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Summary of Commentary on _____

Current Economic Conditions

By Federal Reserve District

January 2016

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICTS

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SUMMARY*

Reports from the twelve Federal Reserve Districts indicated that economic activity has expanded in nine of the Districts since the previous Beige Book report and contacts in Boston were described as upbeat. Meanwhile, New York and Kansas City described economic activity in their Districts as essentially flat. Atlanta and San Francisco characterized the growth in their Districts as moderate; Philadelphia, Cleveland, Richmond, Chicago, St. Louis, Minneapolis, and Dallas described their Districts' growth as modest. Contacts' outlooks for future growth remained mostly positive in Boston, Philadelphia, Atlanta, Chicago, Kansas City, and Dallas.

Growth of consumer spending ranged from slight to moderate in most Districts, while auto sales were somewhat mixed, as activity has begun to drop off from previously high levels in some Districts. Reports of tourism activity were also mixed.

Among the Districts that reported, nonfinancial services generally grew at a modest or moderate pace, although reports from staffing services and transportation services were somewhat mixed.

With the exception of motor vehicles and aerospace, most manufacturing sectors displayed a weakening in activity. Also, fewer Districts reported increases in manufacturing activity than decreases during the latest reporting period. Several Districts reported the strong dollar's negative impact on demand, while some noted that low energy prices have had a smaller, mixed effect.

* Prepared at the Federal Reserve Bank of Philadelphia and based on information collected on or before January 4, 2016. This document summarizes comments received from businesses and other contacts outside the Federal Reserve and is not a commentary on the views of Federal Reserve officials.

Residential and commercial real estate activity generally improved, according to District reports. Stronger activity tended to be cited for multifamily construction and commercial real estate. House prices and commercial rental rates also rose somewhat in most Districts.

Overall, most Districts reported that loan demand grew, credit quality improved, or loan delinquencies fell, with credit standards changing little.

Districts reported that agricultural sectors weakened overall, and farm incomes were stressed. Flooding and drought in various regions aggravated the effects of already low and falling prices for farm commodities, caused in part by weak global demand and the strong dollar. Unseasonably warm winter weather in much of the nation further depressed energy prices and slowed significant segments of that sector.

Labor markets continued to improve, with employment increases evident in reports from seven Districts. Four Districts mentioned signs of labor market tightening. However, Districts reported little overall change in wage and price pressures, with wage increases running from flat to moderate, while price increases tended to be minimal.

Consumer Spending and Tourism

Most Districts reported some growth in consumer spending through the holiday season, with the pace of growth typically characterized as ranging from slight to moderate, and as strong in Minneapolis. New York, Richmond, and Dallas noted that sales were sluggish or had softened. Unseasonably warm weather was blamed for damping overall sales in Cleveland, Richmond, and Dallas, and for weaker apparel sales in New York. Richmond and Chicago also noted disappointing clothing sales. Similarly,

San Francisco reported that apparel sales at brick-and-mortar stores failed to meet expectations. Minneapolis noted record-breaking online sales, while Cleveland described greater optimism among retailers anticipating enhanced opportunities from e-commerce.

Auto sales have continued to be positive in most reporting Districts since the previous Beige Book, with strength reported in Richmond, Atlanta, and Chicago. However, Kansas City reported that sales dropped markedly compared with last year, and New York and St. Louis reported recent slowing in activity. Contacts in roughly half of the Districts cited continued lower gas prices as a contributing factor for auto sales, particularly for increases in SUV and light truck sales.

Tourism activity varied across reporting Districts. Philadelphia, Dallas, and San Francisco reported overall increases in activity, while Minneapolis and Kansas City reported mixed conditions. New York indicated further weakening. Mild weather negatively impacted ski activity in New York, Philadelphia, Richmond, and Minneapolis but had a positive impact on shore and national parks visits in the Philadelphia and Minneapolis Districts. Richmond, Atlanta, and St. Louis reported positive hotel bookings and occupancy, while New York reported that hotel revenues were down.

Nonfinancial Services

Overall, nonfinancial services have grown modestly to moderately since the previous Beige Book. Professional and technical services firms saw moderate growth in the Minneapolis, Kansas City, and Dallas Districts. Consulting firms in the Boston District reported strong demand, and the demand for server and cloud computing services continued to rise in the San Francisco District. Contacts in the New York District

reported sluggish business activity. Staffing services were somewhat mixed across reporting Districts. Staffing firms in Philadelphia reported strong growth for temporary and permanent placements across a range of sectors, while staffing demand in the Dallas District varied by location. Contacts in New York were somewhat less optimistic about the near-term outlook, while contacts in Boston, Philadelphia, St. Louis, and Kansas City continued to expect positive growth.

Reports on transportation services varied. Atlanta, Minneapolis, and Dallas contacts noted a surge in e-commerce shipments, and parcel companies in St. Louis reported record holiday-related demand. Richmond District ports reported strong vehicle imports, and Atlanta District ports cited strong retail goods imports year over year; however, both Districts noted softening in exports. Cleveland and Kansas City noted general declines that Cleveland attributed to weakness in the energy and steel sectors, and to the export environment.

Manufacturing

Manufacturing activity has been varied across Districts since the last Beige Book period, with nearly half of the Districts reporting overall declines. New York, Philadelphia, Atlanta, Minneapolis, and Kansas City indicated that manufacturing activity declined; however, Cleveland, Richmond, and Chicago reported that manufacturing activity grew modestly to moderately. Dallas characterized its demand as flat or increased, while San Francisco reported that activity was flat to down, on balance.

Boston, Philadelphia, Cleveland, Dallas, and San Francisco noted the strong dollar's negative impact on manufacturers' exports. Contacts in Philadelphia and San

Francisco also cited weak global demand as contributing to declines. Boston, Cleveland, and Dallas manufacturers reported the benefit of low energy prices on their margins, but Cleveland contacts indicated that the low energy prices did not offset the impact of the strong dollar. Furthermore, suppliers to the oil and gas exploration sector reported weak, and sometimes deteriorating, demand in Philadelphia, Cleveland, Richmond, Chicago, St. Louis, and Kansas City. The motor vehicle and motor vehicles parts industry generally experienced strong demand in Cleveland, Richmond, and Chicago, and announced significant expansions in St. Louis. The aerospace industry was a bright spot for metals manufacturers in Cleveland and Chicago; in Minneapolis, an aircraft producer was expanding for the launch of a new product.

Contacts in Boston, Atlanta, Minneapolis, St. Louis, and Kansas City remained optimistic about the near-term outlook for manufacturing growth. Expectations in Philadelphia have weakened significantly since the last Beige Book but have remained positive, while the expectations of manufacturers in Cleveland have been mixed. New York contacts were less optimistic about the near-term outlook.

Real Estate and Construction

Residential real estate activity as measured in sales was generally positive in New York, Cleveland, Chicago, and St. Louis. Richmond experienced steady sales with pockets of strength, and Kansas City reported declines. Prices rose slightly to modestly overall in all reporting Districts, and inventories remained low in Boston, Richmond, and Minneapolis, and some parts of the New York District; however, New York City's rental vacancy rate increased. Though Boston contacts expected the market to perform well in

2016, contacts in Cleveland and Kansas City expressed concerns that higher interest rates may slow activity. Residential construction activity was described as modest or moderate in most Districts but was more subdued in New York, Atlanta, and Dallas overall.

Multifamily construction continued to be strong in New York, Richmond, Minneapolis, and San Francisco and showed improvement in Chicago.

Most reporting Districts characterized nonresidential real estate activity as modest to moderate; Boston and New York indicated little change. Rental rates rose in more than half of the reporting Districts, and vacancy rates were mixed. Most Districts reported modest or moderate growth in commercial construction, and the Dallas District noted high levels of industrial construction in Dallas–Fort Worth. Contacts in the Atlanta District expect construction activity to increase slightly, while contacts in the Philadelphia, St. Louis, Minneapolis, and Richmond Districts expect overall commercial real estate activity to continue to strengthen at least modestly.

Banking and Finance

Lending activity appears to have improved on net. Loan demand grew on balance in the Philadelphia, St. Louis, and San Francisco Districts. Cleveland, Richmond, and Kansas City reported stable credit demand, on balance, while Dallas noted some recent softening. Philadelphia reported the strongest loan growth for autos, commercial real estate, and commercial and industrial deals, while residential lending was flat to down. San Francisco noted robust growth of automobile loans and mortgage originations. Atlanta reported an increase in residential mortgage lending and refinancing, while New York reported weaker demand from the household sector, but steady commercial

demand. Chicago noted continued strength in auto lending and some slowing of loan demand from small and middle-market businesses, while most other household lending was little changed. The slumping energy sector was cited as a factor for lower loan demand by some contacts in the Cleveland, Richmond, and Atlanta Districts.

Credit conditions generally improved. New York, Philadelphia, Richmond, and San Francisco cited improved credit quality, declining delinquencies, or both, in all or part of their Districts. Cleveland reported no change in delinquencies. Dallas contacts noted increasing delinquencies of loans to oil and gas companies. New York, Cleveland, Richmond, and Kansas City reported little or no change in credit standards. Seven Districts described some competitive conditions, including competition from nonbank, online entities, whereas New York cited some narrowing of spreads in all loan categories. However, Chicago noted signs of slight tightening of credit supply.

Agriculture and Natural Resources

Agricultural reports were generally flat to down. With few exceptions, commodity prices for crops and livestock have remained low or have fallen since the previous reporting period, stressing farm incomes. Chicago, Kansas City, and Dallas reported that conditions were not profitable for some producers, as farm input prices have not fallen as fast. These three Districts also cited large harvests as a factor in keeping commodity prices low, while Kansas City and San Francisco reported that weak global demand and the strong dollar held down livestock exports. Drought remained a problem in parts of the San Francisco District for some producers, while heavy rain and flooding continued to impact harvests in the Richmond, Atlanta, St. Louis, and Dallas Districts.

Most segments of the energy sector struggled further, as oil and gas prices continued to decline. Cleveland and Kansas City reported that warmer-than-normal temperatures throughout much of the nation has further increased already abundant inventories of oil and gas and kept downward pressure on already low energy prices. Cleveland, Atlanta, Minneapolis, Kansas City, and Dallas reported continued declines in oil and gas drilling; several of these Districts noted that affected firms continued to experience serious financial stress and to reduce employment. In contrast, Cleveland, Minneapolis, and Dallas cited positive impacts for oil refineries, and Cleveland reported that investment in pipeline construction continues unabated. Coal production fell in the Richmond and St. Louis Districts, and iron ore mining fell in the Minneapolis District.

Employment, Wages, and Prices

District labor markets continued to improve. Richmond reported moderate employment increases, while Philadelphia, Chicago, and Dallas reported slight to modest job growth, and Cleveland indicated little change. On balance, New York and Atlanta contacts reported more hiring, than layoffs. Boston and Minneapolis offered mixed examples but both reported that firms had plans to add employees. St. Louis also reported positive hiring expectations. Labor markets were described as tight or tightening in the New York, Cleveland, Atlanta, and Minneapolis Districts. Staffing firms in New York, Philadelphia, Richmond, and Minneapolis cited various positive signs of strong labor demand, including demand from specific technical sectors in the Boston District to a broad range of sectors in the Philadelphia District. Hiring metrics were reported as flat or mixed from staffing agencies in Cleveland, Chicago, and Dallas.

Overall, wage pressures remained relatively subdued, as evidenced by reports from Philadelphia, Atlanta, Chicago, and Kansas City. Just two Districts — New York and San Francisco — indicated some acceleration in upward wage pressures. Cleveland, Richmond, and Dallas cited mixed reports, ranging from flat to moderate wage pressures. Seven Districts mentioned greater wage pressures for skilled workers in a variety of industries, including construction, manufacturing, financial, professional, technology, and health-care sectors. However, wage pressures among low-skilled positions were almost as pervasive, with six Districts citing pressure stemming from state minimum wage increases and from labor shortages or turnover among entry-level positions in banking, retail, and hospitality.

Nearly all Districts reported that overall price pressures were minimal. Price increases were noted by service-sector firms in New York, Philadelphia, and San Francisco, and by retail outlets and restaurants in Richmond and Kansas City. Prices of inputs and finished goods for manufacturers tended to be stable or declining, although Richmond's manufacturing contacts reported rising prices for both. Falling energy prices, as cited by Richmond, Kansas City, and Dallas, and lower prices for copper, steel, and other commodities, as cited by Boston, Cleveland, Atlanta, and Chicago, were generally described as contributing to lower input costs for manufacturers. Low oil prices were also credited for reducing home heating costs in Minneapolis and airfares in Dallas. Six Districts reported low or falling prices for most crops and livestock. Chicago and Kansas City contacts indicated that large harvests had contributed to the price declines.

FIRST DISTRICT – BOSTON

Reports from business contacts in the First District are generally upbeat. Holiday schedules reduced the number of responding firms below average this round. Most reporting retailers, manufacturers, and consulting and advertising firms cite year-over-year sales increases compared with the same period in 2014. Residential real estate markets continue to be strong and commercial real estate markets are said to be similar to the mostly positive situation six weeks ago. Contacts say pricing remains steady. Some firms mention increases in the minimum wage as a cost increase; four of the six New England states saw a January 1 rise. Outlooks are positive.

Retail

Retail respondents in this round report 2015:Q4 sales gains from a year earlier in the low to mid single-digit percentages and favorable results for the holiday season. Preliminary 2015 net gains ranged from low single digits to 22 percent, with comparable-store sales increases (for the two contacts reporting this figure) in the 7-percent range. Apparel, electronics, furniture, other home furnishings, and items related to home improvement account for much of these sales. A hardware contact reports sluggish sales for cold-weather items until recently, given the mild weather in most of New England, followed by brisk sales prior to the first significant snowstorm in late December. Some retailers anticipate that the steadily improving sales trend experienced each quarter in 2015 will continue into 2016, although others express more caution about the winter quarter.

Contacts are increasing inventories in anticipation of continuing improvement in sales. Some contacts are experiencing higher wage costs due to increases in the minimum wage in some states or the need to offer higher wages in order to attract retail workers. Merchandise prices largely remain steady. Some larger firms are planning on significant capital expenditures for 2016 related to expanding their business, including online marketing channels, while at least one smaller firm plans to spend only on IT upgrades and normal repair and maintenance. Generally, the outlook for 2016 is upbeat.

Manufacturing and Related Services

Due to seasonal issues, only five manufacturing firms responded this cycle. Four of the five contacts are positive about demand for their products. Our contact at a frozen food manufacturer was the exception, reporting a very competitive environment in that industry with very large retailers demanding and getting price reductions. The good news is varied. A producer and retailer of furniture says sales were higher for the year but weaker than usual in December. An information services producer cites higher sales for the first time in many years, as growth in legal and tax businesses is finally offsetting weakness in financial services. A toy company reports much stronger sales, largely driven by the new Star Wars movie. A maker of laboratory instruments says new orders from India and China are stronger than expected.

There is little news on the pricing front. The strong dollar continues to be a problem for some firms, but lower energy prices are good news. No firms report inflationary pressure although several firms mention successful efforts to raise prices modestly. Inventories are stable.

No contacts mention significant revisions to their capital expenditure plans. The toy manufacturer indicates that capital expenditures in 2015 fell short of plans. Four respondents report that employment is holding steady or increasing modestly. No one cites significant problems hiring workers. The information services provider continues to reduce headcount through attrition.

All respondents report a generally positive outlook. The only major revision is from the information services provider, who anticipates growth for the first time in many years.

Selected Business Services

All consulting and advertising respondents are ending the year with revenue up over 2014, with slight growth at large analysis and advertising materials firms, and strong growth at healthcare and strategy consulting firms. Demand for consulting in the areas of corporate strategy, operations, and private equity is strong. Mortgage-backed securities related litigation continues to dry up, but demand for economic consulting for antitrust, mergers, and business practice litigation remains strong.

Costs are fairly stable for contacts, except a small research consultant, and margins are expanding. Multiple contacts cite increased upward pressure on healthcare costs for employees. Some contacts plan on keeping their prices flat; others will raise prices by as much as 6 percent.

Contacts were not hiring in the most recent quarter, partly because some typically hire in classes during the summer. All contacts plan on hiring in 2016, by amounts ranging from 10 percent to 15 percent. Those that hire in classes will increase class size, and one strategy consultant is adding an additional spring class in 2016. Large research and strategy consultants are seeing increased attrition and decreased yield from offers, due to continued competition from the tech sector. Base compensation is increasing in line with inflation for most of these firms, though incentive-based bonuses are up significantly for strategy and healthcare consulting contacts. Several contacts say they expect difficulty filling tech and high-skilled positions, and one cited restrictions to the H1-B visa lottery as a loss of potential sources of talent.

Predictions for revenue growth for 2016 are in the 5 percent to 15 percent range, except for a large strategy consultant who is skeptical that their run of strong growth will continue. Contacts are generally bullish on macroeconomic conditions, though some raise concerns over the elections.

Commercial Real Estate

Reports from First District commercial real estate contacts are for the most part little changed since last time. Office leasing demand remains robust in Boston and Portland and weak in Hartford. Leasing activity slowed modestly in the past month in Providence, where a contact perceives greater caution among business owners. The investment sales market for commercial real estate in Connecticut is described as somewhat less “frothy” than it was earlier in the fall, with “careful” bids, but demand still reportedly strong, by contrast with the leasing market. In Boston’s investment sales market, contacts note that there are fewer bids per property on average than six months ago, but pricing remains robust. In both Boston and Portland, contacts note that the availability of large blocks of contiguous office space has become quite limited, a condition which—coupled with recent rent growth in both markets—is expected to lead to more office construction moving forward. Extending recent trends, new office projects in

greater Boston are typically at least partly pre-leased rather than purely speculative.

In Providence, the outlook became more guarded amid expectations that the national election cycle may delay decisions; at the same time, however, for the first time since prior to the recession, developers in Rhode Island are discussing the possibility of new industrial construction. More industrial construction appears likely in Portland as well in 2016, where supply is quite limited and industrial business activity is reportedly strong and growing. The overall outlook for Portland's commercial real estate market for 2016 is very strong, while in Hartford the outlook remains weak in light of risks that more businesses will leave Connecticut or leave Hartford for suburban locations. On the plus side, a Hartford contact sees business and consumer sentiment as being buoyed by low oil and gasoline prices. The outlook remains optimistic for Boston's commercial real estate market, including leasing and investment sales, but contacts also note risks stemming from political and economic uncertainty at both the national and global level.

Residential Real Estate

Residential real estate markets continue to exhibit strong performance across the First District, consistent with the seller's market environment present throughout 2015. For single-family homes, closed sales increased in November on a year-over-year basis in every state. Massachusetts experienced its sixth straight month of year-over-year increases in closed sales. Median sales prices were generally stable, showing modest increases in most states. Pending sales were up in every state with the exception of Maine, indicating a strong outlook going into the end of the year. A contact in New Hampshire says that residential real estate is experiencing its best year since the recession. The market for condominiums showed similar positive sales trends; closed and pending sales increased across the board when compared to last year. Median sales prices for condominiums, however, were mixed. Prices increased in three states, but decreased in the other three. November saw Massachusetts' largest year-over-year increase in condo prices of 2015 to date.

Inventory continues to be an issue throughout the First District. Available homes for sale, available months' supply, and average days on market were consistently decreasing on a year-over-year basis for both single-family homes and condos. Both supply side constraints (limited construction) and healthy demand contribute to this. Contacts cite the improved employment situation as a driver of demand. Many also report that buyers were motivated to purchase in the months leading up to December due to the anticipation of increasing interest rates.

The consensus among industry contacts is that the market is strong and expected to continue to perform well in 2016. A contact in Connecticut cites the mild weather as a contributor to increased activity in the normally slow holiday season. A contact in Boston reports that "sales increases in both markets are encouraging at this time of year which is typically slow." A New Hampshire contact notes that "more of the same is anticipated in 2016, but inventory and affordability challenges coupled with mortgage rate increases will likely keep any sort of monster growth in check." In spite of any potential concerns about increased interest rates, a Massachusetts contact indicates that he feels buyer demand will remain strong in the New Year.

SECOND DISTRICT--NEW YORK

Economic activity in the Second District has remained essentially flat since the last report, while labor markets have continued to be tight. Selling prices remain generally stable, while service-sector firms indicate continued upward pressure on input prices and wages. Consumer spending has been sluggish, with tourism activity particularly weak. Manufacturers report that activity has continued to weaken. Residential real estate conditions continued to improve, while commercial real estate markets were little changed. Multi-family residential construction has held steady at a high level, while commercial construction has picked up somewhat. Finally, banks report weaker loan demand from the household sector, but lower delinquency rates, especially on residential mortgages.

Consumer Spending

Retailers report a sluggish holiday season, with spending flat to down moderately from 2014 levels. One major retail chain indicates that December sales in the region came in below plan and below 2014 levels, with particular weakness in New York City attributed to weak tourism spending. Retailers in upstate New York report that sales were roughly unchanged from a year earlier in both November and December. Some of the weakness was attributed to unseasonably mild weather, which held down sales of winter apparel. One contact notes that on-line business has been relatively strong despite the general weakness in sales. Retail inventories were characterized as on the high side, and pricing was more promotional than a year earlier.

New vehicle sales in upstate New York were reported to be strong in November but showed some signs of softening in December. Sales of used vehicles also softened but remain at fairly high levels. Wholesale and retail credit conditions were described as in good shape. Tourism activity, which was fairly sluggish in the prior report, has weakened further. In New York City, revenue at both hotels and Broadway theaters were down noticeably from a year earlier, particularly towards the end of December. Hotel business in the Buffalo and Albany areas appears to have held steady,

though occupancy rates have tapered off somewhat due to an increase in the number of hotel rooms. Ski areas in upstate New York have struggled due to unseasonably warm weather. On a more positive note, the Conference Board's December survey shows consumer confidence rebounding sharply in the region.

Construction and Real Estate

The District's housing markets were mixed but, on balance, slightly improved in the final two months of 2015. The home resale market in western New York has shown continued strength, buoyed by strong demand and mild weather, with inventories still on the low side. Realtors across New York State more broadly also report brisk home sales, along with modestly rising prices. In northern New Jersey, prices for existing homes have been essentially flat; the inventory of distressed properties has come down but remains elevated, while the inventory of non-distressed homes remains low. Residential construction in the District has been mixed: single-family activity remains sluggish, with developers reluctant to build inventories, while multi-family construction (mostly rentals) continues to be brisk. New York City's co-op and condo market picked up somewhat toward the end of 2015, with sales activity described as fairly brisk—particularly for new high-end development. Selling prices for existing apartments rose moderately, while prices for newer luxury units have receded somewhat due to high inventories. Overall, nearly half of all transactions in New York City in the fourth quarter were at or above list price, which was less than in Q3 but still high by historical standards. New York City's rental market has shown signs of leveling off, as vacancy rates and concessions have increased; rents are still running 4 to 6 percent ahead of a year ago in Manhattan, but are up only marginally in Brooklyn and Queens.

Commercial real estate markets across the District were mostly steady. Office availability rates were little changed across most of the District, while asking rents rose modestly. Retail leasing remains slack, with vacancy rates steady at high levels in and around New York City, as well as in

upstate New York. Commercial construction activity has picked up somewhat but remains at a subdued level.

Other Business Activity

The labor market has remained mostly strong in the closing weeks of 2015. Two major New York City employment agencies and one upstate agency report that hiring activity was more brisk than usual in December, which is typically a slow month. One contact notes that qualified candidates for temp jobs have been almost impossible to find, leading to more hiring of permanent workers. Most business contacts report steady to increasing employment at their firms, with the exception of manufacturing, where more contacts say they are reducing than expanding their workforce. In general, service sector firms, as well as employment agencies, expect further strengthening in the labor market in 2016.

Manufacturers report that both selling and input prices are generally stable. Service firms report stable selling prices but rising input prices, as well as some acceleration in wages. In general, contacts report that business activity was sluggish in late 2015, particularly in the manufacturing sector. Contacts have also grown somewhat less optimistic about the near-term outlook.

Financial Developments

Small to medium-sized banks in the District report weaker demand for consumer loans and residential mortgages, but steady demand for commercial mortgages and C&I loans. Credit standards were unchanged across all loan categories. Banks report some narrowing in spreads of loan rates over cost of funds across all loan categories, with the decrease in spreads most prevalent for commercial mortgages. There was little change seen in the average deposit rate. Finally, bankers report lower delinquency rates across all loan categories, particularly on residential mortgages.

THIRD DISTRICT — PHILADELPHIA

Aggregate business activity in the Third District continued to grow at a modest pace during the current Beige Book period. Overall, firms hired additional employees at a similarly slow, cautious pace; however, service-sector contacts, especially from staffing firms, reported stronger hiring rates. On balance, only slight increases were reported in wages and prices, including home prices. Firms tended to report less ambitious growth expectations than in prior periods — generally stating that the current [modest] trends would continue.

Among Third District business sectors, general (nonauto) retail sales appeared to accelerate a bit from the prior period to a moderate pace of growth through the holiday shopping season. Homebuilders also sustained a moderate growth rate with decent contract signings and atypically strong construction activity this late in the season, although the overall level of activity remains low. Contacts across the broad service sector and the region's lenders continued to report moderate growth of sales and loan volumes, respectively; staffing firms reported somewhat stronger growth. Tourism contacts continued to report modest growth, as did commercial contractors and commercial leasing agents. Auto dealers reported that sales slowed to a slight pace of growth, but volumes remained at very high levels. Brokers continued to report only slight growth of existing home sales. Meanwhile, manufacturing contacts continued to report slight declines overall.

Manufacturing. Overall activity continued to decline slightly during the latest Beige Book period. New orders also declined further; however, shipments appeared to rebound a bit. Despite the general declines, firms reported slight overall increases in the number of employees and in the average employee workweek. Although the year end is typically slow for most industrial firms, activity appeared to be weak for most major industrial sectors even after adjusting for seasonal factors. Weak global demand coupled with the strong dollar are generally cited as major contributors to the current declines; some firms also continued to cite weak demand from customers that supply Pennsylvania's energy extraction sector.

Expectations of growth during the next six months have remained positive but have significantly weakened since the last Beige Book report, as have firms' plans for future capital expenditures and future employment. Substantial layoffs were recently announced for Delaware's pharmaceutical industry in advance of a proposed merger of two large firms and its subsequent spin-off into three smaller entities.

Retail. Nonauto retail sales improved to an average pace of growth in the current Beige Book period. Area malls reported moderate sales growth overall with the strongest activity on "Super Saturday" (December 19); some malls noted that traffic over the Super Saturday weekend

rivalled Black Friday and its weekend. An outlets operator reported even stronger preliminary sales growth over the period including Thanksgiving and Christmas and noted that traffic was greater still on the weekend after Christmas. Convenience stores operators reported a “great December” with the best year-over-year growth in traffic for any month since 2011. Contacts generally cited an improving economy but also acknowledged unseasonably warm weather for increasing traffic; convenience stores also noted that traffic from construction crews is “gangbusters.” Overall, contacts expect steady growth to continue in 2016.

On average, auto dealers reported slight growth in auto sales, which continued at very high levels — the sales pace appeared to have picked up somewhat in Pennsylvania but may have edged back in New Jersey compared with the prior Beige Book period. Generally, auto dealers continued to express optimism that sales volumes would remain high in 2016, although continued growth may be modest at best.

Finance. Third District financial firms have continued to report moderate overall increases in total loan volumes since the previous Beige Book. Auto loans exhibited the greatest percentage gains during the period, while commercial and industrial (C&I) deals and commercial real estate activity continued to generate strong loan growth. Auto loans and C&I loans have been the strongest categories over the year as well. Abstracting from normal seasonal surges, credit card volumes rose modestly. Mortgages, home equity loans, and other consumer loans have been flat to down over the period as well as over the year. Banking contacts continued to note a competitive lending environment, a greater demand for new mortgages than for refinances, and improving credit quality. Most continued to report few signs of inflation. Contacts remained optimistic for continued slow, steady growth in 2016.

Real Estate and Construction. Homebuilders have appeared to sustain a moderate growth rate since the last Beige Book. A nationwide firm reported strong increases in contract signings for its markets covering Third District states. Reports from smaller builders were mixed. Two Pennsylvania builders reported that contract signings were relatively busy over the period; a New Jersey builder noted that contract signings fizzled toward the end, as more than usual signings fell through after securing deposits. Moreover, most builders reported that large backlogs and unseasonably warm weather had kept construction crews more active than usual. Builders did note that the time required to deliver a new house has lengthened, as labor shortages continued to hamper their ability to secure subcontracting services on a timely basis.

Most brokers in the major Third District housing markets continued to report small year-over-year increases; however, the Lehigh Valley market showed a slight decline. Overall, house prices continued to rise slightly. A major Philadelphia-area broker has cited stagnant inventory levels since 2012 that many agents suggest have created a competitive seller’s market. Agents

also noted a significant shift in locational preferences from rural areas to Philadelphia's Center City.

Nonresidential real estate contacts continued to report modest growth in construction and leasing activity. Contacts representing architects, engineers, and developers continued to report the strongest activity in Center City Philadelphia and other smaller urban cores. Contacts attributed some of the increasing demand to employers choosing to relocate jobs to the urban cores to attract younger workers. One contact noted that pent-up demand for prime Center City office space has pushed rents up to levels not seen since 2007. One contact noted that multifamily residential construction is heating up in some suburban areas, as well as in downtowns — often as part of mixed-use properties. Contacts remained optimistic for continued growth of both new construction and leasing activity through 2016.

Services. Third District service-sector firms continued to report a moderate pace of growth during the current period. On balance, firms reported modest additions of full-time payroll employees plus increases in hours worked. Staffing firms throughout the Third District reported steady, strong growth for temporary positions and permanent placements across a broad range of manufacturing and service sectors. In contrast to a more typical seasonal lull, one firm noted receiving new orders right through the holidays for a second consecutive year. Tourism activity continued to grow at a modest pace, although the unseasonably warm weather encouraged tourists to favor the shore over the mountains. Ski resorts struggled through the Christmas week with little or no snow — relying on other activities to keep visitors busy. Demand for last-minute reservations was soft. Atlantic City casino revenues were essentially flat in November compared with the prior year, despite being aided by better weather this year and an extra weekend day. Overall, expectations for continuing future growth in services remained widespread, with nearly two-thirds of all service-sector contacts expecting some growth.

Prices and Wages. On balance, general price levels have continued to rise slightly since the previous Beige Book period. Over half of all contacts reported no significant change in the prices they pay for inputs and the prices received for their goods and services. Of firms that indicated a change, most nonmanufacturing contacts reported increases in prices paid and prices received. Firms from the smaller manufacturing sector tended to report decreases in prices paid and in prices received. Overall, contacts continued to report only slight upward wage pressures, although many contacts continued to report difficulties filling various technical positions. Manufacturing firms expected essentially no change in the cost of their nonlabor production inputs for 2016; however, they expected their direct wage costs to increase in excess of 2 percent, with benefit increases higher still.

FOURTH DISTRICT – CLEVELAND

Aggregate business activity in the Fourth District grew at a modest pace since our last report. Manufacturing output increased on balance, albeit at a slow rate. The housing market improved, with higher unit sales and higher prices. Nonresidential building contractors reported continued strong activity. Retailers and auto dealerships saw higher revenues on a year-over-year basis. The demand for credit was stable. Oil and gas exploration remains depressed, while investment in pipeline and midstream projects moved forward. Freight volume trended lower.

Payrolls were little changed during the past six weeks; seasonal factors weighed down hiring activity. Nonetheless, reports indicated an ongoing tightening in labor markets. Wage pressures were reported in the construction, retail, and banking sectors. Staffing firms reported little change in the number of job openings, though there was a bias toward temporary openings. Job placements declined. Overall, input and finished-goods prices were steady other than for commodities, where prices declined further.

Manufacturing. Demand for manufactured products showed a modest rise on balance over the period. Activity for suppliers to the motor vehicle, construction, and aerospace industries remains elevated, but the pace of growth has slowed. Several reports indicated a pickup in production of domestically sold non-durable consumer products. Key factors tempering output include a strong dollar and softness in the energy sector and in some emerging market economies. Exporters told us that low energy prices help in maintaining margins, but they do not completely offset the impact of the strong dollar. Year-to-date auto production at District assembly plants through November increased 1 percent compared to the prior year's level. The steel and primary materials supplier industries remain depressed. Producers continue to struggle against an array of headwinds, including a strong dollar, overcapacity, low demand from the domestic energy sector, and a high level of imports, particularly from China. The aerospace industry may be the only bright spot for primary-materials suppliers. Capacity utilization rates continue to contract, particularly in the steel industry. The outlook by our contacts was mixed. Manufacturers who sell to industrial customers expect flat or sluggish growth, though some anticipate slightly higher revenues from European customers. Otherwise, our contacts expect that business activity will expand during 2016.

Capital spending was allocated primarily for new equipment, with lesser amounts for maintenance projects. Raw material prices were stable, except for primary metals such as copper and steel, for which prices declined. Steel prices have reportedly fallen 40 percent year-over-year. We heard two reports about steel mills that have recently announced price increases in an effort to counteract low price levels that they believe are unsustainable. Finished-goods prices were steady. Selected downward adjustments were made to reflect lower steel prices and to compete with foreign imports spawned by the strong dollar. Manufacturing payrolls contracted over the period, mainly in production jobs. Reports indicated that some laid-off workers were classified as temporary or were part of a normal seasonal downsizing. Wage pressures were contained.

Real Estate and Construction. Year-to-date sales through November of new and existing single-family homes rose 8.5 percent compared to those of the same time period in 2014. The average sales price increased by more than 4 percent. New-home contracts remain concentrated in the move-up price point categories. Condo sales are reportedly increasing. The market for spec homes exists, but is limited by supply-side factors, including difficulty obtaining construction financing and labor constraints. The 2016 outlook of homebuilders was less optimistic than during the past few months. Unit sales are expected to be on par or slightly lower when compared to those during 2015. Our contacts believe that rising interest rates will provide a short-term boost for new-home sales but will impair affordability in the medium- to long-run, especially for buyers in the lower price point categories.

Nonresidential contractors reported continued strong activity, primarily in the commercial segment. The unusually mild winter weather is contributing to stronger than normal revenue flow. Inquiries increased sharply over the period, while backlogs showed a mild expansion. General contractors are optimistic about prospects going into 2016, and they expect stronger revenues on a year-over-year basis, with an improving industrial segment. However, several contractors cited downside risks that they believe the industry will confront in the new year such as the impact of the presidential election, economic problems outside the US, and capacity issues within the construction sector.

Construction payrolls were stable on net over the period. New hires were mainly for project management and business development jobs. Subcontractors remain very busy. They are being challenged by a labor shortage and as a result are selective when bidding. Subcontractors are pushing through rate increases that they attribute to capacity constraints and a need to raise margins. The construction sector remains challenged by a labor shortage across job categories, resulting in upward pressure on wages. Little movement was seen in building materials prices.

Consumer Spending. Mid-way through the holiday shopping season, consumer spending at retail outlets increased on balance when compared to that of the same time period a year ago. Black Friday and Cyber Monday sales were especially encouraging. Product segments selling particularly well included activewear, outdoor recreational equipment, and home furnishings. Contacts experiencing lower revenues attributed the decline to the unusually warm winter weather. Retailers are becoming more optimistic in their outlook, which is being driven in part by enhanced sales opportunities afforded them by e-commerce. First quarter revenues are expected to be slightly above those of a year ago. Vendor and shelf prices were fairly stable, though selected chains ran more promotions than normal. Some reductions in 2016 capital spending plans were announced. Current spending is primarily allocated for brick-and-mortar projects. Hiring is limited to new store openings. Retailers are facing stiff labor competition. Higher turnover combined with a smaller pool of qualified workers is driving up wages.

Year-to-date sales of new motor vehicles through November rose 2.5 percent compared to those of a year ago. Light truck and SUV sales continue to dominate the market, accounting for over 60 percent of new-vehicle transactions (year to date). Dealers cited low fuel prices and

strong lease programs as factors contributing to their popularity. New-vehicle sales in 2016 are expected to remain elevated, though some dealers expressed concern about the impact of rising interest rates. Year-to-date pre-owned-vehicle sales are moderately higher compared to those of last year. Dealer payrolls held steady over the period, but the market for sales and service personnel is tight, putting upward pressure on wages.

Banking. Demand for business credit was stable since our last report, but several bankers reported softening conditions during the past few months. They cited as contributing factors less appetite for risk because of recent geopolitical events, a slowdown in the energy sector, and non-bank competitors becoming more aggressive. However, pipeline activity is showing signs of strengthening because of the threat of higher interest rates. CRE lending remains relatively strong. Consumer credit was steady across product lines, though the downward trend in auto lending continued as consumers increasingly turn to non-bank competitors for credit. A slight pickup in residential mortgage applications was noted, a circumstance that bankers attributed to the potential rise in interest rates. Little change was reported in interest rates, delinquencies, and loan-application standards. Core deposit balances remain very strong. Banking payrolls moved modestly higher. Bankers reported a tightening labor market within their industry, one which is contributing to wage pressure, particularly in entry-level jobs.

Energy. The number of drilling rigs operating in the Marcellus and Utica Shales trended lower over the period and is currently almost 60 percent below its peak level recorded in the fourth quarter 2014. Nonetheless, regional natural gas output remains at historic highs. Upstream oil and gas companies are struggling to adapt to low energy prices and are increasingly facing mounting financial difficulties. In order to free up cash for debt service, oil and gas drillers are cutting payrolls and dividends. Reduced demand owing to unusually warm weather has boosted inventories and put further downward pressure on wellhead prices. Reports indicate that investment continues in pipeline and mid-stream projects and that the refining (oil) segment is doing well. Not much change is expected across the sector during 2016.

Freight Transportation. Reports indicated that on net freight volume contracted further over the period. This situation was attributed primarily to weakness in the energy sector, steel, and export environment. Some carriers saw a boost in volume related to seasonal products and building materials and hardware. Our contacts are fairly pessimistic and see little growth in volume along seasonal trends during 2016. One contact noted he is hopeful the current inventory glut will be reduced, a situation which would provide a needed lift to the freight industry. On balance, shipping rates increased modestly even though volume is lower. Rate adjustments are needed to cover rising costs for labor, new equipment, and regulatory compliance. Two of our contacts reported they have pulled back on capital spending, while others indicated that if current market conditions persist, they anticipate adjusting their capital budgets downward. Spending is mainly for replacing older equipment and, to a lesser extent, for maintenance projects. Hiring was flat on balance during the past few months because of the slowdown in demand.

FIFTH DISTRICT–RICHMOND

Overview. Economic conditions strengthened modestly since the previous Beige Book report. Manufacturing expanded, with a mild increase in shipments and new orders. Revenues grew modestly faster at services firms, while retail sales softened ahead of the holidays. Sales of light vehicles remained robust in recent weeks. Tourism slowed seasonally overall. Residential and commercial loan demand was stable on balance. Commercial real estate activity increased moderately while residential real estate activity slowed seasonally. Agribusiness remained soft since the previous report. In energy markets, natural gas production increased and coal extraction continued to decrease. Labor demand strengthened moderately. Wages increased moderately in manufacturing and rose at a modest pace in the service sector. Prices of inputs and finished manufactured goods rose at a slightly faster pace in recent weeks. Retail prices rose more rapidly, while price increases slowed at other services firms.

Manufacturing. Manufacturing grew modestly since the previous report. Overall, producers reported a mild increase in shipments and the volume of new orders. Two North Carolina furniture manufacturers reported strong sales. Food producers and manufacturers of beverage and tobacco products also reported an increase in shipments compared to last year at this time. An automotive manufacturer in South Carolina reported strong demand for new orders in recent weeks and expected increased sales in the next six months. Additionally, an engine and transmission manufacturer in Charleston, West Virginia reported increased demand. A few Charleston, West Virginia plastics manufacturers reported steady business, and chemical production was unchanged. A couple of West Virginia metal manufacturers reported mixed conditions. In the Baltimore region, most large manufacturers reported stable new orders. In contrast, a manufacturer of industrial equipment located in South Carolina saw a slight decline in agricultural equipment orders. In addition, a paper manufacturer and a producer of heating and cooling parts reported a slowdown in business in recent weeks, and an electrical controls manufacturer reduced production because of the company's exposure to declining gas exploration. According to our most recent survey, prices of raw materials rose at a modest pace, and prices of finished goods rose at a slightly faster pace.

Ports. District port officials noted that vehicle imports remained strong since our last report. While containerized imports continued to grow, the peak season was short and muted, with volumes only slightly above a year ago. With the exception of a slight increase in containerized exports and auto exports at one port, overall District exports softened, which contacts attributed to a strong dollar. In addition, the extreme mid-autumn rain and flooding in South Carolina reduced the volume of some exported agricultural commodities such as logs and soybeans from that region. Officials noted that global

freight rates continued to drop dramatically during recent weeks, but that upcoming consolidations among shipping lines are likely to adjust capacity.

Retail. District retailers reported that sales softened in recent weeks, particularly for apparel. Black Friday sales results were mixed, and small specialty shops continued to note lower sales due to competition from larger, online retailers. Even large department stores reported declines as a result of increased online shopping and unseasonably warm weather. Sales of light vehicles remained strong, according to most sources. A large dealership in the Carolinas reported that sales were very strong, and continued low fuel prices helped boost sales of SUV's and light trucks. Despite a few reports of early holiday discounting, retail price increases accelerated in recent weeks according to most retailers.

Services. Revenues grew modestly faster at services firms since our previous report. Healthcare organizations reported flat to stronger demand for services relative to the previous report. A healthcare executive added that consumers often schedule elective procedures ahead of the holidays so that deductibles are taken in the current year. In contrast, at another healthcare organization, admissions have decreased, particularly with cases involving requirements around patients needing observation. An executive at a national trucking firm reported that demand remained steady at moderate levels across the industry. He noted that businesses seemed to be working down their inventories and that seasonal softening in demand was expected for the weeks ahead. Prices at services firms rose at a slower pace in recent weeks.

Tourism slowed to typical seasonal levels. High-end restaurant sales were reported to have increased, however. A Richmond restaurant reported a seasonal increase in booked parties and events, and also noted that food prices had risen, especially for produce. On the outer banks of North Carolina, holiday visitors took advantage of seasonally lower room prices. Inland hotels in North Carolina and South Carolina reported increased bookings and higher room rates. Unseasonably warm temperatures delayed snow skiing, with some related hotel cancellations. However, time-share bookings at ski resorts were strong, which an executive attributed in part to the availability of numerous other tourist activities.

Finance. Loan demand was stable on balance since our previous Beige Book report. Contacts mostly indicated that residential mortgage demand was steady; however, some softening was noted in central Virginia and parts of West Virginia. In contrast, residential refinance lending picked up slightly. A banker in Virginia attributed a recent increase in inquiries due to expectations of higher interest rates. Commercial lending demand was generally unchanged. A South Carolina banker reported steady loan demand due to strong commercial expansion and acquisition activity. Conversely, commercial and industrial loan demand declined in West Virginia, particularly in the southern coalfield region of the state. Underwriting standards were generally unchanged except in central Virginia, where standards were relaxed slightly. According to bankers in Maryland and South Carolina, credit quality improved while bankers in Virginia and West Virginia reported no change. Competition among banks remained high with

one banker noting that a large portion of his commercial activity was taking existing borrowers away from other lenders.

Real Estate. Residential real estate activity slowed seasonally in recent weeks, while average sale prices increased slightly. Average days on the market were unchanged and low levels of inventories persisted. Most contacts reported steady residential sales with some pockets of strength. For example, a Realtor in Charlotte noted little change in existing home sales, but an increase in new home sales since the previous report. Additionally, another Charlotte residential real estate contact said sales increased in the \$300,000 to \$400,000 range. A Chesapeake, Virginia contact stated that home sales remained steady and that prices rose to pre-recession levels. In contrast, a Charleston, West Virginia broker reported a sluggish residential real estate market and a Maryland source reported a slower high-end market. Single-family home construction was generally modest with limited speculative building, although a contact reported that larger builders were securing lots in the Chesapeake, Virginia market in competition with the smaller regional builders. A Charleston, South Carolina builder reported strong new home sales and increased home closings since the previous report. Multifamily leasing and construction generally remained strong across the District.

Commercial real estate activity increased moderately District-wide, and construction reportedly grew modestly in Charleston, South Carolina, Washington, D.C., Charlotte, and the Virginia Beach area. Rental rates rose slightly, while vacancy rates varied by submarket and region. A broker in Charleston, South Carolina reported a strong commercial real estate market, with speculative industrial building and higher rental rates in the office market due to limited supply. Brokers in Washington, D.C., Baltimore, and Richmond continued to report steady to strong leasing activity, with faster growth in sales since the previous report. A Washington, D.C. real estate contact stated that office vacancies were high in the suburbs, and the new office construction pipeline was slow. He also said that most leasing activity remained in the 10,000 square foot range, continuing the trend toward smaller office space.

Agriculture and Natural Resources. Agribusiness remained soft since the previous report. Farmers in Virginia, North Carolina, and South Carolina continued to report delayed harvesting from the wet weather this fall, and more South Carolina contacts reported poor crop quality as a result of flooding. Some South Carolina farmers reported ruined cotton crops. Moreover, continued rain following the floods in South Carolina left other establishments unable to harvest lumber or soybeans for animal feed. A South Carolina sod farmer said he had only one week of good harvest days during the past month. In contrast, a Maryland contact reported that farming was stable across the state, with continued strength in the poultry sector. Prices received for cotton decreased and farm input prices were unchanged since the previous report.

Natural gas production increased in recent weeks, although contacts continued to report oversupply. Coal extraction continued to decrease; a contact said “The bottom has dropped out of the coal market.” Natural gas prices declined, and coal prices were unchanged.

Labor. The demand for labor in the Fifth District continued to strengthen moderately since our previous report. Demand generally rose for customer service professionals, warehouse and distribution center workers and temporary employees. Sources reported difficulty finding nurses, mechanics, accountants, IT workers, administrative professionals, engineers, hospitality workers, truck drivers and skilled tradespeople. Temp-to-hire placements increased in South Carolina, according to one staffing firm, and the time to convert to full time shortened further. According to our most recent surveys, employment increased robustly for services firms, moderately for manufacturing firms, and rose slightly for retail establishments. Wages increased moderately in manufacturing and rose at a modest pace in the service sector overall, despite a slight slowdown in retail wage growth.

SIXTH DISTRICT – ATLANTA

Reports from Sixth District business contacts remained largely positive with most noting that economic conditions were improving at a moderate pace over the reporting period. Contacts are optimistic about the near-term outlook with nearly all expecting growth to be either the same or higher, unchanged from the previous reporting period.

Retail sales were in line with expectations and auto sales were strong. Reports from the hospitality sector remained positive with robust attendance and occupancy numbers across the District. Residential real estate brokers and builders noted mixed sales activity for both existing and new homes. Home prices rose modestly and inventory levels were relatively flat. Commercial real estate contacts reported increased activity in nonresidential construction, and apartment construction remained robust. Manufacturers indicated that new orders and production decreased since the previous report. Bankers reported an increase in residential lending and mortgage refinancing. The District continued to experience a tightening labor market. On balance, input cost and wage pressures remained subdued.

Consumer Spending and Tourism. District retail contacts noted that sales activity since the last report met expectations. Retailers anticipated that the additional shopping day between Thanksgiving and Christmas would have a positive impact on overall holiday sales. Automobile dealers noted that incentives such as cash bonuses and low APRs boosted overall vehicle sales on Black Friday. SUV sales continued to be strong in late November through early December, which auto dealers attributed to sustained lower gas prices.

On balance, tourism contacts reported record attendance and occupancy numbers at conferences and hotels since the last report. Although solid advance bookings were reported in the conference segment for the first two quarters of 2016, concerns were cited about the strong dollar softening demand from international visitors.

Real Estate and Construction. Feedback from District real estate contacts was slightly less optimistic since the last report, although several attributed the softening conditions to seasonal factors.

Many builders continued to indicate that construction activity was up from the year-ago level. In addition, most reported that home sales were flat to slightly up relative to one year earlier. Meanwhile, reports on home sales and traffic from brokers were mixed.

On balance, builders and brokers described inventory levels as flat. Most contacts indicated that they were seeing modest home price appreciation. Expectations for home sales activity over the next three months were mixed, with builders anticipating construction activity to be flat to slightly up.

District commercial real estate brokers continued to report rising demand that resulted in increased absorption and higher rents across property types, but they cautioned that the rate of improvement varied by metropolitan area, submarket, and property type. Most commercial contractors indicated that nonresidential construction activity was slightly up from one year ago, with all reporting a backlog greater than or equal to the previous year. Reports on apartment construction suggested that activity remained robust. The outlook among District commercial real estate contacts remains positive, with most expecting the pace of construction activity to increase slightly over the next quarter.

Manufacturing and Transportation. District manufacturers reported slowing and in some cases declining business activity from mid-November through December. Contacts noted a decrease in production levels and new orders. Inventory levels of finished goods rose and supply delivery times increased, while commodity input costs continued to decline. Despite the decline in new orders and production, manufacturing contacts indicated that employment levels increased slightly. Expectations for future production improved from the previous reporting period, with greater than one-third of businesses anticipating an increase in production levels, while firms expecting lower production levels fell to less than a tenth.

Logistics contacts noted a surge in e-commerce shipments during this reporting period that exceeded forecasts and resulted in reduced on-time delivery rates. District port contacts cited strong retail goods imports compared with year-ago levels; conversely, shipments of exports remained soft across commodities including minerals, forest products, chemicals and heavy machinery. Rail activity was generally unchanged since the last report.

Banking and Finance. Banking contacts indicated that credit remained available with attractive terms for qualified borrowers. The commercial loan market was competitive and some banks offered long-term fixed rates to attract borrowers; however, some businesses self-financed rather than utilize credit lines or loans. There was a persistent pullback of both demand for and supply of credit for firms in energy-dependent areas. Banks reported healthy pipelines in

residential lending and increased mortgage refinancing, although first-time home buyers still struggled to qualify for mortgages.

Employment and Prices. Business contacts continued to describe a tightening labor market. In addition to ongoing challenges with filling some high- and mid-skilled positions, employers increasingly experienced trouble filling some low-skilled and entry-level jobs. For a number of firms, difficulties with attracting and retaining employees were cited as key obstacles to growth. However, oil and gas industry layoffs continued, and firms from supporting industries, including transportation, retail, and financial services, cited layoffs resulting from the energy sector slowdown.

Most contacts reported relatively stable wages. Notable exceptions included persistent wage pressures for some high-skilled positions and increased reports of rising wages at the lower end of the pay scale. Non-labor input costs were mostly flat and firms heavily reliant on commodities reported some declines. The softness in commodity prices and imported goods continued to support strong margins as many businesses indicated they held prices steady. According to the Atlanta Fed's Business Inflation Expectations (BIE) survey, year-over-year unit costs were up 1.5 percent. Survey respondents also indicated they expect unit costs to rise 1.9 percent over the next twelve months.

Natural Resources and Agriculture. Contacts indicated that output and supply of oil and gas remained greater than demand. Crude oil storage terminal capacity on land expanded further, while tank and vessel capacity on water remained scarce. Oil and gas business activity and investment continued to decline at exploration and services firms and projects were postponed. Overall utilities sales slowed due to the weakness in the industrial sector; electricity sales were mixed across the Southeast due to the unseasonably warm weather.

Most of the District remained free from drought conditions, but as a result of excessive rain, winds, and flooding earlier in the year, the USDA declared several counties in Alabama, Florida and Georgia as natural disaster areas. Florida's orange forecast was down both from last month's forecast and last season's production. On a year-over-year basis, prices paid to farmers for cotton, rice, soybeans, beef, and broilers have declined while corn's price rose slightly.

SEVENTH DISTRICT—CHICAGO

Summary. Economic activity in the Seventh District continued to increase at a modest pace in late November and December, but contacts were optimistic that growth would pick up some over the next 6 to 12 months. Consumer and business spending, construction, and real estate activity all rose at modest rates while gains in manufacturing production picked up to a more moderate pace. Financial conditions tightened slightly. Both price and wage pressures remained subdued. Farm incomes declined as the large harvest pushed product prices down faster than input costs.

Consumer spending. Growth in consumer spending continued at a modest pace over the reporting period. Contacts reported stronger sales in the home improvement, general merchandise, hobby, and entertainment sectors, but weaker sales of apparel and food and beverages. Low farm income was reported to be hurting retail activity in rural parts of the District. New and used light vehicle sales remained strong. Low gasoline prices continued to shift the mix of sales from cars to light trucks. Contacts expect sales to remain strong in 2016, though there was some disagreement as to whether the sales pace would be higher or lower than in 2015.

Business spending. Growth in business spending remained modest in late November and December. Most retailers indicated that inventories were at comfortable levels, though warm weather led to higher-than-desired inventories of seasonal clothing and light truck inventories were reportedly tight. Steel service center inventories remained elevated. Current capital spending and plans for future outlays both picked up some, but remained modest. New spending was primarily for replacing industrial and IT equipment, though there was some pickup in outlays for capacity expansion. The pace of hiring remained slow, though more contacts noted plans to increase their workforces over the next 6 to 12 months than in the previous reporting period. Demand continued to be strongest for skilled workers, particularly for many professional and technical occupations, sales, and skilled manufacturing and building trades. Contacts, however, also cited some pickup in demand for lower-skilled labor, particularly production workers. A staffing firm again reported flat growth in billable hours.

Construction and real estate. Construction and real estate activity increased modestly over the reporting period. Residential construction edged up, with improvement reported in both the single and multi-family markets and across urban and suburban areas. Residential rents, home sales, and home prices increased slightly. Demand for nonresidential construction rose modestly. A number of contacts reported growth in the office segment, while one noted that demand for

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automotive manufacturing construction remained high. Although commercial real estate activity slowed some, it remained strong and broad-based across the retail, industrial, and office segments. In Chicago, a contact indicated that the supply of commercial space continued to tighten because construction of new buildings had been slow and older, smaller buildings are being converted into residential space or hotels. Commercial rents increased slightly, while commercial vacancy rates and the availability of sublease space decreased a bit.

Manufacturing. Gains in manufacturing production picked up to a moderate pace in late November and December. Growth remained strong in the auto and aerospace industries and picked up slightly in most other industries. Overall demand for steel remained weak, pushing capacity utilization lower and reducing import volumes. On balance, specialty metals manufacturers reported little change in demand, with suppliers to the auto and aerospace industries still seeing strong orders, while those producing primarily for the oil and gas industry continued to experience weakness. Soft demand for agriculture and mining machinery remained a drag on the heavy machinery industry.

Banking/finance. Financial conditions tightened slightly on balance over the reporting period. Financial market contacts noted greater illiquidity in the bond market. In addition, a contact in commercial real estate financing reported a decline in interest from institutional investors amid concern that the commercial real estate market was overheated. In contrast, contacts continued to report strong competition for commercial and industrial loans, and one contact indicated that growth in online lending (also known as peer-to-peer or marketplace lending) was contributing to the competition. Growth in small and middle-market business loan demand slowed slightly. Consumer loan demand was little changed, though contacts continued to note strong activity in the auto market. Demand for credit card debt ticked up as usage increased and payment volume decreased. Residential mortgage demand was little changed. Contacts in the agriculture sector noted that lower farm incomes this year have made agricultural financing more important, but also harder to get.

Prices/costs. Cost pressures continued to be subdued in late November and December. Commodity prices remained low. Retail prices were little changed, with the exception of higher overall motor vehicle transaction prices (some of which may be the result of the shift in sales mix toward larger, more expensive vehicles). Prices charged by upstream producers were also little changed. Those firms reporting upstream price increases were more likely to cite increased demand than rising costs. Wage pressures remained mild overall, but were generally stronger for

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management and professional and technical occupations. In general, growth in non-wage costs also continued to be subdued, though some contacts reported sizeable increases in healthcare costs.

Agriculture. District farm incomes declined as the large harvest pushed product prices down faster than input costs. Most contacts expect that farmers will face tighter (and possibly negative) margins this year. Many farmers are holding on to much of their corn and soybean harvest in the hope that prices will go up before they need to sell them to fund 2016 operations. Many are also waiting on purchasing inputs in the hope that seed and fertilizer prices decline further. One contact reported that more farmers are testing fields for nutritional deficiency before applying fertilizer in an effort to reduce input costs. Dairy, egg, hog, and cattle prices moved lower, although cattle prices rallied some toward the end of the reporting period.

EIGHTH DISTRICT—ST. LOUIS**Summary**

Economic activity in the Eighth District has increased at a modest pace since our previous report. Business contacts reported that ample job opportunities continued to be available in most areas. General retailers continued to report 2015 sales were at or above 2014 levels, while auto dealers continued to report mixed results. Real estate conditions continued to improve. A survey of District banks suggested banking conditions are stable or generally improving. Crop conditions continued to be troubled by wet weather: Although winter wheat plantings were on schedule and in good condition, late-December rain and subsequent flooding has damaged the crop in some parts of the District.

Employment, Wages, and Prices

Business contacts indicated that growth in employment and wages in the District was modest and prices were generally unchanged. Contacts across the District reported that employment opportunities were available across most industries and regions. Contacts in the construction industry continued to report that difficulty finding workers was restraining their ability to grow. Contacts reported that year-end raises were generally at or slightly above last year's levels while their prices charged to customers were generally unchanged from one year ago.

Consumer Spending

Retail sales growth has remained modest since the previous reporting period. Retail contacts reported holiday sales were slightly higher than one year ago and that year-to-date sales for 2015 were slightly above 2014 levels. Contacts indicated that sales at a new outlet mall in Arkansas have exceeded expectations since the mall opened three months ago. A large, multi-location convenience store chain in the District is looking to expand after seeing record profitability in 2015, attributing this success mostly to low gasoline prices. Hospitality contacts reported favorable occupancy rates, and multiple downtown Louisville hotels announced renovation plans.

Reports from auto dealers continued to be mixed. The majority of contacts indicated that year-to-date sales are higher compared with the same time last year. However, several contacts reported a

slowdown in activity over the past few months, including a luxury auto dealership that reported sales recently have been far below expectations.

Manufacturing and Other Business Activity

Manufacturing activity has been positive since our previous report. Several companies reported capital expenditure and facility expansion plans in the District, including firms that manufacture food and beverage products, electrical equipment, and machinery. In particular, firms that manufacture motor vehicles and motor vehicle parts have announced significant expansions. In contrast, reports from the primary metals industry were negative. A large steel manufacturer temporarily suspended production, citing low prices, increased imports, and decreased demand from the energy sector. Similarly, a contact in the aluminum industry reported a pessimistic outlook as a result of increased competition from abroad.

Reports of plans in the District's service sector have been positive since the previous report. Firms that provide health care and social assistance services and leisure and hospitality services reported plans to hire new employees and expand facilities. Reports from the transportation sector, however, were mixed. Some contacts in the trucking industry reported plans to hire new drivers and that low fuel prices were boosting revenue; parcel companies in the District reported record holiday-related demand. Other industry contacts reported weak volume of freight loads for this time of year. A contact in water transportation noted that falling crude oil prices have reduced barge traffic and revenues. Recent flooding along the Mississippi river temporarily halted barge traffic and led shippers to seek alternative means of transportation.

Real Estate and Construction

Residential real estate activity has continued to improve since our previous report. Compared with the same period in the previous year, November home sales increased on a year-over-year basis: 13 percent in Little Rock, 5 percent in Memphis, and 1 percent in St. Louis; sales were generally unchanged in Louisville. Residential construction activity increased throughout most of the District. On a year-over-year basis, November single-family building permits increased 61 percent in Louisville, 21 percent in

Memphis, and 3 percent in St. Louis. Most contacts expressed a positive outlook for residential construction activity for early 2016. Commercial real estate market conditions continued to improve throughout most of the District. Commercial construction activity continued to increase throughout all sectors, and contacts expect the commercial real estate market to strengthen further in the first quarter of 2016.

Banking and Finance

Banking conditions in the District remained positive in December. Compared with earlier in 2015, loan growth in December was slightly better and remains above historical averages. Total loans outstanding at a sample of about 80 small and midsized District banks increased 11 percent in December from the same time last year: Real estate lending increased 10 percent, Commercial and industrial loans increased 10 percent, and loans to individuals increased 7 percent. Lending growth in real estate was better in December than earlier in 2015, while growth in C&I and individual loans was flat to somewhat lower. During the reporting period, total deposits increased 7 percent relative to a year ago, slightly faster than the pace of deposit growth in the nation.

Agriculture and Natural Resources

As of late November, District winter wheat was roughly 95 percent planted, which is consistent with recent history. More than 94 percent of District winter wheat was rated fair or better. However, due to warmer weather about 86 percent of the crop had already emerged—a proportion that is notably higher than recent averages. Moreover, late December flooding has led to concerns about significant crop damage.

Year-to-date District coal production was 5 percent below the 2014 level by the end of November, while production in the month of November was almost 12 percent below the amount produced during the same month in 2014.

NINTH DISTRICT--MINNEAPOLIS

The Ninth District economy grew modestly since the last report. Increased activity was noted in consumer spending, commercial construction and real estate, residential construction, and professional services. Tourism and residential real estate were mixed, while manufacturing, energy, mining, and agriculture were down. Labor markets tightened, while wage pressures were moderate and price pressures remained low.

Consumer Spending and Tourism

Consumer spending was strong. A North Dakota mall manager reported that Black Friday sales were up by double digits from this time last year, which was better than expected. A major retailer reported strong sales starting Black Friday weekend that continued into December; holiday sales online were reported as “record breaking.” A wholesaler of curricular materials reported that business was up 6 percent. An auto dealer contact in Minnesota reported that car sales were “very good” and back to prerecession numbers.

Tourism was mixed in the District. Mild weather extended the tourism season in some areas, but stalled winter tourism activity. At national parks in Montana, visitor numbers were record breaking and remained strong through December, which sources attributed to mild weather and lower fuel prices. A lack of snowfall in Michigan’s Upper Peninsula and northern Wisconsin contributed to 100 percent cancellation rates at some lodges and ski venues. Some small hotels were deciding not to open this season, having missed out on the usual holiday peak in business. A tourism official in the Upper Peninsula said, “Snow is our only product this time of year, and we’re just out of it.”

Construction and Real Estate

Commercial construction was strong since the last report. “Very cooperative weather” allowed contractors to complete more projects than normal, said an industry source. Activity in Minneapolis was steady at very high levels and was expected to continue in 2016. Missoula, Mont., witnessed a record year with several major construction projects under way and others in planning stages. Commercial permitting in Billings, Mont., and Bismarck, N.D., remained strong through November. Residential construction rose moderately. November and December housing permits in Minneapolis-St. Paul were up from a year earlier, and home construction “remains strong” in Mankato, Minn., said a local source. But permits and permit values were down since the last report in Rapid City, S.D., and Billings compared with a year earlier. Multifamily

activity continued to be strong in Minneapolis-St. Paul, Billings, and Rochester, Minn., but fell in Bismarck in November.

Commercial real estate activity was moderate to strong since the last report. Retail, office, and industrial vacancies in Minneapolis-St. Paul have been falling and rents have been rising, according to multiple industry reports. In northwestern Montana, commercial vacancies “have mostly disappeared,” with rates stabilizing at about 5 percent, said a local source, while the Rapid City market “has been extremely active these last couple of weeks of the year.” Residential real estate was mixed. Reports across the District showed as many sales decreases as increases in October and November compared with a year earlier, though most markets saw a strong 2015 overall. Numerous sources said low inventories, particularly for lower-priced homes, have held back home sales. Median home prices in November were widely higher year-over-year, rising 7 percent in the Twin Cities.

Services

Growth in the professional services sector was moderate to strong. The head of a commercial design firm in Rochester characterized business as “revving up and a little frenetic,” attributing the increased activity to “pent-up demand for renovations.” North Dakota services firms continued to see demand despite slower activity in oil fields; an engineering firm in Bismarck expanded its services across the state. Architecture firms in Sioux Falls and Grand Forks, N.D., experienced increases in profits. A national freight service company in Minnesota reported that annual volumes were up slightly and that “e-commerce sales are driving most activity.”

Manufacturing

District manufacturing decreased since the last report. An index of manufacturing activity released by Creighton University remained at levels indicating contraction in December in Minnesota and the Dakotas. However, according to preliminary results from the Minneapolis Fed’s 2016 survey of manufacturers, respondents expected orders, investment, and profits to increase in the coming year. An aircraft producer was expanding in preparation for the launch of a new product.

Energy and Mining

Activity in the energy sector remained slow. The number of active oil and gas drilling rigs in the District at the end of December fell from a month earlier to its lowest level since late-2009; oil production barely changed in October from the previous month and remained below the peak it reached in early 2015. Meanwhile, major upgrades began on a Montana oil refinery, which will

take place over the next year. An ethanol plant in Minnesota announced a large expansion. Mining activity continued to decline. Iron ore shipments on the Great Lakes fell 17 percent in November from a year earlier. However, a quartzite mine reported that demand from construction was solid.

Agriculture

District agricultural conditions softened since the last report. Crop prices remained low, and farm incomes for 2015 were expected to be at their lowest levels in 10 years. District sugar beet growers were concerned about reduced demand, as a major candy producer has switched to cane sugar due to consumer concerns about genetically modified ingredients. Several District cattle producers reported that a sharp drop in prices late in the year substantially downgraded their financial outlook. Prices received by farmers fell in November compared with a year earlier for wheat, soybeans, hay, milk, chickens, hogs, and cattle; corn prices were unchanged, while prices increased for eggs and turkeys.

Employment, Wages, and Prices

Labor markets tightened since the last report, with some isolated softness. In eastern North Dakota, two manufacturers announced in late November that they were both looking to add up to 100 workers in the coming year. Most stores were hiring during the holiday shopping season at outlet malls in Minneapolis-St. Paul. Staffing firms in Minneapolis-St. Paul and western Wisconsin said mid-December hiring was surprisingly strong. There were also areas of soft employment. Online job openings with Job Service North Dakota continued to fall since the last report. In December, mines in Montana laid off nearly 200 workers. Preliminary results from the Minneapolis Fed's 2016 annual Business Outlook Poll indicated that District firms believed employment would increase in their communities in the coming year, though they were slightly less optimistic about hiring at their own firms.

Overall, wage pressures were moderate. The majority of Business Outlook Poll respondents expected wages to rise by 2 percent to 3 percent in the coming year. A major retailer announced that it was raising base wages for 2,500 store workers in South Dakota. A Minneapolis-St. Paul staffing source said high health care costs were pushing up total compensation costs, but limiting wage increases to about 3 percent. However, an eastern North Dakota manufacturer said that it was raising wages by 10 percent to attract and expand its workforce. Price pressures overall remained low. The majority of Outlook Poll respondents expected inflation over the coming year of 2 percent or slightly lower. Input prices "are flat,"

said a North Dakota engineering firm, and construction bid prices in that state have been lower because of a slower state economy and greater competition for projects. A mild District winter and cheap fuel prices were expected to reduce home heating costs by 30 percent or more.

TENTH DISTRICT - KANSAS CITY

Economic activity in the Tenth District was flat in December, but expectations for future activity were positive outside of the energy and agriculture sectors. Consumer spending was mixed across sectors, with increased retail and tourism activity and decreased auto and restaurant sales. District manufacturing activity declined moderately for both durable and nondurable goods, and the weakest activity continued to be in energy-concentrated states. Professional and high-tech firms continued to report moderate increases in activity, but wholesale trade and transportation contacts reported a sharp decline. District real estate activity increased slightly since the previous survey period as a seasonally sluggish residential real estate sector was offset by positive growth in the commercial real estate sector. Bankers continued to report steady loan demand, deposit levels, and loan quality. Energy activity in the District fell at a slightly faster pace than the previous survey period, and warmer-than-expected winter months combined with abundant inventory levels put further downward pressure on oil and gas prices. Farm income expectations remained subdued as a strong fall harvest kept corn prices near year-ago-levels and soybean prices were significantly less than a year ago. Prices were mixed across sectors, while wage growth generally held steady across the District.

Consumer Spending. Consumer spending activity was mixed across sectors since the previous survey period, and expectations were positive for the months ahead in most consumer sectors. Retail sales picked up modestly in December and remained higher than year-ago levels. However, several retailers noted a drop in sales of luxury products. Contacts anticipated a moderate increase in sales and decreased inventory levels over the next few months. Auto sales dropped markedly and fell below year-ago levels, but sale were expected to pick-up modestly in the months ahead. Auto inventories increased from the previous month and were expected to rise further. Restaurant sales weakened further and were flat versus a year ago, with contacts expecting moderate improvements over the next few months. District tourism activity picked up slightly in December, but remained lower than a year ago. Tourism contacts in the Rocky Mountain region expected some strengthening in activity as the winter ski season begins.

Manufacturing and Other Business Activity. Manufacturing activity declined moderately, while other business activity was mixed. The decline in manufacturing activity was noted among both durable and nondurable goods, particularly for food and beverage, computer and electronic equipment, and machinery production. The weakest activity continued to be in states with relatively large energy

sectors. Production, shipments, and new orders decreased moderately and remained lower than a year ago. Manufacturers' capital spending plans improved, and expectations for future activity remained at solid levels. Professional and high-tech firms continued to report moderate increases in activity, with sales well above year-ago levels and solid expectations for future months. In contrast, transportation and wholesale trade contacts noted sharp declines in activity, although many firms expected activity to rise steadily in the months ahead. Professional and high-tech firms reported favorable capital spending plans, while transportation and wholesale trade firms expected capital spending to fall moderately.

Real Estate and Construction. District real estate activity increased slightly in December, and expectations remained positive but were lower than the previous survey. Residential real estate sales declined moderately and were below year-ago levels, with many contacts citing seasonal factors for much of the slowdown. Sales of low- and medium-priced homes continued to outpace sales of higher-priced homes. Home inventories fell considerably, while home prices remained above year-ago levels. Contacts anticipated that seasonal factors and higher interest rates would slow overall activity in the residential real estate market in the months ahead. Residential construction and construction supply firms reported a slight expansion as sales and construction starts were above levels in the previous survey period and one year ago. Commercial real estate activity continued to expand at a modest pace in December as absorption rates, completions, construction underway, sales, and prices increased and vacancy rates were flat. The commercial real estate sector was expected to continue to strengthen at a modest pace over the coming months.

Banking. Though most bankers continued to report steady overall loan demand, fewer contacts noted stronger demand compared to the results of the last survey period. Respondents indicated a steady demand for commercial and industrial, commercial real estate, residential real estate, agricultural and consumer installment loans. Most bankers indicated loan quality was unchanged compared to a year ago. In addition, most respondents expected loan quality to remain essentially the same over the next six months. Credit standards remained largely unchanged in all major loan categories. Finally, a strong majority of respondents reported stable deposit levels.

Energy. Tenth District energy sector activity contracted at a slightly faster pace compared with the previous survey, and expectations became more negative. The number of active oil and gas drilling rigs fell, and several contacts anticipated lower oil production in the first half of 2016 due to reduced capital spending and rig counts. Mergers and acquisitions and defaults/bankruptcies were projected to

increase in 2016 as a result of low cash flows, hedges rolling off, and reductions to credit. Employment in the sector continued to decline with several contacts expressing concern about the loss of experienced personnel. The price of oil fell modestly compared to the previous period, and it was expected to ease further in the coming months. Natural gas spot prices fell to levels not seen since the late-nineties, with warmer-than-normal temperatures across the U.S. combined with abundant inventories contributing to the decline in oil and natural gas prices.

Agriculture. Agricultural commodity prices generally remained low since the previous reporting period, keeping farm income expectations subdued. Although crop prices increased slightly in December, a strong fall harvest kept corn prices near year-ago-levels, with soybean prices significantly less than a year ago. Wheat prices also remained lower than year-ago levels alongside solid winter growing conditions throughout the District. In the livestock sector, both cattle and hog prices were significantly below year-ago levels as supplies have steadily increased and global demand has been relatively weak. Both crop and livestock prices remained below the cost of production for some producers, continuing to strain farm income and cash flow. District contacts expected income to remain relatively soft in the coming months.

Wages and Prices. Prices were mixed across sectors, while wage growth remained generally steady across the District. Retail input prices grew at a faster pace compared to the previous survey, while selling prices remained unchanged. Restaurant input and menu prices experienced faster growth than in the previous month. Raw materials prices in the manufacturing sector declined more rapidly, and finished goods prices continued to decline slightly. Manufacturers expected raw materials prices to increase in the coming months and anticipated that selling prices would remain unchanged. Transportation input and selling prices declined and were expected to continue falling over coming months. Construction prices held steady since the previous survey period. Restaurant contacts reported steady wage growth, while retail sector wages grew at a slightly faster rate. The transportation sector experienced a moderate decline in wage growth. Respondents noted shortages for management and skilled workers, along with a continued need for drivers and technicians.

ELEVENTH DISTRICT—DALLAS

The Eleventh District economy grew at a modest pace over the last six weeks. Most respondents in manufacturing reported that demand either held steady or increased. Demand for nonfinancial services was mixed. Auto sales held steady, while retail spending moderated. Housing demand softened due to seasonal factors, and apartment, office and industrial leasing activity generally remained solid, except for continued weakness in Houston. Energy activity was still depressed. Price pressures remained subdued and employment held steady or increased.

Prices Most input costs and selling prices held steady or declined over the reporting period. Transportation services firms, including airlines, noted flat to lower rates and fares partly due to excess capacity and low fuel costs. Slight downward pressure on prices was also noted by retailers and auto dealers. Leisure and hospitality contacts reported stable input costs, still, some respondents noted plans to increase prices early next year. Some manufacturers also said they planned to increase selling prices in 2016, while a few noted continued pressure to reduce prices.

The price of West Texas Intermediate and natural gas fell during the past six weeks, affirming pessimistic outlooks for 2016. Gasoline and on-highway diesel prices dipped as well.

Labor Market Employment in most industries held steady or increased. Contacts reported hiring in professional and technical services, finance, airlines and leisure and hospitality. Several manufacturers also added to headcounts, including primary metals, machinery, transportation equipment and food producers. One auto dealer said they would like to hire more people but were having trouble finding applicants. The second round of layoffs in the energy sector continued, and headcount reductions were also noted by some staffing services firms and electronic equipment producers. A railroad furloughed some employees.

Wages were flat to up from six weeks ago. Some manufacturers increased wages to attract qualified candidates and reduce employee turnover. Reports of a shortage of truck drivers continued, but leisure and hospitality contacts noted that finding workers had become easier.

Manufacturing Most manufacturers reported flat or increased demand over the last six weeks. Producers of construction materials said demand was up in Dallas-Fort Worth, San Antonio and Austin, but down significantly in Houston, where contacts said residential demand had remained stable but that both commercial and industrial demand fell off notably. The downturn in energy prices continued to negatively impact some fabricated metals manufacturers. A machine tool producer said demand from the energy sector was terrible but that demand from the aerospace and medical industries was OK. Demand for high-tech manufacturing was modest, with a low-growth environment expected in 2016. Several manufacturing contacts noted the strong dollar's negative impact on their export business.

Refinery utilization rates rose further from very high levels. Margins remained healthy thanks to persistently low domestic oil and natural gas prices, although many chemical segments were hurting because of the strong dollar. Expectations for 2016 remain positive for petroleum refiners and most chemical manufacturers.

Retail Sales Retail sales generally softened this reporting period, although one retailer said overall sales growth held steady and Thanksgiving weekend sales were strong. Sources of weakness included unseasonably warm weather and the strong dollar, which continued to dampen tourist spending and sales along the border. Outlooks were generally cautiously optimistic.

Automobile sales held fairly steady at high levels in part due to attractive manufacturers' incentives. Inventories were reported to be in good shape, and outlooks for 2016 were positive.

Nonfinancial Services Demand for nonfinancial services varied over the past six weeks. Reports among staffing services firms were mixed again. A contact noted that demand in Dallas was still strong but that there has been more downsizing in Houston, and another contact said there have been some layoffs at companies two to three degrees separated from the oil and gas sector. Demand for professional and technical services increased moderately in the last six weeks. Multiple law firms noted record revenues for 2015, with intellectual property and real estate largely driving the growth. Demand in leisure and hospitality grew at a good pace, with the large metro areas continuing to perform best.

Air, sea and rail cargo volumes fell since the last report. Reports from trucking firms were mixed. Strength was noted in auto cargo shipments and in demand along the U.S.-Mexico border but demand from interior areas of Texas was weak. Courier cargo volumes increased during the reporting period, driven by growth in retail (particularly e-commerce) and nondurable wholesale (particularly apparel). Airlines reported a decline in passenger demand; however, outlooks were positive, with contacts expecting a pickup in both domestic and transatlantic demand.

Construction and Real Estate Housing demand softened during the reporting period. Contacts continued to report seasonally slow buyer traffic and home sales; however, respondents in Houston cited the sluggish economy as a factor affecting sales as well. Dallas-Fort Worth area contacts noted push back from buyers on pricing, while a respondent in Houston reported price concessions on new homes. Builders' appetite for land has declined, but a few builders were building up their inventory of speculative homes. Apartment demand remained strong. Occupancy rates, although still high, dipped slightly, partly due to the large number of deliveries in the fourth quarter. Outlooks were fairly positive, with the exception of further weakening in Houston.

Demand for office space was strong in Austin and Dallas-Fort Worth, but continued to soften in Houston. Industrial leasing mostly remained active and vacancies were tight. Contacts noted high levels of industrial construction in Dallas-Fort Worth.

Financial Services Loan demand grew at a slighter softer pace over the last six weeks. Lending to medium-sized businesses fell, likely due to seasonal factors. Strength in the auto market led to a robust increase in consumer auto loans and business loans to auto dealers. Construction lending weakened in Houston and San Antonio while holding steady in Dallas and Austin. Overall, business loans to developers increased according to one contact. Contacts noted increasing delinquencies in loans to oil and gas companies. Consumer credit card delinquencies also ticked upward, due in part to the seasonal increase in shopping. Economic outlooks deteriorated slightly as contacts anticipate low oil prices for the foreseeable future. Broader uncertainty surrounding regulation and global economic developments have also tapered outlooks for 2016.

Energy Demand for oilfield services remained depressed as drilling declined in the Permian Basin and Eagle Ford Shale. Cost cutting continued through reductions in employment and capital spending. At recent low prices and demand, the financial position of many firms continued to deteriorate, particularly smaller firms. Outlooks were negative for 2016, and many contacts were concerned that there will be more defaults, bankruptcies, mergers and acquisitions in early 2016.

Agriculture The district continued to receive ample rainfall, keeping drought conditions at bay and providing good soil moisture going into the spring planting season. 2015 crop production was above the five-year averages for most crops. However, crop prices are generally low, even sub-profitable for some producers, and much of the cotton crop was discounted further because of damage from too much rain. The low prices have led to some financial stress among agricultural producers. Cattle prices are well below year-ago levels but are still quite strong historically.

TWELFTH DISTRICT—SAN FRANCISCO**Summary**

Economic activity in the District grew at a moderate pace during the reporting period of late November through early January. Overall price inflation was minimal, and upward wage pressures increased further. Retail sales expanded moderately, as did demand for business and consumer services. Manufacturing output declined somewhat. On balance, activity in the agriculture sector was flat. Activity in residential and commercial real estate markets expanded further. Lending activity grew at a modest pace.

Prices and Wages

Overall price inflation remained minimal during the reporting period. Prices for apparel products fell during the holiday season due to weaker-than-expected demand, which raised inventories and prompted more discounting than in previous holiday seasons. Reduced component costs and vigorous supplier competition held down prices for consumer electronics. Prices for health-care services rose somewhat, while prices for pharmaceuticals grew rapidly, particularly for branded products. Shortages of labor, selected materials, and land in desired locations for building continued to push up construction costs in some metropolitan areas.

Upward wage pressures increased across the District. Wage growth for high-skilled workers, notably in the technology and financial sectors, continued to exceed that for lower-skilled workers; however, contacts in a few areas noted growing labor shortages and greater upward wage pressures for entry-level employees. Wage pressures intensified in the health-care sector, particularly for specialized positions, with a few contacts reporting that salaries had been adjusted midyear to help retain staff. Strong demand for skilled labor in the technology sector increased compensation; however, contacts reported that firms generally opted to improve vacation and work-life benefits rather than increase salaries. Wage pressures for low-skilled workers in the hospitality industry grew moderately as the effects of recent minimum wage legislation began to take hold.

Retail Trade and Services

Retail sales grew at a moderate pace overall, with mixed reports for holiday season sales across sectors. Automobile sales were very strong, propelled in part by low sales prices, incentives, and low oil prices. Sales of toys and computer games were up from the same period last year, spurred largely by increased

activity in online sales and distribution. Holiday sales of apparel products for traditional brick-and-mortar retailers were lower than anticipated, and high inventories led to large post-holiday discounts, reducing profit margins for major retailers. Sales of consumer electronics trended down somewhat, while profit margins narrowed further as exports softened due to the elevated dollar. Demand for pharmaceutical products remained robust, but profits ticked down slightly relative to earlier in the year as firms focused on new product launches with high initial costs.

Growth in consumer and business services expanded at a moderate pace. Demand for server and cloud computing services rose further. Contacts reported a continued shift towards online retailers and noted that e-commerce firms continued to invest in expanding warehouse and distribution capacity. Hospitals and other health-care providers continued to add capacity to meet rising demand, and their profits remained high. By contrast, profitability for many small and medium-sized health insurance providers dipped somewhat due to federal legislation to limit risk payments to insurers with high payout costs. Profit margins for the hospitality industry ticked up relative to last year as softening demand for affordable hotels and restaurants were more than offset by an increase in demand for luxury services.

Manufacturing

Activity in the manufacturing sector was flat to down on balance during the reporting period. An elevated dollar, lower global demand, and antidumping protections in some markets slowed manufacturing exports, notably for steel. Domestic demand for information and communication technology products was undermined by import substitution spurred by East Asia's growth as a manufacturing center. Deliveries of commercial aircraft were up slightly from the same period a year prior, but new orders were significantly lower. Manufacturers of electronic components reported that sales were stable as capacity utilization rates remain largely unchanged, and new orders are arriving at around the same rate as final sales. Profit margins across the sector were flat to somewhat down compared with prior reporting periods as the positive effects of lower commodity input prices were offset by increased global competition and an elevated dollar.

Agriculture and Resource-Related Industries

Activity in the agriculture and resources sector was flat over the reporting period. Despite an

unusually wet early winter, drought conditions remain a challenge for growers and ranchers in much of the District. Shortages in water reserves reduced the size and weight of some nut harvests and raised production costs by forcing producers in parts of California to increase expenditures on water extraction. Inventories for dairy products and beef cattle rose as the elevated dollar held down exports. By contrast, dollar effects on exports of pork products were partially offset by rising demand from East Asia.

Real Estate and Construction

Real estate market activity grew at a robust pace across most of the District. Demand for new residential units remains high, with contacts in many West Coast cities reporting ongoing reductions in vacancy rates. Residential construction activity grew substantially, with a somewhat stronger market for multifamily units than for single-family units. Housing prices rose further across the District, and contacts expressed concerns over affordability for low-income buyers. On the commercial side of the market, lease rates for existing units have increased, pushing sales prices higher across the District. Yet, new commercial construction remains concentrated in a few hot markets, such as the San Francisco Bay Area and Seattle. Contacts noted continued shortages of labor and materials and construction delays in those areas, with one reporting that commercial contractors had stopped accepting new construction projects in the final months of the year.

Financial Institutions

Lending activity grew modestly over the reporting period. Loan demand grew unevenly across the District, as some borrowers switched financial institutions while shopping for better terms. Contacts reported that automobile loans and mortgage originations grew at a robust pace. Deposits expanded further, and financial institutions had ample liquidity to cover risk. However, contacts noted that low interest rates and regulatory burdens have held down bank profitability. Credit quality improved further, with stronger household balance sheets contributing to a decline in loan delinquencies and charge-offs.