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# The Beige Book

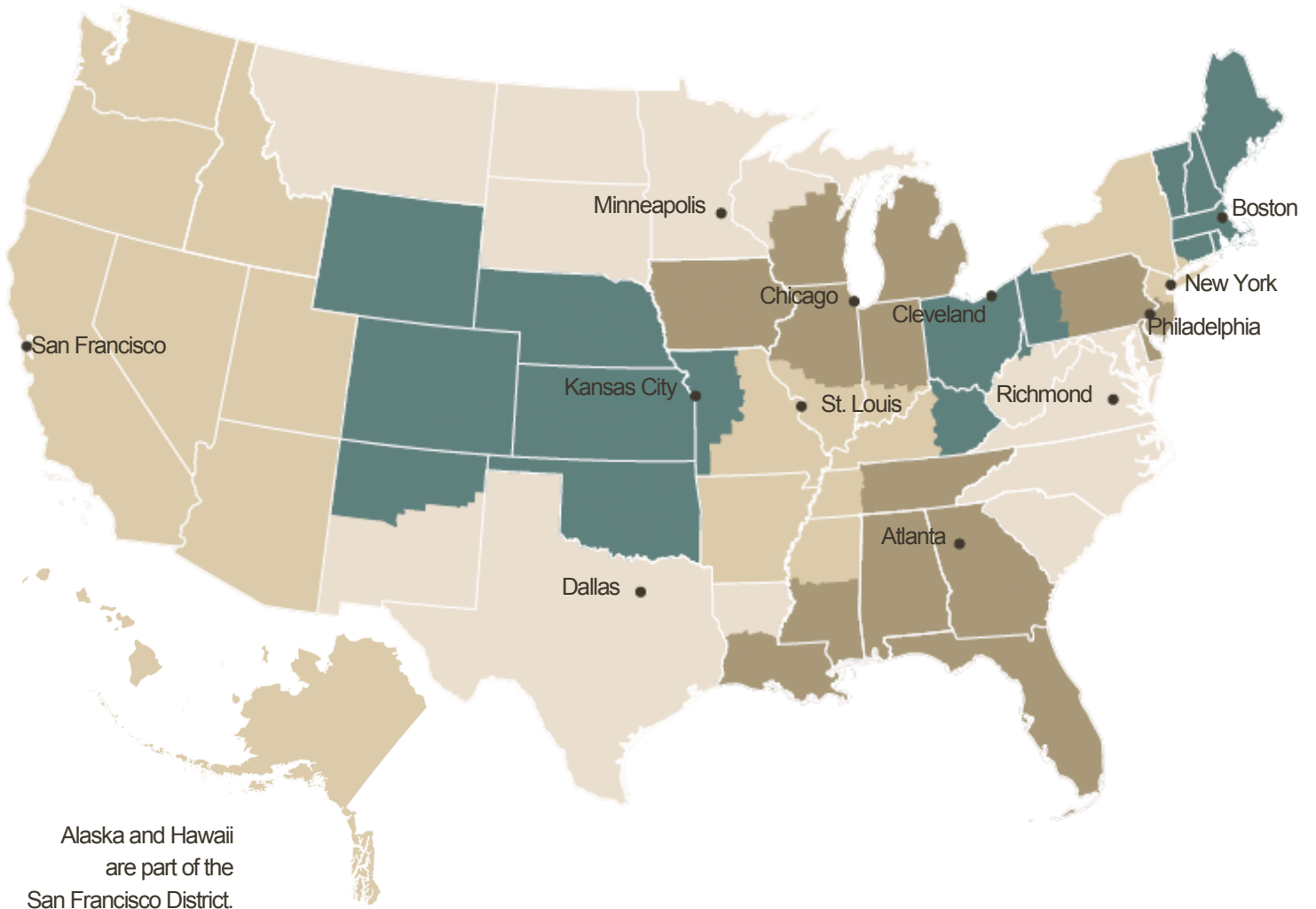
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Summary of Commentary on Current Economic Conditions

By Federal Reserve District

May 2018

## Federal Reserve Districts



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

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

## What is The Beige Book?

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

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

## How is the information collected?

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

## How is the information used?

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

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This report was prepared at the Federal Reserve Bank of Cleveland based on information collected on or before May 21, 2018. This document summarizes comments received from contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.

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# National Summary

The Beige Book ■ May 2018

## Overall Economic Activity

Economic activity expanded moderately in late April and early May with few shifts in the pattern of growth. The Dallas District was an exception, where overall economic activity sped up to a solid pace. Manufacturing shifted into higher gear with more than half of the Districts reporting a pickup in industrial activity and a third of the Districts classifying activity as “strong.” Fabricated metals, heavy industrial machinery, and electronics equipment were noted as areas of strength. Rising goods production led to higher freight volumes for transportation firms. By contrast, consumer spending was soft. Nonauto retail sales growth moderated somewhat and auto sales were flat, although there was considerable variation by District and vehicle type. In banking, demand for loans ticked higher and banks reported that increased competition had led to higher deposit rates. Delinquency rates were mostly stable at low levels. Homebuilding and home sales increased modestly, on net, and nonresidential construction continued at a moderate pace. Contacts noted some concern about the uncertainty of international trade policy. Still, outlooks for near term growth were generally upbeat.

## Employment and Wages

Employment rose at a modest to moderate rate across most Districts. Again, the Dallas District was the exception, where solid and widespread employment growth was reported. Labor market conditions remained tight across the country, and contacts continued to report difficulty filling positions across skill levels. Shortages of qualified workers were reported in various specialized trades and occupations, including truck drivers, sales personnel, carpenters, electricians, painters, and information technology professionals. Many firms responded to talent shortages by increasing wages as well as the generosity of their compensation packages. In the aggregate, however, wage increases remained modest in most Districts. Contacts in some Districts expected similar employment and wage gains in the coming months.

## Prices

Prices rose moderately in most Districts, while the remainder reported slight or modest increases. There were several reports of rising materials costs, notably for steel, aluminum, oil, oil derivatives, lumber, and cement. A few Districts noted that these reports of rising materials costs were becoming more common across contacts. Input cost increases, along with labor shortages in some sectors and strengthening demand, put upward pressure on prices in the transportation, construction, and manufacturing sectors. Some Districts also noted that their retail contacts were more able to pass along price increases to their customers than in the recent past.

## Highlights by Federal Reserve District

### Boston

Business activity continued to expand at a moderate pace, with contacted manufacturers, retailers, and most staffing firms reporting year-over-year increases in revenues. While some firms said prices were increasing more than last year, others indicated no unusual pressure. Most hiring firms noted tight labor markets; some—including staffing firms—said wages were rising.

### New York

Economic growth continued at a modest pace, while labor markets have tightened further. Input price pressures have broadened, and selling price increases have picked up somewhat. Housing markets have firmed slightly, while commercial real estate markets have softened.

### Philadelphia

Economic activity continued to expand at a modest pace. Wage pressures were emerging in some tighter labor markets, but wage and price increases remained modest overall, as did job growth. Notably, nonfinancial services accelerated to a moderate pace, and auto sales appeared to reverse several periods of decline, posting a slight increase.

### Cleveland

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

### Richmond

The regional economy expanded moderately. Robust demand and a shortage of drivers led some trucking firms to turn away business which, in turn, increased demand for rail services. Home sales were steady, while inventories remained limited. Labor demand continued to strengthen and supply remained tight across industries. Prices rose moderately, overall.

### Atlanta

Economic activity grew at a modest pace. Tightness continued in the labor market with firms noting increased efforts to attract and retain workers. Reports of wage growth were mixed. Overall retail sales rose and light truck sales were robust. Real estate activity improved slightly. Manufacturers noted increases in new orders and production. Loan growth remained firm.

### Chicago

Growth in economic activity continued at a moderate pace. Manufacturing increased strongly, employment grew moderately, consumer and business spending rose modestly, and construction and real estate increased slightly. Wages and prices increased modestly and financial conditions improved modestly. The outlook for farm income brightened.

### St. Louis

Economic conditions improved slightly. Wage growth was moderate. Some firms have begun relaxing drug-testing standards and restrictions on hiring felons to alleviate labor shortages. District bankers reported weaker demand for new loans and a decline in creditworthiness of loan applicants. Firms surveyed in mid-May were slightly less optimistic about the rest of 2018 as those surveyed in mid-February.

### Minneapolis

Ninth District economic activity increased moderately. While labor demand appeared robust, employment growth was restrained by a tight labor supply. Wage growth was moderate, while price pressures increased slightly, particularly at the wholesale level. District manufacturers were experiencing robust growth but also were experiencing supply-chain disruptions as a result of uncertainty over trade policy.

### Kansas City

Overall economic activity in the Tenth District increased moderately, with further growth expected in coming months. Manufacturing activity expanded at a rapid pace, while consumer spending, energy, and business services grew moderately. Agricultural conditions weakened but at a slower pace, while District employment and wages rose modestly.

### Dallas

Economic activity grew at a solid pace, with an acceleration in manufacturing activity. Expansion in the services, energy, and real estate sectors continued at about the same pace. Retail spending was mixed and drought conditions persisted in parts of the District. Hiring remained solid despite a tight labor market, and wage and price pressures stayed elevated. Contacts expressed concern about trade uncertainty and rising interest rates, although outlooks overall remained positive.

### San Francisco

Economic activity in the Twelfth District continued to expand at a moderate pace. Sales of retail goods edged up, and activity in the consumer and business services sectors expanded slightly. Activity in the manufacturing sector was solid. Activity in residential real estate markets remained solid, and conditions in the commercial real estate sector picked up notably. Lending activity ticked up modestly.



## Summary of Economic Activity

First District economic activity continued to expand at a moderate pace, with all responding retailers and manufacturers citing year-over-year increases in sales and revenues in recent periods; nearly all staffing firms also reported revenue growth. Residential real estate markets saw price increases and mixed sales results, still largely attributed to very limited inventories of homes. Commercial real estate markets were mostly improved since the last report, or at least steady. Some firms, including staffing firms, cited pick-ups in wages; most noted ongoing difficulty finding workers. One retailer cited vendor-price increases of about 3 percent, which they intended to pass along to customers; manufacturers noted no unusual price pressures although some were concerned about future effects on prices of tariffs or other changes in trade policy. Outlooks continued to be positive.

### Employment and Wages

Many responding firms have done some hiring; most reported tight labor markets and modest increases in pay. Retail contacts reported that labor supply is tight for some skills, like IT, and in some regions. All contacted manufacturers were hiring or maintaining current levels of employment; they said hiring was not unusually difficult. A contact in the semiconductor industry said the firm was giving 6 percent raises to engineers and 3 percent to the rest of the staff. A contact in industrial distribution said that finding salespeople was hard, while a milk producer said truckers were in short supply. All staffing-firm respondents reported increased labor demand across industries and occupations stemming from both new job creation and increased vacancies from job switchers. Labor supply continued to present a challenge to most staffing firms, increasing search costs and leaving many unfilled jobs. All staffing contacts said that both bill rates and pay rates were rising significantly.

### Prices

Most respondents reported modest upward movements in prices. One retail firm, which noted that prices were largely flat in 2017, reported recently seeing higher prices from manufacturers and wholesalers that it is passing through as higher retail prices; the increases averaged 3¼ percent. Most of these vendor price increases were attributed to higher steel prices and to high oil prices. Two retail contacts specifically noted that higher fuel prices and a shortage of truck drivers were

contributing to higher shipping costs. Manufacturing contacts did not report any unusual pricing pressure. Even a contact who said that his firm was having trouble finding components said that although prices were up, there was no gouging. Contacts expressed concern about tariffs, with one manufacturer saying he expected prices of certain inputs to rise 15 percent to 20 percent.

### Retail and Tourism

Retail contacts consulted for this round all reported year-over-year gains in their most recent comparable-store sales, with growth ranging from mid-single-digit to double-digit increases. Some contacts reported that in-store customer traffic continued to decline, while online and e-commerce sales were up. Nonetheless, the retail outlook was positive, with firms reporting that they plan to continue to make multiyear investments in their businesses.

A contact in the travel industry reported that Boston's Logan International Airport continued to see robust increases in passenger counts. Scheduled airline seats increased year-over-year in recent months and total passenger traffic was up 4.1 percent in 2018:Q1 compared with 2017:Q1, with domestic passengers increasing 4.6 percent and international traffic up 1.5 percent. Cruise traffic in Boston has also increased significantly, both as a home port and as a port-of-call. The outlook for tourism to Boston and New England was reported to be bullish.

## Manufacturing and Related Services

All eight responding manufacturing firms reported higher sales, with strength across many sectors. A contact in the industrial distribution business said that activity had finally recovered from the 2014 fall in oil prices, reporting that increased demand was broad-based but energy was playing a large role either directly or indirectly. Technology firms also reported strong sales. A manufacturer of transformers for big-ticket electronic devices described enormous difficulty finding components and said they were keeping inventories at twice normal levels to ensure that they could keep their lines running.

No manufacturing contacts cited revisions to their capital expenditure plans. Two reported major share repurchase programs. The outlook was positive for all respondents this cycle. The major concern manufacturers expressed was trade policy. Some worried about the effects of tariffs on their costs, while a maker of testing equipment said they might move some production to Europe to avoid Chinese retaliation against the United States.

## Staffing Services

New England staffing firms have experienced an upsurge in business during the second quarter to date, with nearly all reporting revenue growth, both year-over-year and quarter-over-quarter. Reports were mixed on whether labor shortages were greater in skilled or unskilled occupations, but most said that temporary positions had been difficult to fill without the possibility of permanent hire at the end of the assignment; at the same time, clients were reportedly becoming more likely to retain temporary hires for permanent positions to avoid search costs later on. Respondents said they were increasing referral bonuses and professional development opportunities in order to build networks and long-term relationships with workers. Looking forward, contacts expressed optimism: Many expected a short-term boost from a seasonal influx of college graduates and students looking for temporary summer work; on a longer horizon, most expected current labor market conditions to continue, bringing both the great opportunity of strong demand and the difficulty of sparse labor supply.

## Commercial Real Estate

Commercial real estate markets held steady or improved modestly in the First District. Office leasing activity was described as decent in Providence and Portland, robust in greater Boston, and light in Hartford. Effective office rents were up 2 percent to 3 percent in Providence over the past six months, and office rents continued to rise modestly in Boston. Office vacancy rates were down from a year ago in Boston, Providence, and Portland, and flat in Hartford. With the exception of Connecticut,

industrial leasing and sales demand remained strong. Boston contacts noted that office construction—including speculative construction—is set to increase but the extent of the increase was uncertain because most projects were still in the planning stages. Other new construction included hotel projects in Portland and Providence, student housing in Providence, offices in downtown Portland, apartments in suburban Portland, and numerous small condominium developments around the region. Investment sales demand was seen as stable in Boston and strengthening in Providence. Although the outlook for Connecticut remained weak, most contacts were optimistic that commercial real estate market conditions would remain favorable.

## Residential Real Estate

Residential real estate markets in the First District saw mixed sales results. (Rhode Island, Massachusetts, Maine, and Vermont reported year-over-year changes from March 2017 to March 2018, while Greater Boston and New Hampshire reported changes through April 2018. An ongoing technical issue made recent data for Connecticut unavailable.) For single-family homes, closed sales increased in Boston and New Hampshire but decreased in Rhode Island, Massachusetts as a whole, and Maine. For condos, closed sales increased in Rhode Island, Boston, and New Hampshire, while Massachusetts as a whole saw a decrease. Vermont reported that closed sales declined for single-family homes and condos combined. Inventory decreased in all areas.

Median sales prices increased in all reporting areas. Although rising prices are favorable for construction, contacts noted that homebuilders in New England faced many obstacles. A Massachusetts contact mentioned high costs, legislative hurdles, difficulties in acquiring land, and the need for approval from local governments, which made it very hard for homebuilders to enter new markets. Contacts expressed a generally positive outlook for activity in the coming months. ■

For more information about District economic conditions visit:  
[www.bostonfed.org/regional-economy](http://www.bostonfed.org/regional-economy)





## Summary of Economic Activity

Economic activity in the Second District has continued to grow at a modest pace. The labor market has shown further signs of tightening, with some reports of accelerating wages. Input price increases have become increasingly widespread, and consumer price inflation appears to have picked up slightly. Growth has remained fairly brisk in the manufacturing sector and has picked up somewhat in the service industries. Consumer spending has been steady to stronger in April and early May, buoyed by increased tourism. Housing markets have firmed slightly, while commercial real estate markets have shown scattered signs of slackening. Finally, banks continued to report rising loan demand and no change in delinquency rates.

### Employment and Wages

Hiring has picked up somewhat, as the labor market has continued to tighten. A major employment agency in upstate New York reported that workers in skilled trades and information technology are in particularly short supply. A New York City agency noted labor shortages across a broad array of occupations and industries, with reasonably qualified job candidates receiving multiple offers and getting snapped up quickly. Labor shortages in upstate New York were attributed, in part, to an aging workforce.

Business contacts in finance and information continued to report fairly brisk hiring, while wholesalers and leisure & hospitality businesses noted moderate hiring. Firms in manufacturing, health & education, and professional & business services reported modest staffing increases, while retailers and transportation firms noted flat to declining employment. Looking ahead, contacts in finance and real estate planned to hire more briskly than those in other sectors.

Wage growth has remained modest across upstate New York but has picked up in and around New York City. While businesses in education & health services reported subdued wage increases, contacts across all other major service industries reported increasing wage pressures.

### Prices

Businesses in most industry sectors reported increasingly widespread hikes in input prices—particularly in manufacturing, wholesale trade, and leisure & hospitality. Contacts in almost all industry sectors anticipated further increases in the months ahead.

Wholesalers report widespread hikes in selling prices, while those in other sectors reported more moderate increases. Still, retailers in both upstate New York and the New York City area noted that they have been less aggressive in discounting merchandise in recent weeks, boosting effective sales prices. New York City hotels and Broadway theaters have reportedly raised prices somewhat in recent weeks, with Broadway theater ticket prices up more than 10 percent from a year earlier. Looking ahead, businesses generally said they planned moderate price increases.

### Consumer Spending

Retail sales were steady to stronger across the District in April and May. Retailers reported a noticeable pickup in sales in New York City, part of which was attributed to increased tourism. One retail chain noted that sales moved ahead of plan in recent weeks. In contrast, retailers in upstate New York indicated that sales were little changed, despite fairly brisk customer traffic, and a few store closings were reported. Inventories were generally

reported to be at satisfactory levels, and retailers were moderately optimistic about the near-term outlook.

New vehicle sales in upstate New York weakened in April and early May and fell well short of comparable 2017 levels. In contrast, sales of used cars picked up. Vehicle inventories were said to be at or somewhat above desired levels. Dealers continued to characterize retail and wholesale credit conditions as favorable.

Consumer confidence in the Middle Atlantic states (NY, NJ, PA) climbed in April, reaching its highest level in almost two decades.

### **Manufacturing and Distribution**

Manufacturers reported continued solid growth in business since the last report. Transportation firms noted a modest pickup in activity, while wholesalers indicated a fairly brisk increase. Looking ahead, manufacturers remained generally optimistic about the near-term outlook, though less so than earlier in the year. Wholesalers and transportation firms remained fairly optimistic.

### **Services**

Reports from service-sector firms continued to indicate modest, if any, growth in activity. Contacts in professional & business services and leisure & hospitality reported modest growth, while those in the information sector reported activity was flat. Businesses in health & education services noted modest declines in activity, on balance. Looking ahead, professional & business service and information firms indicated that they were fairly optimistic about the near-term outlook.

Tourism in New York City has picked up further since the last report. Broadway theaters reported a pickup in both attendance and especially revenues, and retailers attributed some of a recent pickup in sales to increased tourism. New York City hotels noted an increase in occupancy rates and revenue per available room, even with a growing number of available hotel rooms.

### **Real Estate and Construction**

Housing markets across the District have been mixed but, on balance, a bit firmer since the last report. Real estate activity in both the Buffalo and Rochester areas picked up noticeably, as strong demand, combined with lean inventories of homes on the market, have driven up prices and sparked increasingly widespread bidding wars. Low and declining inventories have also held down sales volume and driven up prices in downstate New York and southwestern Connecticut. Manhattan has been the exception: Inventories have been at moderate levels and edging up, and both sales activity and sales

prices have declined modestly. Though its effect on the market is not yet clear, there is some concern about the new federal tax legislation reducing the deductibility of homeowner expenses.

The rental market has been mixed as well. Apartment rents have risen modestly across northern New Jersey, the Lower Hudson Valley, and upstate New York but have been flat across most of New York City, with record high landlord concessions. One exception has been The Bronx, where rents have risen fairly briskly. Throughout most of the region, the higher end of both the sales and rental market has continued to be relatively soft.

Commercial real estate markets have slackened somewhat overall. Office rents edged down in New York City and Long Island, while availability rates edged up and leasing activity slowed. Office rents and availability rates have been mostly steady across upstate New York and northern New Jersey, though leasing activity has slowed slightly. The market for retail space has also continued to soften across much of the District, though it has been steady across upstate New York. The industrial market, which had grown increasingly tight over the past year, has leveled off across much of the District, though it has continued to strengthen in northern New Jersey. A real estate industry contact noted that high rents and diminishing availability of industrial and warehouse space in New York City's outer boroughs has driven many businesses to relocate to northern and central New Jersey.

New multi-family construction starts have been steady to down slightly across the District. New industrial development has slowed as well, and new office construction has virtually ground to a halt, except in northern New Jersey, though it has slowed there as well. In all these categories, however, there continues to be a substantial volume of space under construction.

### **Banking and Finance**

Small to medium-sized banks in the District reported higher demand for residential mortgages, commercial mortgages, and C&I loans, but unchanged demand for consumer loans and decreased refinancing activity. Banks reported tighter credit standards for consumer loans but unchanged standards across all other categories. Loan spreads narrowed for residential mortgages and C&I loans. Widespread increases were reported in average deposit rates. Finally, bankers reported unchanged delinquency rates across all loan categories. ■

For more information about District economic conditions visit: [www.newyorkfed.org/data-and-statistics/regional-data-center/index.html](http://www.newyorkfed.org/data-and-statistics/regional-data-center/index.html)



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## Summary of Economic Activity

Aggregate business activity in the Third District continued at a modest pace of growth during the current Beige Book period. Nonfinancial services appeared to accelerate to a moderate pace, and manufacturing activity continued to grow moderately. Meanwhile, nonauto retail sales, tourist activity, and nonresidential leasing markets continued at a modest pace. Contacts from new home construction and nonresidential construction reported no change in activity. Following several periods of decline, auto sales appeared to have increased slightly, while existing home sales continued to decline moderately. On balance, employment, wages, and prices continued to grow modestly. However, many contacts raised concerns about rising oil prices and prices for commodities linked to tariffs. The growth outlook over the next six months remained positive, with over half of all firms anticipating increases in general activity.

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### Employment and Wages

Employment continued to grow at a modest pace during the current Beige Book period. Manufacturing and non-manufacturing firms reported ongoing net additions to staff; however, hiring has broadened among manufacturers and narrowed among nonmanufacturers since last period. Average hours worked rose over the period for manufacturing firms and nonmanufacturers.

On balance, wages also continued growing modestly, although reports have risen of firms losing skilled employees to competitors and struggling to attract and retain new qualified workers. Increasingly, firms are responding by adjusting their wage structures. The share of nonmanufacturing firms reporting increases remained greater than 40 percent. Banking contacts noted few signs of general wage inflation.

Staffing firms continued to report steady demand for temporary workers and direct hires in several local labor markets, with increased wage pressures in the tightest markets. According to one contact, clients are hiring faster now compared with a few years ago when they were indecisive about whether to hire and whom.

### Prices

While reports of rising prices are becoming more widespread, on balance, price increases remained modest. Among nonmanufacturing firms, one-third reported increases for prices paid, and less than one-fourth reported increases for prices received – about the same as the prior period. Reports of price increases were more widespread among manufacturing firms this period, with over half noting higher prices paid and over one-third indicating higher prices received for their own goods.

Builders continued to report rising prices, particularly for materials containing lumber, steel, and oil derivatives. Several manufacturers (and their bankers) cited rising prices for aluminum ingot, steel, and oil – some passed along the costs; however, margins shrank for others.

Looking ahead one year, nonmanufacturing firms anticipated receiving significantly higher prices for their own goods and services – a moderate increase from one quarter earlier. Manufacturing firms expected even higher prices, reflecting a small increase from their expectations last quarter. Overall, firms also reported slightly higher expectations for annual consumer inflation.

## Manufacturing

On balance, manufacturing activity maintained a moderate pace of growth. Nearly half of the firms reported an increase in new orders, and somewhat fewer reported an increase in shipments – just a slight drop from the prior period. Moreover, the percentage of firms that reported a decrease in new orders fell by half since last period.

The makers of lumber products, paper products, fabricated metal products, industrial machinery, and electronic equipment tended to note gains in new orders and shipments; the makers of chemicals and primary metals reported mixed results. One primary metal manufacturer felt that the current slowdown was due to “customers waiting for clarity on the issue of steel tariffs.”

Manufacturing contacts continued to expect general activity to increase over the next six months; however, the percentage of firms expecting future increases dropped below 50 percent. The percentage of firms expecting increases in future employment rose to nearly one-half, but for future capital expenditures, the percentage fell to less than one-third.

## Consumer Spending

On balance, nonauto retail sales continued to grow modestly. Mall retailers noted sales gains across nearly all categories. As gas prices neared \$3 a gallon in parts of Pennsylvania, one contact noted concern but saw no negative impact on spending yet.

Pennsylvania auto dealers reported year-over-year gains in sales for April, while New Jersey reported declines. Dealers in both states noted that sales in early May appeared stronger; however, year-to-date sales are still a bit below last year’s very high levels.

Tourism contacts continued to report modest growth overall. A Philadelphia analyst cited gains in hotel occupancy despite absorbing new supply. Shore contacts are generally optimistic for the summer season ahead. Atlantic City’s casino revenues fell on a year-over-year basis in March and April.

## Nonfinancial Services

On balance, service-sector firms reported moderate growth in general activity – an uptick from the modest pace of the prior Beige Book period. In particular, the percentage of firms reporting increases in sales rose, and the percentage reporting increases in new orders rose significantly. A contact from one large firm also noted that the delinquency rate on customers’ accounts remained steady and very low. Expectations of future

growth remained high, in fact, the percentage of firms anticipating increased activity rose over 60 percent.

## Financial Services

Financial firms reported slight growth in overall loan volumes (excluding credit cards). Volumes grew moderately in mortgages and modestly in commercial and industrial lending. However, these gains were offset by slight declines in commercial real estate lending, home equity lines, and auto loans, and by a moderate decline in other consumer loans (not elsewhere classified). Compared with one year earlier, loans grew modestly, and in all categories except for home equity lines.

During the current period, credit card lending began growing at a moderate pace – ending its long seasonal decline. However, credit card loan volumes have grown moderately when compared with the same period last year.

Banking contacts continued to describe credit standards as unchanged, credit quality as sound, and consumer sentiment and business confidence as high and growing. Numerous bankers noted growing pressure to raise deposit rates, especially from municipal clients.

## Real Estate and Construction

Homebuilders reported little overall change in sales and construction activity. A banking contact noted that a former local builder is now earning more by renovating existing homes and managing the rentals.

Sales of existing homes continued to fall moderately in most major Third District markets compared with the same period last year. Brokers continued to blame a lack of new listings for moderately priced homes.

Overall, nonresidential real estate contacts reported no change in high levels of construction activity and in the modest growth in leasing activity. Construction of industrial warehouse space continued apace – “a frenzy,” according to one banking contact – faster than the labor supply, according to another banker. ■

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



## Summary of Economic Activity

Business activity in the Fourth District expanded at a moderate pace as customer demand held steady and confidence remained high. Hiring improved slightly, though it remained moderate. Contacts continue to report difficulty finding qualified candidates in a broad array of occupations. Employers are raising wages to attract talent, but the increments are moderate and in line with recent trends in the District. Rising commodity prices, especially for lumber and steel, are pressuring goods producers. Construction firms and transportation companies were generally successful at raising their selling prices. Also, retailers managed to increase their prices to cover higher fuel costs. Consumer demand, including for autos, was stable to slightly higher. Housing and commercial real estate markets remained strong, although builders are increasingly concerned about rising input costs. Manufacturing output trended higher.

### Employment and Wages

Hiring in the District improved slightly, though the pace remained moderate. Contacts generally reported stable demand for their products and stronger confidence, which resulted in fewer firms reducing headcount. The majority of firms reported replacing staff or making seasonal adjustments. The nonresidential construction sector was a standout, as high project volumes motivated the majority of builders to add workers. Overall, contacts reported continued difficulty finding qualified candidates across a broad array of occupations. Nevertheless, no meaningful changes to wage pressures were noted. In general, employers are raising wages to stay competitive, but the increases are in line with recent trends in the District.

### Prices

Input price increases gained momentum, especially for construction materials. Builders widely noted ongoing lumber cost increases. Also, the threat of tariffs was reported as having led to hikes in steel prices. To a lesser extent, cement price increases were also noted. As with builders, manufacturers observed similar upswings in metals prices and added rising transportation costs to their list of concerns. Overall, firms' ability to pass along input price increases to their customers did

not change much from the previous survey period, although there were notable shifts within industries. Pricing power for banks fell sharply, which contacts attributed to heightened competition. However, an increasing share of construction contacts were able to pass along their increased costs, thanks to strong demand and higher backlogs. Retailers, who had been holding their prices steady for a long stretch of time, managed to raise their selling prices recently to cover higher fuel costs. Transportation companies across the board raised freight rates, as they have been doing in recent months, without pushback from customers.

### Consumer Spending

Consumer demand increased modestly during the survey period. Seasonal factors aside, clothing retailers, department stores, and food retailers noted stable demand. Retail sales activity in the District was reported to be in line with or weaker than activity seen throughout the United States. One grocery chain operator noted that population loss in his region and increased use of alternatives to physical store locations had led to weaker regional sales activity relative to the rest of the country. Looking ahead to the next several months, most respondents expect stable demand. However, uncertainty surrounding tariffs on Chinese imports is a source of

concern for some retailers that have operations overseas or use imported goods as inputs.

In the auto industry, customer demand improved modestly, thanks to improving labor markets, better weather, and higher consumer confidence. Furthermore, most auto dealers expect customer demand to remain stable going into the next quarter. Some auto dealers reported weaker sales in the region relative to the rest of the country, a situation which they partly attributed to prolonged cold weather conditions. Additionally, some auto dealers indicated that lenders are tightening credit and that loan and lease payments made by consumers are rising because of higher interest rates.

### **Manufacturing**

Most contacts in manufacturing indicated that demand was better during the past two months because of strong consumer confidence, seasonal factors, and the fear of future price increases leading to accelerated purchasing. Many fabricated metals and durable goods producers noted increased demand for heavy machinery and other capital goods. Some even moved up capital expenditures and plant expansions to keep up with increasing demand. Extractive industries, transportation equipment, and agriculture were noted as strong end markets. Because of trade-related price increases, most contacts did not believe that this strong demand would continue during the remainder of 2018. Finished goods inventories were down because of increased demand and uncertainty about future prices.

### **Real Estate and Construction**

Homebuilders reported that overall customer demand was either steady or improving and that current trends are expected to continue into the next few months. A stronger job market, higher mortgage rates, and rising home prices were noted as enabling and motivating purchases. Financing conditions for homebuilders were reported to be stable. Real estate agents noted stable demand for first-time home purchases and Section 8 vouchers. Some contacts reported increases in housing inventory. Sales of homes in the lower price range strengthened, according to some contacts, while sales of higher-priced homes softened. Financing conditions for homebuyers remain generally stable.

Business conditions for nonresidential builders improved from what was an already strong environment. Contacts noted decreased uncertainty and pent-up demand as supporting activity and leading to increased backlogs. One contact noted his company had a record month for contracts because of manufacturing and distribution projects. Another contact noted a recent uptick in de-

mand for speculative lease products.

### **Financial Services**

Bankers reported stronger demand for financial services as construction lending, home equity lines, and mortgage activity picked up with the warmer weather. Demand for commercial credit increased as customers drew down cash reserves at the beginning of the year and pivoted back to relying on credit. Business confidence remained high, and some contacts reported that their customers increased their capital expenditures. Core deposits increased over the past two months. In some areas, deposit increases were driven by royalty checks and bonuses from increased shale activity. That aside, most contacts cited seasonal changes following tax filing season as boosting deposits. Businesses that had drawn down deposits to pay taxes at the beginning of the year have since increased their balances, while many consumers received refund checks that they have yet to spend. In addition, one contact noted that increased competitive pressure had led to higher deposit rates and special incentives to win deposits from non-bank competitors.

### **Nonfinancial Services**

Nonfinancial services firms reported strong demand, thanks to generally favorable economic conditions. Notably, transportation firms cited an uptick in industrial production, construction, and activity in the energy industry as leading to higher freight volumes. Railroad contacts attributed some of their volume growth to ongoing capacity constraints in the trucking industry. Within the professional services sector, business advisory firms and software developers reported the strongest activity, which they attributed to improved business earnings, profits, and confidence. One contact noted increasing digital transactions as driving demand for his firm's software. A number of professional services firms reported boosting their capital investments, namely for cybersecurity and IT infrastructure. ■

For more information about District economic conditions visit: [www.clevelandfed.org/region/](http://www.clevelandfed.org/region/)



## Summary of Economic Activity

The Fifth District economy expanded at a moderate pace in recent weeks. Manufacturing conditions improved moderately and port activity remained strong. Trucking demand remained robust, and driver shortages have led some trucking companies to turn some business away. As a result, some shippers turned to rail. Reports from retailers were mixed as furniture and equipment sales picked up but new car sales declined. Travel and tourism remained strong, despite some adverse weather limiting outdoor recreation. Residential real estate markets improved modestly as home sales were steady, while inventories remained limited. Commercial real estate leasing activity increased, particularly for retail and industrial space. Overall, loan demand grew modestly and competition for deposits intensified. Nonfinancial services firms reported a modest rise in demand. Natural gas and coal production picked up in recent weeks while agriculture reports were mixed. The demand for labor continued to strengthen while supply remained tight across industry sectors. Prices rose moderately; firms reported rising steel and aluminum prices and increasing transportation costs.

### Employment and Wages

Labor demand continued to strengthen moderately in recent weeks, while supply remained tight across industry sectors. Employment agencies noted a slight decrease in job openings compared to the strong spring recruiting levels. Staffing firms reported increased demand for warehouse managers, customer service representatives, and medical and legal professionals. Meanwhile, business owners reported difficulty filling positions for carpenters, machinists, electricians, engineers, truck drivers, IT professionals, and construction workers. Wage increases remained modest across sectors, but a few firms reported increased wage pressures.

### Prices

On the whole, prices grew at a moderate rate since the previous Beige Book. According to our most recent surveys, manufacturers reported moderate growth in input prices while selling prices rose at a more modest pace. Manufacturers saw input prices rise for steel and aluminum, corrugated boxes, specialty chemicals, paint, and hardware. Additionally, rail and truck transportation prices moved higher. Homebuilders continued to report higher prices for raw materials and for land and lots. Service sector price growth remained modest, overall, but firms expected prices to rise at faster pace over the next six months. Metallurgical coal prices were little

changed in recent weeks while thermal coal prices rose slightly.

### Manufacturing

Manufacturing business conditions improved moderately. A cabinet manufacturer attributed an increase in demand to companies beginning to spend more after the tax cuts. A Virginia engine manufacturer said that high demand was causing the firm to produce as fast as it could get raw materials. Meanwhile, a West Virginia wood products manufacturer reported record business but thin profit margins because of high costs of lumber and rising trucking prices. Many manufacturers continued to express concerns about the negative impact that rising steel prices could have on their businesses, and a North Carolina door frame manufacturer anticipated a bad year because of high aluminum costs.

### Ports and Transportation

Activity at District ports remained robust in recent weeks as contacts reported record volumes and expectations for continued strength. One port executive said that volumes remained strong despite some volatility in shipments resulting from delays at other east coast ports. Increasing shipments led one port to increase loading hours for trucks, but it still had to shift more of its volumes to rail as truck capacity dwindled. At least one port

was investing in more terminals with the expectation that strong year-over-year volume increases will continue well into the future.

Trucking remained strong in recent weeks as companies struggled to meet the high demand with a shortage of drivers. A Virginia trucking company said they were investing in better equipment in an effort to recruit drivers. Meanwhile, a North Carolina trucking company reported quadrupling rates for high-risk customers in order to ease demand but found that some customers were willing to pay the new rates. Higher shipping rates allowed trucking companies to increase profits despite rising labor costs. Many shippers had to turn to rail as trucking firms turned them away. A Virginia rail company reported seeing record profits so far this year but also struggled to keep up with demand.

### **Retail, Travel, and Tourism**

Retailers reported mixed business conditions recently. A Virginia hardware store said that sales were volatile, which was largely weather-related, but a West Virginia equipment company reported record high sales. A Virginia furniture store saw strong business but struggled with high inventory. Several retailers expressed concerns about future profits because of rising steel and labor costs. Auto dealers in North Carolina and Virginia reported weakening sales, particularly in new cars, as high prices and rising interest rates reduced affordability.

Travel and tourism activity remained strong, overall, in recent weeks despite some adverse weather conditions. For example, a Virginia resort reported strong bookings despite the weather but low participation in outdoor activities. Graduations brought business to many hotels and leisure travel picked up in Washington, D.C. In Charleston, South Carolina, hotels and restaurants saw stronger sales but were concerned about the number of new establishments scheduled to open in the next year. Despite reporting high revenue, a West Virginia adventure center expressed worries about low state tourism funding.

### **Real Estate and Construction**

Home sales increased modestly in recent weeks. District Realtors reported that single family inventories remained low, new listings continued to sell quickly, and traffic was slightly lower. A Washington, D.C., agent saw more homes selling before being listed, and the median days on the market declined to just eight days. In other areas, average days on the market edged down further from existing low levels, while home prices continued to rise modestly. New home sales and construction slowed slightly as overburdened subcontractors were slowing

down new home production. However, in most markets, new residential development picked up in recent weeks.

Commercial real estate leasing rose moderately in recent weeks as brokers reported strong demand for retail and industrial space; however, reports on office demand were mixed. Vacancy rates remained low across markets, while rental rates were reportedly stable to increasing modestly. Commercial sales rose modestly, according to a few brokers, with warehouse and industrial building sites representing the majority of transactions. Commercial construction increased modestly in some regions. Multifamily leasing remained healthy in most markets.

### **Banking and Finance**

Since our previous beige book, loan demand grew modestly. Overall, bankers said that consumer demand was increasing at a healthy rate; however, reports on demand for business and commercial loans were mixed. In the District on the whole, residential mortgage demand grew at a modest pace. Deposit rates increased, and contacts reported that competition for deposits had intensified. Credit quality remained strong while credit standards were generally unchanged. Interest rates rose slightly in recent weeks.

### **Nonfinancial Services**

Overall, the demand for nonfinancial services rose modestly in recent weeks. Demand strengthened for warehouse and storage leasing and for management and administrative support services. Creative services, such as marketing, also saw stronger activity. Meanwhile, demand softened for telecom services, health and social services, and for some professional and business services that rely on federal spending.

### **Agriculture and Natural Resources**

Natural gas production rose moderately and pipeline construction picked up since our previous report. Coal production increased slightly as coal exporting was buoyed by supply disruptions in Australia. Agricultural reports were mixed as poultry demand rose but dairy farm activity declined. ■

For more information about District economic conditions visit:  
[www.richmondfed.org/research/regional\\_economy](http://www.richmondfed.org/research/regional_economy)





## Summary of Economic Activity

Sixth District business contacts reported that economic activity continued at a modest pace from April through mid-May. The outlook among contacts remains optimistic with most firms expecting modest growth to continue over the next three to six months. District firms still report difficulties finding candidates across a broad range of industries and skills, and reports of wage pressure varied widely based on geography and job type. Most nonlabor input cost pressures were subdued; however, there were reports of rising steel and aluminum prices as a result of the new tariffs. On balance, District merchants reported a slight increase in sales levels since the previous report, and auto dealers noted light trucks sales were solid. The tourism sector continued to note positive activity. According to residential real estate contacts, home sales were mixed and prices continued to modestly appreciate compared with a year ago. Builders reported that new home construction increased since the previous report. Commercial real estate contacts indicated that demand continued to improve. Manufacturing purchasing managers cited increases in new orders and production.

### Employment and Wages

Business contacts continued to report a tightening labor market across some geographies, industries, and skill sets. Finding and retaining hospitality workers, long-haul drivers, technicians, skilled craft laborers, distribution workers, nurses and other medical staff, and information technology professionals was especially difficult. Contacts also noted that geographic mobility was a major challenge, as workers' willingness to relocate for a position remained more challenging than in the past. Overall, contacts expressed that recruiting and retention efforts were much more aggressive and creative than they were a year ago. Firms also continued to boost training efforts and programs for existing employees and less experienced employees, to expand partnerships with workforce development entities and community colleges, and to broaden their geographical search for candidates.

On average, annual wage increases remained in the two to four percent range. The intensity of wage pressure varied greatly across the region. Firms reporting mild pressure typically responded by offering nondirect wage benefits, like increased vacation time, flexible scheduling, and marketing a positive culture to both existing and potential workers. In cases where wage pressures were described as "acute," if firms were still not able to meet demand with their existing labor supply after implementing nonwage benefits, they typically raised wages, often considerably.

### Prices

Overall, contacts reported that input costs were mostly flat with some reporting limited pricing power. However, most manufacturing contacts reported increases in input costs, particularly for steel, aluminum, and transportation. Some companies reported the ability to pass along these commodity input cost increases due to expectations of rising costs related to tariffs. The Atlanta Fed's Business Inflation Expectations survey showed year-over-year unit costs were up 1.9 percent in May. Looking ahead, survey respondents indicated that they expect unit costs to rise 2.0 percent over the next twelve months.

### Consumer Spending and Tourism

On balance, District retail contacts reported a slight pick-up in sales levels since the last report. Retailers expect modest increases in spending over the summer months. Sales of light trucks continue to remain strong according to auto dealers.

Tourism and hospitality contacts across the District reported growth in the number of visitors and activity in April compared to a year ago. Expectations among most contacts are for a strong summer season in leisure and business travel.

### Construction and Real Estate

Reports from District residential real estate contacts

signaled modest but continued growth. Builders reported construction activity in May was slightly up compared to one year earlier. Builders indicated that home sales and traffic were flat to up slightly from the year-ago level; while broker reports were mixed. Most builders said inventory levels remained unchanged from one year ago; while brokers noted that inventory levels were down. The majority of builders and brokers continued to report home price increases in May. Southeast builders expect home sales to meet or exceed the year-ago level over the next three months; while brokers expect home sales activity to increase slightly over the same period. Many builders expect the pace of construction activity over the next three months to hold steady or increase slightly.

Many District commercial real estate contacts noted improvements in demand that continued to result in rent growth and increased absorption, but cautioned that the rate of improvement varies by metropolitan area, sub-market, and property type. The majority of commercial contractors indicated that the pace of nonresidential and multifamily construction activity matched the year-ago level. Most contacts reported a healthy pipeline of activity, with backlogs greater than or equal to the previous year. Commercial construction contacts' outlook for nonresidential and multifamily construction across the District remained positive, with the majority anticipating activity to match or exceed the current level.

### Manufacturing

District manufacturers indicated that overall business activity remained strong over the reporting period. Contacts reported that sales levels and demand for new orders were solid, and production levels continued to increase. While there were scattered reports of firms decreasing or holding employment levels steady, most firms suggested they were adding to their payrolls. Expectations for future production levels decreased from the previous period, as a little less than half of contacts expected higher production over the next six months.

### Transportation

Most District transportation firms cited increased activity from April through mid-May. At District ports, container volumes, along with roll-on/roll-off auto and machinery cargo, bulk and breakbulk cargoes, continued to grow. Railroads reported modest gains in intermodal traffic from year earlier levels. However, overall year-to-date rail volumes were down slightly, driven by declines in the movement of nonmetallic minerals (including phosphates), iron and steel scrap, waste and nonferrous scrap, and metallic ores. Freight forwarders and logistics firms noted strong demand for delivery services. Contacts cited concerns that steel and aluminum tariffs will

raise overall costs and slow activity. However, while uncertainty over trade policy had not negatively impacted capital projects already underway, a number indicated that they have tapped the brakes on projects in the planning phases. Even so, the majority of contacts expect activity over the next 12 months to increase.

### Banking and Finance

District financial institutions continued to report solid loan growth. However, as interest rates increased, bankers expressed concerns about the impact on deposits and liquidity. Community bank contacts reported that they were experiencing deposit pressure as competitors begin to raise rates. Overall, growth in borrowing exceeded growth in deposits; however, the majority of loan growth was still being funded by nonmaturity deposits.

### Energy

Energy sector contacts described overall industry activity as steady to up from the prior report. Onshore shale drilling activity continued to accelerate, though offshore exploration and production remained depressed. Contacts expect a record year of natural gas supply growth in 2018, which, along with growing crude supply, generated pipeline construction projects in order to increase capacity. Chemical refining companies experienced continued, steady demand. Exports of refined chemical products and crude oil continued to surge as many refineries increased capacity. Rising crude exports also reduced demand for storage needs, leading some firms to pull back from creating or constructing storage capacity. Contacts from the utilities sector noted that while industrial segment growth was up, behavioral trends among residential and commercial customers to reduce energy usage lowered electricity sales.

### Agriculture

Agriculture conditions across the District were mixed. Drought conditions abated in parts of Alabama and Georgia but deteriorated slightly in south Florida. May's forecast for Florida's orange crops was down from April. On a year-over-year basis, prices paid to farmers in March were up for corn, rice, soybeans, broilers, and eggs, flat for beef, and down for cotton. ■

For more information about District economic conditions visit: [www.frbatlanta.org/economy-matters/regional-economics](http://www.frbatlanta.org/economy-matters/regional-economics)



## Summary of Economic Activity

Growth in economic activity in the Seventh District remained at a moderate pace in April and early May, and contacts expected growth to continue at that pace over the next 6 to 12 months. Manufacturing production increased strongly, employment grew moderately, consumer and business spending rose modestly, and construction and real estate activity increased slightly. Wages and prices increased modestly and financial conditions improved modestly. The outlook for farm income brightened, due largely to improvements in the crop sector.

### Employment and Wages

Employment growth remained at a moderate pace over the reporting period, and contacts expected gains to continue at that rate over the next 6 to 12 months. Hiring was focused on production and on professional and technical workers. As they have for some time, contacts indicated that the labor market was tight and reported difficulties filling positions at all skill levels. There continued to be reports from manufacturing and construction firms that they had delayed or turned down projects because of difficulties in finding workers. There were also reports of firms choosing not to lay off workers during production lulls so that they would not have to find new workers when activity picked up again. Wage growth remained modest overall, though a number of contacts noted that wage pressures had intensified in recent months, and there were more reports of pay increases for production workers. Most firms reported rising benefits costs.

### Prices

In general, prices rose modestly in April and early May, and contacts expected prices to continue to increase at that rate over the next 6 to 12 months. Retail prices were flat overall, though there were reports of price increases in the home improvement and the lawn and garden segments. One contact indicated that retail pricing was

“highly competitive.” Producer prices rose modestly, reflecting in part the pass-through of higher labor, materials, and freight costs. Numerous contacts noted that freight costs had increased dramatically.

### Consumer Spending

Consumer spending increased modestly over the reporting period. Nonauto retail sales rose slightly, with gains reported in the furniture, appliances, home improvement, and personal services segments. One contact noted an increase in purchases using credit, particularly for durable goods. Contacts were generally optimistic about the coming summer sales season. Light vehicle sales rose slightly. The sales mix of new light vehicles continued to shift toward light trucks, particularly toward crossover utility vehicles. Used vehicle sales increased modestly.

### Business Spending

Business spending increased modestly in April and early May. Retail contacts indicated that inventories were generally at comfortable levels. Most manufacturing contacts did so as well, though some noted that strong demand had led to shortages of some of their products and others said that lead times from parts and materials suppliers had increased. Capital spending increased modestly, and contacts expected growth to continue at that pace over the next 6 to 12 months. Outlays were primarily for replacing industrial and IT equipment and

for renovating structures. Dealers reported that sales of medium-duty trucks remained robust. Contacts again indicated that lead times for purchasing new equipment had increased. Demand for energy by commercial and industrial users increased modestly. Demand for transportation services increased moderately from an already high level.

### **Construction and Real Estate**

Construction and real estate activity increased slightly over the reporting period. Residential construction increased slightly, led by growth in suburban single-family homebuilding. Multiple contacts noted strong demand for single-family starter homes but stated that low inventories continued to hold back sales. Prices were up notably in this market segment. In contrast, demand and prices for higher-end homes changed little. Contacts also indicated that rising labor and materials costs were making it difficult for homebuilders to turn a profit. Nonresidential construction was little changed overall, though contacts again said they expected building to pick up in the coming months because vacancy rates were low, particularly in the industrial segment. Commercial real estate activity was flat but at a strong level. Commercial rents, vacancy rates, and the availability of sublease space were all unchanged.

### **Manufacturing**

Growth in manufacturing production continued at a strong rate in April and early May. Steel production increased moderately, in response to steady end-user demand. Imports slowed after the steel and aluminum tariffs were enacted, and contacts noted ongoing uncertainty about whether there would be further changes in tariffs policy. Demand for heavy machinery increased strongly, reflecting both end-user demand and dealers rebuilding inventories. Demand for heavy trucks remained at a high level and one contact noted that heavy truck producers were running at close to full capacity. Order books for specialty metals manufacturers increased modestly. Manufacturers of construction materials continued to report slow but steady increases in shipments, in line with the pace of improvement in construction. Auto production increased modestly and remained at a solid level.

### **Banking and Finance**

Financial conditions improved modestly over the reporting period. Financial market participants reported little change in equities prices or volatility but some increase in interest rates. Business loan demand increased slightly, led by growth in small business lending. Loans were primarily for financing real estate and capital equipment. While competition remained strong, contacts reported little change in lending standards or loan quality. Consumer loan demand increased modestly, driven by increases in residential mortgage activity. Consumer loan quality and lending standards were little changed.

### **Agriculture**

The outlook for farm income for 2018 brightened again, with improvements concentrated in the crop sector. Nonetheless, several contacts expressed unease over the potential impact of international trade policies on the farming sector. After weather-related delays, corn and soybean planting proceeded quickly in Illinois and Indiana, to the point that it was running ahead of normal progress. However, Iowa and Wisconsin were somewhat behind their typical paces for planting. Corn prices rose during the reporting period, while soybean prices drifted down. Dry weather and the late spring hindered the development of pastures, which led to shortages of and higher prices for hay, cutting into margins for some livestock producers. Cattle and egg prices were down, but hog and dairy prices moved up. Dairy prices were still quite low, however, and there were reports of a bump up in operators exiting the sector. ■



## Summary of Economic Activity

Economic conditions in the District have improved slightly since our previous report. Firms reported slight increases in employment despite continued difficulties finding workers. Wages and nonlabor costs increased at a moderate pace. Prices and price pressures grew modestly. Reports from consumer spending contacts were mixed. Manufacturers reported declines in production, capacity utilization, and new orders. Contacts in nonfinancial services indicated modest growth across their sectors. Residential real estate contacts reported sluggish sales resulting from low inventories and slightly lower demand, while construction activity increased modestly. District bankers reported slightly weaker demand and a decline in the creditworthiness of loan applicants. Agriculture conditions improved modestly. Overall, the outlook among contacts weakened somewhat but remains optimistic. On net, 27 percent of contacts expect conditions in 2018 to be better or somewhat better than in 2017.

### Employment and Wages

Employment has increased slightly since the previous report. Of the contacts surveyed, on net, 13 percent reported that second-quarter employment was higher or slightly higher than a year ago. Several firms across a variety of industries announced plans to expand and hire new employees, including manufacturers of chemical products, wood products, and primary metals. Contacts in Missouri and Arkansas also reported difficulties filling skilled technical and engineering positions. Some local employers have begun relaxing drug-testing standards and reducing restrictions on hiring convicted felons in order to alleviate labor shortages.

Contacts reported moderate wage growth since the previous report. On net, 51 percent of contacts reported wages were higher or slightly higher than a year ago, and 43 percent reported increases in labor costs. Several contacts noted that the tight labor market has exerted upward pressure on wages for both entry-level and skilled positions.

### Prices

Overall, prices charged to consumers increased at a modest pace. On net, 31 percent of contacts reported that prices were higher than a year ago. This is higher than three months ago, indicating an increase in growth from earlier this year.

Nonlabor input costs rose modestly, though at a slower pace than the previous survey three months ago. On net, 29 percent of contacts reported that costs were higher than a year ago. Multiple contacts noted that construction costs increased. In particular, a contact in Little Rock reported a strong increase in lumber prices, and several contacts in Louisville reported that the proposed steel and aluminum tariffs caused metals prices to rise. Automotive and corrugated products manufacturers also reported increases in raw materials prices.

Commodity price movements were mixed. Sorghum and soybean prices decreased modestly; coal, corn meal, cottonseed, rice, and soybean meal were flat; and corn, corn feed, cotton, and wheat prices increased modestly.

### Consumer Spending

Reports from general retailers, auto dealers, and hoteliers indicate mixed consumer spending activity. Real sales tax collections increased in Arkansas and Tennessee relative to a year ago, remained flat in Missouri, and declined in Kentucky. Reports on sales from general retailers were mixed. On net, 40 percent of auto dealers indicated that sales were below expectations in the second quarter. About the same net percentage noted a shift in demand toward used vehicles. Hospitality and tourism contacts in Missouri reported business activity that met or exceeded expectations and have a positive outlook for the next few months.

### **Manufacturing**

Overall manufacturing activity has declined slightly since our previous report. Most contacts reported that production, capacity utilization, and new orders were down in the second quarter relative to one year ago, with greater shares reporting declines in production and new orders than in our previous survey. The percentage of contacts reporting increases in new orders has fallen for over a year. However, contacts were more optimistic about the next quarter.

### **Nonfinancial Services**

Activity in the service sector has expanded modestly since the previous report. Transportation and service contacts generally reported that sales met expectations in the current quarter. On net, 23 percent of contacts reported higher dollar sales in the current quarter than this time last year, and 43 percent expect sales to be higher in the next quarter relative to the same time a year ago.

### **Real Estate and Construction**

Residential real estate activity has declined slightly since the previous report. Seasonally adjusted home sales dipped slightly in March across the four major MSAs in the District. On net, a third of contacts reported that sales halfway through the second quarter have fallen short of expectations. Contacts attributed this shortfall to a decline in inventory and a slight drop in demand relative to the same time last year. However, demand is expected to return to year-ago levels in the third quarter.

Residential construction activity has increased modestly since the previous report. There was a moderate uptick in March permit activity across most of the District's MSAs. On net, only 10 percent of contacts reported that residential construction increased in the second quarter compared with a year earlier, but around twice that number expect activity to increase in the coming quarter.

Commercial real estate activity improved slightly. Local contacts, on net, reported increased demand for industrial and office properties relative to a year ago. They also state that inventories for both property types have declined. These trends are expected to continue into the third quarter.

Commercial construction activity improved modestly. On net, contacts reported higher demand for construction of all property types and noted that inventories for industrial and retail property types have improved. The majority of contacts continued to have an optimistic outlook for the remainder of 2018.

### **Banking and Finance**

Banking market conditions in the District have weakened slightly since the previous report. Banking contacts reported that demand for mortgage and auto loans fell modestly in year-over-year terms while demand for business loans was flat. Bankers also reported that the creditworthiness of loan applicants declined relative to last year, particularly among applicants for auto loans and credit cards. Delinquencies fell across all loan categories but to varying degrees; mortgage and auto loan delinquencies dropped slightly, while delinquencies on business loans and credit cards decreased at a moderate rate.

### **Agriculture and Natural Resources**

District agriculture conditions improved modestly from the previous reporting period and robustly from the same time last year. After contacts reported concerns about weather being too wet and cold for a strong early planting season, mid-May planned acreage planted for corn, cotton, and soybeans were, respectively, 13, 12, and 24 percentage points above the same time last year. Rice planting progress was slightly behind 2017. Contacts indicated that the prospective Chinese tariffs on U.S. soybeans would be damaging to exporters but at this point seemed unlikely.

Natural resource extraction conditions were roughly unchanged from the previous report and year. Seasonally adjusted coal production fell 1 percent from March to April, and April production was also down 4 percent from the same month last year. ■

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



## Summary of Economic Activity

The Ninth District economy grew moderately since the last report. Employment grew modestly and continued to be restrained by a tight labor supply. Wage growth was moderate, while price pressures increased slightly. Growth was noted in consumer spending, services, commercial construction, commercial real estate, manufacturing, energy, and mining. Agriculture and residential real estate conditions were mixed, while residential construction was broadly lower across the District.

### Employment and Wages

Employment grew modestly since the last report and continued to be restrained by a tight labor supply. Hiring demand appeared robust. A job fair in northwestern Wisconsin had a full roster of interested employers and had to turn away others. A job fair in eastern Minnesota was also sold out with 50 employers, who reported almost 1,700 open positions. North Dakota saw April online job postings rise 9 percent over a year ago. Minnesota construction firms reported strong hiring, especially among skilled workers. A poll of human resource professionals in Montana found near-universal hiring, along with more unfilled jobs compared with last year. A poll of Minnesota staffing firms found that a majority saw job orders increase in the first quarter of 2018 compared with the same period a year earlier, and similar results were expected in the second quarter. However, hours booked did not grow at a similar rate, reflecting an inability to find workers for available jobs. There were some signs of softness. Through the end of April, initial unemployment insurance claims were higher in Minnesota and Wisconsin, temporarily halting a lengthy downward trend; continuing claims were also higher in Minnesota and South Dakota. The bankruptcy of a major retailer has affected or will affect an estimated 2,000 or more workers across the District.

Wage pressures were moderate but with some signs of

stronger growth. A majority of Minnesota staffing firms said wages paid by clients in the first quarter of 2018 were more than 3 percent higher than a year earlier. However, a notable majority of staffing respondents expected wages at their own firms to grow less than 3 percent. A poll of Montana human resource professionals found that close to half expected average wages this year to increase by more than 3 percent. However, a poll among Minnesota construction firms showed that 2018 wage expectations were more modest despite persistent reports of labor shortages.

### Prices

Price pressures increased slightly relative to the previous report, while certain input prices were growing more rapidly. An April survey of purchasing managers indicated increased inflation expectations relative to the previous month. Contacts from manufacturing, energy, and construction reported that prices of steel products continued to increase sharply in response to recently announced tariffs. Retail fuel prices in most District states as of mid-May increased briskly from the previous reporting period. Prices received by farmers for corn, soybeans, wheat, hay, chickens, and eggs increased in March compared with a year earlier; cattle prices were flat, while prices for milk, hogs, and turkeys decreased.

### Consumer Spending and Tourism

Consumer spending rose modestly since the last report. Several Montana bankers noted an increase in consumer retail loans, especially home equity loans, which were being used for home improvements and general spending. An operator of several car dealerships reported that new car sales were up every month this year relative to last, while used car sales were flat. While gaming revenue this spring in Deadwood, S.D., declined by 5 percent compared with a year earlier, total hotel stays and occupancy rates in the region rose compared with last year; Minnesota lodging demand also increased by 1 percent over a year earlier. Thanks to heavy snowfall, Montana resorts reported strong ski seasons; one resort bested its previous record for visitors by 10 percent. However, a cold and wet spring—including record April snowfall in some parts of the District—delayed or otherwise dampened fishing-related visits and spending in northern areas, where lakes remained frozen as long as a month later than normal.

## Services

Activity in the professional services industry increased moderately since the last report. Accountants reported a strong tax season, partly due to recent changes in federal tax policy. Contacts reported major disruptions in international supply-chain management and import-export banking business due to uncertainty over trade policy. While the health care sector has seen strong growth overall, rural healthcare providers were experiencing weaker demand, as the slowdown in agriculture lingered.

## Construction and Real Estate

Commercial construction saw moderate growth overall since the last report, though activity levels differed regionally. An industry database of project activity across multiple states showed that current levels were similar to last year's solid activity. A Minnesota concrete contact reported that commercial construction "continues to be busy." However, the aforementioned poll of Minnesota construction firms found less optimism, with a majority reporting flat or lower activity compared with a year ago, likely the result of a cold and wet April. Certain markets, including Sioux Falls, S.D., and Mankato and St. Cloud, Minn., have seen strong permitting activity this spring. Medical construction continued to show strength, with major hospital expansions announced in Minnesota and Montana. Residential construction was broadly lower across most of the District. Following a strong March, residential permits in Minneapolis-St. Paul fell significantly in April. Single-family permits in April were

also lower in Rochester, Minn., Fargo, N.D., and Billings, Mont.

Commercial real estate grew modestly since the last report. In Minneapolis-St. Paul, industrial activity saw continued growth, with solid levels of new construction and low vacancy rates. Office sales in the region have been brisk, and vacancy rates in this sector have been stable. Apartment sales have slowed year-to-date in Minneapolis-St. Paul compared with last year, though 2017 was a very strong year. The recent bankruptcy of a national retailer will see the closure of almost 40 stores and well over 1 million square feet of space in the district; this comes on top of numerous earlier chain-store closures this year. While retail vacancy rates in some cities have remained stable, others have risen, including in Eau Claire, Wis. Residential real estate was mixed. April sales in Minnesota were down 3 percent from a year earlier, with Minneapolis-St. Paul seeing a drop of almost 6 percent. However, Missoula and Bozeman, Mont., saw notably higher sales, and Sioux Falls home sales also rose slightly.

## Manufacturing

District manufacturing activity increased robustly. An index of manufacturing conditions indicated strongly increased activity in April compared with a month earlier in Minnesota and South Dakota; the index for North Dakota indicated flat to slightly decreased activity. Multiple contacts from a diverse group of industries described strong orders so far this year, with some experiencing record growth; strong demand was leading to challenges filling orders and to increased lead times. Contacts were also concerned about supply-chain disruptions in the steel and aluminum materials markets in response to recent tariff announcements.

## Agriculture, Energy, and Natural Resources

District agricultural conditions were mixed. While recent increases in some commodity prices were viewed as a positive sign, farmers were also concerned about access to international markets. Late-season snows delayed spring planting in much of the District, with crop progress well behind five-year averages as of mid-May. Activity in the energy sector continued to increase. District oil and gas exploration increased from the previous report. March natural gas production in North Dakota hit a new record, while oil production declined slightly. District iron ore mines were operating near capacity, and an idled facility was reportedly considering restarting production.





## Summary of Economic Activity

Overall Tenth District economic activity expanded at a moderate pace in April and early May, with many contacts expecting further growth in the months ahead. District manufacturing contacts reported a more rapid pace of expansion compared to the previous survey. Consumer spending, energy, and business services activity increased at a moderate pace, while District real estate firms reported a modest pace of growth. Bankers reported a modest increase in overall loan demand and deposit levels, and a moderate improvement in loan quality. Agricultural conditions weakened, but at a slower pace, as most commodity prices have risen slightly. Employment and employee hours continued to rise modestly, and contacts reported modest wage growth with moderate increases expected in coming months. Input prices were up moderately compared to the previous survey period, while selling prices rose modestly.

### Employment and Wages

District employment and employee hours continued to rise modestly in April and early May, and expectations were for a slightly faster pace of growth in the months ahead. Contacts in the auto sales, education, restaurant, and health services sectors noted a decline in both employment and employee hours, while all other sectors reported growth. All sectors expected an increase in employment in the months ahead with the exception of auto sales. Respondents noted a shortage of commercial drivers, salespeople, and service workers.

Contacts in most sectors reported modest wage growth and anticipated moderate wage gains moving forward.

### Prices

In most sectors, input prices were up moderately compared to the prior survey period, while selling prices grew modestly. In the retail sector, input prices rose moderately and selling prices increased at a modest pace. Restaurant contacts reported flat growth in input prices, while selling prices edged up. Respondents in the transportation sector noted moderate growth in both input and selling prices, and expected continued moderate rises in both. Prices in the construction sector continued to expand moderately, with moderate increases expected in the coming months. Manufacturers reported a modest

rise in prices for finished goods, while raw material costs continued to increase moderately. Manufacturers anticipated moderate price gains for both finished goods and raw materials in the next few months.

### Consumer Spending

Consumer spending activity grew moderately in April and early May, and firms expected strong growth in coming months. Retail sales increased moderately compared to the previous survey period, and remained well above year-ago levels. Several retailers noted an increase in sales for outdoor and lower-priced items, while higher-priced products sold poorly. Retail contacts anticipated sales to rise considerably in the next few months, and inventory levels were expected to increase moderately. Auto sales rose rapidly after many months of decline and were above year-ago levels. Dealer contacts anticipated a moderate pickup in sales for the months ahead, and inventory levels were expected to increase modestly. Restaurant sales rose modestly and were above year-ago levels. Restaurant contacts expected activity to continue to increase moderately heading forward. District tourism activity rebounded strongly after a slight decline during the last survey period, and contacts expected activity to increase modestly heading into the summer months.

### **Manufacturing and Other Business Activity**

Manufacturing activity expanded more rapidly than in the previous survey period, and the majority of other business contacts reported moderate sales increases. Factory activity accelerated at both durable and nondurable goods plants, particularly for machinery, plastics, and chemicals. Despite rising trade concerns, production, shipments, and new orders grew moderately, and activity was higher than a year ago. Manufacturers' capital spending plans remained solid, and optimism remained high for future activity.

Outside of manufacturing, professional, high-tech, and transportation firms reported moderate sales growth, and wholesale trade contacts reported a strong increase in activity. All firms expected sales to rise rapidly in the next six months. Professional, high tech, and transportation contacts anticipated moderate growth in capital spending plans, and wholesale trade contacts expected strong capital spending growth in coming months.

### **Real Estate and Construction**

Overall District real estate activity increased modestly as residential real estate sales were stable, residential construction activity picked up moderately, and the commercial real estate sector expanded modestly. Residential home sales and inventories were flat compared to the previous survey period, while home prices rose modestly. Sales and inventories of residential homes were expected to remain flat, while home prices were projected to increase. Residential construction activity increased moderately compared to the previous survey period and the same time last year, including higher housing starts, traffic of potential buyers, and construction supply sales. Contacts anticipated additional gains in residential construction activity in the months ahead. Commercial real estate activity continued to increase modestly as absorption, completions, construction underway, and sales increased, while vacancy rates declined. Activity in the commercial real estate sector was expected to expand further moving forward.

### **Banking**

Bankers reported a modest increase in overall loan demand for the month of April. Respondents reported modest increases for commercial real estate, commercial and industrial, and residential real estate loans. Consumer installment loans were down slightly, while agricultural loans were steady. Bankers indicated loan quality improved moderately compared to a year ago. In addition, respondents expected a modest increase in

loan quality over the next six months. Credit standards remained largely unchanged in all major loan categories. Overall, bankers reported a modest increase in deposit levels.

### **Energy**

District energy activity increased moderately since the last survey period with steady expectations for the future. The number of oil rigs continued to increase modestly, while the number of active gas rigs was mostly unchanged. Oil and gas production has increased and was expected to continue increasing. Activity has picked up in the Niobrara and Oklahoma shale plays. Oil prices reached their highest level since 2014, which has encouraged additional production. In Wyoming, applications for drilling permits are at record levels as producers seek opportunities to operate in the Powder River Basin. Increased oil and gas production has put pressure on energy transportation infrastructure, and new oil and gas pipeline projects have been announced for Oklahoma's Anadarko region that should alleviate some of the pressure later in the year.

### **Agriculture**

The Tenth District farm economy continued to weaken but the pace of deterioration slowed due to a slight uptick in agricultural commodity prices. Prices for all major agricultural commodities in the District increased slightly during the survey period. Despite the increase in prices, farm income continued to decline and demand for financing remained high. Bankers generally expect the pace of loan demand to increase in coming months and continued to report increased interest rates on all types of agricultural loans, which could raise interest expenses for farm borrowers. However, farmland values remained relatively stable and loan delinquency rates remained low. District contacts expressed concern about liquidity in the farm sector due to further income declines, but the relative stability of farmland values provided ongoing support for both producers and lenders. ■

For more information about District economic conditions visit:  
[www.KansasCityFed.org/Research/RegionalEconomy](http://www.KansasCityFed.org/Research/RegionalEconomy)



## Summary of Economic Activity

The Eleventh District economy expanded at a solid pace over the past six weeks. Growth in manufacturing increased. Expansion in the energy and service sectors continued at about the same pace, while retail spending was mixed. Home sales continued to rise but apartment markets softened slightly. Hiring was solid across most sectors, and widespread labor shortages continued. Wage and price pressures remained elevated, and several contacts noted a sharp rise in the cost of steel and aluminum. Outlooks remained fairly optimistic, but tariffs and trade-related concerns were creating uncertainty.

### Employment and Wages

Employment growth was solid and widespread across sectors. Labor market tightness continued across a wide range of industries and skill levels, with some contacts saying difficulty finding workers was constraining growth to some extent. One staffing services contact noted that some firms were rehiring former retired employees on a part-time basis to meet their staffing needs. In Houston, shortages of painters, tile setters, carpet layers (workers at the backend of the home construction cycle) were noted, a departure from earlier in the year when mostly sheet rock/drywall installers were in short supply. Upstream energy firms said all skill levels were in short supply, but shortages were most acute for skilled workers.

Wage pressure remained elevated and picked up particularly among manufacturing firms. A large share of respondents noted increasing wages to recruit and retain employees. One contact reported offering large bonuses for trades, such as machinists and welders, who were willing to commit to stay for three years. A health care firm cited high vacancy rates for registered nurse positions.

### Prices

Price pressures remained elevated. Raw material prices

and other input costs continued to climb, but several firms noted they had limited ability to pass on higher costs to customers. Input cost pressures increased among energy, manufacturing, and construction firms, in part due to the new tariffs on lumber, steel and aluminum. Upstream energy firms expressed concern about the new tariffs adversely affecting their operations and costs in the near term. One energy contact reported a sharp rise in rates of drilling rigs. Some auto dealers cited a higher-than-average increase in used-vehicle prices, and transportation service firms noted rising fuel costs. Gasoline and diesel prices rose, driven largely by higher crude oil prices, while the average price for natural gas dipped during the reporting period.

### Manufacturing

Growth in the manufacturing sector strengthened after having slowed in the prior reporting period. Output growth rose, led by increases in primary metals, transportation equipment, machinery, and high tech manufacturing. Growth in food and nonmetallic mineral (stone, clay, cement and glass) production picked up. Demand for fabricated metals manufacturing increased, with one contact noting strength in oil and gas related activity. Chemical production expanded during the reporting period, and refinery utilization rates were up in April but dipped slightly in early May. Outlooks remained optimis-

tic, although several contacts noted that the new tariffs were creating uncertainty in expectations. Refiners and petrochemical producers expressed negative views about the potential impact of tariffs and quotas on exports as well as new construction projects.

### **Retail Sales**

Retail sales, including companywide internet sales, dipped in April but appear to have picked up in early May. Seasonal retailers attributed the decline in April sales to colder-than-normal weather. Reports on auto sales were mixed, with sales weakening slightly in San Antonio but increasing in Dallas and Houston. Sales growth among durable wholesalers was solid. Outlooks among retailers were positive on net.

### **Nonfinancial Services**

Broad-based expansion continued in the nonfinancial services sector. Transportation services was a particular bright spot. Rail traffic was near record levels, with the increase in shipments being broad based across business lines. Courier and sea cargo volumes expanded as well, with growth in the latter being boosted by marked increases in steel shipments as shippers rushed to bring them in before the new tariffs were implemented. Reports on airline passenger demand were mixed, but outlooks remained optimistic. Leisure and hospitality contacts said spring break activity was mixed, but Easter traffic was strong along the coastal area near Houston. Revenue at professional and technical service firms rose, and staffing services firms continued to note high levels of demand, driven by widespread increases in activity across geographies and sectors. Outlooks improved, although uncertainty surrounding trade policies and rising interest rates negatively impacted some firms' expectations.

### **Construction and Real Estate**

Home sales rose during the reporting period, with continued strength in sales at the low- to mid-price points. Year-to-date sales were generally on or ahead of plan for builders. Buyers remained price sensitive, and builders have been focused on housing affordability. One contact noted that in Houston, some builders were downsizing homes on large lots to bring the price point down. Contacts said several new deals are not being penciled in partly due to high and/or rising land, development, and other costs. Outlooks were positive, although margin compression, climbing material costs, and rising interest rates were a concern.

Ample supply coupled with modest demand has slowed apartment rent growth in most major metros. In Houston, however, net absorption has been solid and overall rent

growth has been strong as well. Some contacts noted a pickup in investment activity.

Office leasing activity and/or net absorption slowed in Dallas-Fort Worth and remained sluggish in Houston. Conditions in industrial markets were characterized as solid, while reports on retail space activity were mixed.

### **Financial Services**

Loan volumes and demand expanded at a faster pace compared with the previous reporting period. Strong growth was seen in commercial and industrial, and commercial and residential real estate lending. Consumer loan volumes increased modestly. Credit standards remained flat or ticked down, while loan pricing continued to increase. The volume of deposits increased at a slower pace than in the last report, and a few contacts noted increased competition for deposits. Banking contacts remained optimistic as they expect both loan demand and general business activity to improve.

### **Energy**

Energy activity continued to expand moderately. Drilling and completion activity increased in the Eleventh District, particularly in the Permian Basin. Large firms are driving growth, and it remained difficult for small exploration and production companies to expand operations despite high oil prices. Outlooks remained positive, supported by favorable oil prices, although contacts said pipeline capacity, labor, and supply chain constraints may limit further increases in production growth.

### **Agriculture**

Drought conditions continued to plague much of West Texas and Southern New Mexico, particularly in the Texas panhandle. Crop conditions for winter wheat were much poorer compared with last year due to the lack of soil moisture. Row crop planting continued and crops were in mostly fair to good condition, but there was concern among producers about the dry weather potentially causing below-average yields. Given the current level of prices, grain farmers need at least average yields to be profitable this year. Cotton farmers were a bit more optimistic due to higher prices over the last six weeks and because cotton yields generally hold up better than other crops during drought. Cattle prices rose, largely due to seasonal factors but also buoyed by very strong domestic and international demand. ■

For more information about District economic conditions visit: [www.dallasfed.org/research/texas](http://www.dallasfed.org/research/texas)



## Summary of Economic Activity

Economic activity in the Twelfth District continued to expand at a moderate pace during the reporting period of early April through mid-May. Conditions in the labor market remained tight, and wage pressures ticked up. Price inflation increased moderately. Sales of retail goods edged up, while activity in consumer and business services expanded slightly. Activity in the manufacturing sector expanded solidly, and conditions in the agriculture sector deteriorated somewhat. Contacts reported that residential real estate market activity remained solid, and activity in the commercial real estate sector picked up notably. Lending activity ticked up modestly.

### Employment and Wages

Contacts continued to report tight labor market conditions across all sectors, leading to an uptick in wage pressures and to labor-retention challenges. Demand for workers in the restaurant industry increased markedly. Demand for construction labor continued to exceed supply, causing wages to rise moderately and wait times for project starts to increase. Across the District, contacts in banking and financial services noted persistent shortages of IT professionals, especially at companies or branches in rural areas. In response to shortages of skilled labor in banking services and manufacturing, contacts noted the growth of strategic training partnerships between these employers and colleges and trade schools to build a talent pipeline. A contact in the Pacific Northwest reported intensified labor shortages in the health-care sector, preventing service providers from meeting market demand. Employers in the business services and real estate development sectors increased compensation packages to compete with companies trying to poach well-trained employees. Employment in the utilities sector was broadly flat.

### Prices

Price inflation increased moderately over the reporting period. Recent oil price increases spurred price inflation in a variety of sectors. Food and beverage businesses passed along a jump in transportation costs to consumers. Persistently brisk activity in the construction sector

continued to exert upward pressure on prices for building materials. Contacts observed modest price inflation for manufactured medical devices after input costs increased somewhat. Contacts in Oregon and the Mountain West observed rising retail gasoline prices. A contact in Southern California reported that increases in commercial rents for restaurants drove some inflation for customer prices. Semiconductor prices increased modestly. A contact in the California agriculture industry noted a slight pickup in inflation due to a weak outlook for yields after subpar rainfall levels. In Eastern Washington, the price of imported wholesale natural gas declined moderately, lowering heating costs in the area.

### Retail Trade and Services

Sales of retail goods edged up over the reporting period. Contacts reported solid sales at food and beverage companies. Sales activity in the pharmaceutical industry picked up due to intensifying competition that drove down market prices. Apparel sales increased marginally following recent declines, though consumer demand continued to shift to entertainment goods and services. The restaurant industry saw sales tick down further, as foot traffic remained at low levels.

Activity in the consumer and business services sectors expanded slightly. Across the District, consolidation in health provider and payment services continued at a solid pace. Health insurance enrollment in the Mountain West grew modestly, causing revenues and earnings to

edge up. Demand for legal services in Hawaii picked up slightly.

### **Manufacturing**

Activity in the manufacturing sector expanded solidly. Demand for steel and other manufactured inputs used in the production of heavy capital goods picked up noticeably, reflecting stronger industrial and consumer activity. Contacts in Northern California noted brisk semiconductor sales and the scope for demand to increase further. Deliveries of commercial aircraft over the first four months of the year increased modestly from the same period last year, while new orders grew significantly over the same period.

### **Agriculture and Resource-Related Industries**

Conditions in the agriculture sector deteriorated somewhat. Current inventories and yield expectations for a variety of crops fell because of lower-than-expected precipitation levels in much of the District over the past few months. Unusually warm weather in the Pacific Northwest generated softer demand for heating, putting downward pressure on natural gas prices in the region. The supply of electricity continued to outpace demand in California, leading excess capacity to rise in the state.

### **Real Estate and Construction**

Activity in real estate markets continued to expand at a robust pace. Construction in the residential market re-

mained solid, though the shortage of labor and intense price pressures for building materials continued to act as headwinds. Contacts in Eastern Washington reported that permitting for residential units was flat on a year-over-year basis, though at an elevated level. Listing durations for single family houses fell over the reporting period, indicating a pickup in selling activity across the District. A contact in Oregon noted that the inventory of new homes remained at a low level. Commercial real estate activity picked up notably. Contacts in Eastern Washington reported that plans for the construction of a major e-commerce distribution center were announced, resulting in an anticipatory uptick in demand for commercial space in the area. Contacts in the San Francisco Bay Area noted that office rents and occupancy rates rose moderately because of increased demand by technology companies.

### **Financial Institutions**

Lending activity ticked up modestly over the reporting period. Loan demand increased overall, with contacts in the Mountain West and Central California reporting strong loan growth. In Oregon, demand for financing for various construction projects continued to increase. Deposit rates continued to edge up, resulting in a slight narrowing of net interest margins. Contacts noted a modest increase in the rate of mergers and acquisitions among small and medium-sized banks. ■



