For use at 2:00 PM EDT

Wednesday

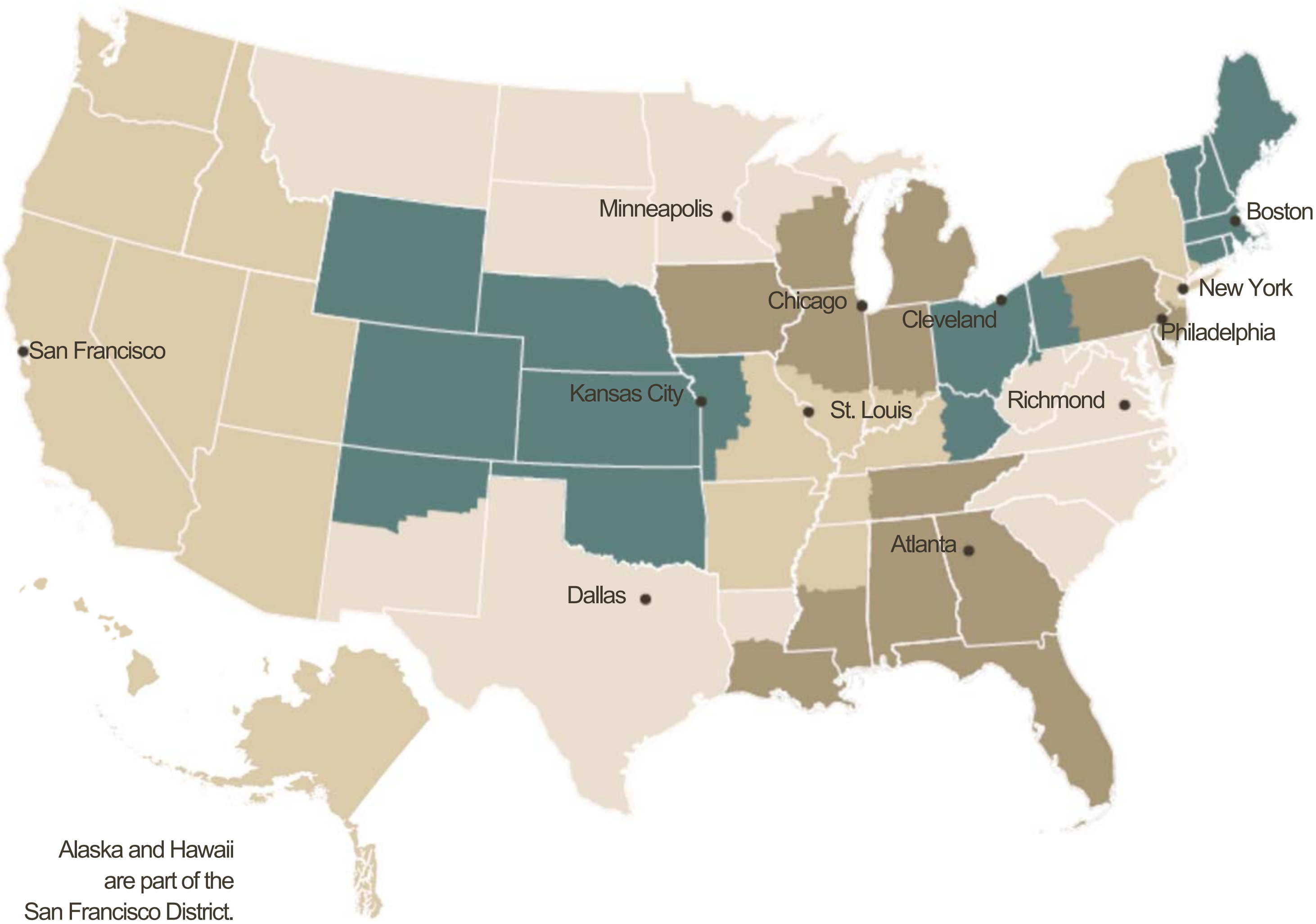
April 18, 2018

The Beige Book

Summary of Commentary on Current Economic Conditions
By Federal Reserve District

April 2018

Federal Reserve Districts



Alaska and Hawaii
are part of the
San Francisco District.

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 Dallas based on information collected on or before April 9, 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

Economic activity continued to expand at a modest to moderate pace across the 12 Federal Reserve Districts in March and early April. Outlooks remained positive, but contacts in various sectors including manufacturing, agriculture, and transportation expressed concern about the newly imposed and/or proposed tariffs. Consumer spending rose in most regions, with gains noted for nonauto retail sales and tourism, but mixed results for vehicle sales. Manufacturing activity grew moderately, and demand for nonfinancial services was mostly solid. Residential construction and real estate activity expanded further, although low home inventories continued to constrain sales in several Districts. Loan demand increased, and commercial real estate activity and construction improved since the last report. Transportation services activity expanded in over half of the reporting Districts, buoyed by increases in port traffic and/or air, rail and/or trucking shipments. Agricultural conditions were little changed or worsened on net, in part due to persistent drought conditions. Contacts in the energy sector cited a pickup in activity, except in the Richmond District, where coal production was flat and natural gas production dipped slightly.

Employment and Wages

Widespread employment growth continued, with most Districts characterizing growth as modest to moderate. Labor markets across the country remained tight, restraining job gains in some regions. Contacts continued to note difficulty finding qualified candidates across a broad array of industries and skill levels. Reports of labor shortages over the reporting period were most often cited in high-skill positions, including engineering, information technology, and health care, as well as in construction and transportation. Businesses were responding to labor shortages in a variety of ways, from raising pay to enhancing training to increasing their use of overtime and/or automation, among other strategies. Upward wage pressures persisted but generally did not escalate; most Districts reported wage growth as only modest.

Prices

Prices increased across all Districts, generally at a moderate pace. There were widespread reports that steel prices rose, sometimes dramatically, due to the new tariff. Prices for building materials continued to rise briskly, especially for lumber, drywall, and concrete. Transportation costs also generally rose, with contacts citing higher fuel prices and shortages of truck drivers as the primary causes. There were scattered reports of companies successfully passing through price increases to customers in manufacturing, information technology, transportation, and construction. Businesses generally anticipate further price increases in the months ahead, particularly for steel and building materials.

Highlights by Federal Reserve District

Boston

Revenues and sales were moderately higher than a year earlier at almost all contacted retailers, manufacturers, and software and IT services firms. Most commercial real estate markets recorded positive results; residential markets continued to see inventory shortages and rising median prices. Business sector respondents' outlooks remained positive.

New York

Economic activity grew at a modest pace, while labor markets have remained tight. Input price pressures have persisted, and selling price increases have picked up somewhat. Housing markets and commercial real estate markets have been steady to slightly softer.

Philadelphia
Economic activity continued to grow at a modest pace, in particular for nonauto retail sales, tourism, nonfinancial services, and nonresidential leasing. Manufacturing accelerated to a moderate pace, while existing home sales declined. Auto sales continued to decline, while construction activity was flat. On balance, employment, wages, and prices continued to grow modestly.

Cleveland
The District economy expanded at a moderate pace. Labor markets tightened, with wage pressures noted broadly. Rising commodities prices and transportation costs are pressuring goods producers. Stronger confidence in the economy supported rising demand in manufacturing, retail, and nonfinancial services. Construction activity remained robust.

Richmond
The regional economy expanded at a moderate rate. Ports and trucking firms continued to report robust activity but faced capacity constraints. As a result, manufacturers faced longer delivery times and, in some cases, began stockpiling raw materials. Prices grew moderately, overall, but steel and aluminum prices rose sharply and were expected to rise further as a result of the tariffs.

Atlanta
Economic activity increased modestly. Contacts continued to report difficulties filling positions in high-demand/high-growth sectors. Many contacts noted steady but modest wage pressures. Overall, nonlabor input costs were subdued. Retail sales were stable. Manufacturers noted an increase in new orders and production. District bankers reported solid commercial and consumer loan growth.

Chicago
Growth in economic activity remained at a moderate pace. Employment, consumer spending, and manufacturing production increased moderately, and business spending and construction and real estate activity grew slightly. Wages and prices increased modestly and financial conditions improved slightly on balance. Income prospects for the agricultural sector improved a bit.

St. Louis
Economic conditions continued to improve at a modest pace. District bankers reported an increase in lending activity driven by robust commercial and industrial loan growth. Some steel and aluminum manufacturers announced plans to reopen facilities and call back workers. District acreage for the four major crops for the year is expected to be the same as in 2017.

Minneapolis
Ninth District economic activity grew moderately. Employment grew modestly even as hiring demand was robust, due to tight labor supply. Wages grew moderately, as did prices overall, but price pressures at the wholesale level appeared to accelerate. While growth was noted across sectors, activity in professional services, energy, and mining was particularly strong.

Kansas City
Overall economic activity in the Tenth District increased moderately, with further growth expected in coming months. Manufacturing, energy, and consumer spending activity expanded at a moderate pace, while real estate and business services activity grew modestly. Agricultural conditions remained weak, while District employment and wages rose modestly.

Dallas
Economic activity grew moderately, with a rebound in retail sales and an acceleration in financial and nonfinancial services activity. Robust expansion in the energy industry continued, while growth in manufacturing eased somewhat. Hiring was solid despite a tight labor market, and wage and price growth remained elevated. Numerous contacts expressed concern about new tariffs and trade policy uncertainty, although outlooks overall were still positive.

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

Summary of Economic Activity

Economic activity continued to expand at a moderate pace in the First District, with almost all retail, manufacturing, and software and information technology services respondents citing year-over-year increases in sales and revenues since the last Beige Book. Commercial real estate contacts reported mostly positive results while residential real estate markets again saw sales declines in some areas accompanied by price increases, a combination contacts attributed to very low inventories. With some exceptions, headcounts, wages, and prices were said to be rising modestly. Notwithstanding a few manufacturers' concerns about tariffs, outlooks remained generally positive.

Employment and Wages

Selective net hiring continued; contacts said wages were rising, but not steeply. With one exception, responding retailers are hiring or planning to hire new workers, mainly due to business expansion. Some restaurants and regional chambers of commerce have been proactive in trying to attract foreign workers to fill positions during the summer tourist season. All but two manufacturing contacts reported flat employment; firms were hiring, but largely for replacement. Nonetheless, several respondents reported the labor market was extremely tight; skilled workers continued to be in short supply and one contact said that they were having trouble finding "moderately skilled labor needed to manage the mostly automated production equipment." Software and IT services contacts were planning on zero to 5 percent increases in headcount during 2018 and expressed concern with the tight labor market for technically skilled workers such as engineers. Regarding wages, one retailer said it had to pay higher starting wages in New Hampshire, which has the region's lowest unemployment rate, than elsewhere in New England. Wages in the region's software sector increased 3 percent to 5 percent across the board.

Prices

Many respondents cited modest to moderate price increases; a few noted steeper jumps. While other vendor prices were reportedly steady, two retail contacts indicated that food prices were starting to increase. A Massachusetts restaurant-industry contact reported that menu prices were up about 2.6 percent over the year because of higher labor and food costs. Manufacturing contacts reported flat or slightly increasing prices for both the goods they buy and the goods they sell. One manufacturer and one retailer said that shipping costs were rising rapidly, which both attributed to a shortage of truck drivers. Two software and IT services firms were able to pass through price increases without any backlash; an online backup company increased prices on individuals by as much as 20 percent.

Retail and Tourism

Retailers consulted for this round reported that between late February and early April, year-over-year comparable-store sales results were positive, with gains ranging from 1 percent to 5 percent. Most noted that multiple severe winter storms in the northeast dampened sales—one contact calculated that in the absence of weather disruptions, this period's results would have been 1.5 percentage points higher than the 2.5 percent reported. A Massachusetts restaurant-industry contact reported that business was up about 2.5 percent year-over-year. Retail contacts regarded the outlook for 2018 as positive based on currently high levels of consumer sentiment.

A contact in the Connecticut auto industry reported that vehicle sales in the state were softer than the nation's, possibly because the state's employment and population growth have been weak. Nonetheless, given Connecticut's generous incentives, electric vehicle sales have continued to rise.

Manufacturing and Related Services

Of seven firms contacted this cycle, only one reported a year-over-year decline in sales and four reported higher sales versus the same period a year ago. A furniture maker said that sales were up 25 percent versus the same period a year earlier, a major turnaround from years of weak sales growth which they attribute to "an improved emphasis on marketing." One of the other firms reporting higher sales, a textile and chemical manufacturer, indicated sales had fallen over the last twelve weeks but were still up versus the period one year earlier. Two contacts reported flat sales versus a year earlier, both for idiosyncratic reasons; for example, a producer of frozen fish attributed their flat sales to Lent occurring earlier than usual. A toy and game manufacturer reported lower sales due to the liquidation of a major toy retailer, which they see as a temporary setback. No contacts revised their capital expenditure plans recently.

In general, respondents were optimistic in their outlook. However, two contacts brought up the proposed China tariffs and said they represent a major risk. One was a toy manufacturer who sources 75 percent of their production from China. The second said that punitive tariffs on Chinese aluminum had already had a big effect: "Thin gauge foil" is produced only in China and tariffs raised the price three-fold; the contact argued that "these tariffs are now killing high-paying American manufacturing jobs and businesses."

Software and Information Technology Services

The software and IT services sector continued to be healthy in the first quarter. Revenues at contacted firms grew 1 percent to 10 percent year-over-year in the first quarter. Demand was strong for cloud-based solutions, healthcare and industrial IT software, and enterprise software for building apps. Contacts did not note significant changes in the costs they were facing aside from labor. The overall outlook was positive.

Commercial Real Estate

Reports from First District commercial real estate contacts were mixed, but positive on balance. Office leasing demand remained strong in Boston, especially in the urban core, leading to further increases in rents. Providence saw stable, healthy office leasing activity and modest upward pressure on rents. Office leasing remained slow in the Portland area and weakened further in Hartford. Industrial and warehouse space enjoyed robust demand in most of the First District, with the exception of Connecticut. A Portland contact reported that industrial rents in that city increased 20 percent from a year ago in response to demand from diverse users including small manufacturers, while a Boston contact said that demand for retail fulfillment centers had driven up industrial rents in the Boston metro area.

Nonetheless, contacts say that both industrial and office construction have been restrained by the fact that building costs remain high relative to rents. Multifamily apartment construction was expected to slow moving forward amid slower or flat rent growth in most areas. By contrast, condominium development activity increased in both Boston and Portland. Investment sales activity was stable at a slow to modest pace depending on location. Two Boston contacts perceived small increases in capitalization rates for office properties that were seen as consistent with increases in interest rates. Commercial real estate contacts were optimistic on balance.

Residential Real Estate

Heading into spring, residential real estate results in the First District continued to reflect sellers' markets. Closed sales for single family homes and for condos were up in Maine, Vermont, and Rhode Island, while other areas experienced moderate decreases. (Vermont reported combined results for single family homes and condos. All First District areas but Connecticut reported changes from February 2017 to February 2018; a technical issue caused December 2017 to be the most recent data from Connecticut.)

Because of ongoing inventory shortages, all reporting areas but Vermont reported increases in median sale prices for both single family homes and condos. A contact from Maine pointed out that negotiations over multiple offers may be fueling higher median sale prices: "multiple-offer situations [are] happening on a regular basis, especially on properties at $250,000 or less." Inventory dropped by double-digit percentages year-over-year across all area markets. A contact in Massachusetts noted that "inventory is so low and demand so high that many low- and moderate-income home buyers are being left on the outside looking in."

Notwithstanding the prospect of rising interest rates, contacts cited eager buyer populations and were optimistic about activity levels in coming months. ■

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 modest pace since the last report, and the labor market has remained tight. Input price pressures have remained widespread but do not appear to have intensified further, while selling prices have accelerated somewhat. Growth has picked up in the manufacturing sector but slowed in most distribution and service industries. Consumer spending was mixed but still generally sluggish in March—partially attributable to unseasonably cold and wet weather—though tourism has shown signs of picking up. Housing markets have been mixed, while commercial real estate markets have been steady to slightly softer. Construction activity has been steady to somewhat slower. Finally, banks reported a pickup in loan demand and no change in delinquency rates.

Employment and Wages

The labor market has remained tight, and hiring activity has been steady. One employment agency in upstate New York noted a seasonal pickup in hiring. A major New York City agency indicated that hiring has been robust and that it is taking longer to fill jobs, particularly those requiring technical skills. Businesses noted particular shortages of tech workers, truck drivers, and skilled tradespeople. A few contacts cited difficulties in attracting young job-seekers away from major urban centers.

Business contacts in the finance and information sectors reported fairly brisk hiring activity, while those in manufacturing, wholesale trade, education & health, and leisure & hospitality indicated modest hiring, on net. Retailers continued to report declining employment. Still, firms in most service industries, including retail, said they plan to expand hiring in the months ahead, while manufacturers have scaled back hiring plans.

Businesses across all major service industries reported ongoing wage pressures. Some contacts maintained that wages had accelerated over the past year, though plans to raise wages in the months ahead were little changed. A New York City agency reports that a new law prohibiting potential employers from asking about a candidate's salary history has led candidates to demand higher pay.

Prices

Input prices have continued to rise briskly but have not accelerated further, according to contacts in most industry sectors. Still, businesses generally anticipated further increases in the months ahead. A growing proportion of service-sector contacts indicated that they were raising their selling prices—most notably, wholesalers—but manufacturers noted only modest hikes in their prices.

Among retailers, some contacts indicated that they have held prices steady, while others reported price increases. Prices for New York City hotel rooms and Broadway theater tickets picked up noticeably in March. Looking ahead, a growing proportion of businesses in manufacturing and wholesale trade said that they planned to raise their prices, while most retailers did not foresee any significant price hikes.

Consumer Spending

Retail contacts reported that sales have picked up somewhat in recent weeks but are still considered lackluster, reflecting unseasonably cold and wet weather. Retailers in upstate New York indicated that sales have strengthened but remained fairly subdued, despite strong customer traffic. A major retail chain noted that sales advanced in March, running somewhat ahead of plan and up modestly from a year ago. Inventories were generally reported to be at satisfactory levels, and retailers were moderately optimistic about the near-term outlook.

New vehicle sales in upstate New York were reported to have weakened in February but there were some signs of a rebound in March. Sales of used cars were steady to up slightly. 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) edged up to a new multi-year high in March.

Manufacturing and Distribution

Manufacturers reported some acceleration in growth since the last report. In contrast, wholesalers indicated a pause in growth, and transportation firms reported some decline in activity. Looking ahead, manufacturers have become substantially less optimistic about the near-term outlook, while contacts in wholesale distribution and transportation have remained moderately optimistic.

Services

Reports from service-sector firms were mixed but generally pointed to little growth in activity. Contacts in professional & business services and leisure & hospitality reported modest growth, while those in the information and health & education sectors reported flat activity. Service sector businesses have grown less optimistic about the near-term outlook, most notably in the health & education sector.

Tourism in New York City has picked up since the last report. Hotels reported an increase in both revenues and occupancy rates in March. Broadway theaters indicated that business was sluggish in February and early March but picked up noticeably in the second half of the month.

Real Estate and Construction

Housing markets across the District have been mixed but, on balance, weaker in the latest reporting period. Real estate contacts in upstate New York reported that buyer traffic and sales activity have picked up in recent weeks, but that lean inventories have held back sales activity—especially at the lower end of the market. In New York City, sales of condos and co-ops have receded noticeably, while prices have edged down. One industry contact attributes this to uncertainty about the effects of the new federal tax law. However, housing markets in the areas around New York City have seen strong demand—while sales volume has been constrained by low and declining inventories, prices have picked up noticeably, except at the high end of the market.

Apartment rental markets have been mixed. Across New York City, vacancy rates have been steady, as landlord concessions have been increasingly prevalent, and effective rents have slipped across the board. In northern New Jersey and upstate New York, rents have continued to rise moderately, and concessions have remained fairly infrequent.

Commercial real estate markets have been steady to slightly softer. Office markets have been steady across the District—while leasing activity has slowed somewhat, vacancy rates and asking rents have been generally flat. The retail market has shown further signs of slackening, particularly in New York City, where vacancy rates have risen. However, northern New Jersey's retail vacancy rate edged down. In upstate New York, retail vacancies have been fairly stable. The industrial market has lost a bit of momentum but remains fairly strong. Asking rents have continued to rise at a fairly brisk pace throughout the District. Industrial vacancy rates have edged up across downstate New York but have continued to edge down in northern New Jersey and upstate New York.

Multi-family construction activity has leveled off in northern New Jersey and across upstate New York, but has slowed further in New York City. Office construction has picked up somewhat in New York City and upstate New York but has remained subdued elsewhere. Industrial construction has been steady at a fairly sturdy level.

Banking and Finance

Small to medium size banks in the District reported higher demand for residential mortgages, commercial mortgages, and C&I loans, and steady demand for consumer loans. Banks reported lower loan spreads for consumer loans and residential mortgages, and no change in spreads across all other loan categories. Bankers reported that both credit standards and delinquency rates were unchanged 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. Manufacturing activity appeared to accelerate to a moderate pace, while nonauto retail sales, tourist activity, nonfinancial services, and nonresidential leasing markets grew modestly. Contacts from new home construction and nonresidential construction reported no change in activity. Auto sales continued to decline modestly, and existing home sales fell moderately. On balance, employment, wages, and prices continued to grow modestly. Contacts from various sectors noted that manufacturers may need to train workers and raise wages to attract and retain employees. The growth outlook over the next six months remained positive, with over half of all firms anticipating increases in general activity.

Employment and Wages

Employment continued to grow at a modest pace during the current Beige Book period. Manufacturing and nonmanufacturing firms reported ongoing net additions to staff; average hours worked edged down over the period for manufacturing firms but rose among nonmanufacturers.

While wage growth edged higher among some contacts, on balance, the pace appeared to remain modest. The share of nonmanufacturing firms reporting increases broadened to over 40 percent. However, most banking contacts continued to note few signs of wage inflation.

Staffing firms continued to report steady demand for temporary workers and direct hires in several local labor markets. Wage pressures continued to be higher in tighter markets, such as central Pennsylvania, where one firm reported wages rising 4 percent over the year.

One staffing firm noted manufacturing clients' reluctance to raise wage rates. Among our contacts, manufacturers were most likely to cite a lack of skilled labor; however, one contact recently said that "higher pay and good medical benefits help in recruiting and keeping people." That contact also noted that the firm is raising prices to cover the cost and is running at 100 percent of practical capacity. Another manufacturer stated, "It's time for private enterprise to learn more about how to bring in raw talent and train up to the requirements."

Prices

On balance, prices rose modestly, as most contacts continued to report no change in prices paid and received. The percentage of manufacturing firms reporting increases edged down from the prior period for prices paid and for prices received for their own goods. Among nonmanufacturing firms, slightly more contacts noted increases for prices paid and received than during the prior period.

Builders continued to note rising prices for construction materials as well as labor and noted concerns about a potential trade war. Contacts cited double-digit price hikes for lumber and drywall and expressed concern for steel and reinforced concrete.

Looking ahead six months, manufacturing firms continued to anticipate higher prices, with nearly two-thirds expecting increases in prices paid and over half expecting increases in prices received for their own goods. Of the 22 manufacturing firms that offered general comments, seven mentioned impacts from recent tariffs or proposed tariffs – most noted rising prices or anticipated rising prices; just one firm anticipated greater demand.

Manufacturing

On balance, manufacturing activity accelerated a bit to a moderate pace of growth, with more firms reporting increases in shipments and new orders.

The makers of paper products, chemicals, primary and fabricated metal products, industrial machinery, and electronic equipment tended to note gains in new orders and shipments; no sectors noted declines. The growth may be partially due to seasonal trends because the same pattern was apparent during the same period last year.

Most manufacturing contacts continued to expect general activity to increase over the next six months; the percentage of firms expecting future increases remained between 55 percent and 60 percent. The percentage of firms expecting increases in future capital expenditures and future employment also held steady at just above 40 percent.

Consumer Spending

On balance, nonauto retail sales continued to grow modestly. Retailers were generally more positive about consumer demand, despite losing several shopping days to winter storms, including the Monday after Easter. Closings and consolidations of stores, brands, and malls appear to be boosting sales for surviving retail locations.

Auto dealers continued to report modest declines in year-over-year sales this period. However, sales remain at high levels, and dealers are optimistic that the year will end with only a slight decline.

Tourism contacts continued to report modest growth overall. A Delaware contact reported heavy traffic, busy outlets, optimistic merchants, and several new hotels in the planning stages. New Jersey contacts were less optimistic regarding the local housing rental market in southern beach communities. Atlantic City's casino revenues fell on a year-over-year basis for a third consecutive month, which dampens neighboring shore activity.

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 an increase in sales edged down, while the percentage reporting an increase in new orders rose. Expectations of future growth remained high but the percentage of firms anticipating increased activity slipped below 60 percent.

Financial Services

Financial firms continued to report little change in overall loan volumes (excluding credit cards). Volumes did grow moderately in mortgages, commercial real estate loans, and commercial and industrial lending. Home equity lines, auto loans, and other consumer loans (not elsewhere classified) fell moderately.

Credit card lending fell further as consumers continued paying down holiday bills. Over the entire year, credit card loan volumes and total lending in all the other categories combined have grown at a moderate pace.

Banking contacts continued to describe solid ongoing economic growth in most parts of the District, with high consumer sentiment and business confidence. Overall, contacts noted that credit standards remain unchanged and credit quality remains very sound.

Real Estate and Construction

Homebuilders reported challenging weather conditions for construction activity and mixed reports for new contracts, suggesting little overall change in activity. Single-family detached home construction continues to give way to greater demand for townhomes, apartments, and condos.

According to Third District brokers, ongoing low inventories of houses for sale continued to constrain sales and place upward pressure on prices. Sales of existing homes fell moderately in February across most major markets compared with the same period last year; brokers saw no signs of an improvement in March.

Nonresidential real estate contacts reported no change in the already high levels of construction activity and the modest growth in leasing activity. Contractors report sufficient work to carry through to year-end, but a few new projects must break ground to maintain current activity levels through 2019. Although demand varies by sector and geography, rents tend to be rising in many markets, especially for industrial/warehouse sectors everywhere and for most sectors within the city of Philadelphia. ■

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

Summary of Economic Activity

Business activity in the Fourth District expanded at a moderate pace as customer demand strengthened broadly and confidence remained high. Firms' demand for labor increased, but difficulty finding qualified candidates is limiting the pace of hiring. In response, employers are raising wages to compete for workers, albeit only moderately. Rising commodity prices, particularly for steel, are pressuring goods producers. Meanwhile, services firms mostly noted stable input prices. Goods producers and transportation companies were generally successful at raising their selling prices. Service producers, however, tended to hold the line on their prices. Retailers reported continued growth in customer demand, although auto dealers reported higher inventories of passenger cars. Housing and commercial real estate markets remained strong, but builders are increasingly concerned about rising input costs. Manufacturing output trended higher.

Employment and Wages

District employers continued to hire at the same moderate pace as in the past few months. Contacts generally reported stronger demand for their goods and services, but worker turnover and difficulty finding qualified workers restrained net job gains. Notably, manufacturing employment has been steadily trending higher since mid-2017. Nonfinancial services firms cited strong confidence in the economy and rising freight volumes as boosting business and demand for workers. Retail showed the weakest gains in hiring. Replacing departed workers was the most prevalent labor-related activity, though several contacts in nearly all industries reported creating new positions. Nonresidential builders overwhelmingly reported creating new field and office jobs. Contacts continued to report difficulty finding qualified candidates across a broad array of occupations. Nevertheless, no meaningful changes to wage pressures were noted. In general, employers are raising wages to stay competitive, but incremental increases are in keeping with recent trends.

Prices

Upward pressure on input prices remained strong, particularly for commodities used by goods producers. According to contacts, recently imposed tariffs have accelerated price appreciation of steel products, in some cases at double-digit rates. Independent of policy, prices for other commodities have also increased. One producer of industrial packaging noted that resin prices were still elevated because of lingering impact from hurricanes in 2017. Professional services mostly reported little change to their nonlabor input costs. Firms' ability to pass through price increases to their customers was little changed from the previous survey period, though there was considerable variation across industries. Transportation companies across the board were able to raise freight rates in response to strong demand relative to available capacity without pushback from customers. To a lesser extent, manufacturers have been steadily raising their prices since the beginning of the year to pass along their higher raw materials and transportation costs. Construction firms are also finding success in passing along their higher costs. In services, however, firms' ability to pass through prices remains relatively soft. Retailers held their prices steady.

Consumer Spending

The retail sector reported improved customer demand since the beginning of the year and on a year-over-year basis. Reasons cited included improvements in product quality, marketing, customer service, and business strategies. Vendor and shelf prices were generally stable. New motor vehicle unit sales across the District declined about 2 percent during February when compared to those of the same period a year ago. Year-to-date unit sales fell 5 percent. One auto dealer reported that banks are tightening credit, which could negatively impact future sales activity. Dealer inventory was higher than usual, which one contact attributed to lower incentives and less demand for passenger cars.

Manufacturing

Demand strengthened during the past two months in most industries. Some contacts attributed this to seasonal fluctuations and a recovery from slow growth in previous months. Contacts in primary metals and electrical and industrial products manufacturing noted that pro-business fiscal policy and corporate tax reform spurred capital expenditures and drove up demand. One steel manufacturer mentioned that customers are attempting to stock up as prices rise because of increased demand and tariffs on primary metals imports. Elsewhere, an electronics manufacturer noted that high consumer confidence encouraged demand for discretionary items, a situation which is good for manufacturers of higher-end products. The majority of contacts indicated that demand was better than it was a year ago. A supplier to the HVAC industry mentioned that they saw increased demand for finished products previously produced by downstream OEMs because those companies were struggling with capacity constraints and labor shortages.

Real Estate and Construction

New-home builders reported that customer demand was either steady or improving and that current trends are expected to continue into the spring selling season. That said, builders are becoming concerned that rising construction costs (materials and labor) are driving up new home prices and that this may dampen buyer enthusiasm during the prime selling season. Construction costs are expected to increase through the summer. Year-to-date unit sales through February of new and existing single-family homes declined 2 percent compared to those of a year earlier. The average sales price rose more than 7 percent. Buying patterns and inventory levels remained steady.

Among nonresidential construction firms, demand generally improved during the survey period and on a year-over-year basis thanks to more opportunities for projects emerging, especially as the weather improves. Increases in backlogs, inquiries, and bidding were observed. Current levels of activity are expected to continue into the summer months. Almost all nonresidential contractors reported that rising construction costs (materials, labor, and transportation) are among the biggest challenges they are facing currently.

Financial Services

Growth in demand for bank products and services was little changed, though contacts noted that conditions remain favorable. Demand for commercial loans was healthy, but some contacts worried that businesses increasingly are relying on cash savings to fund capital investments before looking for bank credit. Most contacts seemed optimistic about the outlook for business investment in the coming quarter. On the consumer side, demand for loans was flat or declining. Some contacts, particularly in rural areas, reported that lack of inventory and depreciation of the housing stock dampened growth in home mortgages. Also, a lack of construction labor was constraining new home construction, thereby constraining opportunities for mortgages. More broadly, demand for consumer loans was flat, mostly because of seasonal factors. Reports indicated that competition from fintech firms and the nonbank sector continued to stifle growth in consumer loans and, to a lesser extent, in deposits.

Nonfinancial Services

Activity in the nonfinancial services sector continued to grow at a moderate-to-strong pace. Rising freight volumes across product segments were attributed primarily to solid economic growth. There is concern about the sustainability of increasing volume because of newly enacted tariffs and potential outcomes from NAFTA negotiations. Railroad contacts attributed some of their volume growth to ongoing capacity constraints in the trucking industry. Within the professional services sector, contacts from engineering, software development, and accounting firms reported the strongest growth, which they said was due to strong confidence in the overall economy. One accounting firm noted that its work in mergers and acquisitions was the strongest that it has been in the past 10 years. ■

Summary of Economic Activity

Since our previous report, the Fifth District economy grew moderately. Manufacturers provided mixed accounts of business conditions with some noting continued challenges of rising input prices and shipping delays. Port activity remained strong, overall, with particularly high export growth coming out of South Carolina. Trucking firms continued to see robust demand and several companies were able to hire new drivers and increase capacity. Retailers reported weaker demand in recent weeks and tourist activity varied as atypical weather resulted in travel disruptions and lower hotel occupancies in some areas. Residential real estate sales picked up modestly, particularly for lower-priced homes. Meanwhile, commercial real estate leasing activity rose moderately, led by increased demand for office space. Nonfinancial services saw a moderate rise in demand, overall. Labor demand strengthened moderately in recent weeks while wage pressures remained modest. Prices grew moderately, on balance; however, steel and aluminum prices rose sharply and were expected to rise further as a result of recently-imposed tariffs.

Employment and Wages

Labor demand continued to strengthen moderately in recent weeks. Compared to the previous report, employment agencies noted no change in the level of new job openings; however, openings remained at strong levels. Executives reported difficulty filling positions for accounting and finance professionals, IT professionals, engineers, health care providers, and construction workers. Wage pressures reportedly rose for residential builders, professional services workers, manufacturers, and IT professionals. Wage increases remained modest, overall.

Prices

Prices grew moderately, on balance, since our previous report. According to our most recent surveys, manufacturers' input costs grew at a moderate rate and continued to outpace growth in selling prices. Steel and aluminum prices rose sharply and were expected to rise further as a result of recently-imposed tariffs. Housing and construction material prices, such as those for appliances, cabinetry, carpet, drywall, lumber, and concrete were also on the rise. Service sector prices grew at a modest rate, overall. Contacts reported that coal and natural gas prices declined slightly in recent weeks. Meanwhile, oil and petroleum-based product prices grew moderately.

Manufacturing

Manufacturing business conditions were mixed in recent weeks. A Virginia food manufacturer reported an improvement in business activity with particularly strong Easter sales. A North Carolina machine parts company saw a rise in orders in March after a slow start to the year. Meanwhile, a Virginia window and door manufacturer reported softer demand due to adverse weather conditions. Manufacturers generally struggled with rising input prices and slow delivery times. In fact, a West Virginia rubber manufacturer said he started to store more raw materials on site since delivery times have more than doubled, on average. Similarly, a Virginia display case manufacturer reported stockpiling steel in anticipation of higher prices resulting from the new tariffs.

Ports and Transportation

Ports saw fairly strong activity in the past several weeks, with volumes of loaded containers rising, particularly for exports. A South Carolina airport saw growth in both passenger and cargo traffic, and continued to see a balance of imports and exports after a long period of exports lagging. A South Carolina port saw a slight softening of imports compared to last year but experienced a drastic increase in exports. A Maryland port saw strong growth in imports and exports compared to last year with import growth slightly outpacing export growth. Several ports noted some uncertainty about what effects the steel tariffs might have on trade.

Trucking companies continued see robust growth, with many facing more freight than they could handle. However, several companies had more success hiring drivers in the past few weeks, which helped to increase their capacity. Even with this capacity boost, firms had to turn away business because they were unable to meet demand. Several trucking firms were also concerned about rising equipment and repair costs potentially leading to a shortage of trucks that could add to capacity constraints.

Retail, Travel, and Tourism

Many retailers reported weak demand in recent weeks. A Virginia auto dealer attributed low sales to reduced customer traffic and low credit scores among potential buyers and said that the lower sales combined with increasing prices from manufacturers had hurt profits. A West Virginia sporting goods retailer reported that retail sales continued to fall as some consumers were increasingly buying directly from manufacturers; however, the wholesale sales continued to keep the business afloat. On a positive note, several furniture and clothing retailers saw a slight uptick in sales, and a West Virginia appliance retailer reported strong business activity.

Tourist activity was mixed in recent weeks, due in part to adverse weather conditions. A Virginia ski resort was unable to make up losses after temporarily closing for unusually warm weather. At the same time, the nor'easter storms caused flight cancellations and shutdowns in Washington, D.C., leaving hotels in the area with low occupancy rates. Hotels in Charleston, South Carolina also had low occupancy rates, but attributed them to increased supply as demand for rooms actually rose in the area. Meanwhile, some North Carolina restaurants and hotels reported strong demand despite difficult travel conditions created by winter storms. Hotels and tourist attractions around the District were optimistic that business would improve along with the weather in the coming weeks.

Real Estate and Construction

Residential real estate sales increased modestly compared to the previous report. Agents reported steady buyer traffic in recent weeks, while homes in the $200,000 – $400,000 price range sold quickly with multiple offers. Overall, inventory levels remained low and in some regions were below last year's levels. Home prices rose modestly, while average days on the market were generally unchanged. New home construction and sales increased slightly across the District.

Commercial real estate leasing activity rose moderately in recent weeks as brokers reported increased demand in office leasing, while the industrial and retail markets remained active. Vacancy rates were mostly unchanged, although some agents reported modest increases in office vacancy rates due to new supply coming on line. Rental rates were stable to increasing modestly across the District. On the commercial sales side, brokers reported modest increases in prices and sales. Commercial construction varied across the District, but most contacts noted that new construction remained limited.

Banking and Finance

On the whole, loan demand increased modestly since our previous report. Residential mortgage demand varied by location but was generally described as stable to increasing modestly. Interest rates inched higher in recent weeks, while deposits were up modestly, overall. On the commercial side, loan demand varied, with a notable uptick reported in the greater Raleigh and Asheville, North Carolina areas. Credit quality remained strong while credit standards were generally unchanged. Bankers continued to report strong competition among banks, credit unions, and financial technology firms.

Nonfinancial Services

On balance, nonfinancial services demand picked up moderately since our previous report. The strongest demand was reported for administrative services and health care services. Comments from professional and business services firms were mostly positive; however, some firms noted a decline in activity due to reductions in federal spending. Lastly, a natural gas utility firm reported softer demand as usage declined due to warmer weather.

Agriculture and Natural Resources

A farmer in South Carolina saw more acreage being used to grow cotton as a result of higher export selling prices. He also said that more agricultural land was being converted to solar farms. Coal production was little changed in recent weeks while natural gas production declined slightly. ■

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

Summary of Economic Activity

Sixth District business contacts indicated that economic conditions continued to improve modestly from the previous report. The majority of contacts were relatively optimistic with expectations for continued modest growth over the next three to six months. The labor market remained tight and overall wage growth was modest. Most firms noted that most nonlabor input cost pressures were muted, though some noted increases related to the threat of tariffs. Retail sales remained stable since the previous report while automotive dealers remarked that demand for vehicles had weakened. Hospitality contacts noted solid domestic activity. Residential real estate builders and brokers indicated that home sales were flat to slightly down. New home construction increased slightly since the previous report. On balance, commercial real estate conditions continued to improve. Manufacturers cited increases in new orders and production.

Employment and Wages

District contacts continued to report difficulties filling positions in high-demand/high-growth sectors, particularly in the information technology, long-haul transportation, construction, and medical fields. Several contacts from the transportation sector reported elevated driver turnover. In response to labor shortages, firms continued to enhance training efforts for less-experienced candidates, expand partnerships with workforce development entities and community colleges, and broaden their geographical search for candidates.

Overall, reports of wage growth were mixed across the District. Many contacts noted steady but modest wage growth; however, geographies and sectors experiencing high growth continued to report large wage increases in order to attract and retain workers. In particular, contacts from the transportation sector reported that they were compelled to provide drivers with sizeable bonuses and wage increases in an attempt to thwart turnover. Employers continued to share that they were increasing the proportion of employee compensation that is not permanent and can be withdrawn, if needed (e.g., bonuses, incentives, etc.).

Prices

Overall, businesses continued to report relatively benign input-cost pressures. However, some contacts noted rising prices for transportation, as well as steel as tariff rhetoric increased. The Atlanta Fed's Business Inflation Expectations survey showed year-over-year unit costs were up 1.9 percent in March. Looking ahead, survey respondents indicated that they expect unit costs to rise 2.1 percent over the next twelve months.

Consumer Spending and Tourism

District retailers continued to report steady sales levels during this reporting period, on net. Home improvement retailers noted an increase in sales levels during the first two months of the year; automotive dealers reported a decline in demand for February compared to the same time last year.

Travel and tourism contacts reported strong domestic travel while group and convention travel softened since the last report. Demand for hotel rooms accelerated even though occupancy rates declined due to an increase in the number of rooms coming on line and a pick-up in online lodging services. Sentiment from travel and tourism contacts remains optimistic heading into spring.

Construction and Real Estate

Reports from District residential real estate contacts signaled continued modest growth. Builders reported flat to slightly higher construction activity in February compared to one year earlier. Builders and brokers indicated that home sales activity was flat to slightly down from the year-ago level. Many brokers reported mixed buyer traffic, while builders characterized traffic as unchanged from the previous report. Builders reported that inventory levels remained flat whereas brokers indicated lower levels compared to one year ago. Builders and brokers continued to note that home prices increased in February. Looking ahead, residential real estate contacts expect home sales activity to hold steady or increase slightly over the next three months relative to the year-ago level, with many builders expecting construction activity to remain unchanged or increase slightly.

District commercial real estate contacts cited continued improvement in general economic conditions and the availability of capital as factors supporting favorable commercial real estate demand and pricing. However, contacts continued to caution that the rate of improvement varied by metropolitan area, submarket, and property type. Contacts continued to report healthy activity pipelines. The outlook among commercial contacts for nonresidential and multifamily construction remained positive, with the majority anticipating activity to match or exceed the current level.

Manufacturing

Manufacturing contacts indicated that overall business activity remained strong since the last reporting period. New orders and production levels rose, and most firms indicated they were adding to their payrolls. Contacts suggested that prices for their finished products were holding steady, while some input costs continued to increase. Most firms indicated that they are optimistic about the near term.

Transportation

Transportation contacts continued to note varying levels of activity over the reporting period. Railroads again cited decreases in year-to-date total traffic, albeit at a slower rate of decline than described in the previous report. Trucking contacts reported increases in freight volume, but driver shortages continued to constrain capacity. District ports indicated further strength in shipments of containers and breakbulk cargo, and air cargo contacts noted year-over-year increases in freight tonnage.

Banking and Finance

District bankers continued to report solid commercial and consumer loan growth. Contacts noted that lending rates have coalesced around a narrow range but pricing for consumer lending is increasing. Banking contacts also noted that commercial acquisitions slowed due to difficulties over pricing of the targets.

Energy

Sentiment among energy contacts was mostly positive as demand picked up. Global demand for liquefied natural gas (LNG) continued to intensify, resulting in rising exports of LNG out of Louisiana's Sabine Pass liquefaction terminal. In petrochemical markets, contacts shared that supplies remained tight and backlogs continued to build after freezing conditions across the Gulf Coast temporarily reduced or ceased operations at several plants, and in some cases, caused power outages and infrastructure damage. Elevated Mississippi River water levels prevented many petrochemical plants from receiving input products needed to produce chemicals for domestic and global use, which also contributed to growing backlogs and imports.

Agriculture

Agriculture conditions across the District were mixed. Drought conditions improved in much of the District although light frosts in March affected some crops. Agricultural exporters indicated that the weaker dollar was having a favorable impact. On a year-over-year basis, prices paid to farmers in February were up for rice, 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 continued at a moderate pace in late February and March and contacts expected growth to continue at that pace over the next 6 to 12 months. Employment, consumer spending, and manufacturing production increased moderately, and business spending and construction and real estate activity grew slightly. Wages and prices increased modestly and financial conditions improved slightly on balance. Income prospects for the agricultural sector improved a bit, in spite of concerns about the impact of Chinese tariffs.

Employment and Wages

Employment growth continued at a moderate pace over the reporting period and contacts expected gains to continue at that rate over the next 6 to 12 months. Hiring was focused on professional and technical, production, and sales workers. As they have for some time, contacts indicated that the labor market was tight and reported difficulties filling positions at all skill levels. A number of manufacturers reported that because of the difficulty in finding production workers, they were being more picky about which orders to fill and investing more in automation. One contact reported increasing production at their China plant because they couldn't find workers for their US operation. Wage growth remained modest overall, though more contacts reported pay increases for administrative workers. In spite of the modest overall growth, a number of contacts (particularly in manufacturing) noted that wage growth had picked up compared to six months ago, especially for entry-level workers. Most firms reported increased benefits costs.

Prices

Overall, prices rose modestly in late February and March, and contacts expected prices to continue to increase at that rate over the next 6 to 12 months. Retail prices again increased slightly overall, though grocery prices were flat. Producer prices rose modestly, reflecting in part the pass-through of higher labor, materials, and freight costs. Manufacturers facing higher steel and aluminum costs because of the new tariffs expected to pass on about half of the increased costs to their customers on average.

Consumer Spending

Consumer spending increased moderately over the reporting period. Nonauto retail sales rose modestly, with gains reported in the home furnishings, building materials, home improvement, and general merchandise segments. Contacts continued to report strong e-commerce growth. New light vehicle sales increased considerably, helped by stronger incentives, particularly for leases. One contact called the incentives for some vehicles "a little irrational." Contacts generally expected the sales pace to slow in the coming months. Used vehicle sales also increased considerably. The sales mix of new light vehicles again shifted toward light trucks.

Business Spending

Business spending increased modestly in late February and March. Retail and manufacturing contacts indicated that inventories were generally at comfortable levels. Capital spending increased modestly, and contacts expected growth to continue at that pace over the next 6 to 12 months. Outlays were primarily for replacing industrial and IT equipment and for renovating structures. A number of manufacturing contacts reported that lead times for purchasing new equipment were notably longer than six months ago. Demand for commercial and industrial energy increased modestly and transportation demand increased moderately.

Construction and Real Estate

Construction and real estate activity increased modestly over the reporting period. Residential construction rose modestly, led by expanded suburban single-family building. Contacts again reported that rising labor and materials costs were squeezing margins. Overall, home sales were down slightly as low inventories of starter homes continued to hold back sales. Home prices rose modestly overall, with notable increases in the starter home segment and no change in prices for higher-end homes. Nonresidential construction increased modestly, with growth spread across sectors. That said, contacts expected growth to pick up over the next 6 to 12 months because vacancy rates for office and industrial space are low. Commercial real estate activity increased slightly from an already strong level, and contacts expected activity to increase slightly further over the next 6 to 12 months. Numerous contacts characterized the commercial real estate environment as “very good” or “exuberant.” Commercial rents were flat overall. And while there was a slight decline in vacancy rates, the availability of sublease space increased a bit.

Manufacturing

Growth in manufacturing production continued at a solid rate in late February and March. Steel production increased at a moderate pace, primarily in response to steady end-user demand. Steel imports spiked in anticipation of the 25% tariff imposed in late March. Demand for heavy machinery increased strongly, as end-user demand expanded and dealers rebuilt inventories. Demand for heavy trucks remained at a strong level. Order books for specialty metals manufacturers increased modestly: growth was spread across a wide variety of sectors, with particularly strong growth 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, but remained at a solid level.

Banking and Finance

Financial conditions improved slightly over the reporting period. Financial market participants noted higher volatility compared to the beginning of the year and rising short-term interest rates. Business loan demand increased modestly, led by growth in the small business segment. One contact noted that manufacturers throughout the District were increasing their credit line utilization. While competition remained strong, contacts reported little change in lending standards or loan quality. Consumer loan demand also increased modestly, with contacts reporting rising demand for auto loans, lines of credit, and loans secured by durable goods. Residential mortgage activity picked up, and a contact in northern Indiana reported a notable increase in the number of mortgages for new home construction. Consumer loan quality and lending standards were little changed.

Agriculture

Income prospects for the agricultural sector improved a bit during the reporting period, in spite of concerns about the impact of Chinese tariffs. Corn and soybean prices moved higher (helped by weather concerns in Argentina) and allowed farmers to lock in modest profits for at least a portion of their crops this year. Moisture profiles for most of the District improved, though drought persisted in a portion of Iowa. Prospects for livestock operations dimmed some as cattle and hog prices declined and milk prices stayed low. Egg prices and prices for some dairy products did move up. Agricultural lenders continued to report a slowly rising number of financially stressed crop and livestock borrowers. Cash rents for cropland were lower than a year ago, but land values were stable overall. ■

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

Summary of Economic Activity

Reports from contacts suggest economic conditions have continued to improve at a modest pace since our previous report. Labor market conditions remain tight: Employment grew slightly and wage growth was modest. Overall inflation strengthened slightly, held down by a slight decline in commodity prices. Reports on consumer spending were generally positive. Residential real estate activity improved modestly while construction activity was little changed. District banks reported increased lending activity driven by robust growth in commercial and industrial loans. Agriculture and natural resources conditions have remained generally unchanged since the previous report.

Employment and Wages

Anecdotal evidence suggests employment has grown slightly since the previous report. There were reports of modest increases in manufacturing employment in Arkansas and Missouri as well as a modest increase in small business employment in Missouri. Contacts continued to report difficulties finding qualified employees. For example, a construction contact in Little Rock reported difficulties filling skilled positions, and a used-auto retailer reported trouble hiring mechanics and technicians. Several organizations in Little Rock have undertaken initiatives to create training opportunities to address the skills gap.

Wages have increased modestly since the previous report. Reports from contacts in Little Rock indicate that wages have risen for workers such as truck drivers, warehouse workers, and skilled mechanics. One used-auto retailer noted plans to use some of their tax savings to increase compensation for some employees.

Prices

Price pressures have increased slightly since the previous report. Building materials prices rose. A contact in northwest Arkansas reported an increase in construction costs, and steel and scrap metal prices increased moderately throughout the District. Flooding throughout the Midwest led to a significant increase in barge freight rates along the Mississippi River.

After modest to moderate increases through the first two months of the year, commodity prices have declined slightly since the previous report. Wheat, sorghum, corn, and soybean prices decreased moderately, and coal, cotton, and rice prices were unchanged.

Consumer Spending

Reports from general retailers, auto dealers, and hoteliers indicate that consumer spending has modestly increased since our previous report. Real sales tax collections decreased in Missouri relative to a year ago but increased in Arkansas, Tennessee, and Kentucky. Consumer confidence surveys continued to show improvements in West Tennessee, although households expect no change in their level of spending over the next few months. Reports from Little Rock auto dealers were mixed. Hospitality contacts in St. Louis reported that sales increased year-over-year and that their outlook remains positive over the next few months.

Manufacturing

Manufacturing activity has increased modestly since our previous report. Overall manufacturing activity was stronger than one month earlier in both Arkansas and Missouri, and the pace of expansion increased in both states. Several companies in the District reported facility expansion and hiring plans, including firms that produce auto parts and aviation equipment. In addition, steel and aluminum manufacturers announced plans to reopen facilities and call back workers. Contacts at economic development agencies in central Arkansas reported growing interest from manufacturing firms looking for locations to build new facilities.

Nonfinancial Services

Activity in the service sector has been mostly unchanged since the previous report. The number of vacancies posted by firms for non-financial services occupations in March remained flat since the prior month, with the exception of St. Louis area vacancies, which moderately declined. In Arkansas, river barge traffic was much lower in the beginning of 2018 compared with a year ago, while air passenger volume remained unchanged.

Real Estate and Construction

Residential real estate activity has improved modestly since the previous report. Seasonally adjusted home sales increased modestly in February across the District's four major MSAs. Local contacts reported that demand remains strong but shortages in inventory continue to hinder sales.

Residential construction activity remained unchanged. February permit activity was flat within District MSAs. Local contacts continued to report that a shortage of labor is limiting new construction.

Commercial construction activity was flat. February nonresidential construction starts remained unchanged relative to the previous month, although multifamily permits declined moderately. Little Rock construction contacts reported healthy levels of commercial construction activity across most sectors and expect this trend to continue through the second quarter of 2018.

Banking and Finance

Banking conditions in the District strengthened at a moderate pace relative to the previous reporting period. According to reports from District bankers, overall loan volume has accelerated since our previous report, increasing by 9 percent on a year-over-year basis in the first quarter of 2018, up from 7 percent growth for the previous quarter. Stronger loan growth was driven by robust activity in commercial and industrial lending, where loan volumes grew by 17 percent relative to year-ago levels. In addition, outstanding loans for commercial real estate increased by 11 percent, more than double the national rate. Meanwhile, mortgage lending slowed slightly as loan volumes rose by 3 percent, down from 4 percent the prior quarter.

Agriculture and Natural Resources

District agriculture conditions were unchanged from the previous reporting period and the same as a year earlier. District corn acreage for 2018 is expected to decrease 2 percent from last year. Planned soybean acreage is about the same as 2017 acreage. Cotton and rice acreages are expected to increase 2 percent and 16 percent, respectively, due to expectations of improved profitability. Overall, District acreage for the four major crops is expected to be roughly the same as in 2017.

Natural resource extraction conditions improved modestly from January to February, with seasonally adjusted coal production increasing 9 percent. However, February production was down 6 percent from the same month last year. ■

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

Summary of Economic Activity

The Ninth District saw moderate economic growth since the last report. Employment increased modestly, constrained by a tight labor supply. Wage and price pressures were moderate. Growth was noted in consumer spending, tourism, services, commercial construction, commercial real estate, manufacturing, energy, and mining. Home construction was generally flat, while commercial real estate was mixed and residential real estate was slow. Agricultural conditions were stable at low levels.

Employment and Wages

Despite healthy labor demand, employment grew modestly since the last report, muted by tight labor supply. A survey of large Minnesota businesses found that about half were hiring to increase total head counts. Three other surveys also showed healthy hiring sentiment in District states. Several job-tracking databases showed generally strong labor demand. February job ads in Michigan's Upper Peninsula and North Dakota were higher compared with a year earlier. In Minnesota, figures released at the end of March showed job vacancies at an all-time high, increasing 16 percent over a year earlier. However, in South Dakota, both new and total advertised jobs declined in February relative to a year earlier. Tight labor markets were evident across the District. Initial and total unemployment insurance claims continued a downward trend through mid-March compared with last year. A western Montana staffing contact said labor orders were "up in all of our markets. Our biggest struggle is lack of candidates." A Minneapolis-St. Paul workforce contact said more companies are turning to job fairs and local workforce centers for help, but "attendance has been down at hiring events," and foot traffic at job centers has been slow. Participants in dislocated-worker programs "are getting jobs so much faster than in the past. Many are exiting the program in two or three months."

Wage pressures were moderate since the last report. A survey of Minnesota businesses found that wage increases coalesced a little below 3 percent. There were signs of stronger increases for some workers. Union construction workers in Minnesota were seeing wage increases of 3 percent to 4 percent. Montana high tech firms expected wages to increase by 5 percent in 2018. Wage increases in the public sector were weaker. In South Dakota, state workers received an increase of 1.2 percent, while 30,000 state workers in Minnesota received a 2 percent increase this year, though roughly half were also eligible for other increases.

Prices

Price pressures were moderate overall since the last report, but wholesale prices increased more briskly. Multiple contacts reported dramatic increases in the prices for steel products, partly attributable to recently announced tariffs; a manufacturer of tractor trailers said they "can't raise prices as fast as material costs." Retail fuel prices in most District states as of late March were slightly higher than in the previous reporting period, while prices for heating oil and propane in late March—their usual seasonal peak—saw double-digit percentage increases relative to a year earlier. Prices for construction materials continued to increase briskly.

Consumer Spending and Tourism

Consumer spending grew moderately since the last report. Gross sales in South Dakota saw a notable increase in the first two months of the year, and Wisconsin also saw a rise in gross sales. Retail closures continued, including nine stores across the District from a single chain. But they appeared to be due to shifts in consumer buying habits rather than soft overall demand, as retail vacancy rates remained healthy overall. A convenience store chain announced plans to open 11 new locations in Minnesota this year, though that expansion was smaller than in years past. Gaming revenues in Deadwood, S.D., to date have been flat compared with the same period a year earlier, but hotel occupancy rates improved. After a boom related to the Super Bowl, hotel occupancy rates and average room revenue in Minneapolis-St. Paul returned to more normal levels, which were softening due to a major expansion of new space. Passenger boardings at Minneapolis-St. Paul International Airport for the first two months of 2018 were 2 percent higher than the same period in 2017, and cargo volumes rose more than 6 percent.

Services

Activity in the professional services industry increased briskly since the last report. An electronic components distributor was preparing for a $300 million expansion. Demand for information technology services was strong, according to sources. A civil engineering contact in Montana reported that demand for work was up briskly. A distributor of office products described recent sales as strong. Contacts in transportation generally described freight demand as steady, though some trucking firms were reporting substantial increases in business .

Construction and Real Estate

Commercial construction saw moderate growth since the last report. An industry database showed continued growth in new projects and total active projects through mid-March compared with the same period a year earlier. Most industry contacts were also upbeat. A Minnesota contact said firms were reporting a “pretty strong” pipeline for 2018, fueled by robust activity in K-12 school and multifamily housing construction. An Upper Peninsula source said overall activity there was “very strong,” with a number of large energy, healthcare, and infrastructure projects. At the same time, construction has slowed recently from very high levels in Sioux Falls, S.D. Residential construction in the single-family market was generally flat across the District. Numerous sources noted that high and rising labor and materials costs were a major constraint. However, multi-family construction was strong in multiple District markets.

Commercial real estate sales grew modestly since the last report. Vacancy rates continued to remain low and stable in many real estate sectors across the District. However, the multifamily vacancy rate in Sioux Falls rose to its highest level in several years after a persistent expansion of supply. The city has also seen a number of restaurant and big-box store closures, pushing retail vacancies higher. Given the influx of new multifamily units, sources expected vacancy rates in Minneapolis-St. Paul to start rising. Residential real estate sales were slow, especially relative to demand, due to low inventories of homes for sale. Though most regions in the District have seen year-over-year sales remain flat or fall over the first two months of the year, tight inventories have persistently pushed median prices higher across the District.

Manufacturing

District manufacturing increased moderately since the last report. An index of manufacturing conditions indicated increased activity in March compared with a month earlier in Minnesota and South Dakota; North Dakota fell to a level indicating contraction. Several contacts in the metal-fabricating industry reported strong demand. A producer of precast concrete products said demand had increased capital investment at their firm and across the industry. A maker of shipping and storage pallets also said demand increased notably. Several firms around the District were expanding facilities, including a construction equipment producer in North Dakota and a custom manufacturer in Minnesota. In contrast, an electrical equipment producer closed a plant in Wisconsin.

Agriculture, Energy, and Natural Resources

District agricultural conditions were stable at low levels. Though drought conditions abated slightly since the last report, most of the Dakotas and portions of Montana remained dry heading into the spring planting season. Activity in the energy and mining sectors increased. Oil and gas exploration activity was up; the drilling rig count in the District as of late March increased about 10 percent from the last reporting period. A large solar energy development was proposed in South Dakota and a wind farm in North Dakota was expanding. Contacts at nonferrous mines in Montana said the market for metals was strong, with one noting that they could not produce enough molybdenum to meet demand. ■

Summary of Economic Activity

Overall economic activity expanded at a moderate pace in March, although more modest growth was reported across a few District sectors. Consumer spending, energy, and manufacturing activity increased at a moderate pace, while District real estate and business services firms reported a modest pace of growth. Bankers reported a moderate increase in overall loan demand, steady deposit levels, and a modest increase in loan quality. Agricultural conditions remained weak, as drought conditions emerged and production expectations declined. Employment and employee hours increased in most sectors, and contacts reported modest wage growth with moderate increases expected in coming months. Input prices were up moderately compared to the previous survey period, while selling prices rose modestly.

Employment and Wages

Employment and employee hours across the District continued to rise modestly in March, and respondents expected continued modest increases moving forward. Contacts in all sectors reported steady-to-increasing employment, with the exception of those in the transportation sector who noted a moderate decline. Employment in all sectors was expected to grow in the months ahead. Employee hours declined in the auto sales and transportation sectors, but rose in all other reporting industries. Respondents noted a shortage of commercial drivers, skilled technicians, and service workers.

Contacts in most sectors reported modest wage growth and expectations were for moderate wage growth moving forward.

Prices

Overall, input prices were up moderately compared to the previous survey period, while selling prices grew at modest pace. Respondents in the retail sector reported moderately higher input and selling prices, and anticipated continued moderate rises in both. Restaurant input prices were up moderately, while selling prices edged up slightly. Transportation contacts reported modest growth in both input and selling prices, but at a slower pace than in the prior survey. Prices in the construction sector continued to rise moderately, with strong increases expected in the coming months. Manufacturers noted a modest increase in prices for finished goods, while raw material costs rose moderately. Manufacturers expected moderate growth in both finished goods and raw material prices over the next few months.

Consumer Spending

Consumer spending grew moderately in March, and firms expected strong growth in coming months. Retail sales increased robustly compared to the previous survey period, and remained well above year-ago levels. Several retailers noted an increase in sales for appliances and lower priced items, while outdoor and higher-priced products sold poorly. Retail contacts anticipated sales to rise considerably in the next few months, and inventory levels were expected to increase moderately. Auto sales rose modestly after many months of decline and were equal to year-ago levels. Dealer contacts anticipated a strong pickup in sales for the months ahead, and inventory levels were expected to increase considerably. Restaurant sales declined moderately and were well below year-ago levels. However, contacts expected a strong rebound in activity heading forward. District tourism activity fell slightly, but contacts expected activity to increase moderately heading into the summer months.

Manufacturing and Other Business Activity

Manufacturing activity continued to expand at a moderate pace, and the majority of other business contacts reported modest sales increases. Durable goods manufacturers reported sustained growth in production, particularly for machinery and aircraft, while growth in nondurable goods activity moderated slightly. Shipments and order backlog grew at a modest pace, and activity was higher than a year ago. Manufacturers' capital spending plans rose moderately, and firms' expectations for future activity remained strong.

Outside of manufacturing, professional, high-tech, and wholesale trade firms reported modest sales growth, while transportation contacts noted a moderate decrease in activity. All firms expected sales to improve moderately in the next six months. Professional and high tech contacts anticipated moderate growth in capital spending plans, while transportation and wholesale trade firms expected capital spending to be relatively flat in coming months.

Real Estate and Construction

Real estate activity in the District continued to increase at a modest pace, and additional gains were expected in the months ahead. Residential home sales rose modestly, while home prices and inventories increased at a slight pace compared to the previous survey period. Sales of low- and medium-priced homes continued to outpace sales of higher-priced homes. Residential sales and home prices were expected to increase at a moderate pace in the months ahead, although one contact in Colorado reported that the typical spring seasonal pickup in activity was slow to begin this year. Residential construction activity was mixed as construction supply contacts noted lower sales while builders reported moderately higher housing starts and traffic of potential buyers. Commercial real estate activity continued to rise at a modest pace, and expectations were for additional gains moving forward.

Banking

Bankers reported a moderate increase in overall loan demand for the month of March. Respondents reported a modest increase for commercial real estate loans and slightly improved demand for commercial and industrial and residential real estate loans. Consumer installment loans were down slightly, while agricultural loans were steady. Bankers indicated loan quality improved modestly compared to a year ago. In addition, respondents expected a modest increase in loan quality over the next six months. Credit standards remained largely unchanged in all major loan categories. Overall, bankers reported steady deposit levels.

Energy

Energy activity expanded moderately since the last survey period, and expectations remained cautiously optimistic. The number of active oil and gas rigs increased slightly, while oil production continued to grow. Respondents said the price they needed to be profitable in the areas in which they were active inched up slightly, and they expected mostly stable oil prices over the next six months due to strong domestic production. The majority of contacts said potential steel and aluminum tariffs would have a low-to-medium impact on their drilling costs, and several have already experienced moderate increases in the cost of steel. The natural gas market continued to be oversupplied, straining available takeaway capacity in Oklahoma.

Agriculture

In the Tenth District, farm income and credit conditions remained weak, and the short-term outlook for the agricultural sector has been influenced by 2018 crop production expectations and drought. Approximately half of winter wheat acres in Kansas and Oklahoma were rated as poor or very poor due to abnormally dry conditions. Corn production was expected to remain unchanged or decline slightly in all District states. After very strong growth in 2017, production of soybeans was expected to remain relatively unchanged in most states, while cotton production in Oklahoma was forecasted to continue to expand due to higher prices relative to other crops. Lower production expectations for corn, soybeans and wheat supported slightly higher prices. However, District contacts continued to express concerns about severe drought, cash flow shortages, decreasing liquidity among farm borrowers, high production expenses and trade uncertainty.

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

Summary of Economic Activity

The Eleventh District economy expanded at a moderate pace over the past six weeks. Growth in the nonfinancial services sector accelerated, and retail sales rebounded. Loan demand growth picked up. Robust expansion in the energy industry continued, while growth in manufacturing eased somewhat. Home sales continued to rise. Hiring was solid across most sectors, and widespread labor shortages continued. Wage and price growth remained elevated, and several contacts noted a marked rise in the cost of steel. Outlooks, while still optimistic, have become more uncertain due to new tariffs and trade concerns.

Employment and Wages

Solid employment growth continued, and wage pressures remained elevated. Hiring picked up pace in services, retail and energy. Among manufacturers, employment growth eased a bit. Labor shortages either continued or escalated, covering a wide array of industries and skill levels. Multiple contacts said employee retention had become increasingly difficult across skillsets, although they noted that low-skill workers in particular were quick to leave for better-paying positions. Contacts reported that some rural employers were busing in workers from nearby cities because their local labor pool was tapped out. Wage growth remained elevated across the board and increased further in the energy industry.

Prices

Price pressures remained elevated over the past six weeks. Input cost pressures increased among energy, manufacturing, and construction firms, partly due to the announced tariffs on steel and aluminum. Upstream energy firms said the steel tariffs represent a worry, although some contacts said there shouldn't be much of an impact on costs until 2019 when contracts roll over. Downstream energy contacts were still figuring out how much of their steel is subject to the new tariff and how that will affect their costs and investment decisions. Several manufacturers said that talk of steel tariffs immediately resulted in higher steel prices. An architecture firm noted that the increase in steel costs will impact the ability of their clients to move forward with some construction projects. Average gasoline and diesel prices were fairly stable, although transportation services contacts noted that fuel costs were up notably from a year ago.

Manufacturing

Expansion in the manufacturing sector continued, although the overall pace of growth eased from the highs seen in recent months. Output growth was led by transportation and high tech manufacturing, two sectors that saw an acceleration over the reporting period. Growth in chemical production receded from February's elevated rates, and fabricated metals and food production continued to post slower growth relative to other types of manufacturing. Expectations regarding future business conditions remained optimistic, although several contacts noted that the newly enacted tariffs were creating a lot of uncertainty in their outlooks for activity and prices. Refiners and petrochemical producers specifically mentioned their views about the potential negative impact of these tariffs on construction projects.

Retail Sales

Retail sales rebounded over the past six weeks, led by a sharp rise in auto sales after a challenging start to the year. A clothing retailer noted that sales continued to stabilize in stores located in oil patch markets, while sales in stores along the border started to slip once again. Other contacts also mentioned softness in retail sales along the border, citing online retailing and the development of retail space in Mexico as drivers of the weakness. For retail more broadly, contacts noted a continued increase in internet sales, with growth accelerating over the reporting period. Outlooks among retailers in general remained positive, but some contacts said their expectations were clouded by the potential negative impacts of trade and immigration policies.

Nonfinancial Services

Growth in the nonfinancial services sector picked up over the reporting period, with most industries noting an acceleration. Leisure and hospitality was a particular bright spot, with revenue growing again after weakness earlier this year. Transportation services firms said rail and air cargo volumes strengthened further while courier cargo and airline demand remained stable. Growth in health care lagged other industries, with contacts pointing to a challenging environment with increased regulatory requirements and decreased funding and/or reimbursements. Staffing services contacts noted high levels of demand, driven by activity being broad based across geographies and sectors. Outlooks rose slightly over the past six weeks, although uncertainty surrounding trade policies and the new tariffs negatively impacted some firms' expectations.

Construction and Real Estate

Home sales rose moderately since the last report, with particular strength noted at the lower price points. Outlooks were positive, but there is concern among builders about margin compression and the impact of rising mortgage rates on future sales. Apartment demand was seasonally slow during the first quarter, and occupancy rates fell in all major Texas metro areas as an aggressive pace of new deliveries exceeded demand. Rent growth accelerated in Houston, but was sluggish in Dallas and San Antonio and dipped in Austin. Multifamily construction remained active, although it has moderated somewhat relative to last year.

Office market conditions remained weak in Houston, and contacts reported an uptick in sublease space. The industrial market was characterized as solid, and the vacancy rate generally remained low across major metros. Reports on retail leasing activity were mixed.

Financial Services

Overall loan volumes and demand increased at a faster pace over the past six weeks. Markedly stronger growth in loan volumes was seen in commercial and industrial, and commercial real estate. Residential real estate loan volumes continued to grow at roughly the same pace as during the prior reporting period, while consumer loan volumes declined. Credit standards and terms continued to tighten, and loan pricing increased at a similar pace as the prior report. Banking contacts remained optimistic, expecting total loan demand to be better six months from now. Some contacts mentioned optimism in the market due to tax reform, while others noted uncertainty about how new tariffs will impact Texas businesses.

Energy

Energy activity continued to expand moderately. The rig count increased over the reporting period and drilling and completion activity was up in the Permian Basin and Eagle Ford. Outlooks remained positive for 2018, supported by oil prices holding at levels at which the vast majority of firms can profitably increase drilling. However, multiple contacts suggested tight markets for labor and equipment may constrain further acceleration in drilling activity.

Agriculture

Drought conditions plagued much of Texas, severely so in the Texas panhandle. Lack of soil moisture particularly affected winter wheat, and the crop was largely in poor to very poor condition. Pasture conditions were also negatively impacted, and some ranchers were moving cattle from grazing to feedlots earlier than usual. Texas will see an increase in cotton acres this year, according to contacts, driven by strong demand, relatively high cotton prices, and new provisions in the farm bill. Cattle prices declined over the reporting period, and milk prices remained low enough to start forcing some smaller dairies out of business. Trade issues continued to make agricultural producers and lenders nervous. ■

For more information about District economic conditions visit:
www.dallasfed.org/research/texas

Summary of Economic Activity

Economic activity in the Twelfth District continued to expand at a moderate pace during the reporting period of late February through early April. Conditions in the labor market remained tight, and upward wage pressures persisted. Price inflation increased modestly. Sales of retail goods were down slightly, while growth in consumer and business services remained solid. Conditions in the manufacturing sector picked up modestly, and activity in the agriculture sector was flat. Contacts reported that residential real estate market activity continued at a strong pace, and conditions in the commercial real estate sector were solid. Lending activity ticked up.

Employment and Wages

Contacts across the District continued to report tight labor market conditions and persistent upward wage pressures in various sectors. Demand for workers experienced in cybersecurity was up. Metals manufacturers reported a modest uptick in employment growth. A contact in real estate development in Northern California observed that demand for contract labor exceeded supply, causing wages to jump. Labor demand in the utilities sector declined somewhat as sales weakened. Employers faced difficulties in filling vacancies in both high- and low-skill positons. In response to labor shortages, several contacts reported increased use of overtime and heightened efforts to automate routine tasks. In Los Angeles, a contact in the air transportation sector implemented process improvements that substituted information technology for labor in customer interactions. In some areas of California, high costs of living made it difficult to attract job candidates. The recent corporate tax cut resulted in some one-time bonuses and a small increase in entry-level wages, according to a few contacts.

Prices

Price inflation increased modestly over the reporting period. Strong construction activity drove further price inflation for a wide variety of building materials, including lumber and sheetrock. Contacts reported a jump in inflationary pressures for metals prices, partly due to the anticipation of tariffs and unrelated increases in raw material costs. Airfares picked up modestly following further industry consolidation and oil price increases. Pharmaceutical prices inched up, resulting in a slight increase in health insurance costs for a Mountain West health-care provider. Retail sales prices were broadly flat to down slightly, with the impact of increased competition in low-cost product spaces mostly offset by the effect of strong demand for high-end goods. Wheat prices decreased modestly due to excess supply. Declines in natural gas prices put downward pressure on heating prices across the District.

Retail Trade and Services

Sales of retail goods were down slightly over the reporting period. Contacts in the Mountain West noted that bad weather in the past month had a negative impact on sales activity in their region. Demand for motor vehicles slowed modestly because of increasing financing costs. The restaurant industry continued to see foot traffic edge down. While mall-based retail activity had been trending down, recently, stores have maintained sales volumes while managing inventories tightly.

Activity in the consumer and business services sectors remained solid. Demand for airline travel was strong, especially from international passengers following improvements in the global economy. Contacts in Los Angeles noted a pickup in tourism activity. Demand for freight airline services was at its highest level since the recession. A major health insurance provider in Utah reported significant competition in the commercial provider market.

Manufacturing
Conditions in manufacturing picked up modestly. Capacity utilization across a range of manufacturing sectors, including steel, picked up noticeably despite rising input prices. Inventories in some sectors ticked up because of a slight decline in export growth, according to a contact in Northern California. Both deliveries and new orders of commercial aircraft edged down on a year-over-year basis. A contact in the metals industry noted greater uncertainty about production costs because materials suppliers would not enter price guarantee agreements.

Agriculture and Resource-Related Industries
Activity in the agriculture sector was flat on balance. Wheat yields were up modestly across the District. Demand in the feedlot industry inched up on a year-over-year basis. Cattle profits were solid, though margins narrowed. Demand for electricity in Southern California was flat, leading excess capacity in power generation to edge up in the region. Grain inventories remained elevated in the Mountain West, and sales contracts fell over the reporting period. Contacts noted that much of the grain industry continued to face prices below breakeven levels.

Real Estate and Construction
Activity in real estate markets continued at a strong pace. Construction in the residential market picked up noticeably, limited only by the persistent shortage of labor and increasing material costs. Contacts across the District observed a solid increase in housing starts, especially for single-family homes, though lengthy permitting processes acted as an additional headwind. Construction starts on middle- to high-end units grew faster than that of more-affordable units because rising input costs jeopardized returns in lower-end markets. Throughout the District, increases in demand amidst still-low inventory levels caused residential sale prices to rise further. Contacts in the Pacific Northwest reported a jump in apartment rents. Commercial real estate activity moderated to a solid pace. Contacts in Eastern Washington reported a modest decline in permitting for commercial projects on a year-over-year basis. Demand for warehouse space for shipping fulfillment operations was up across the District. Some regions of the District cited rising financing costs as a growing constraint on commercial real estate activity.

Financial Institutions
Lending activity ticked up over the reporting period. Loan demand was mixed but increased slightly overall. Strong loan demand in Oregon resulted in a modest jump in lending rates. Contacts in Northern California reported moderate growth in consumer loan demand, while commercial demand fell modestly. On balance, deposit rates edged up and net interest margins remained narrow. Asset quality remained solid. In Oregon, underwriting standards for residential development loans tightened moderately.