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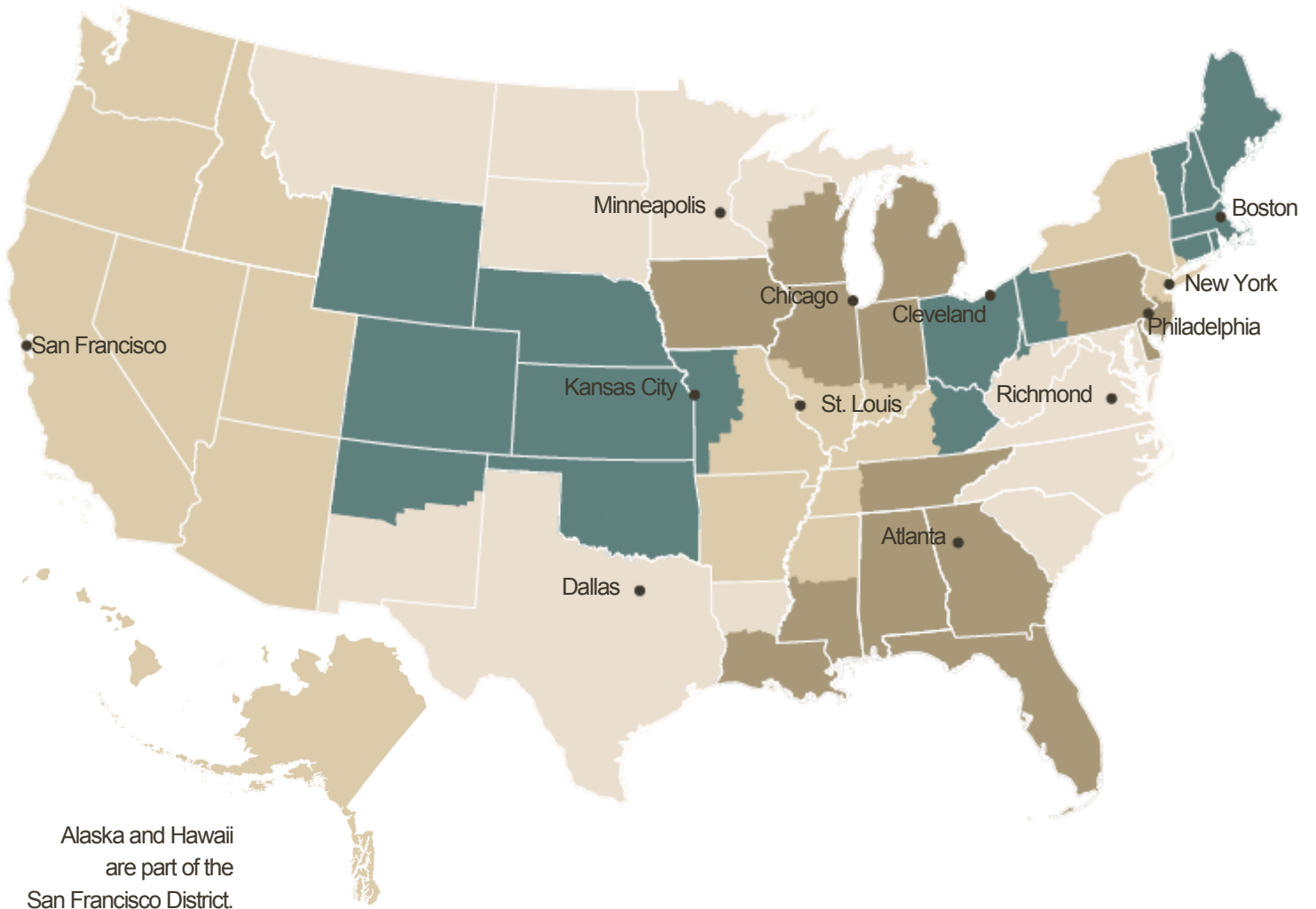
The Beige Book

Summary of Commentary on Current Economic Conditions

By Federal Reserve District

October 2018

Federal Reserve Districts



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

National Summary	1
Boston First District	A-1
New York Second District	B-1
Philadelphia Third District	C-1
Cleveland Fourth District	D-1
Richmond Fifth District	E-1
Atlanta Sixth District	F-1
Chicago Seventh District	G-1
St. Louis Eighth District	H-1
Minneapolis Ninth District	I-1
Kansas City Tenth District	J-1
Dallas Eleventh District	K-1
San Francisco Twelfth District	L-1

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 Richmond based on information collected on or before October 15, 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

The Beige Book ■ October 2018

Overall Economic Activity

Economic activity expanded across the United States, with the majority of Federal Reserve Districts reporting modest to moderate growth. New York and St. Louis indicated slight growth, overall, while Dallas reported robust growth driven by strong manufacturing, retail, and nonfinancial services activity. On balance, manufacturers reported moderate output growth; however, several Districts indicated that firms faced rising materials and shipping costs, uncertainties over the trade environment, and/or difficulties finding qualified workers. Demand for transportation services remained strong. Labor shortages were broadly noted and were linked to wage increases and/or constrained growth. Reports on commercial and residential real estate were mixed, although several Districts saw rising home prices and low levels of inventory. Overall, consumer spending increased at a modest pace while consumer price growth ranged from modest to moderate. Travel and tourism generally picked up with a notable exception of North and South Carolina, where Hurricane Florence deterred tourism. Agricultural conditions were mixed as rainy weather helped some farmers but caused delays and crop damages for others, including the loss of crops and livestock due to Hurricane Florence.

Employment and Wages

Employment expanded modestly or moderately across most of the nation; San Francisco reported robust growth while three Districts reported little to no change. Employers throughout the country continued to report tight labor markets and difficulties finding qualified workers, including highly skilled engineers, finance and sales professionals, construction and manufacturing workers, IT professionals, and truck drivers. A couple of Districts reported that worker shortages were restraining growth in some sectors. Many firms reported high turnover rates and difficulties retaining employees. Some businesses implemented non-wage strategies to recruit and retain workers, such as giving signing bonuses, offering flexible work schedules, and increasing vacation allowances. Wage growth was mostly characterized as modest or moderate, though Dallas reported robust growth. Most businesses expected labor demand to increase modestly in the next six months, and looked for modest to moderate wage growth.

Prices

Prices continued to rise, growing at a modest to moderate pace in all Districts. Manufacturers reported raising prices of finished goods out of necessity as costs of raw materials such as metals rose, which they attributed to tariffs. Construction contract prices increased to cover rising costs of labor and materials. Retailers and wholesalers in some Districts raised selling prices as they continued to see increased costs in transportation and also worried about impending cost increases resulting from tariffs. Districts reported rising oil and fuel prices but gave mixed reports on movement of agricultural commodity prices.

Highlights by Federal Reserve District

Boston

Most firms reported continued expansion. Most retailers, hoteliers, manufacturers, and IT firms saw year-over-year sales increases. Labor markets remained tight and wages increased at a moderate pace. Contacts reported moderately higher prices on average. Outlooks were cautiously optimistic.

New York

Activity in the regional economy has grown slightly in the latest reporting period, while labor markets have remained very tight. Both input prices and selling prices have accelerated slightly. Residential and commercial real estate markets have been mixed.

Philadelphia

Economic activity continued to expand at a modest pace. Tight labor markets constrained hiring to a modest pace but maintained moderate wage pressures. Price increases remained modest. Notably, manufacturing resumed a moderate pace of growth. The growth outlook is generally positive despite some concerns that excessive inventories will reduce future demand.

Cleveland

The District economy grew modestly. Firms widely reported worker shortages and wage increases that were a little higher than the rate of inflation. Strong, upward pressures on fuel, building materials, and metals costs were noted. Nonfinancial services noted a pickup in activity, although retail and transportation lost momentum. Nonresidential construction activity improved slightly.

Richmond

The regional economy grew moderately since our previous report. Overall, labor demand strengthened, wages rose modestly, and price growth remained moderate. However, firms across several sectors suffered from Hurricane Florence. The hurricane caused production disruptions for manufactures, port closures, reduced travel and tourism, and damages to crops and livestock.

Atlanta

The economy expanded at a moderate pace. Labor markets remained tight, and reports of increasing merit percentages were more widespread. Nonlabor input costs continued to rise, on balance. Retail sales increased. The pace of residential construction grew modestly compared with year earlier levels, while nonresidential construction activity was up. Manufacturing activity remained strong.

Chicago

Growth was modest. Manufacturing production and employment grew moderately, consumer and business spending increased modestly, and construction and real estate activity was flat. Wages and prices rose modestly and financial conditions were little changed. Greater-than-usual precipitation slowed the agricultural harvest and reduced the quantity and quality of the crops.

St. Louis

Economic conditions in the District have improved slightly since our previous report. Reports from the manufacturing and services sectors were generally positive. The exception was the real estate sector, where reports were notably weaker than other sectors.

Minneapolis

Economic activity grew moderately in the Ninth District. Hiring demand was strong, but was held back by tight labor markets. Wages and prices both experienced moderate pressure. Residential construction rose in September. Manufacturing activity grew, but the outlook was uncertain due to trade policy and rising input costs. Farm harvests were expected to be strong, but falling international demand was exacerbating low prices.

Kansas City

Economic activity expanded moderately in September and early October, led by strong sales in the retail, wholesale trade, transportation, and professional and high-tech sectors. Input prices and wage growth accelerated since the previous survey, and strong wage gains were anticipated in the months ahead. Energy activity also picked up, due to stronger activity in the oil sector.

Dallas

Economic activity expanded at a solid pace. Healthy growth continued in manufacturing, retail and nonfinancial services. Loan demand increased further while home sales were flat. Capacity constraints restrained growth in the energy sector. Widespread labor shortages pushed up wages while tariffs drove up input costs. Hiring continued, and outlooks remained quite optimistic.

San Francisco

Economic activity continued to expand at a moderate pace. Conditions in the labor market tightened noticeably, and price inflation increased moderately. Sales of retail goods picked up slightly, and activity in the consumer and business services sectors was solid. Activity in the manufacturing sector expanded moderately. Activity in residential and commercial real estate markets was robust. Lending activity picked up moderately.



Summary of Economic Activity

Economic activity in most sectors expanded at a moderate to strong pace since August, although real estate markets showed mixed activity. Retailers reported robust sales increases, and travel and tourism enjoyed a strong summer season. Manufacturing firms posted moderate growth on balance, and IT firms showed results ranging from flat sales to double-digit growth. Residential real estate prices continued to rise in most First District states despite slower sales in some places. Commercial real estate activity was mixed across metro areas. Labor markets remained tight, and wage increases continued at a moderate pace. Price increases appeared more widespread and, in a few cases, reflected the impact of tariffs. Most contacts retained a positive outlook, although some perceived an increase in downside risks.

Employment and Wages

Most contacts said that labor markets remained tight. On balance, headcounts increased only slightly, and wage increases accelerated somewhat but remained moderate. Retail hiring held steady, although some positions were hard to fill, and the restaurant industry on Cape Cod continued to experience binding labor shortages. All manufacturing contacts reported that they were hiring, but increases in employment were small, as contacts said that hiring and retaining qualified workers remained difficult. As a result, they were paying higher wages and salaries. At IT firms, employee headcounts and the labor turnover rate were stable, but the tight labor market spurred fresh wage increases at one firm. Several other IT firms said that wages had increased 3-4 percent since last year, mainly in order to cover cost-of-living increases. Commercial real estate contacts noted that construction wages continued to rise at a moderate-to-robust pace to attract scarce labor in that market.

Prices

Pricing pressures intensified in response to a variety of factors, resulting in moderate price increases on average. At least one retailer expects tariffs on Chinese-sourced goods to add upward pressure on the prices charged by their suppliers, although the extent of any price increases remains uncertain, and another retailer reported being unaffected by tariffs. New car prices are also expected to increase significantly to cover the burden of recently implemented tariffs. All but one manufac-

turing contact reported charging higher prices, but a semiconductor firm indicated that increased competition was driving down the prices it could charge. Trucking costs—which increased 5 to 10 percent—continued to present a major problem, contributing to recent price increases by manufacturers. Also, three manufacturing firms faced higher input prices due to tariffs on Chinese goods and services that were not readily substitutable, and the firms expected to pass on (or had already passed on) to consumers at least some of the tariff burdens. Two IT firms imposed moderate price increases recently, while others held prices steady on balance. Hotel room rates on Cape Cod were up almost 5 percent from last summer, but some lowered prices as needed in response to price competition from online home rentals. Construction costs continued to climb at a brisk pace in response to increases in the costs of construction labor, land, and raw materials, and one contact expects the higher costs to get passed on to tenants and buyers.

Retail and Tourism

Retailers reported moderate to very strong year-over-year sales increases to September and expect sales to stay strong through year's end. A state automotive trade association reported that auto sales fell sharply in September compared with the summer months, but whether that decline marks the beginning of a trend remains to be seen. Still, dealers believe that sales might be crimped moving forward in response to rising price tags for new cars and higher consumer financing costs.

Travel industry contacts reported that business remains strong. As of August, airline passenger traffic through Boston had increased 8 percent year-over-year. Port traffic in Boston increased this past summer as retailers accelerated imports to avoid tariffs that were slated for the fall. Hotel occupancy rates on Cape Cod were up about 5 percent from last year. The Cape's restaurant industry suffered ongoing, acute labor shortages, and these are seen as placing a restraint on industry growth moving forward.

Manufacturing and Related Services

Of the five manufacturing firms contacted, four reported sales that were either moderately or strongly higher year-on-year, and one reported slightly lower year-on-year sales despite improved performance more recently. One manufacturer's growth was held back by difficulties in finding qualified workers and by delays obtaining capital equipment. As noted above, three firms faced cost increases associated with tariffs, but so far experienced no major impacts on sales. One firm also was subject to retaliatory tariffs on its exports to China, but thus far has suffered no decline in sales to that country. Capital expenditure plans were unchanged from August. Four contacts retained a positive outlook, while another expects a recession in the second half of 2019.

Information Technology Services

Software and IT firms in the First District experienced further robust growth on balance in recent months, either on par with or somewhat faster than what was reported in August. Year-over-year revenue growth rates ranged from the high single digits to the low double digits, with one exception involving flat revenues. Recent performance was boosted by increasing demand for new, cloud-based products. A contact that recently raised its prices noted that no customer turnover had resulted from that move so far. Overall, contacts were optimistic about the state of the industry and the economy in the coming quarters.

Commercial Real Estate

Commercial real estate activity was mixed across the First District. Leasing activity remained strong in the Boston area, but reportedly slowed somewhat in both the Hartford and Providence areas. A Hartford contact attributed the weaker activity to slow economic growth in Connecticut. Office vacancy rates were described as very low for both Boston and Providence, reflecting positive net absorption that occurred in the past six months in both metro areas. Sales activity was described as stable. Construction activity held steady in the Boston area and was described as very limited in Connecticut. Borrowers for some construction projects in the Boston

area have reportedly had to request higher loan amounts in order to cover higher-than-expected construction costs. The outlook dimmed in greater Hartford, but remained cautiously optimistic elsewhere. Contacts continued to see downside risks, however, in the form of rising construction costs and rising long-term interest rates.

Residential Real Estate

Residential real estate markets were somewhat mixed. This report covers year-over-year performance through August 2018 for all areas except Connecticut, which failed to provide data due to an ongoing technical issue. Vermont statistics represent combined performance for single-family homes and condos. For single-family homes, closed sales increased in Boston, Maine and New Hampshire, decreased moderately in Rhode Island, and were down slightly in Massachusetts. Pending single-family sales were up by robust margins in New Hampshire and Massachusetts, down sharply in Rhode Island, and posted either small (Boston) or moderate (Maine) decreases elsewhere. For condos, closed sales increased or stayed roughly flat in all reporting areas, while pending sales were mixed. Vermont saw a moderate decrease in closed sales for the combination of condos and single-family homes, but its pending sales were up sharply. Single-family home prices increased in all areas by slim to robust margins, while condo prices increased in all areas except Rhode Island, which saw a moderate decline on that score. A Rhode Island contact noted that home inventories increased (from a year earlier) for the second straight month, following an extended period of inventory declines. Elsewhere, however, inventories continued to decline. Despite recent fluctuations in sales activity, contacts expressed optimism for the coming months. They cited the holiday season and tax cuts as possible reasons to expect an increase in sales before the end of the year. ■

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



Summary of Economic Activity

Economic activity in the Second District has grown slightly since the last report. The labor market has remained very tight, and wage growth has remained moderate. Businesses reported increasingly widespread escalation in both input prices and selling prices, while prices of final goods and services have been steady or up modestly. Manufacturing and distribution activity continued to grow robustly, while growth has slowed in a number of service industries. Consumer spending was generally steady in recent weeks. Residential and commercial real estate markets have been mixed. Finally, banks reported some weakening in household loan demand and a modest pickup in delinquencies on home mortgages.

Employment and Wages

The labor market has remained very tight across the District. Employers continued to note difficulties finding qualified workers for various types of job openings. However, there have been scattered signs of softening in labor demand. One New York City based employment agency noted a lull in new postings in early October, and an upstate agency indicated some slowing in demand for contract workers.

Businesses in most industries report steady to modestly rising employment. In the finance, professional & business services, and manufacturing industries fewer contacts than last time indicated that they are adding workers. On the other hand, businesses in wholesale trade, leisure & hospitality, and education & health services noted some pickup in hiring activity. Retailers reported little change in staffing levels, and one large chain said they plan to hire roughly the same number of holiday-season workers as in 2017.

Wage pressures have remained fairly widespread. While businesses in most industries noted that wage growth has remained moderate thus far, a growing proportion reported that they plan to raise wages in the months ahead. A New York City employment agency noted a widening gap between salary expectations of job applicants and what employers are offering.

Prices

Businesses reported increasingly widespread hikes in both input and selling prices. Input price pressures were reported across all industry sectors; they picked up in the wholesale trade, information, and real estate industries but receded slightly among manufacturers and retailers. Contacts in almost all sectors anticipated further increases in the months ahead—particularly those in wholesale trade and information.

More businesses than in recent months said they had raised selling prices—most notably in wholesale trade and leisure & hospitality. Retailers generally indicated that selling prices have been stable to up modestly. A sizable and rising proportion of contacts in wholesale trade and transportation said they planned to hike prices in the months ahead, while fewer leisure & hospitality firms said they would do so. A few contacts in manufacturing and distribution cited tariffs for driving up costs and inducing them to raise their prices.

Consumer Spending

Retail sales were mixed but, on balance, flat in September and early October. Non-auto retailers generally indicated that sales were flat or up modestly. One large retail chain noted that sales were running on plan and up slightly from year-earlier levels. New York City lagged the rest of the District slightly in the latest reporting peri-

od, partly reflecting weaker tourism. Retailers in upstate New York reported that sales picked up somewhat since the last report. Inventories were characterized as being at or a bit below optimal levels.

New vehicle sales weakened in September, according to dealers across upstate New York, and were down from a year earlier—partly attributed to reduced incentives. New vehicle inventories continued to run at or above desired levels. Sales of used vehicles have remained fairly elevated, though there were signs of slowing. Business at auto service departments has also slowed somewhat. Dealers continued to characterize retail and wholesale credit conditions as being in good shape.

Consumer confidence in the Middle Atlantic states (NY, NJ, PA) surged to a new cyclical high in September, based on the Conference Board's survey.

Manufacturing and Distribution

Manufacturers indicated that activity continued to expand briskly in recent weeks. Wholesalers reported a renewed pickup in growth in September, while transportation firms noted a pause in growth. Regarding the near-term business outlook, both wholesale distributors and manufacturers continued to express fairly widespread optimism, while transportation industry contacts have been more measured in their expectations. A number of contacts in these sectors expressed concern about tariffs.

Services

Growth slowed noticeably in the latest reporting period. Contacts in professional & business services reported continued modest growth in activity, but businesses engaged in education & health services noted a pause in growth, while those in the leisure & hospitality and information industries noted a dip in activity. However, Broadway theaters reported continued growth in both attendance and revenues, both of which were running well ahead of comparable 2017 levels. Looking ahead, businesses in education & health services, professional & business services, and information industries continued to express optimism about the near-term outlook. Leisure & hospitality businesses said they expect business to be flat to up slightly.

Real Estate and Construction

Housing markets across the District have been mixed since the last report. In New York City, sales of existing co-ops and condos were down modestly, while sales of new units fell more sharply, albeit from elevated levels. In contrast, condo sales were said to be up noticeably in Westchester County. Single-family home sales were steady to down modestly in the suburbs around New

York, including northern New Jersey. One contact ascribed some of this weakness to changes in federal tax law that limit deductibility of homeowner costs.

The inventory of homes on the market has risen throughout most of the District—particularly for smaller units in New York City. Still, current inventory levels remain quite low, particularly in upstate New York. Home price trends have been mixed, with values continuing to rise in upstate New York, Long Island, and northern New Jersey, but holding steady across New York City and its northern suburbs. Prices of new condos in New York City, as well as prices at the high end of the condo market more generally, have weakened noticeably.

The apartment rental market has been mixed. Manhattan's vacancy rate declined to its lowest level in a decade, reflecting a noticeable expansion in landlord concessions. Effective rents have trended down across New York City due to these increased concessions.

Commercial real estate markets have been mixed but mostly steady. Office availability rates edged up in New York City, Long Island, and across much of upstate New York, while rents were little changed. In northern New Jersey, however, availability rates edged down, while rents were flat. Retail markets weakened across most of the District, with rents drifting down in New York City, Fairfield County, and across much of upstate New York. In contrast, industrial markets have continued to strengthen, with rents up 5-8 percent from a year earlier and availability rates mostly steady or declining.

New multi-family construction has tapered off somewhat across the District but a substantial volume of residential space is currently under construction—particularly in New York City. New office construction remains subdued. New industrial construction has remained sluggish across upstate New York, but it has strengthened in the New York City area.

Banking and Finance

Small to medium-sized banks reported lower demand for consumer loans and residential mortgages, but steady demand for commercial mortgages and C&I loans. Banks reported tighter credit standards for commercial loans and mortgages but unchanged standards on household-sector loans. Loan spreads widened for residential and commercial mortgages. Finally, bankers reported a rise in delinquency rates for residential mortgages but unchanged rates for all other 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. The labor market remains tight, which continues to constrain hiring at a modest pace and to apply upward wage pressures at a moderate rate. Price pressures remained modest, with a smaller percentage of firms reporting increases in prices paid and received for their own goods than during the prior period. Nonfinancial services maintained a moderate pace of growth, and manufacturers resumed a moderate pace after slowing last period. Most consumer sectors continued at a modest pace. Construction sectors noted slight growth, while residential real estate sales remained constrained by low inventories; commercial leasing maintained modest growth. The growth outlook over the next six months remained positive, with over half of all firms anticipating increases in general activity; however, key industrial supply firms noted concern that future demand may fall because of excessive inventory buildups by their customers.

Employment and Wages

Employment continued to grow at a modest pace during the current Beige Book period. Over 40 percent of the manufacturing firms reported an increase in net employment, and over 25 percent of the nonmanufacturing firms reported net increases in full-time staff. Also, the percentage of firms that reported decreases in average hours worked was lower than in the prior period.

Several firms noted that their job levels would be higher if they could find and retain employees. One firm noted difficulty launching a third shift because of a lack of workers; another firm – already at full capacity – will add cobots (or collaborative robots) to increase throughput. Likewise, staffing firms continued to report demand for new placements but limitations because of a lack of qualified candidates and difficulty retaining employees.

On balance, wage growth continued at a moderate pace. Nearly half of the nonmanufacturing contacts reported increases in wage and benefit costs. Most large firms reported modest, steady wage hikes, while some smaller firms appear to be catching up with wage hikes in excess of 3 percent. Staffing firms reported that resistance to raising starting wages softened further among their clients after years of holding wages steady.

Prices

Price increases remained modest for most firms, and the percentage of firms that reported increases was lower than in the prior period. Among nonmanufacturing firms, about one-fourth reported increases for prices paid and for prices received. Likewise, just one-fourth of the manufacturing firms reported increases in prices received for their own goods. For prices paid, less than half of the manufacturers noted increases – down from nearly two-thirds last period.

One firm noted significant pushback to its announced price hikes from a major retail customer. Other firms reported difficulty meeting the prices of foreign competitors who are not exposed to tariffs on the primary input commodities of their products.

Looking ahead six months, manufacturing firms continued to anticipate higher prices, with just over half expecting increases in prices paid and slightly under half expecting increases in prices received for their own goods.

Manufacturing

Manufacturing activity resumed a more moderate pace of growth – after dropping almost to its nonrecession average during the prior period. On balance, the firms

reported improvements primarily as an increase in new orders, while shipments remained about the same.

The makers of lumber products, paper products, chemicals, fabricated metal products, electronic machinery, and industrial machinery tended to note gains in new orders and shipments; the makers of primary metal products reported mixed results. Several key industrial suppliers believe their clients placed excessive orders to boost inventories in advance of tariffs and now expect that demand will be lower over the next six months to a year. The firms continued to note greater uncertainty owing to tariffs and the threat of tariffs.

On balance, manufacturing contacts continued to expect general activity to increase over the next six months, with half of the firms expecting future increases in new orders and shipments. The firms' outlook for future employment remained nearly the same, with just under 40 percent expecting increases. However, expectations of future capital expenditures fell further but remain above nonrecession averages.

Consumer Spending

Nonauto retailers reported strong back-to-school sales during August and modest growth for convenience goods in September and early October. While retailers generally credited the growing economy and strong consumer confidence, the strong August sales also benefited by comparison to weak sales in August 2017.

According to dealers, September year-over-year auto sales were up slightly in Pennsylvania and down modestly in New Jersey. Year-to-date sales remained very close to the high 2017 sales level. Dealers expressed ongoing concerns about rising interest rates and potential tariff impacts on new car prices.

On balance, tourism contacts continued to report modest growth. One contact reported very strong demand in the Poconos region despite bad weather and slightly higher gas prices – 2017 was a record year, and 2018 has been even better thus far. Shore activity has been mixed, with Delaware contacts noting strong traffic but weaker spending patterns. Meanwhile, Atlantic City casinos posted strong gains again during the month of August.

Nonfinancial Services

On balance, service-sector firms continued to report moderate growth in general activity. However, the percentage of firms reporting increased sales edged back to 50 percent, and the percentage reporting increased new orders dropped to 33 percent. One large service-sector

firm noted continued improvement in customer retention and on-time payments. Expectations of future growth broadened slightly, with two-thirds of the firms anticipating increased activity.

Financial Services

Financial firms continued to report modest growth in overall loan volumes on a year-over-year basis (excluding credit cards). During the current period, loan volumes grew at a slightly slower pace than during the same period last year. Volumes (reported without seasonal adjustments) grew moderately in mortgages, in autos, and in other consumer loans (not elsewhere classified). However, these gains were offset by slight declines in home equity lines and by modest declines in commercial real estate lending and in commercial and industrial lending.

Credit card lending also grew at a modest pace on a year-over-year basis. During the current period, credit card lending was flat because of seasonal factors.

Banking contacts continued to note rising competition for loans and bank deposits and noted concerns that credit standards were slipping. However, they cited no signs of credit quality deterioration.

Real Estate and Construction

On balance, homebuilders reported a slight improvement in September following weak activity at the end of August. Contacts reported less optimism for growth in 2019. Inventories of existing for-sale homes continued to fall and to constrain sales. Although a few local markets saw year-over-year increases, sales appear to have declined modestly overall.

Overall, rents remained strong in the slowly growing nonresidential real estate market, especially for offices and industrial warehouses. One firm reports that demand for industrial space continues to outstrip supply in southern New Jersey and the Lehigh Valley. Meanwhile, in Trenton, NJ, and Carlisle, PA, the local labor markets are struggling to supply sufficient labor to meet demand. Commercial contractors noted an uptick in labor hours for August and September, but large projects are winding down, and nonresidential construction activity is expected to wane over the next year. ■

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 grew modestly during the survey period and firms reported customer demand was stable. Reports suggest that hiring continued at about the same moderate pace as in recent months. Contacts reported ongoing shortages of both the quantity and quality of available labor and firms increased wages modestly to reduce worker turnover. Upward pressure on input costs was strong, notably for metals, construction materials, and fuel. Final selling prices increased as manufacturers, builders, and transportation firms raised their prices to cover their increased input costs. Manufacturing capacity utilization rose to keep up with strong demand. Freight demand plateaued at a high level and firms are increasingly feeling the pinch from limited trucking capacity. Retail demand, excluding autos, was flat. Nonresidential construction activity picked back up after a lull during the prior period.

Employment and Wages

District employers reported hiring activity that was broad-based across sectors and momentum that was similar to that in recent survey periods. Contacts generally reported business conditions that were favorable and stable as supporting their overall demand for workers. However, worker shortages, in terms of both quantity and quality, were noted across many sectors. One retailer remarked that the firm's headcount was unintentionally lower because it was losing warehouse workers faster than it can replace them. One trucking contact reported that it had 10 empty trucks because of its inability to find enough drivers with Class A commercial driver's licenses. Some manufacturers reported increases in overtime hours worked. In addition to limited labor supply, contacts noted that overall gains in staff levels were limited by high worker turnover.

Overall wage trends were comparable to those of recent survey periods, with many contacts reporting wage increases that were slightly above the rate of inflation. In every industry, contacts noted that increased competition was requiring their firms to boost wages to retain workers. Yet a number of contacts speculated the raises were not likely sufficient to stem worker turnover. There were

a few cases in which wage increases were much stronger than average. One retailer gave a 9 percent raise to new and current staff in the hope that the higher wage will reduce turnover. One construction contact reported taking a more targeted approach by giving 10 percent to 15 percent raises on a case-by-case basis; firm-wide, wages were raised by only about 2 percent. In professional services, contacts reported using bonuses and non-wage components to increase compensation.

Prices

Upward pressure on nonlabor input prices was strong, although prices rose for slightly fewer contacts than in the last report. Construction contacts reported increases in prices for LED lighting, concrete, steel, lumber, and copper. The majority of contacts attributed at least some of these increases to import tariffs. One trucking contact noted that prices for pallet jacks, tires, and packaging material were higher because of the tariffs. Only one construction contact noted that the diversion of materials for hurricane relief may have had an additional impact on prices. A few contacts remarked that the amount of time suppliers held their prices constant had diminished noticeably. In other sectors, higher fuel costs were reported.

Final selling prices rose with about the same momentum as in the prior period. Freight and construction firms were less aggressive in raising their prices than in the previous survey period. Construction contacts commented that they were raising their prices enough to maintain their margins. By contrast, one builder remarked his firm was holding prices and offering more incentives and giveaways. Nearly two-thirds of manufacturing contacts raised their prices this period. This was the fifth consecutive reporting period wherein more than half of manufacturing contacts reported raising their prices. Service-sector industries reported relatively more modest price increases as firms attempted to cover rising worker compensation costs.

Consumer Spending

Retail demand was flat during this period, breaking a nearly year-long trend of improving demand. Expectations for the near-term were mixed: retailers of nondurable goods expect demand to pick back up in advance of the holiday season, but auto retailers expect demand to remain flat. Auto retailers noted that new vehicle sales have declined slightly because of rising interest rates and increased unit prices. As a result, buyers have shifted somewhat toward used vehicles. Retailers with broad footprints noted that sales within the Fourth District were roughly in line with national retail sales. Retail profit margins were generally unchanged and inventory levels were reported to be good.

Manufacturing

Manufacturing demand remained strong, and contacts cited strong economic fundamentals as the cause. Industrial equipment manufacturers reported strong demand from the automotive, agriculture, and construction equipment industries. Some steel and heavy equipment manufacturers noted that demand was down slightly compared with demand two months earlier, but it was particularly strong in the early summer months as customers sped up purchases ahead of anticipated price increases. Several contacts reported increased capacity utilization to keep up with strong demand, while long lead times and tariff-related gaps in supply chains have caused mismatches in inventories. Contacts reported that they have increased their capital expenditures to keep up with customer demand and to fill supply chain gaps left by suppliers' capacity constraints.

Real Estate and Construction

Homebuilders reported that demand fell modestly, but they do not expect demand to fall further in the near future. Homebuilders point to a decrease in home affordability as the primary driver of this demand decrease.

Lower-priced homes are selling better than more expensive homes. Builders are reducing the number of spec homes they are building. Real estate contacts reported an increase in homeowners relative to renters. These contacts also reported stable housing inventory and consistent demand from first-time homebuyers.

Nonresidential builders reported a pickup in demand after a lull during the prior period. Demand growth was driven by private spending; demand from the public side was still low. Builders note that backlogs are still high and pointing to strength in the broader economy, and they expect growth to continue in the near term. Nonresidential construction prices are rising as builders pass through increasing materials costs, especially for metals, but builders are not increasing their margins.

Financial Services

Bankers reported that overall conditions held steady during the last two months. Some contacts reported that demand for commercial and industrial loans softened as businesses shifted to cash earned in the strong economy while another noted increased activity in commercial real estate and in mergers and acquisitions. Mortgage demand and core deposits were a bit stronger than the previous survey period, but contacts noted that this strengthening may be a seasonal trend. Delinquency rates remained low; one contact reported that the delinquency rate was at a record low, suggesting that financial conditions are strong.

Nonfinancial Services

Nonfinancial services firms reported stronger demand as the macro economy continued its ascent. Business advisory and IT firms attributed the favorable business conditions to their clients enjoying tax savings, higher revenues, strong business confidence, and increased budgets for digital transformation. Contacts reported that plans for capital investments held steady. In the transportation sector, demand plateaued at a high level. Contacts reported that limited freight capacity continues to hamstring growth in the industry. One trucking contact noticed growing discontent among members along the food supply chain, from grain producers all the way to restaurants, about the limited availability of trucks to transport their goods. This contact also noted that these firms were all planning to pass rising transportation costs through to their customers in a variety of ways. ■

For more information about District economic conditions visit:
www.clevelandfed.org/region/



Summary of Economic Activity

Since our previous report, the Fifth District economy expanded at a moderate rate. On balance, manufacturing activity expanded moderately; however, rising materials costs and some hurricane-related disruptions were reported. Imports increased and exports declined but some Fifth District ports sustained property damage due to Hurricane Florence. Trucking activity remained robust despite highway and service center closures in hurricane-affected areas. Tourism and business travel also fell due to Hurricane Florence, as many travelers canceled bookings and coastal areas were evacuated. Farm animals were killed and crops were damaged by Hurricane Florence and by rainy weather, in general. Residential and commercial real estate activity picked up modestly. At the same time, loan demand picked up. Meanwhile, demand for nonfinancial services rose at a moderate pace. Labor demand strengthened and job openings increased while wage increases remained temperate. In general, prices continued to grow at a moderate rate.

Employment and Wages

The demand for labor strengthened moderately in recent weeks, and employment agencies reported a pick-up in new job openings. Meanwhile, employers continued to report very tight labor markets and difficulties finding qualified workers. Staffing firms saw stronger demand, particularly for customer service representatives and human resource professionals. Additionally, firms reported a need for more construction workers, engineers, IT professionals, accounting and finance professionals, plant workers, mechanics, and truckers. Wage increases remained modest.

Prices

Overall, prices continued to grow moderately in recent weeks. According to our latest surveys, manufacturer's selling prices grew at a moderate rate while their input prices rose at a slightly faster rate. Specifically, contacts reported price increases for packaging materials, paper, steel, aluminum, resin, and concrete. Additionally, a food manufacturer saw higher prices for poultry and eggs. Service sector firms reported moderate price growth in prices paid and prices received. Shipping costs continued to increase, according to firms in both manufacturing and services sectors. Coal prices rose slightly in recent

weeks while natural gas prices increased at a moderate rate.

Manufacturing

Fifth District manufacturing activity increased moderately in recent weeks. A North Carolina fabric producer reported robust demand, and a Virginia window manufacturer attributed strong sales to high consumer confidence. However, many manufacturers struggled with rising costs of raw materials, some of which was attributed to the recent tariffs. A Virginia display case manufacturer looked to import materials from countries other than China. Several firms reported negative impacts from Hurricane Florence, which included lost production time, reduced demand, and/or larger backlogs. One firm said they could make up the production deficit with overtime, but it was going to be more expensive.

Ports and Transportation

Fifth District ports saw mixed conditions in recent weeks. Some ports suffered losses from Hurricane Florence in the form of closures, property damage, and storm preparation costs. Overall, imports remained strong while exports decreased modestly. Port contacts attributed some of the export decline to the recent tariffs on American goods and believed that imports remained strong

because orders were placed early, in anticipation of tariff increases. Meanwhile, a South Carolina airport reported booming business, unaffected by storms or tariffs, as both passenger and cargo flights continued to grow.

Trucking activity remained robust since our last report. Demand stayed strong and companies continued to turn down business because of a lack of drivers. One North Carolina trucking company invested in new service centers to help with business growth, but another worried about rising costs of equipment. District truckers did see some effects from Hurricane Florence, largely coming from highway and service center closures as well as additional costs associated with protecting equipment.

Retail, Travel, and Tourism

Reports on tourism were mixed since our last report, as Hurricane Florence discouraged people from visiting parts of the Fifth District. In Charleston, South Carolina, hotel occupancy fell significantly, and many hotels and restaurants closed as employees evacuated the area. In Asheville, North Carolina, hotels faced high levels of cancellations and local attractions lost business because of the hurricane. However, tourism in areas not affected by Florence was healthy. For example, a West Virginia resort reported strong business growth and high bookings for the coming months.

Fifth District retailers reported modest activity in recent weeks. A South Carolina auto dealer reported a slight uptick in business despite a downturn in sales at other local dealerships. Many stores saw sales growth and expected it to continue through the end of the year. However, retailers also expressed concerns about rising costs, some of which were attributed to the recent tariffs, and their inability to pass the cost increase through to customers.

Real Estate and Construction

Residential real estate firms indicated modest growth, overall. Home sales rose modestly in recent weeks and buyer traffic was steady, although low levels of inventory persisted. District home prices increased slightly, while days on the market were generally unchanged at low levels. Meanwhile, residential construction reportedly picked up in the District of Columbia, Virginia, South Carolina, and Maryland. Builders reported strong backlogs, although speculative construction remained limited.

Commercial real estate leasing rose modestly in recent weeks. District brokers reported increased demand for

restaurant, grocery, and industrial space, while retail activity was stable to increasing. Office leasing varied across the District. A North Carolina broker stated that urban office space is in high demand, leading to new construction and conversions. Meanwhile, vacancy rates decreased slightly across all sub-markets, and contacts reported that limited inventory pushed rental rates up slightly. On the commercial sales side, brokers reported modest increases in prices and sales. Multifamily leasing remained healthy, although reports on construction activity varied across the District.

Banking and Finance

Overall, loan demand rose moderately in recent weeks. Residential mortgage demand was generally described as stable to increasing modestly. On the commercial side, real estate loan demand strengthened moderately. Business loan demand increased slightly, on balance, while automotive lending was reportedly flat. Bankers in Virginia and the District of Columbia reported increased C&I lending in recent weeks. A West Virginia banker saw higher than normal deposit growth and an uptick in loan demand in oil and gas areas of the state and a leveling off in demand elsewhere. Deposits grew moderately since our last report and contacts continued to report increased rate competition among banks. Credit quality remained stable at high levels.

Nonfinancial Services

The demand for nonfinancial services grew moderately in recent weeks. An accounting firm reported stronger demand, particularly from clients in the professional services, information, and manufacturing sectors. One firm attributed their increased business to a newly awarded federal contract while another firm saw more bid opportunities. Meanwhile, healthcare service providers continued to report strong business conditions.

Agriculture and Natural Resources

Natural gas production increased slightly in recent weeks while coal production was little changed. Farmers in North Carolina lost crops and livestock to flooding from Hurricane Florence. A farmer in South Carolina who was not directly affected by the hurricane, but had a lot of rain since, was at risk of losing some crops. ■

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



Summary of Economic Activity

Reports from Sixth District business contacts indicated that economic activity expanded at a moderate pace from mid-August through September, and most expect the pace to continue through the last quarter of the year. The labor market remained tight, and reports of wage pressures increased. Firms continued to note increasing nonlabor costs and a growing number of contacts reported the ability to pass along those increases. Retailers, including automobile dealers, cited slightly higher sales since the previous report. Tourism activity exceeded expectations. Contacts reported that residential real estate market activity expanded at a modest pace, and commercial real estate activity was robust. Manufacturing activity was solid with purchasing managers noting increased new orders and production since the previous report. Bankers cited that activity was healthy, on balance.

Employment and Wages

While business contacts across the District reported increasing staffing levels, firms continued to cite that tightening labor markets, particularly among low-skill/hourly jobs, were restraining business activity. Constraints to growth were especially acute in construction, transportation, and manufacturing; while some contacts in food services also indicated turning down new business, reducing shifts, or occasional fast food store closures. Contrastingly, contacts continued to note that technological advances in agricultural, financial, and manufacturing processes had reduced the number of workers needed.

A growing number of firms over the reporting period experienced an uptick in merit increases for workers; several contacts reported average merit raises in the 3 to 3.5 percent range. Many continued to mention that rising labor costs were a challenge, leading some firms to expand their geographical search for workers, relocate operations to lower cost labor markets, outsource work domestically and/or abroad, or “wait it out” by not filling certain positions.

Prices

Firms across the District continued to report rising nonlabor input costs, with some ability to pass along price increases. As noted in the previous report, anticipation of rising costs related to tariffs contributed to vendor price

increases for commodities. The Atlanta Fed's Business Inflation Expectations survey showed year-over-year unit costs were up 2.0 percent in September. Survey respondents indicated they expect unit costs to rise 2.2 percent over the next twelve months.

Consumer Spending and Tourism

District retailers reported a slight increase in sales levels since the last report. Some contacts noted that tourist related retail sales were stronger than expected over the last two months. Automotive dealers reported an uptick in the level of sales of small SUVs and light trucks in September compared to a year ago.

Tourism and hospitality contacts in the District reported higher than expected tourism activity since the previous report. Hotel occupancy and average daily rates were higher than expected in tourist destination cities in Florida, Georgia, and Louisiana. Year-to-date Mississippi casino gaming revenue increased compared to the same time period last year. District contacts remain optimistic about activity in the fourth quarter.

Construction and Real Estate

On balance, reports from District residential real estate contacts indicated decelerating, but still positive, growth. Many builders reported that construction activity was up from the year-ago level. Lot and land availability remain constraints on building activity, but contacts noted that land costs have plateaued. Contacts characterized buyer

traffic as steady, but with a low rate of conversion to sales. District builders expect home sales activity to remain at current levels for the next few months.

Many District commercial real estate contacts noted continued strong demand. The majority of commercial contractors indicated that, on balance, the pace of non-residential construction at least matched the year-ago level. Most contacts reported a healthy pipeline of activity. Industrial contacts noted that backlogs were steady rather than growing and retail contacts described activity as stable. Contacts expressed concern that material price uncertainty presents an ongoing challenge to bidding and fulfilling projects. The outlook for nonresidential and multifamily construction across the District remained positive though uncertain, with the majority of contacts anticipating activity to match or exceed the current level.

Manufacturing

Manufacturing firms reported that overall business activity was solid since the previous report. Most contacts indicated that new orders and production levels were increasing at a healthy pace. Purchasing managers cited extended delivery times for supply orders and continued upward pressure on input prices. Expectations for future production levels increased slightly from the previous period, with a little more than one-third of contacts expecting higher production over the next six months.

Transportation

On balance, transportation activity across the District was little changed since the previous report. District ports continued to report considerable growth in freight. District railroads noted year-over-year increases in total traffic, led by substantial increases in the volumes of petroleum and petroleum products, pulp and paper products, aggregates and metallic ores; these increases were partially offset by declines in non-metallic minerals (including phosphates) and coke. Year to date, total railroad activity was up slightly over last year. Freight forwarders reported significant capital investments in facilities, aircrafts, and fleets as capacity constraints mounted due to steady increases in domestic and international volume. While noting some challenges, transportation contacts indicated no significant disruptions in the movement of freight as a result of changes in trade policy.

Banking and Finance

Conditions at financial institutions remained healthy. Earnings continued to grow as higher interest rates drove improvement in net interest margins. Credit quality metrics remained positive with charge-offs and nonaccruals still at historic lows. However, financial institutions were reportedly starting to loosen underwriting standards

due to slowing demand for credit and increased competition. Contacts indicated that financial institutions were relying more on borrowings and noncore deposits to fund asset growth. In addition, competition for core deposits was fueling an increase in mergers and acquisitions.

Energy

Onshore crude oil and natural gas production continued to accelerate, spurring exports of both products from Gulf Coast terminals. Refinery utilization rates remained high and stable from the previous reporting period. Utilities contacts reported that while residential and commercial demand for power was flat to slightly down, industrial demand was strong. Regarding recently imposed tariffs, many energy contacts shared that their businesses had responded by reorganizing supply chains. Technological advancement in areas such as robotics and global monitoring of control centers and pipelines continued to enhance efficiencies for the District's energy sector. Contacts continued to point out that business growth was constrained by inadequate supply of truck drivers and highly specialized tradespeople.

Agriculture

Agriculture conditions across the District remained mixed. By late September, most of the District was drought-free. District corn, soybean, cotton, and peanut harvests were close to their five-year averages although by late September, significant rain in Tennessee resulted in some crop damage and delays in harvesting. Year-over-year prices paid to farmers in August were up for corn, cotton, rice, and eggs, while soybean, beef, and broiler prices were down. Contacts remained concerned about tariffs and trade conflicts although there was some optimism concerning the newly agreed upon United States-Mexico-Canada Agreement. Recent reports indicated cropland values in the District rose from 2017 to 2018 with the exception of Florida where cropland values were flat. ■

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 slowed to a modest pace in late August and September, and contacts expected it to continue at that pace over the next 6 to 12 months. Manufacturing production and employment grew moderately, consumer and business spending increased modestly, and construction and real estate activity was flat. Wages and prices rose modestly and financial conditions were little changed. Greater-than-usual precipitation slowed the agricultural harvest and reduced the quantity and quality of crops.

Employment and Wages

Employment growth continued at a moderate pace over the reporting period, though contacts expected gains to slow to a modest rate over the next 6 to 12 months. Hiring was focused on production, sales, and professional and technical workers. As they have for some time, contacts indicated that the labor market was tight and that they had difficulty filling positions at all skill levels. Residential and commercial construction contacts said that a lack of workers was slowing the completion of projects: One contact reported a delay of 6 weeks because they couldn't find an elevator installer. Most contacts indicated that increased US and foreign tariffs had not affected their employment levels. Wage growth remained modest overall, with wage increases most likely for managerial, professional and technical, and administrative workers. In addition, numerous manufacturing contacts reported raising wages for entry-level production workers. Many firms reported rising benefits costs, though the number of firms reporting such increases declined from the previous reporting period.

Prices

Prices rose modestly in late August and September, and contacts expected prices to continue to increase at that rate over the next 6 to 12 months. Retail prices increased slightly overall, though prices of groceries were

flat. Retail contacts across numerous sectors indicated that they expected consumers to see the impact of US tariffs on imports by early 2019. Producer prices again rose moderately, reflecting in part the pass-through of higher labor, materials, energy, and freight costs.

Consumer Spending

Consumer spending increased modestly over the reporting period. Nonauto retail sales rose moderately, with gains in the furniture, appliances, hardware, electronics, apparel, hardware, lawn and garden, and hobby sectors, and slight declines in the grocery and jewelry sectors. Contacts in western Michigan reported rising hotel occupancy rates and airport traffic. Overall, respondents were pleased with back-to-school sales and expected good holiday season results as well. The rates of both new and used vehicles sales were unchanged on balance. Leasing activity slowed some.

Business Spending

Business spending increased modestly in late August and September. Retail contacts indicated that inventories were generally at comfortable levels. One contact noted that retailers were expecting good holiday sales and were building up inventories accordingly. Most manufacturing contacts also said stocks were at comfortable levels, though some indicated that inventories were too low as a result of longer lead times for materials. In

addition, stocks at steel service centers remained well below historical norms. 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. Most contacts indicated that higher US and foreign tariffs had not affected their capital spending schedules; among those who had reacted to tariffs, more said that they were slowing spending than increasing it. In addition, some contacts indicated that they were delaying capital spending decisions until the outcomes of trade negotiations were more clear. Demand for energy from commercial and industrial users increased modestly, with growth led by the manufacturing sector. Demand for transportation services remained at a strong level.

Construction and Real Estate

Construction and real estate activity was little changed on balance over the reporting period. Residential construction was flat, with growth in suburban single-family homebuilding offset by declines in other markets. Homebuilders reported that rising labor and materials costs continued to slow activity. Home sales declined slightly on balance. Contacts indicated that low inventories of starter homes continued to hold back sales, and there were some concerns that rising interest rates were also putting a damper on demand. Home prices and residential rents increased slightly. Nonresidential construction ticked higher, with contacts highlighting growth in the office-building sector. Nonresidential construction contacts also reported that rising labor and materials costs were slowing growth. Commercial real estate activity increased slightly on top of an already strong level, with reports of increased demand for for-sale industrial properties. Commercial rents ticked higher, and vacancy rates and the availability of sublease space edged lower.

Manufacturing

Manufacturing production increased at a moderate rate in late August and September. Steel output increased moderately, led by strong growth in demand from the energy sector. Steel imports continued to decline. Demand for heavy machinery rose moderately, with growth coming from the construction and energy sectors. Demand for heavy trucks increased slightly from an already strong level. Overall, order books for specialty metals manufacturers increased modestly; growth was spread across a wide variety of sectors, but was particularly strong from the oil and gas sector. Manufacturers of

construction materials continued to report slow but steady increases in shipments. Auto production was flat, but remained at a solid level.

Banking and Finance

Financial conditions were little changed over the reporting period, which was prior to the recent increase in volatility in the stock market. Financial market participants reported steady securities prices and volatility. Business loan demand was flat overall, though contacts reported higher demand from the manufacturing, healthcare, and warehousing sectors. Competition was particularly strong for small business loans. Loan quality and lending standards were little changed. Consumer loan demand was flat overall, though contacts reported a slight increase in demand for mortgage loans. Loan quality and lending standards edged up.

Agriculture

Greater-than-usual precipitation slowed the harvest and reduced the quantity and quality of crops, and expectations for net crop income fell accordingly. While expectations for yields were lower than in the prior reporting period, it was still likely that they would reach record levels. Contacts reported a notable drop in Chinese purchases of US soybeans following an increase in Chinese tariffs. Farmers also faced higher transportation costs due to rail issues, a shortage of truck drivers, and complications in shifting export destinations away from China. Contacts expected the record yields and weak export demand to push crop storage to abnormally high levels. Hog and dairy prices recovered some, boosted in part by US government purchases that were part of a program to compensate farmers for losses from higher foreign tariffs. Even so, dairy farmers continued to struggle. In addition, contacts viewed gains from the new US-Mexico-Canada Agreement as too small and too far in the future to help dairy farmers. Moreover, Canada and Mexico maintained their tariffs on agricultural goods (including pork and dairy) that they imposed in response to US steel and aluminum tariffs. ■

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



Summary of Economic Activity

Economic conditions in the District have improved slightly since our previous report. Firms reported slight increases in employment and modest growth in wages. Price pressures have increased modestly primarily due to higher transportation costs. Reports from consumer spending contacts remained mixed. Manufacturers reported modest growth with increases in production and new orders. Residential real estate activity improved slightly while construction activity declined slightly. Commercial real estate markets were somewhat weaker than in previous reports. District bankers reported that loan volumes remain healthy but the rate of growth continues to slow. Agriculture and natural resources conditions have improved slightly since the previous report.

Employment and Wages

Employment has increased slightly since the previous report. Manufacturing employment grew modestly. Contacts in Arkansas reported slight growth while contacts in Missouri reported modest growth. Transportation employment also increased, as multiple distribution centers announced expansions. However, firms continued to report challenges attracting workers. Contacts in Memphis and Arkansas in particular noted difficulties filling high-wage, technical positions. Firms continued to use a variety of strategies, such as business partnerships and non-wage benefits, to recruit employees. One contact reported the launch of programs that teach foreign-born workers English to prepare them for jobs in the medical field and in manufacturing.

Wages have increased modestly since the previous report. Multiple contacts reported wage increases for entry-level workers. Furthermore, wages grew in manufacturing and trucking sectors and were generally flat in the hospitality sector. Wages for small business in St. Louis rose slightly.

Prices

Price pressures have increased modestly since the previous report. Business contacts across the District reported moderate growth in fuel costs, contributing to

rising trucking and transportation costs. A Louisville contact noted seeing an increase in rail prices. Coal prices in the region have increased moderately. Meanwhile, steel prices decreased slightly but remain elevated compared with a year ago.

Agricultural commodity prices were mixed. Prices for cotton and rice have decreased slightly since the previous report while still remaining slightly above their price last year. Corn and soybean prices have increased slightly since the end of August. Wheat prices showed next to no change over the same time frame, but are up 25 percent from last year.

Consumer Spending

Reports from general retailers, auto dealers, and hoteliers indicate mixed consumer spending activity. Real sales tax collections increased in Arkansas, Tennessee, and Kentucky relative to a year ago and decreased in Missouri. Louisville auto dealers reported that sales decreased year over year, and they indicate that higher interest rates may be affecting their business. Hospitality contacts in Missouri reported that sales were lower compared with the same time last year. They also expressed a pessimistic outlook for the remainder of 2018. Arkansas tourism sales tax revenue slightly increased year over year.

Manufacturing

Manufacturing activity has increased modestly since our previous report. Survey-based indexes indicate that Arkansas and Missouri manufacturing activity continued to expand from August to September but at a slower pace than in the prior month. New orders and production also increased in both states. Several firms across a variety of industries reported facility expansion and hiring plans, including manufacturers of paper products, automotive parts, and primary metals.

Nonfinancial Services

Activity in the service sector has improved modestly since the previous report. The number of posted vacancies for nonfinancial services occupations increased in September in Louisville, Memphis, and St. Louis. The transportation sector continues to exhibit strong growth with higher demand for rail traffic and increased investment in delivery and fulfillment centers. However, growth is somewhat constrained by increased freight and fuel costs. The trucking industry's shortage in drivers is further compounded by limitations on driving hours for current drivers. Firms in the healthcare industry are reporting higher demand for services and increased investment in hospitals.

Real Estate and Construction

Residential real estate activity has improved slightly since the previous report. Seasonally adjusted home sales for August were mixed across the District's four largest MSAs but were relatively flat overall. Inventory levels remained low.

Residential construction activity has declined slightly since the previous report. August permit activity decreased modestly across the District's MSAs. However, St. Louis builders reported an optimistic outlook for the rest of the year because of robust demand for single-family homes.

Commercial real estate activity has declined slightly since the previous report. Louisville contacts reported decreased activity in office and retail property markets, and they noted that demand for office space has been relatively stagnant.

Commercial construction activity has decreased slightly since the previous report. August multifamily permits were unchanged relative to the previous month in most of the District's MSAs. However, Louisville contacts reported a robust level of new construction underway for multifamily property types. They also indicated that there is a lack of new construction projects for warehouses.

Banking and Finance

Banking conditions in the District have improved moderately since the previous report. According to a survey of small and mid-sized banks, outstanding loan volumes grew by 6 percent in the third quarter relative to a year ago, which is a slight decrease from the growth rate reported in the prior quarter. District loan growth has now slowed in seven straight quarters but remains above the national rate. Commercial and industrial lending continued to be robust, growing by 11 percent from one year ago. In contrast, residential real estate lending remained slow and lagged behind that of the nation for the third consecutive quarter. Bankers continued to report slow growth in deposits growth.

Agriculture and Natural Resources

District agriculture conditions improved slightly compared with previous reports. Production and yield forecasts increased from August to September for corn and soybeans. Expected production levels also improved for cotton and rice during the same period, but yield forecasts decreased. Relative to 2017, District corn, cotton, and soybean yields are expected to increase, but rice yields are projected to decline. Production levels of all four crops are expected to be greater than those from last year.

Natural resource extraction conditions declined slightly from July to August, with seasonally adjusted coal production decreasing 0.6 percent. August coal production was 1.4 percent higher than a year ago. ■

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



Summary of Economic Activity

The Ninth District economy grew moderately overall since the last report. Employment grew moderately, with strong hiring demand but tight labor supply. Wage and price pressures were both moderate. The District economy showed growth in manufacturing, real estate, residential construction, professional services, consumer spending, and tourism. But commercial construction and energy slowed, and agriculture remained weak.

Employment and Wages

Employment grew moderately since the last report despite continued labor constraints. Hiring demand was robust. Ad hoc surveys of human resources professionals in Minnesota and Montana, conducted by the Minneapolis Fed in mid-September, found that a large majority of respondents' firms were currently hiring; roughly 40 percent said their firms were hiring both to add headcount and to replace worker turnover. Data from state workforce centers showed that job postings were up 9 percent across Ninth District states. Job tracking by a Minnesota trade group also showed strong growth in STEM jobs in September compared with a year earlier. Seasonal hiring was also beginning, with several announcements of major hiring, including 1,700 workers across the Minneapolis-St. Paul metro for a transportation firm. However, tight labor supply restrained overall hiring. In Montana and Minnesota, the number of job openings at workforce centers in August outnumbered those seeking work by a roughly two-to-one margin. Over the most recent six-week period (through late September), initial unemployment claims in the District dropped by 10 percent over the comparable 2017 period, and continuing claims were 12 percent lower. However, an external survey of fourth quarter hiring expectations was notably softer, but still positive, for District states, and the percentage of employers expecting to increase staff levels fell virtually across the board compared with last quarter and last year.

Wage pressures were moderate since the last report. The aforementioned survey of human resources professionals found that 40 percent of Minnesota respondents reported wage growth of 3 percent or more at their firms over the past 12 months, while 25 percent of Montana firms responded similarly. Wage expectations in both states for the coming 12 months were slightly higher. A general business survey, conducted by the Minneapolis Fed in October, found that a strong majority of firms raised wages relative to a year earlier, and future increases were also expected. South Dakota retailers reported only modest wage increases despite reports of very tight labor. Two Minnesota sources also reported that higher wages have allowed some workers to cut back on hours worked.

Prices

Price pressures increased moderately relative to the previous report. A Minneapolis Fed business survey indicated that firms had increased prices in the third quarter relative to a year ago; two-thirds planned price increases in the last quarter of 2018. In a separate survey, 60 percent of South Dakota retailers indicated that customer prices rose by less than 2 percent but that wholesale price increases were larger. Retail fuel prices in District states as of early October were moderately higher than a month earlier. Numerous manufacturers reported that rising prices for certain raw material inputs due to trade conflicts were partially passing through to

final output prices. Prices received by farmers for corn, wheat, hay, and eggs increased in August compared with a year earlier; prices for soybeans, hogs, cattle, milk, and turkeys decreased.

Consumer Spending and Tourism

Consumer spending grew moderately since the last report. Growing activity in the Bakken oil region was again spilling into higher retail sales in the region and state; North Dakota sales tax collections were 26 percent higher than anticipated in August. However, retailers in South Dakota reported sluggish late summer sales into September. Tourism activity also grew. A survey of Minnesota lodging properties described a “strong” summer, with about 50 percent of respondents seeing higher revenue compared with about 25 percent that saw lower revenue. Expectations for fourth quarter tourism were positive, but more modest. Minnesota hotel demand in August increased by 3 percent over a year earlier; occupancy rates were unchanged, but increases were seen in average daily rates and revenue per available room. However, a late-summer drop in national park visitors suggested some slowness in Montana and South Dakota, which hold a majority of the District’s larger national parks. Visits to the District’s northeastern region saw healthy increases.

Professional Services

Activity in the professional services industry increased moderately since the last report. Several contacts in insurance and financial services indicated that demand was up moderately. A construction engineering firm was expanding in Minnesota and the Dakotas. Contacts in agricultural transportation reported that the year through September had been strong, but there was much more uncertainty heading into a new marketing year.

Construction and Real Estate

Commercial construction activity contracted slightly since the last report. Industry data suggested that commercial construction was down in August across much of the District compared with a year earlier. Other industry data showed that both new projects and total active construction projects near the end of September were modestly lower than at this time last year. Commercial permitting in September was mixed among the District’s larger markets. Residential construction activity was moderately higher. September single-family permitting was higher in a majority of District metros compared with a year earlier, and some locations continued to see strong multifamily permitting, including Rochester, Minn.

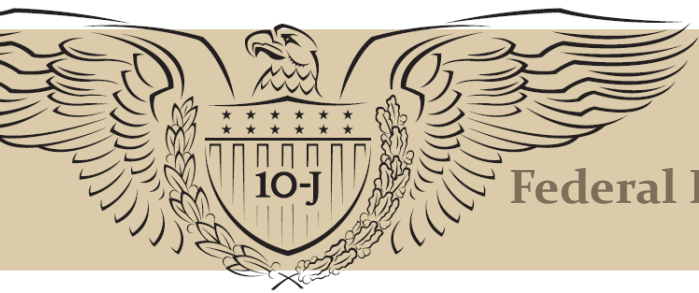
Commercial real estate saw modest growth since the last report. In Minneapolis-St. Paul, demand for industrial space continued to show strength, with vacancy rates falling slightly from already low levels and despite significant new construction. Office vacancy rates and asking rents were generally stable there as well, while sales of office space have been trending upward and were expected to continue to rise in the fourth quarter. Despite a strong increase in new units, multifamily vacancy rates in Minneapolis-St. Paul remained low. Apartment occupancy rates were also strong in western North Dakota, thanks to increased activity in the Bakken oil region. Residential real estate activity fell. Closed sales in September were lower compared with a year earlier in many of the District’s larger markets.

Manufacturing

District manufacturing activity increased slightly. An index of manufacturing conditions indicated increased activity in September compared with a month earlier in Minnesota and North Dakota; the index for South Dakota indicated flat activity. Numerous manufacturers across the District reported strong output demand and production so far this year, but their outlook for the remainder of this year and for next was flat due to rising input costs and uncertainty over trade policy. A producer of industrial and mechanical equipment said recent demand and production were up moderately. A solar panel plant opened in Minnesota, and a producer of composite structural members was expanding a plant.

Agriculture, Energy, and Natural Resources

District agricultural conditions remained weak overall. Persistent rain in early fall delayed or slowed harvests in some areas. Very strong harvests were expected around the District, including potential record yields in some cases. However, commodity prices remained weak, and greater production was not expected to completely offset the negative impact of low prices on farm incomes. International demand for crops, particularly soybeans, has fallen dramatically, according to contacts. A producer of dry beans reported that a large regular annual order from European Union countries was cancelled due to tariffs. A substantial number of dairy operations have exited the business since the beginning of the year. District oil and gas exploration activity as of early October decreased slightly from the previous report. District iron ore mines were operating at capacity. Contacts in nonferrous mining described activity as up slightly. ■



Summary of Economic Activity

Economic activity in the Tenth District increased at a moderate pace in September and early October. Consumer spending rose moderately, with contacts in the retail, auto, and tourism sectors noting higher sales than the previous survey period. Manufacturing activity continued to grow moderately, while contacts in the wholesale trade, transportation, and professional and high-tech sectors reported strong sales. Residential real estate sales continued to decline moderately, and expectations were for additional declines due in part to seasonal factors and higher interest rates. Commercial real estate activity expanded modestly. Energy activity accelerated, especially for oil, and additional gains were anticipated. Despite higher livestock prices, the outlook for District farm income remained subdued due to low crop prices. District employment was mixed across industries, and the majority of respondents reported labor shortages for both entry-level and skilled positions. Wage growth accelerated, and strong wage growth was anticipated in the coming months. Price gains also picked up, although growth in input prices generally outpaced that of selling prices.

Employment and Wages

District employment was mixed across industries since the previous survey, but contacts from most sectors reported rising employee hours. Contacts in the retail trade, wholesale trade, real estate, and energy sectors noted increasing employment levels, while those in the auto sales, restaurant, and tourism sectors reported a decline. Employee hours declined modestly in the health services and restaurant sectors, but were steady-to-increasing for all other reporting industries. Employment levels and employee hours were expected to rise modestly in the months ahead.

The majority of respondents noted labor shortages for both entry-level and skilled positions, including shortages for retail sales, kitchen staff, specialized IT, commercial drivers and skilled mechanics. Wage growth accelerated since the previous survey, with wages rising moderately in most sectors and strong growth anticipated in the coming months.

Prices

Input prices were moderately higher in September and early October, and selling prices rose modestly. In the retail sector, input and selling prices increased robustly compared to both the previous survey period and year-ago levels, and expectations were for similar gains in the months ahead. Restaurant contacts noted slight gains in

selling and input prices since the previous survey period, but both were strongly above year-ago levels. Input prices rose strongly in the transportation sector, while selling prices increased modestly. Manufacturers reported modest price growth for finished products and moderately higher prices for raw materials. Most manufacturing contacts continued to note that recent trade developments had led to higher input prices. Respondents in the restaurant, transportation, and manufacturing sectors expected moderate growth in selling and input prices in the months ahead.

Consumer Spending

Consumer spending rose moderately, led by gains in retail sales, and contacts expected slight increases in the coming months. Retail sales expanded robustly compared to the previous survey period, and contacts anticipated sales to grow at a modest pace in the months ahead. Respondents noted household furniture sold well, while higher-priced items sold poorly. Auto sales continued to grow modestly, and contacts expected both sales and inventories to rise moderately in the coming months. Restaurant sales fell modestly compared to the previous survey period, but remained well above year-ago levels. Restaurant contacts anticipated sales to decline slightly in the next few months. Tourism sales increased slightly, however contacts projected a slight decline in the months ahead.

Manufacturing and Other Business Activity

Manufacturing activity continued to expand at a moderate pace, and other business contacts experienced strong sales growth. Factory activity grew at durable goods plants due to increases in nonmetallic minerals, metals, and electronics, while nondurable plant activity slowed slightly. The level of production, shipments, and new orders increased slightly over the survey period, and each remained higher than year-ago levels. Manufacturers expected moderate increases in capital expenditures in the coming months. Many manufacturing respondents noted savings due to federal tax cuts, but a majority of respondents also noted negative impacts from tariffs, primarily due to higher input prices.

Outside of manufacturing, firms in the wholesale trade, transportation, and professional and high-tech sectors reported strong sales with expectations for continued growth in the months ahead. Professional and high-tech firms anticipated capital expenditures to increase slightly moving forward, while wholesale trade firms expected capital spending to decrease slightly. Transportation contacts expected a modest increase in capital spending in the coming months, with some contacts attributing this increase to recent federal tax cuts.

Real Estate and Construction

Overall District real estate activity remained mixed as residential real estate activity declined modestly while commercial real estate activity rose modestly. Residential home sales continued to fall moderately, and selling prices and inventories of unsold homes grew modestly. Respondents expected additional decreases in residential sales moving forward, citing seasonal factors and rising interest rates. Sales of low- and medium-priced homes continued to outpace sales of higher-priced homes. Residential construction activity strengthened slightly since the previous survey period, and construction supply contacts expected sales to expand further in the months ahead. Activity in the commercial real estate sector continued to increase at a modest pace as sales, absorption, completions, and prices rose. However, a majority of respondents reported higher commercial vacancy rates for the first time since the end of 2016.

Banking

Bankers reported a modest increase in overall loan demand in September and early October. Respondents reported a modest increase for commercial and industrial loans and a slight increase for commercial real estate and agricultural loans. Bankers indicated a slight decrease for consumer installment loans, while the volume of residential real estate loans remained steady. Loan quality improved modestly compared to a year ago, and respondents expected loan quality to improve slightly over the next six months. Credit standards remained largely unchanged in all major loan categories. Overall, bankers reported a slight increase in deposit levels.

Energy

District energy activity accelerated since the last survey period, and contacts expected additional growth moving forward. The number of active oil rigs increased slightly, while the number of active gas rigs inched down. Oil prices rose, recovering somewhat after a slight dip last month. The majority of contacts have not been affected by price differentials between WTI Midland and Cushing, although some contacts noted a slight negative impact on oil production. Despite a glut of natural gas, contacts did not expect production to slow given the construction of additional pipelines which should increase future supply capacity. Increased U.S. exports of liquefied natural gas was viewed positively by a majority of respondents.

Agriculture

The farm economy in the Tenth District remained weak as expectations of increased production contributed to a slight decline in corn and soybean prices since the previous reporting period. Corn and soybean production was expected to be strong in Nebraska, which could offset some adverse effects of low prices. Crop yields in Missouri, however, weakened considerably from a year ago and could further strain farm income. The price of wheat was down slightly from the previous reporting period, but remained higher than a year ago. In the livestock sector, the price of cattle increased slightly from the previous period, but remained lower than a year ago as inventories generally remained high. In contrast to the prices of other agricultural commodities in the District, hog prices increased sharply in September due to expectations of lower production and higher exports. ■

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



Summary of Economic Activity

Solid expansion continued in the Eleventh District economy. Manufacturing output increased robustly, although demand growth slowed from last period. Healthy growth continued in retail and nonfinancial services. Loan demand and volumes increased further, as did loan pricing. Home sales were flat to up over the past six weeks. Drilling activity was flat as limited pipeline and transportation capacity inhibited growth. Employment increased, and widespread labor shortages continued to pressure wages and even restrain business growth in some sectors. Price pressures stayed elevated, partly due to tariffs driving up input costs. Outlooks remained optimistic despite increased uncertainty stemming from trade disputes, rising interest rates, and labor constraints.

Employment and Wages

Widespread job growth continued across sectors. However, labor markets remained very tight, with most contacts reporting difficulty hiring and several saying the lack of qualified candidates was impeding growth. While labor shortages spanned most sectors and all skill levels, contacts reported the greatest prevalence in mid-skilled positions such as blue collar workers in manufacturing, construction, and energy, as well as truck drivers. Shortages were also cited for low-skill workers in the food service industry and high-skill workers in utilities, telecommunications, and business and financial services. A few contacts noted labor poaching was a real issue, especially energy sector firms reaching out to workers in manufacturing and retail. A staffing services contact voiced concern over an extreme shortage of qualified bilingual candidates, particularly for areas like customer service, call centers, accounting, and business development.

Upward wage pressure was generally pervasive and strong, according to contacts. Some businesses were implementing non-wage strategies to recruit and retain workers, such as giving sizeable signing bonuses, offering part-time and/or flexible work schedules, and keeping employees on the payroll during periods of slower business. Also, a staffing firm reported that employers were willing to accept candidates that met only 60 percent of

the qualifications rather than the usual 80 percent.

Prices

Price pressures remained elevated in part due to tariffs, particularly in manufacturing and retail. Among manufacturers, roughly 60 percent of contacts said the tariffs announced and/or implemented this year have resulted in increased input costs. The share was even higher among retailers, at 70 percent. Several contacts noted lower profit margins resulting from not being able to raise selling prices enough to offset the full cost hikes. Aside from tariffs, some services firms said they have raised their prices to offset wage increases. Construction contacts continued to report high and/or rising material costs. Oil and gas support services firms said input costs rose at a faster pace in the third quarter than in the second and at a faster pace than they were able to raise the prices they charge.

Manufacturing

Robust output growth continued in the manufacturing sector, although there were some signs that the expansion was moderating somewhat. Demand growth slowed in September, particularly for nondurables manufacturing such as chemicals. Labor constraints were reported as a damping factor, as were tariffs. In a September survey conducted by the Dallas Fed, nearly half of the 110 Texas manufacturing executives responding said the net

impact on their firm of the tariffs announced and/or implemented by the U.S. and other countries is negative, while 9 percent said the impact is positive. The most common tariff effects were increased uncertainty, rising costs, longer supplier delivery times, and reduced production. Even still, manufacturers reported positive business conditions overall, and outlooks remained optimistic.

Retail Sales

Retail sales at Texas stores continued to expand solidly during the reporting period, while companywide and online sales growth abated somewhat. Some contacts, particularly auto dealers, noted that tariffs are prompting uncertainty. A contact noted that an online retail competitor has driven some retailers to shift their business model to remain competitive, such as offering in-store pickups for online orders and price matching. Retail contacts were notably more optimistic in their outlooks than they have been all year.

Nonfinancial Services

The nonfinancial services sector continued to expand robustly, with revenue growth led by transportation services and administrative and support services. Revenue growth accelerated in professional, scientific, and technical services but remained lackluster in leisure and hospitality. Most staffing firms reported surging demand for their services over the reporting period, noting strength in all markets, both geographically and by industry. There was some concern about potential effects of rising interest rates, and roughly half of the 212 Texas general services firms responding to a recent Dallas Fed survey said tariffs were driving up uncertainty. However, outlooks were largely optimistic—even more so than during the last reporting cycle—and several contacts said they expect strong demand to keep up through yearend and into 2019.

Construction and Real Estate

Home sales were flat to up over the past six weeks, with continued strength noted at lower price points. Home prices were flat, and builders said it remained difficult to pass through notably higher construction costs. Rising interest rates and building costs were among top concerns in the single-family housing market. Apartment demand exceeded expectations in most major metros in Texas during the third quarter, pushing up occupancy and rents slightly.

Financial Services

Loan demand growth remained strong over the reporting period, while growth in actual loan volumes eased slightly. The deceleration was most pronounced for residential

real estate and commercial/industrial loan volumes, while consumer loan volumes actually grew at a faster pace over the past six weeks. Loan pricing continued to rise as did banks' cost of funds. Deposit volumes expanded, albeit at a slower pace, with many contacts reporting an increase in competition for deposits. Contacts continued to be optimistic about future economic activity and loan demand, however uncertainty in tariff and trade negotiations and a flattening yield curve were cited as top concerns.

Energy

Drilling activity in the Eleventh District was flat over the past six weeks as pipeline capacity constraints continued to put downward pressure on prices received by oil and gas operators in the Permian Basin. The lower prices and transportation constraints have restrained growth in rig counts and pushed down demand for some production-related oilfield services. Overall, outlooks remained positive as additional pipeline capacity is expected to be operational by late 2019 or 2020.

Agriculture

Drought conditions improved remarkably over the reporting period thanks to ample precipitation across much of the district. While increased soil moisture will be a boon to the winter wheat crop, the rain came too late to help the 2018 row crops for which yields are expected to be down notably from last year. In fact, wet fields have to some extent hampered the harvesting efforts underway and could potentially cause quality issues for cotton. On the livestock side, conditions remained favorable with rising cattle prices, lower feed costs, and strong demand for beef. ■

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 September through early October. Conditions in the labor market tightened noticeably, and wage pressures picked up. Price inflation increased moderately. Sales of retail goods picked up slightly, while activity in consumer and business services was solid. Activity in the manufacturing sector expanded moderately, and conditions in agriculture improved somewhat. Contacts reported that residential and commercial real estate market activity expanded at a strong pace. Lending activity picked up moderately.

Employment and Wages

Conditions in the labor market tightened noticeably, with contacts across the District experiencing continued hiring challenges due to labor shortages. Manufacturers in Oregon noted difficulty hiring entry-level production workers, and employment growth fell short of firms' expectations. Shortages of skilled loan officers limited hiring at several rural community banks. A contact in the California banking industry observed that an uptick in mergers resulted in a modest decline in employment as the banks involved resolved job redundancies. A major shipping and logistics business in Northern California reported strong employment growth due to recent and anticipated increases in demand for its services.

Wage growth picked up broadly. Contacts across the District noted continued upward compensation pressures for a variety of skilled occupations, including finance professionals, health-care providers, and business consultants. A contact in the retail industry raised starting wages in anticipation of intensifying labor shortages during the holiday season. A few contacts noted that some businesses increased benefits like vacation allowances and onetime bonuses rather than wages.

Prices

Price inflation increased moderately over the reporting period. Several contacts noted a moderate pickup in price growth for metal inputs due mostly to the continued

impact of tariffs. Rising energy costs resulted in pricing pressures for transportation services and petroleum-based inputs to construction and manufacturing. Final prices at quick service restaurants increased somewhat. A contact in the hospitality industry in Southern California reported that many hotels were passing along higher labor and input costs to guests in the form of one-off surcharges. Pricing pressures in the agriculture markets across the District were mixed, but flat on balance. Lumber prices continued to decline due to a softening in construction starts in some regions.

Retail Trade and Services

Sales of retail goods picked up slightly over the reporting period. Demand at home improvement stores increased moderately, although the building materials segment exhibited modest weakness. E-commerce retail sales grew somewhat, reflecting gains in consumer confidence. A major quick service restaurant chain based in Washington reported that in-store traffic was down slightly.

Activity in the consumer and business services sectors was solid. In Washington, demand for health-care services grew noticeably in urban areas, due in part to an increase in hiring at businesses with health benefits. A contact in the shipping and logistics industry noted an increase in demand for freight services, especially from small businesses. A contact in Southern California re-

ported an uptick in demand for technology consulting services. Contacts in the hospitality industry noted that hotel bookings for leisure guests were solid, and discretionary on-site spending grew. However, business reservations declined somewhat on a year-over-year basis.

Manufacturing

Activity in the manufacturing sector expanded moderately. Industry contacts reported that demand for construction equipment was solid, though producers were attentive to indications of a moderation in some real estate markets. Contacts in Northern California reported that sales of semiconductors were brisk, driven in part by strong global demand. Deliveries of commercial aircraft were essentially flat from the same period last year, while new orders grew noticeably.

Agriculture and Resource-Related Industries

Conditions in the agriculture sector improved somewhat, with crop yields generally beating expectations. However, most contacts reported that trade policy changes started to have a tangible impact on activity. Yields and profits for growers in Central California continued to be satisfactory, but inventories of certain exported crops increased after delivery schedules were delayed due to trade policy uncertainty. Forward contracts for heavily exported crops declined. Wheat and fruit growers in Washington observed a slight tick down in demand, which some attributed to growing trade tensions. A contact in Oregon noted that sales of raw lumber to large

building companies continued to decline at a gradual pace, while demand for processed wood products was solid.

Real Estate and Construction

Activity in real estate markets expanded at a strong pace. Overall, contacts reported that robust demand for housing outpaced the supply of homes, which continued to be constrained by shortages of labor and high material costs. In particular, inventory levels of more affordable homes remained low, while demand in this market segment picked up further, putting upward pressure on prices. Contacts noted that a further increase in mortgage rates had only a slight moderating impact on demand.

Commercial real estate activity was robust. Construction activity was solid, especially for industrial and warehouse spaces. A contact in Southern California noted that rents and occupancy rates increased. In Oregon, commercial activity expanded in rural areas with lower land costs and rents. Demand for retail spaces at malls declined somewhat, resulting in lower occupancy rates.

Financial Institutions

Lending activity picked up moderately over the reporting period. Loan demand increased overall. Profitability and net interest margins improved noticeably as increases to lending rates outpaced those for deposit rates. Credit quality continued to be strong. Contacts at credit unions reported an increase in membership. ■



