest and property tax deductions in the new tax bill, but they did note ongoing pushback from buyers on new home pricing.

Leasing activity in the apartment market was little changed since the last report, with rent growth in Fort Worth ahead of other major Texas metros. Office demand stayed solid in Dallas, moderated in Austin, and remained weak in Houston. The industrial market overall was characterized as steady to strong.

## Financial Services

Demand for loans increased over the reporting period, and overall loan volumes rose at a faster pace. Residential real estate loans picked up markedly, with more than 40 percent of bankers surveyed noting an increase in volumes over the past six weeks. Commercial real estate loans also increased at an accelerated clip, while commercial and industrial loan growth held steady at a modest pace. Contacts also noted an increase in consumer loan volumes for the first time since February 2017. Bankers reported a notable increase in loan pricing and a tightening in credit standards and terms. Contacts expressed higher levels of optimism about overall business activity and total loan demand going forward, with nearly two-thirds of bankers expecting stronger loan demand six months from now.

## Energy

Energy activity was up from six weeks ago, as drilling in the Permian Basin and Eagle Ford increased and well completions continued to grow. Demand for oilfield services remained healthy in the Permian Basin, and activity in the Eagle Ford firmed. Some energy contacts noted an increase in lending and investment deals. Outlooks for 2018 improved, but remain conservative, with contacts expecting drilling activity, production and employment to grow this year.

## Agriculture

The 2017 row crop harvest wrapped up, with generally favorable crop conditions after a dry spell in November. Texas cotton production was up notably from 2016 due to more acres planted and higher yields. Cotton prices rose over the past six weeks, and contacts expect the relatively strong prices to prompt a shift of more acres from grain to cotton this year. Agricultural producers remained concerned about revenue, as grain prices continued trending at unprofitable levels. Loan demand has been decreasing for the last two years while loan renewals and extensions have increased, according to the Dallas Fed Agricultural Survey. Uncertainty about NAFTA is also a headwind for the agriculture sector, as many producers rely on export markets to move their production. ■

## Summary of Economic Activity

Economic activity in the Twelfth District continued to expand at a moderate pace during the reporting period of mid-November through early January. Overall price inflation edged down. Conditions in the labor market continued to tighten, and upward wage pressures increased. Sales of retail goods picked up noticeably during the holiday season, and growth in consumer and business services remained strong. Conditions in the manufacturing sector remained solid, and activity in the agriculture sector improved modestly. Contacts reported that residential real estate market activity remained robust and conditions in the commercial real estate sector were strong. Lending activity grew at a modest pace.

### Employment and Wages

Conditions in the labor market continued to tighten, with wage pressures increasing as contacts noted shortages of qualified labor in various sectors. Widespread reports of continued shortages of skilled trade and construction workers resulted in a notable increase in wage pressures for those occupations. In Eastern Oregon, shortages of workers in both agriculture and manufacturing sectors pushed up wages significantly. Businesses in the banking sector reported an increase in the duration of job vacancies and continued difficulty finding qualified applicants. Rising labor costs in the District prompted some businesses to open new operations in cheaper locales. Contacts across the District noted that planned minimum wage increases to go into effect in 2018 are likely to affect their labor costs at all compensation levels.

### Prices

Overall price inflation ticked down slightly over the reporting period. Contacts reported increasing deflationary pressures for generic drug prices partly due to a rise in FDA drug approvals. The elevated dollar continued to put downward pressure on agricultural commodity prices. Overcapacity in electricity production continued to restrain price growth over the reporting period. Contacts in the restaurant industry noted only slight upward price adjustments. Higher input costs and a strengthening global trade environment contributed to a moderate increase in scrap and finished steel prices. In the technology sector, prices for cloud services and tablets continued to trend downward due to increased competition and economies of scale. Prices for potatoes increased following the end of the fall harvest.

### Retail Trade and Services

Growth in retail sales picked up noticeably over the reporting period, helped by a solid holiday shopping season. E-commerce sales continued to outpace sales at traditional brick-and-mortar retailers. However, contacts noted that foot traffic at large shopping centers was better than expected during the holiday season. Vehicle dealers reported strong in-store traffic and sales, as activity rebounded from the previous months. A contact noted that online channels continued to disrupt the grocery industry, resulting in overcapacity and soft sales at brick-and-mortar stores.

Activity in the consumer and business services sector continued to grow at a strong pace over the reporting period. The hotel industry reached peak capacity, having experienced steady increases in activity throughout the holiday season. Air travel was robust at the close of the year, driven by foreign demand. Demand for cloud computing and security software remained strong, supported by financial and business services sectors. In Hawaii, tourist spending and hotel revenues saw a notable increase in December. Contacts in Eastern Washington noted continued expansion of healthcare services in the region as the industry consolidates around a few large service providers. Animal boarding and health service activity increased as pet owners traveled over the holiday season.

### Manufacturing

Conditions in the manufacturing sector remained solid. Contacts in Eastern Washington reported energy usage by major manufacturers in metals production and aerospace was consistent with a modest growth in output. Production of steel and manufactured metals picked up further due in part to a reduction in overseas competition. However, capacity utilization rates in the steel sector ended the year below long-run levels. Semiconductor production moderated as contacts cited uncertainty over government policy.

### Agriculture and Resource-Related Industries

On balance, activity in the agriculture sector improved modestly. Demand for organically grown crops remained strong. Conditions in the swine industry improved over the previous year. Farm equipment dealers reported higher-than-anticipated year-end demand based in part on an improved outlook. Crop yields in Central California slipped slightly at year-end, driven by the weak performance of certain nuts. The strong dollar continued to hold back exports of some agricultural commodities, particularly for wheat exports. Contacts noted minimal load growth in electricity as efficiency initiatives offset an increase in demand by customers.

### Real Estate and Construction

Activity in real estate markets continued at a strong pace. Construction activity in the residential market remained robust, held back only by shortages of land and labor. High-end home construction grew faster than that of more-affordable units, due largely to narrowing profit margins in lower-end markets. Contacts in Oregon noted that milder and drier weather helped spur an increase in home sales. Low inventory levels and strong demand pushed up house prices and rents in Eastern Washington and Idaho. One contact expected that recent changes to the federal tax system could slow mortgage lending. Commercial construction continued at a strong pace, driven in part by an increase in construction of warehouse and distribution centers. Contacts in Northern California noted elevated demand for commercial office space.

### Financial Institutions

Lending activity firmed somewhat over the reporting period. While loan demand was relatively unchanged in most of the District, contacts in the Mountain West reported continued strong gains. Contacts in California reported typical seasonal increases in automotive loans. Demand for deposits outpaced supply, pushing up deposit rates. Interest margins remained narrow. Contacts noted that liquidity was still very strong and overall delinquencies remained low. ■

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