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Summary of Commentary on _____

Current Economic Conditions

By Federal Reserve District

February 2016

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICTS

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SUMMARY*

Reports from the twelve Federal Reserve Districts continued to indicate that economic activity expanded in most Districts since the previous Beige Book report. Economic growth increased moderately in Richmond and San Francisco and at a modest pace in Cleveland, Atlanta, Chicago, and Minneapolis. Philadelphia reported a slight increase in economic activity, and St. Louis described conditions as mixed. Most contacts in Boston cited higher sales or revenues than a year-ago but mixed results since the previous month. New York and Dallas described economic activity as flat, and Kansas City noted a modest decline in activity. Across the nation, business contacts were generally optimistic about future economic growth.

Consumer spending increased in the majority of Districts, although Kansas City and Dallas noted some weakness. Auto sales were mixed, but remained at elevated levels in most Districts. Tourism activity strengthened in most reporting Districts.

Nonfinancial services activity grew slightly since the previous report, and demand for staffing services moved higher. Transportation activity was mixed, with weakness in the energy and agriculture sectors and lower export volumes limiting gains.

Overall, manufacturing activity was flat, although conditions varied considerably across Districts. Most Districts noted that weak demand from the energy sector was creating a significant headwind for manufacturers, although contacts in San Francisco mentioned that low energy costs had reduced production costs for steel products. Many Districts reported that the

* Prepared at the Federal Reserve Bank of Kansas City and based on information collected before February 22, 2016. This document summarizes comments received from businesses and other contacts outside the Federal Reserve and is not a commentary on the views of Federal Reserve officials.

strengthening dollar and weakening global outlook had negatively affected international exports.

Residential real estate sales rose in most Districts since the last report, and home inventories were low in the majority of Districts. Residential construction activity strengthened, as several Districts noted strong growth in multifamily construction. Nonresidential real estate sales also picked up, on net, although sales ranged from flat to strong across all Districts.

In the banking and finance sector, most Districts reported slight to modest increases in loan demand, stable credit quality and unchanged credit standards.

Agricultural economic conditions were flat to down moderately, as low commodity prices and weak global demand continued to put downward pressure on farm income. The energy sector contracted further since the last report due to lower coal production and additional declines in the oil and gas industry.

Labor market conditions continued to improve, with the majority of Districts reporting modest gains. Wage growth varied considerably, from flat to strong, across all Districts, and most Districts reported that consumer prices held steady.

Consumer Spending and Tourism

Consumer spending increased in the majority of Districts since the previous report, but some weakness was cited in the Kansas City and Dallas Districts. Philadelphia, Richmond, Atlanta and San Francisco reported that retail sales rose moderately, retailers in Chicago reported modest gains, and New York District retailers reported sales that were slightly higher than a year ago. Snowstorms temporarily slowed spending in the Philadelphia and Richmond Districts, but sales had bounced back. Retail contacts in the St. Louis District reported flat sales,

while contacts in Minneapolis experienced mixed conditions. The Kansas City District reported a modest decline in retail sales since the previous reporting period, while Dallas reported that retail sales had softened. Contacts in Boston, Cleveland and Chicago noted that consumers seemed reluctant to spend, citing reluctance to add debt, financial market volatility, or economic uncertainty as significant factors limiting spending. There were mixed reports about the effects of lower gasoline prices on consumer spending, with contacts in Cleveland, Philadelphia, and St. Louis attributing some increased spending to lower gas prices and contacts from Boston and Chicago expressing disappointment about the extent to which lower gas prices were increasing other spending.

Auto sales generally improved in the latest reporting period, but conditions varied significantly across Districts. Richmond, Chicago, and San Francisco reported strong auto sales, and contacts in New York, Cleveland, and Minneapolis cited improved sales since the last report. Auto sales in the Philadelphia District were flat, and auto dealers in the Atlanta District noted a slow start to 2016. In the Kansas City, St. Louis, and Dallas Districts auto sales declined since the last report, and were below year-ago levels.

Among those Districts reporting on tourism, most reported strengthening tourism activity. After a slow start to the ski season in parts of the country, contacts in the Philadelphia, Richmond, and Minneapolis Districts reported that skier visits had picked up. Lower gas prices contributed to increased visitors at local tourist attractions in the Atlanta District, and the Minneapolis District reported solid activity in the national parks. Tourism contacts in the San Francisco District cited additional gains since the last report and increased hotel profitability. Hospitality contacts in the Atlanta District reported solid advanced bookings for business and convention segments, but convention-related business activity was below expectations in the St.

Louis District. Although tourism activity in the New York District was stable since the last reporting period, occupancy rates at New York City hotels remained below year-ago levels. Tourism activity declined moderately in the Kansas City District, although resort areas performed better.

Nonfinancial Services

Overall, nonfinancial services activity expanded slightly. Service sector firms in Philadelphia, St. Louis, and Dallas reported positive growth. Business services continued to expand at a modest pace in San Francisco, and the Kansas City District reported flat sales in professional and high-tech services. Service sector firms in the New York District noted that business had softened, and revenues at services firms in the Richmond District weakened. Strength was noted in the healthcare and social assistance, leisure and hospitality and business support services sectors in the St. Louis District; Minneapolis reported strength in design services and utilities; and Dallas noted strength in real estate and medical services. Demand for healthcare services was unchanged in the St. Louis District, but softened somewhat in the San Francisco District. Demand for staffing services moved generally higher, with staffing services contacts reporting increased activity in Boston, New York, Philadelphia and Cleveland. However, the Chicago and Dallas Districts noted that demand for staffing firms was flat, with the Dallas District noting weakness in the Houston area due to the effects of low oil prices.

Transportation activity varied, with demand weighed down by weakness in the energy and agriculture sectors and lower export volumes. Port contacts in the Richmond and Atlanta Districts noted increased volumes, despite soft export activity and fewer imports of farm machinery in the Richmond District. The trucking industry reported plans to expand services in

the St. Louis District. Several Districts noted a decline in rail cargo, including Atlanta, Minneapolis, and Dallas, with Minneapolis attributing this decline to drops in oil and coal freight. Weakness in the energy sector had also led to reduced volumes of barges hauling liquid petroleum in the St. Louis District. Freight volumes contracted further in the Cleveland District, while contacts in the Kansas City District reported a moderate decline in transportation activity.

Manufacturing

Conditions in the manufacturing sector continued to be mixed across Districts since the previous reporting period. Boston, Cleveland, Atlanta, Chicago, St. Louis and San Francisco indicated flat to moderate growth in overall activity, whereas New York, Philadelphia, Richmond, Kansas City and Dallas reported slight to moderate declines.

Manufacturing contacts in Boston, Philadelphia, Cleveland, Chicago, St. Louis, Kansas City, Dallas, and San Francisco reported significant headwinds due to weak demand from the energy sector, although contacts in San Francisco noted that low energy costs had reduced production costs for steel products. Boston, Philadelphia, Cleveland, Dallas, and San Francisco noted that the strengthening dollar and weakening global outlook had negatively affected international exports. Continued sluggishness in the agriculture industry was cited as a headwind for the manufacturing sector in Chicago and Kansas City. Contacts in the auto and aerospace industries in the Cleveland and Chicago Districts reported positive growth, with auto production in Cleveland District assembly plants in 2015 on par with 2014 and near historically-high levels. However, a manufacturer of auto and aerospace parts in Boston noted continued decline of overall activity.

Expectations for future growth in the manufacturing sector were positive over the coming months for Philadelphia, Atlanta, and Kansas City. Boston also reported a positive outlook for the manufacturing sector, with the exception of the auto and aerospace industries. Contacts in Cleveland and Dallas reported mixed outlooks, with concern specifically over chemical producers and contacts who sell strictly to industrial plants, respectively.

Real Estate and Construction

Residential real estate sales were up since the last report across all Districts, with the exception of New York and Kansas City where sales were somewhat weaker in part due to normal seasonal patterns. The Boston, Cleveland, St. Louis, and San Francisco Districts reported strong growth in sales, and contacts in Boston and Cleveland cited relatively mild winter weather as a positive contribution to growth. Low- to moderately-priced homes sold better than higher-priced homes in Cleveland, Kansas City, and Dallas. Condo sales increased across the Boston and Cleveland Districts but slowed somewhat in New York City. New York, Philadelphia, Cleveland, Richmond, Atlanta, St. Louis, Minneapolis, and Kansas City reported low residential real estate inventories, and contacts in the Boston District reported that inventory of both single-family homes and condos were below year-ago levels. Residential real estate prices increased in the Boston, Cleveland, Richmond, Chicago, Kansas City, and Dallas Districts, while New York and Philadelphia reported little or no increase in house prices.

Residential construction generally strengthened since the previous survey period, with only Philadelphia and Kansas City reporting declines. Contacts from the New York District reported sluggish single-family construction but robust multifamily construction. Boston,

Richmond, and San Francisco also reported strong growth in multifamily construction, and St. Louis noted an increase in speculative multifamily construction projects.

Districts characterized nonresidential real estate sales and leasing growth as flat to strong. Contacts in Cleveland cited growth in demand from the healthcare and higher education sectors and to a lesser extent the manufacturing, commercial real estate (excluding office buildings) and multifamily housing sectors. Commercial occupancy rates rose in San Francisco, spurring higher lease rates and additional construction projects. Commercial vacancy rates were nearing or below prerecession levels in Minneapolis despite significant new commercial real estate construction, and St. Paul saw more commercial net absorption in the last year than in the previous ten years combined. Similarly, industrial vacancy rates decreased across the Cleveland, St. Louis, and Dallas Districts. Demand for commercial real estate space grew robustly in Chicago across retail, industrial and office segments, but there was concern that the lack of commercial construction and increased demand would lead to space shortages and price bubbles. Commercial leasing activity in Boston was steady, and fundamentals remained strong. Richmond commercial leasing activity increased moderately for the retail market since the previous report, while activity in the office and industrial markets was tepid. Commercial rents increased in Philadelphia, and contacts in Atlanta noted generally improving rents as well as increased absorption.

With respect to nonresidential construction, the New York District reported that availability rates and asking rents held steady for office space, but that new office construction had weakened further. Commercial construction continued to expand at a robust pace in Minneapolis, but industrial construction slowed in the Chicago District.

Banking and Finance

Loan demand increased in most Districts, although New York and Kansas City reported mixed or steady demand and Philadelphia experienced a slight decline. St. Louis reported strong demand for mortgages and commercial and industrial loans, while demand for consumer loans remained unchanged. Banks in the Atlanta District reported healthy pipelines in residential lending and increased mortgage refinancing. New York reported mixed loan demand at small-to-medium-sized banks including weakening demand for consumer loans and residential mortgages but rising demand for commercial loans. While lending grew in most categories in Dallas, contacts indicated that low oil prices continued to suppress demand. Contacts in Chicago noted that concerns about slower global economic growth had led to declines in equity markets, wider spreads for asset-backed securities, and an increase in financial market uncertainty, and in Dallas, financial market and monetary policy uncertainty had created concerns about 2016 growth prospects.

Credit quality was stable for most Districts. Improved loan quality was noted in Philadelphia, Richmond, and San Francisco. However, in the San Francisco District, it was noted that low commodity prices could undermine asset quality in the agricultural sector in the months ahead. In St. Louis, loan delinquencies were unchanged to slightly lower in all loan categories, but creditworthiness of applicants improved.

Credit standards remained the same for most Districts. In Philadelphia, some contacts noted a tightening of standards, especially for energy-related industries. In St. Louis, credit standards were unchanged to somewhat tighter for all loan categories. Loan pricing was competitive in Atlanta and Chicago. Banking contacts in Philadelphia indicated a competitive lending environment. Competition among banks intensified somewhat in recent weeks in the

Richmond District. In San Francisco, lender competition for qualified borrowers was vigorous. Cleveland reported consumers increasingly turning to non-bank competitors for auto lending.

Agriculture and Natural Resources

Agricultural economic conditions were flat to moderately down in reporting Districts since the previous report. Low commodity prices and weak global demand continued to put downward pressure on farm income. Minneapolis reported weaker farm incomes and lower prices for all commodities except turkeys. Farmers in the Chicago District were adjusting to the dip in commodity prices by utilizing cheaper seed varieties and selling equipment. Kansas City reported weakening credit conditions and modest declines in farmland values amid tighter profit margins for crop and livestock producers. In the Richmond, Dallas, and San Francisco Districts, agricultural exports slowed alongside the strengthening dollar. In agricultural production, Richmond reported limited activity due to typical seasonal slowdowns, while St. Louis reported an increase in red meat production compared with the previous year. Production conditions in the Dallas District improved from the previous year due to increased soil moisture, and most of the Atlanta District was drought free by mid-February. However, San Francisco farmers and ranchers continued to struggle with persistent drought, despite above-average winter rainfall.

The energy sector contracted further since the last report, with most reporting Districts noting modest to moderate declines in activity. Coal production fell in the Cleveland, Richmond, St. Louis, and Minneapolis Districts. Several Districts reported additional declines in oil and gas drilling rigs including Cleveland, Minneapolis, Kansas City, and Dallas. Weakness in the oil and gas sector led to announced or anticipated capital spending cutbacks in Minneapolis, Kansas City and Dallas. Cleveland and Atlanta reported layoffs in the energy

sector, and the Kansas City District expected additional layoffs in the coming months. Energy contacts in Kansas City commented that financial borrowing bases were being reduced, and the Dallas District indicated that the financial positions of many firms continued to deteriorate. Refinery demand along the Gulf Coast remained steady and was doing well in the Cleveland District, and an oil refinery in the Minneapolis District announced plans for large capital upgrades over the next three years.

Employment, Wages, and Prices

Labor market conditions continued to strengthen since the previous reporting period, with the majority of Districts reporting modest growth in the labor market. However, labor conditions were mixed in Atlanta and Dallas, and Atlanta, Dallas, and San Francisco noted decreased employment in the energy sector. Contacts in New York, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, and Kansas City reported difficulty in finding skilled workers including information technology, engineering, specialty healthcare, construction, manufacturing, and transportation employees. Contacts in Cleveland and Richmond noted that low-skilled positions were becoming increasingly difficult to fill, but contacts in Atlanta reported that low- to mid-skilled positions were easier to fill. Retail employment was down slightly in Dallas due to weak sales, while Kansas City contacts reported a shortage of available retail salespeople.

Wages generally increased, as most Districts experienced slight to strong wage growth. However, the Kansas City, Richmond and Atlanta Districts reported flat wage growth. St. Louis noted strong wage growth as fifty-six percent of contacts, the highest in two years, reported that wages were above year-ago levels. Cleveland, Richmond, Atlanta, Chicago, St Louis,

Minneapolis, and San Francisco reported positive wage growth among high-skilled workers, especially for occupations in the technology, high-skilled manufacturing, aerospace and defense, financial services, and professional technical sectors. Furthermore, Cleveland, Richmond, Atlanta, Chicago, and Kansas City reported wage growth among low-skill and entry-level positions. A contact in Chicago attributed the rise of entry-level wages in Michigan to an increase in the minimum wage. Staffing firms in the Boston District reported single-digit wage increases, but staffing services contacts in Dallas cited easing wage pressures, especially in Houston. Wage pressures moderated in the service sector in Richmond but continued upward pressure was cited in New York. Wages in the retail sector declined in the Kansas City District but increased in Cleveland.

Overall, prices were generally flat since the previous survey period. Contacts in Chicago noted rising auto costs, and contacts in the San Francisco District experienced increased prices in the pharmaceutical and construction sectors. Despite overall flat prices across the Dallas District, an increasing amount of deflationary pressure was reported. Manufacturers' finished goods prices held steady in Cleveland but declined in Kansas City. Retailers in Kansas City and Dallas noted a higher-than-average amount of promotional pricing and a decline in selling prices, respectively, but retail contacts in Chicago and San Francisco noted flat prices.

Agriculture commodity prices were reported as lower in Boston, Atlanta, Kansas City and San Francisco. Several Districts noted lower oil, fuel and transportation costs. However, a Boston District contact in the semiconductor industry said reduced energy prices were not showing up as much as expected in the prices they paid.

FIRST DISTRICT – BOSTON

Most retail and manufacturing contacts in the First District report higher sales or revenues than a year earlier, but far-from-robust growth and, among retailers, somewhat mixed month-to-month changes. Partly because results were weak amidst the region's severe winter weather a year ago, staffing firms cite strong year-over-year revenue growth. Commercial real estate markets are said to be seeing more caution in both leasing and purchases, which, at least regarding the Boston area, is reducing worries about overheated markets. Residential real estate markets remain strong. Staffing firms report increases in wages in the low single-digit range; manufacturers and retailers do not mention wages. Respondents indicate that prices are generally stable. Outlooks are said to be cautiously positive.

Retail

Retailers contacted for this round provide a mixed assessment of current conditions. Given the relatively mild winter in most of New England, sales of seasonal items have been slow. Furniture sales remain good, but a retailer selling in all apparel categories and many leisure categories reports that while January sales were up around 6 percent year-over-year, sales through mid- February are down 10 percent to 15 percent from year-earlier in all U.S. regions. Another nationwide retailer also cites flat sales for discretionary items; for instance, sales of Valentine's Day items usually spike a few days before the holiday, but this year sales were lackluster. Both of these contacts note that contrary to some conventional wisdom, lower fuel costs are not generating higher spending on other items. The general sense is that consumers are somewhat cautious amid a more uncertain economic climate since the turn of the year, and retailers' near-term expectations for 2016:Q1 have been downgraded in response.

The outlook is also mixed; contacts expect fiscal year 2016 same-store sales to be up from 2015 by low-to-mid single-digit percentages. One contact has decided to open fewer new stores in 2016 than originally planned. Nonetheless, most other respondents are engaging in strong multi-year investment plans for opening new stores and enhancing their digital presence.

Manufacturing and Related Services

Of nine manufacturing firms contacted this cycle, three report lower sales than a year ago. Two semiconductor firms say the declines were expected and part of a typical cycle in the industry; one of them expects sales to recover in the first quarter. A manufacturer of parts for auto and aerospace customers, the third firm reporting down sales, notes that business has been slowing for the past year and that they are in a "slow growth environment." One firm reporting overall increases in sales attributes all its strength to strong demand for one of its products from the Defense Department and says sales in its industrial distribution division are down at double digit rates versus the same period a year ago. This contact cites weakness in mining and oil and gas, both directly through firms in that industry and indirectly through suppliers of the industry, as a major factor in weak demand. Other contacts say the strong dollar remains a negative factor reducing demand or dollar profits.

Firms report a relatively benign pricing environment. A firm in the semiconductor industry says reduced energy prices are not showing up as much as expected in the prices they pay. Many responding firms report that customers continue to pressure them for price reductions. Raw milk prices are down

versus exceptionally high levels a year ago. Only one firm reports significant deviations of capital expenditures from plans; this exception is the auto and aerospace industry supplier in which business units, in general, are not using all the resources allocated to them for investment. Otherwise, contacts report no major revisions of their investment plans. Inventories are generally in line with expectations.

One-third of contacted manufacturers report headcount reductions. In one case—a semiconductor-related contact—a reduction of staff at headquarters has long been planned. A producer of milk products closed a plant. The auto and aerospace supplier is laying off workers across all business lines including corporate headquarters as a result of declining sales; these layoffs began last spring and are ongoing.

All of our contacts except the auto and aerospace supplier report a positive outlook. As has been the case since the end of the financial crisis, firms remain somewhat cautious.

Staffing Services

First district staffing contacts report continued strength in the New England region, with revenue growth ranging from about 10 percent to 60 percent year-over-year; weather-related revenue hits in January and February of last year partially explain the size of these year-over-year increases. Labor demand continues to expand in recent months, particularly in the IT, specialty manufacturing, web service, legal, welding, and healthcare sectors. Labor supply remains limited; some contacts note that supply has decreased in recent months. Specifically, contacts report shortages of computer programmers, skilled trade workers, skilled electro-mechanical technicians, intellectual property workers, and nurses. As a result, firms continue to utilize referral networks and social media sites such as LinkedIn and Monster to recruit candidates for specialized positions. Bill rates and pay rates have increased in the low-single-digit range, and firms have upheld similar profit margins. Looking forward, contacts either maintain the same level of optimism or are slightly more optimistic than three months ago, generally expecting revenues to increase at a steady pace. Some contacts mention concerns about business response to stock market fluctuations, the strong dollar, and political uncertainty due to the upcoming elections.

Commercial Real Estate

Commercial leasing activity in the First District is flat or down, depending on the location. General Electric's announcement that it will move its headquarters from Fairfield CT to Boston dealt a blow to business sentiment in Connecticut and further boosted prospects for Boston's booming Seaport District. In Boston, leasing activity is steady and fundamentals remain strong; however, tenants are exercising greater caution in their space demands when renewing leases. In Boston's commercial real estate investment sales market, the number of buyers willing to pay record-high prices continues to decline and lenders appear less enthusiastic about underwriting such bids. In Hartford, leasing activity is described as anemic. Connecticut's investment sales market is active but potential buyers remain less bullish than they were three to six months ago. In Providence, new leasing activity slowed somewhat and deals in progress proceeded at a slower pace, developments attributed to heightened uncertainty stemming from stock market volatility and the national election cycle. Investor interest in Providence's commercial properties is reportedly increasing, but bidding remains conservative. In Portland, leasing activity remains

very robust in the industrial and retail sectors, while in the office sector activity remains healthy but the space demands of large tenants appear conservative. Also in Portland, commercial property sales continue at a brisk pace and with strong pricing.

Looking to future demand, construction activity increased in Providence following the groundbreaking of a large life-sciences complex, and civil construction is set to increase in Rhode Island in the coming year as the state secured new funding for infrastructure repairs. Around Maine, a small boom in hotel-building is reported, a state office building project is in the works, and construction is steady for multifamily and light industrial structures. Construction activity is roughly unchanged in Boston and Hartford. The outlook for commercial leasing demand weakened further in Hartford amid perceived risks of corporate downsizing, and a Providence contact is also a bit less enthusiastic than in the previous report. Contacts in Boston and Portland remain largely optimistic for their respective cities' leasing environments. However, across the District, contacts perceive downside risks stemming from equity market volatility, given its potential to blunt both business and consumer confidence.

Residential Real Estate

Residential real estate markets in the First District continued to exhibit strong performance through the end of 2015. For single-family homes, closed sales increased on a year-over-year basis in every state. Massachusetts experienced the largest December sales volume since 2004. Median sales prices increased, except in Connecticut where they decreased modestly. Pending sales were up from December 2014 in every state as well, indicating substantial market activity to close out the year and a healthy outlook for 2016. A contact in Connecticut says that the market there is "regaining traction," and he is optimistic about the coming year. Condominium markets were more mixed, with closed sales increasing year-over-year in three states and declining in the others. Median sales prices for condos also increased in three states and decreased moderately in the other three. By contrast, pending sales for condos were up across the board. A Massachusetts contact reports that the fall in median sales price of condos reflects a higher proportion of low-priced condos being sold in December rather than any actual softening in prices. A Rhode Island contact notes that although this was the first decrease in closed sales for condos since March, the positive pending sales numbers indicate a strong outlook going forward.

The for-sale inventory of both single-family homes and condos decreased on a year-over-year basis in every state in the First District. Both supply-side constraints (limited construction) and healthy demand contribute to this. This is an issue particularly in Massachusetts and the Greater Boston area, where demand is robust; a contact in Boston notes that realtors are "desperate for listings." Contacts from other states view inventory levels as less of an issue: a respondent in New Hampshire says "improved inventory and affordability remain key factors for continued optimism" and one in Rhode Island claims "there is a decent supply of homes to choose from."

The consensus among industry contacts is that residential markets will continue to perform well in 2016. Many contacts note that mild weather has boosted activity this winter. Contacts are unanimous that the increase in interest rates hasn't reduced demand and that buyers continue to be eager. Several also note that expected 2016 increases in mortgage rates provide incentives for buyers to act now.

SECOND DISTRICT--NEW YORK

Economic activity in the Second District has remained generally flat since the last report, while labor markets continue to tighten. Selling prices were little changed, while service-sector firms report continued upward pressure on wages and other input prices. Manufacturers report further weakening in activity, and service-sector firms also note some recent contraction. Consumer spending has been steady to up slightly in early 2016, while tourism activity has remained sluggish. Residential real estate markets showed scattered signs of softening, while commercial real estate markets were little changed. Multi-family residential construction has held steady at a high level, while commercial construction has weakened. Finally, banks report a pickup in loan demand from the commercial sector but further weakening in household loan demand, and little change in delinquency rates.

Consumer Spending

Following a sluggish holiday season, retailers report some improvement in January and early February, with spending up slightly from early 2015 levels. Unseasonably mild weather in January buoyed shopper traffic somewhat but hampered sales of cold-weather merchandise. One major retail chain indicates that sales were ahead of plan in January but slipped below plan in early February. Retailers in upstate New York report that sales picked up slightly in January and early February. Generally, contacts note a more promotional environment than a year ago. Most indicate that inventories are at or near desired levels, though there are some reports of a glut of cold-weather merchandise. New vehicle sales in upstate New York are reported to be steady at a high level in January and early February, running moderately above comparable 2015 levels, while sales of used vehicles softened further. Auto dealers describe wholesale and retail credit conditions as favorable.

Tourism activity has been stable at a fairly weak level. At New York City hotels, both occupancy rates and room rates continue to run below year-earlier levels—reflecting a combination of weaker demand from international travelers and increased supply of hotel rooms. Broadway theaters, on the other hand, have seen some pickup since the beginning of the year; although the

January 23rd blizzard closed theatres on a usually busy day, both attendance and revenues bounced back quickly and have been running ahead of 2015 levels since. Many winter activities and events in upstate New York have been adversely affected by the unseasonably mild winter, though the mid-February cold spell provided some relief. The Conference Board's January survey shows consumer confidence holding steady in the region.

Construction and Real Estate

The District's housing markets were stable to slightly softer in early 2016. In western New York, housing activity has reportedly slowed somewhat, in line with normal seasonal patterns, while contacts are optimistic about the outlook for the upcoming spring season. Statewide, sales activity was steady at an elevated level, while selling prices remained flat and little changed from a year earlier. Similarly, home resale prices are reported to be essentially flat in northern New Jersey, while both sales activity and inventory levels are characterized as low. One building industry contact notes that home renovation activity has been increasing, and that sub-contracting business seems to be robust.

New York City's co-op and condo sales market has slowed somewhat since the beginning of the year, with both prices and activity down modestly from late-2015 levels. The city's residential rental markets have also been somewhat softer. Rents on Manhattan apartments have been steady to somewhat lower so far this year, while rents in Brooklyn and Queens have increased at a slower pace than in 2015. A major New York City appraisal firm also notes that the high end of both the purchase and rental markets has been particularly sluggish, reflecting excess supply; a similar pattern prevails for high-end rental markets across the District more broadly.

Office markets have been stable across the District, with both availability rates and asking rents little changed since the beginning of the year. New office construction has weakened further; a good deal of new office space is under construction in Manhattan but little is in the works across the rest of the District. Single-family construction has generally remained sluggish, while multi-family

development has been robust. In northern New Jersey, most of the recent apartment construction has been rental buildings, whereas in New York City, it has been largely condos.

Other Business Activity

The labor market has been steady to stronger in early 2016, with some pickup in wages. One major New York City employment agency reports across-the-board strength in hiring activity and notes an increasingly pronounced shortage of qualified candidates. This contact maintains that employers have become more open to negotiating starting salaries upward. Another agency in the city characterizes the job market as tight but stable, with some pickup in wages. A major agency in upstate New York also describes the job market as strong and notes increased hiring in light industrial fields, such as assembly and technicians. More broadly, service-sector businesses in the region report that they are expanding employment, on net, while manufacturers say they are holding employment steady; however, both groups of firms plan to hire, on net, in the months ahead.

Manufacturers in the District report continued weakening in activity, while service-sector firms now also note that business has softened. Service firms report continued wage pressures but some deceleration in their input prices overall, while manufacturers report steady input prices. Both manufacturers and service firms report that their selling prices remain little changed, though the latter group expects prices to increase in the months ahead.

Financial Developments

Small- to medium-sized banks in the District report weakening demand for consumer loans and residential mortgages but rising demand from commercial borrowers. Bankers report that credit standards remained unchanged across all loan categories. Bankers reported narrowing spreads of loan rates over cost of funds across all loan categories. The decrease in spreads was most prevalent for commercial mortgages. Respondents also reported no change in the average deposit rate. Finally, banks report lower delinquency rates on commercial mortgages but higher delinquencies on consumer loans. Delinquency rates on both residential and commercial mortgages were little changed.

THIRD DISTRICT — PHILADELPHIA

Aggregate business activity in the Third District appears to have grown slightly during the current Beige Book period. This is a bit weaker than the modest growth rate during the prior Beige Book period, which has been more typical of Third District expansions for several decades. Hiring appears to have continued at a modest pace according to most contacts; staffing firms reporting moderate gains and manufacturing firms reporting declines were exceptions. On balance, wage and price increases continued to rise slightly; however, home prices appeared to have leveled off after rising in prior periods. Firms generally adhered to recent expectations that growth would be modest over the next six months.

Among Third District business sectors, several sectors slowed their pace of growth or began to decline; the remainder repeated their performance of the prior period. Homebuilding and loan volumes were reported as declining slightly after growing moderately last period. General services slowed to a modest pace of growth, while staffing services slowed to a moderate pace. Auto sales appeared to be flat at very high levels after slight gains last period. General (nonauto) retail sales appeared to maintain a moderate pace of growth during this Beige Book period. Tourism contacts continued to report modest growth, as did commercial contractors and commercial leasing agents. Brokers continued to report only slight growth of existing home sales. Meanwhile, manufacturing contacts continued to report slight declines overall.

Manufacturing. Firms continued to report slight declines in overall activity during the latest Beige Book period. While shipments were somewhat positive, new orders declined further. Following consecutive reports of persistent declines in activity, firms also reported slight overall decreases in the number of employees and in the average employee workweek. Weak demand continued to be reported across most major industrial sectors, with the strong dollar and low commodity prices cited most often as factors in the declines. These relative sectoral strengths and weaknesses were reflected in comments from a transportation analyst who indicated that rail movements of crude oil had dropped off, while consumer-oriented shipping by truck remained steady.

Expectations of growth during the next six months remain positive but have weakened further since the last Beige Book, significantly so for orders and shipments. Expectations of future capital expenditures and future employment are nearly zero. The number of firms expecting declines is nearly as many as the number expecting increases.

Retail. Nonauto retail sales continued at a moderate pace of growth during the current Beige Book period. Convenience store operators reported that January, like December, had the

best year-over-year gain in traffic in many years. The one significant January snowstorm generated some lost sales and added maintenance costs but was not an unusual winter event. Contacts remained bullish for 2016, noting that low gas prices continue to boost sales, in addition to a steadily improving economy.

Auto dealers throughout the Third District reported essentially no growth in auto sales, although overall sales levels remain elevated. The current Beige Book period is typically a slow season for auto sales; still dealers pointed to the loss of several sales days due to a major snowstorm. Despite the slow start, auto dealers continued to express optimism that sales volumes would remain high, if not increase, in 2016. Some contacts suggest that strong demand should continue, since the average age of vehicles on the road exceeds 11 years.

Finance. Third District financial firms reported that total loan volumes have declined slightly since the previous Beige Book after growing moderately last period. Commercial and industrial deals and commercial real estate activity continued to generate strong loan growth during the period and year over year. Auto loans grew slightly during the period, but less than has been the norm over the past several years. Mortgages and home equity loans have been flat to down over the period as well as over the year. Banking contacts continued to note a competitive lending environment and generally improving credit quality; some contacts noted a little deterioration in loan performance, prompting some tightening of standards, especially for industrial lending related to the energy sectors. Most contacts continued to report few signs of inflation and remained optimistic for continued slow, steady growth in 2016.

Real Estate and Construction. Homebuilders reported declines in contract signings for new home construction compared with their expectations for this season. Some suggested that uncertainty and stock market volatility may have contributed to the lack of activity. One builder noted difficulty finding qualified buyers for the entry-level homes that the company builds; despite rising employment levels, many people still lack sufficient cash for a down payment and adequate credit quality. Builders noted little concern about commodity costs, and as demand has slowed, labor costs have presented fewer problems. A nationwide firm described optimism for continued growth due to the upside potential from the household formation rate.

On balance, brokers in the major Third District housing markets continued to report slight year-over-year increases. Many contacts described continued low inventories and little or no increase in house prices; some contacts cited house price declines. A major Philadelphia-area broker projected a slight increase in sales for 2016 with greater potential if more homes come on the market.

Nonresidential real estate contacts continued to report modest growth in construction and leasing activity with no signs of a slowdown in any sector. Contacts reported that in addition to

Center City Philadelphia, the suburban office market and the Lehigh Valley industrial market remain very strong. Rents are pushing upward in some markets. One contact noted that 2016 would be a very strong year for regularly required maintenance work on heavy industrial facilities. Contacts remained optimistic for continued growth of new construction, retrofitting, and leasing activity through 2016.

Services. Third District service-sector firms reported some slowing to a modest pace of growth during the current period. In particular, a greater percentage of firms reported declining orders and sales than in the prior period, while a smaller percentage reported additions to their full-time payroll employees. Reports from staffing firms were mixed, ranging from continued strong growth to some slowing during the period, so that on balance activity may have returned to a moderate pace of growth. One staffing agency noted an increase in their direct hires and in conversions of their temporary placements to permanent positions, indicating that this bodes well for the economy, if not their firm.

The ski season got underway fully in January, as winter and snow finally arrived. Tourism activity continued to grow at a modest pace, as occupancy rates held up in the Poconos despite a substantial increase in rooms over the past year. Atlantic City casino revenues continued to decline, dropping 4 percent compared with the prior year, or 6 percent if Internet gambling is excluded.

Expectations for continued future growth in services have fallen since the prior Beige Book period — the percent of service-sector contacts expecting growth fell to nearly one-half, while the percent of those expecting some contraction increased to nearly one-third.

Prices and Wages. On balance, general price levels have continued to rise slightly since the previous Beige Book period. Well over half of the contacts reported no significant change in the prices they pay for inputs and the prices received for their goods and services. Of firms that indicated a change, manufacturing firms tended to report decreases in prices paid and in prices received, while most nonmanufacturing contacts reported increases. Overall, contacts continued to report little upward wage pressure. Staffing firms noted some upward movement in wages — sometimes the result of pushback during salary negotiations.

Over the next four quarters, firms expect their own compensation costs per employee (wages plus benefits) to rise 3 percent, the median forecast from a broad-based survey of Third District firms. Firms also reported expectations of 2 percent annual inflation for consumers and 2 percent increases in prices received for their own goods and services.

FOURTH DISTRICT – CLEVELAND

Aggregate business activity in the Fourth District grew at a modest pace since our last report. Manufacturing output continued to trend slowly higher on balance. The housing market improved, with higher unit sales and higher prices. Nonresidential contractors reported favorable results for 2015, and they expect these will carry through 2016. Results for the post-holiday shopping period at general merchandise retailers were mixed; auto dealers saw higher unit volume on a year-over-year basis. The demand for credit moved slowly higher. Oil and gas extraction and coal production declined. Freight volume trended lower.

Payrolls expanded on balance during the past six weeks, especially in the manufacturing, construction, and banking sectors. Reports indicated an ongoing tightening in labor markets. Job churning and wage pressure were most evident in the lower-skilled and service technician segments. Staffing firms reported an increase in the number of job openings and placements, primarily in healthcare and manufacturing. Overall, input and finished-goods prices were steady other than adjustments made for commodity price fluctuations.

Manufacturing. Manufacturing output continued to trend slowly higher on balance over the period. Demand for consumer and intermediate goods was stronger than for industrial products. Activity for suppliers to the motor vehicle, construction, and aerospace industries remains elevated, but the pace of growth has slowed. Key factors tempering output include a strong dollar, low commodity prices, aggressive competition from foreign producers, and softness in the energy sector and in some emerging market economies. Auto production at District assembly plants for all of 2015 was on par with 2014 levels and near historic highs. Although the steel industry remains depressed, three of our contacts noted a slight improvement in January volume compared to December's. Capacity utilization showed a moderate increase over the period. Contacts had differing views about the outlook. Manufacturers who sell to industrial customers generally anticipate flat or sluggish growth. Otherwise, our contacts expect that business activity will expand during 2016.

Capital spending budgets increased slightly over the period. Monies were allocated primarily for new equipment and maintenance projects. Finished-goods prices held steady for the most part, though a few manufacturers reduced their prices in response to lower demand or declines in raw material prices. Others reported widening margins because of lower energy costs. On balance, manufacturing payrolls expanded moderately across job segments. Those cutting employment cited a need to preserve margins. Cost-of-living increases for production workers averaged 2 percent to 3 percent.

Real Estate and Construction. Sales of new and existing single-family homes for all of 2015 rose 8.5 percent compared to those of a year earlier. The average sales price increased by more than 4 percent. Several builders and real estate agents commented that the unusually mild weather is having a positive impact on sales and that the threat of higher interest rates is providing consumers with the impetus to buy. Estimates of single-family construction starts rose moderately across most regions of the District. New-home contracts remain concentrated in the

move-up price point categories. Condo sales are reportedly increasing. Most builders reported increasing home prices over the period, a circumstance which they attributed to rising labor, material, and land development costs and limited inventory. Homebuilders and real estate agents expect little change in market conditions in the coming months.

Nonresidential contractors reported very favorable results for 2015, and they expect 2016 will be moderately stronger. Demand is being driven by healthcare and higher education and to a lesser degree by manufacturing, commercial real estate (excluding office buildings), and multifamily housing. Some reports indicated that vacant industrial space is being filled at a faster pace and that this is driving up asset values. Over the past several months, many general contractors were able to increase their billing rates with little pushback. These higher rates enabled them to cover rising labor costs and to build margins.

About half of our contacts announced increases to this year's capital investment budgets. Monies are being allocated primarily for new equipment and facility expansion. General contractors reported rising prices for concrete, glass products, and plumbing supplies. Prices declined for commodity-based products such as shingles and wiring. Otherwise, materials costs were stable. Construction payrolls rose moderately across job segments since our last report. Hiring is expected to pick up as the spring construction season approaches. Subcontractors remain very busy. They are being challenged by a labor shortage, and, as a result, many are selective when bidding. We heard a couple of reports about subcontractors abandoning a project mid-cycle because more lucrative opportunities became available. In order to widen margins, most subcontractors are increasing their rates, and some are not passing through reductions in materials prices.

Consumer Spending. Reports on post-holiday sales at retail outlets were mixed. Consumers seem reluctant to take on additional debt, especially for large-ticket items. One contact suggested this may be attributable to financial market volatility. Apparel sales, especially cold-weather items, were lower. In contrast, sales of electronics were up. Restaurateurs experienced moderate to strong revenue growth during the fourth quarter of 2015 when compared to prior years' results. Our contacts credited low energy prices and expanded menu offerings for the increase. The retail environment is changing rapidly. Chains are allocating larger shares of their capital budgets to technology and repositioning existing stores to be more attractive to Millennials. Underperforming assets are being shuttered at a faster pace. Vendor and shelf prices were fairly stable, though supply-side prices for selected food products and cotton apparel declined. Two contacts noted they are working on simplifying supply chains to become more cost effective. Retailers are facing stiff labor competition. Higher turnover combined with a smaller pool of qualified workers is driving up wages.

Sales of new motor vehicles for all of 2015 were more than 2 percent higher compared to those of a year earlier. This growth has carried over into January. Purchases of light trucks and SUVs continue to dominate the market. A few reports indicated that sales of luxury brands are on the decline. New-vehicle transactions in 2016 are expected to remain elevated, though some

dealers believe the pace of growth will level out. Dealers are experiencing margin erosion, which they attributed to OEM demands for increased capital expenditures and rising regulatory compliance costs. Payrolls held steady over the period, but the market for sales and service personnel is tight, putting upward pressure on wages.

Banking. Business and consumer lending expanded modestly since our last report. On the commercial side, credit was used mainly for financing acquisitions and to fund CRE projects. However, the pace of growth for CRE loans is slowing. Bankers reported that businesses are using their own liquidity to finance capital projects and to pay down existing lines. That said, our contacts are fairly confident about expanding loan portfolios in the first half of the year. In retail banking, the slow downward trend in auto lending continued as consumers increasingly turn to non-bank competitors for credit. Mortgage activity was seasonally lower, while drawdowns on home equity products picked up. Credit card usage was down slightly. Little change was reported in loan-application standards and delinquencies. Despite customers' paying down loans, core deposit balances remain very strong. Capital budgets increased slightly over the period. Spending was primarily for technologies, especially mobile and, to a lesser extent, IT upgrades and regulatory compliance requirements. Banking payrolls moved modestly higher in aggregate. Newly created jobs in commercial lending and regulatory compliance offset declines in retail banking.

Energy. The number of drilling rigs operating in the Marcellus and Utica Shales trended lower over the period and is currently 62 percent below its peak level recorded late in the fourth quarter of 2014. Nonetheless, regional natural gas output remains at historic highs. Reduced demand owing in part to unusually warm weather has boosted inventories and put further downward pressure on wellhead prices. Prices for natural gas liquids are also declining. Significant layoffs in the upstream segment continued. Reports indicate that investment continues in pipeline and mid-stream projects and that the refining (oil) segment is doing well. Coal production is lower. Not much change is expected across the sector during 2016.

Freight Transportation. Reports indicated that on net, freight volume contracted further over the period. This situation was attributed primarily to softness in the manufacturing and energy sectors and to high inventory levels. However, two contacts reported that conditions are beginning to stabilize. Some carriers saw a boost in volume related to select consumer products, motor vehicles, and building materials and hardware. The outlook by our contacts has improved since the previous cycle, and a majority of contacts now expect that business will expand in the upcoming months. Although diesel fuel prices have declined (fuel surcharges have been largely eliminated), several contacts reported negotiating higher shipping rates. Rate adjustments were needed to cover rising costs for labor and new equipment. Some reductions were taken to capital investment budgets. Spending is mainly for maintenance projects and equipment: replacement and, to a lesser degree, adding capacity. On balance, freight payrolls were flat. A reduction in drivers was offset by an increase in service technicians. Difficulties finding qualified technicians are putting upward pressure on wages.

FIFTH DISTRICT–RICHMOND

Overview. The Fifth District economy grew moderately, on balance, since the previous Beige Book report. On the downside, manufacturing activity decreased, with a slight decline in shipments and new orders. Further, revenues at services firms weakened. However, retail sales increased moderately, with continued strength in car and light truck sales. In addition, winter tourist destinations rebounded from a soft start when the weather finally turned cold. Consumer and commercial loan demand rose. Activity in residential real estate also increased slightly, while growth in commercial real estate activity was slow to moderate. Agribusiness and natural gas production were mostly unchanged, while coal mining declined. Labor demand increased modestly. According to our most recent surveys, the pace of hiring increased modestly at manufacturing businesses and slowed at services firms. Wage increases accelerated at manufacturing establishments and moderated in the service sector. Manufacturers' prices of both raw materials and finished goods rose at a slightly faster pace. Price growth accelerated moderately at services businesses, including retail. Commodity prices remained depressed and prices of natural gas and coal declined slightly since the previous report. The District was hit with a severe snow storm lasting four days in late January. Of 110 businesses responding to a survey question about the storm, 75 percent closed or reduced operations for one to four days, and 54 percent of that group indicated that they were affected for only one day.

Manufacturing. Manufacturing activity decreased on balance since the previous report. Producers reported a mild decline in shipments and the volume of new orders, with most contacts attributing the softness to seasonal factors or slower global demand. Additionally, many manufacturers reported delays in production and shipments from the late-January winter storm. A few firms reported variation in demand across product markets, however overall revenues remained positive since the previous report. A plastics manufacturer reported modest demand for optical application products. However, he noted very strong demand for packaging and labeling materials. Similarly, a box manufacturer said that he had uneven sales in the past six weeks, but noted a modest increase in shipments and new orders. In contrast, an industrial refrigeration and heating manufacturer reported a decline in new orders, especially international orders. A chemical producer also said both exports and domestic business had declined in the weeks since the prior report. Manufacturers that supply products to the residential and commercial construction industry reported a slowdown, and a producer of railroad parts also noted weaker business conditions. According to our most recent survey, prices of both raw materials and finished goods rose at a slightly faster pace.

Ports. Year-over-year traffic volume varied at District ports in January, according to port officials, but February is expected to finish strong at all three major ports. Even though some containerized retail imports were below estimates previously provided by retailers, overall imports of

loaded containers rose. Moreover, automobile imports remained robust in recent weeks, despite seasonal slowing. In contrast, falling commodity prices have reduced farmers' imports of machinery. Port officials continued to report soft exports, which were primarily attributed to the strong dollar and softness in the Chinese economy as well as Chinese restrictions on some U.S. exports. In addition, slow growth in trade has contributed to excess shipping capacity and weakening in shipping rates.

Retail. Retail sales strengthened moderately since the previous report. A severe snowstorm in late January closed many District retail stores for up to four days, but shopping continued online. Several small Virginia retailers reported some losses from those closures, although sales have improved since then. Auto sales remained strong. Most merchants reported that retail prices rose moderately in recent weeks. On the supply side, a large grocer noted that wholesale prices of meat and dairy had fallen.

Services. Revenues at services firms weakened since the last Beige Book. A financial services executive commented that there is "a general malaise" in confidence. An executive at a national trucking firm also commented on softness in business levels. However, he noted an increase in shipping contracts to lock down capacity for the second half of the year. Healthcare organizations reported little change in demand for services, although a late-January snowstorm delayed some elective procedures. Prices at services businesses increased at a moderate pace.

Warm weather slowed tourism at District ski resorts in January, but colder temperatures in February brought a significant increase in bookings. The general manager at one resort said despite the recovery in February bookings, a double-digit decline in January will result in overall lost revenues for the year. A manager at a ski resort stated that he could not recapture losses from early in the season, but that his winter weekend reservations were now sold out, and that sales of season passes had been strong. On the outer banks of North Carolina, a tourism executive reported that many large rental homes were being built and work had begun on a main bridge, bringing new jobs and increasing tourist reservations. Reservations were strong there for the long weekend in February and advance bookings are accumulating for Easter week. Rates for rentals and hotels were little changed.

Finance. Since our previous Beige Book report, loan demand increased modestly. Residential mortgage demand picked up slightly according to a central Virginia lender. A West Virginia banker described demand in the housing market as generally stable but with pockets of low demand and excess stock. Residential refinance lending rose slightly in Maryland and Virginia. Demand for commercial loans increased moderately over the last several weeks. A South Carolina banker noted that mergers and acquisitions were driving increased activity in commercial and industrial lending in his region. Conversely, a banker in Virginia attributed the increased demand to multi-family construction projects. Interest rates were stable on balance. Underwriting standards relaxed slightly, according to a Virginia banker. Credit quality was generally reported as steady-to-improving, except in parts of West Virginia where quality declined slightly. Competition among banks intensified somewhat in recent weeks.

Real Estate. Residential real estate activity grew modestly since the previous report. Some contacts stated that the January winter storm caused buyer traffic to decline. Real estate agents reported a slight increase in average sale prices, while average days on the market were unchanged since the previous report. Low levels of inventories persisted in most areas. A residential real estate contact in Asheville, North Carolina reported that sales and permits increased modestly. Additionally, a Baltimore, Maryland real estate contact said that sales rose modestly in the past six weeks. Home sales in the Roanoke region were reportedly steady, with stronger movement in the \$200,000 to \$350,000 range. A Virginia Beach real estate agent reported an uptick in new home sales in the past six weeks and additional new residential communities under construction. In contrast, a Washington D.C broker reported that residential sales activity decreased during and after the late January winter storm. He noted that demand was stronger in the \$1.25 million to \$1.5 million range. Multifamily leasing and construction remained strong across the District.

On the commercial side, leasing activity increased moderately in the retail market since the previous report, while activity in the office and industrial markets was tepid. Rental rates and vacancy rates varied across submarket and region, with a few reports of softening in office rental rates. A broker in Columbia, South Carolina reported a strong retail real estate market for sales and leasing, noting that new site development increased, and the demand for fast, casual restaurants was robust. Additionally, a Virginia Beach real estate contact stated that grocery remains the most active sector in retail leasing, primarily in the 30,000 to 40,000 square foot range. With respect to sales, District contacts stated that office sales activity remained sluggish and noted the continued trend of office tenants' downsizing. Real estate agents across the District reported that mixed-use developments remained attractive, drawing in specialty food stores, restaurants, and local retailers. Commercial construction grew moderately in Charlotte, Columbia, Richmond, Asheville, Roanoke and Virginia Beach.

Agriculture and Natural Resources. Underlying agribusiness conditions were unchanged since the previous report, even as contacts cited a typical seasonal slowdown. Farmers reported limited planting and harvesting in the past six weeks. Most sources stated that input prices were unchanged. However dairy farmers said that input prices continued to decrease. Commodity prices remained depressed.

Natural gas production was unchanged since the previous report, while coal production decreased mildly in the past six weeks. Prices of natural gas and coal declined slightly since the previous report.

Labor. The demand for labor rose modestly since our previous report. A staffing agent in Maryland said that demand was greatest for high-skill positions and that there were not enough of those workers available. He added that as the unemployment rate continued to decline, it was becoming more difficult to find entry level workers as well. Some uncertainty about the future of the economy was cited for driving up the increase in demand for temporary workers. In addition, extended warm weather at winter resorts delayed start dates of previously interviewed entry level workers who had been offered

work and as a result, many of those workers were not available when they became needed. Throughout the District, employers reported shortages of available nurses, IT professionals, skilled blue collar workers, semi-skilled manufacturing workers, engineers, specialty health care workers, hospitality and food service workers, construction labor, and logistics and transportation employees. According to our most recent surveys, the pace of hiring increased modestly at manufacturing businesses and slowed at services firms. Wage increases accelerated slightly for manufacturers and moderated in the service sector. Additional sources also reported that wages were stable on balance, with a few scattered reports of increases to attract or retain top talent. The average workweek lengthened for manufacturing employees.

SIXTH DISTRICT – ATLANTA

Sixth District business contacts indicated that economic activity continued to improve, albeit modestly, from January to mid-February. The outlook among contacts remained positive with the majority expecting growth to be at or above current rates over the near term.

On balance, retailers cited moderate sales growth since the previous report. Motor vehicle dealers indicated auto sales were modest. Tourism activity remained healthy as contacts cited solid advanced bookings for the first half of the year. Residential real estate builders indicated that construction was up, new home sales were flat to slightly up, and inventory levels were mixed compared with a year ago. Residential real estate brokers reported that existing home sales were mixed and inventory levels were down from a year earlier. Home prices continued to modestly improve. Commercial real estate activity continued to increase at the same rate as in the previous report. Commercial construction increased, especially in the multifamily segment. Manufacturers noted improved activity as new orders and production increased. Reports from banking contacts continued to cite increases in loan activity. Labor market activity was mixed. Overall, wage pressures and non-labor input costs remained restrained.

Consumer Spending and Tourism. Generally, District merchants reported a moderate start to the year. High-end retailers noted softer sales growth since the previous report while off-price retailers experienced increased demand over the holiday season and into the beginning of the year. Restaurant and catering establishments noted an increase in average spending by domestic consumers. Automotive dealers cited a slow start to 2016 with lower than expected light vehicle sales in January.

Low gas prices were noted as a contributing factor to a rise in visitors at local tourist attractions and areas. Hospitality contacts continued to report solid advanced bookings in the business and convention segments for the first two quarters of 2016. District tourism contacts are cautiously optimistic regarding tourism activity for 2016 as concerns remain about softening demand from international visitors.

Real Estate and Construction. District real estate contacts were slightly more upbeat about conditions since the last report. Many builders continued to report that construction activity was up from the year-ago level. Most builders cited flat to slightly up home sales relative to one year earlier; while reports from brokers continued to be mixed. Buyer traffic was also flat to slightly up from one year ago, according to the majority of builders and brokers.

Builders noted inventory levels were mixed, while most brokers said that inventory levels were down from the year-ago level. Most contacts continued to report modest home price appreciation. Residential builders and brokers expect home sales to increase slightly over the next quarter. Builders expect construction activity to be flat to slightly up over the next three months.

District commercial real estate brokers reported improvement in demand resulting in increased absorption and rent growth across property types, but cautioned that the rate of improvement continued to vary by metropolitan area, submarket, and property type. Commercial contractors noted that the pace of nonresidential construction activity had increased from one year ago, with most citing a backlog greater than or equal to the previous year. Reports on multifamily construction indicated that activity remained robust. District commercial real estate contacts expect the pace of construction activity to continue to increase slightly over the next quarter.

Manufacturing and Transportation. District manufacturers indicated that business activity picked up slightly compared with the previous reporting period. New orders and production levels increased notably, and payrolls at manufacturing firms rose slightly. Finished inventory levels were reported to be higher and supply delivery times were shorter, while commodity prices continued to decrease. Expectations for future production remained about the same as the previous reporting period, with a little more than one-third of businesses anticipating an increase in production levels.

District transportation firms cited mixed results from January through mid-February. Ports reported continued volume increases in container traffic and bulk cargo from one year ago, while air cargo contacts indicated slight declines in overall tonnage from year earlier levels. Total rail carloads were down by double-digits over the same period last year; however, intermodal volumes continued to experience modest gains.

Banking and Finance. Banking contacts reported that credit remained available with attractive terms for qualified households and businesses and demand for credit was robust at some District community banks. Pricing for commercial loans remained competitive. Recent increases in interest rates had little impact on borrowing or lending behavior, but some business customers appeared to be making efforts to refinance their debt ahead of future interest rate increases. Banks reported healthy pipelines in residential lending and increased mortgage

refinancing. Even with cheap money readily available, some borrowers indicated a continued preference toward deleveraging. Auto lending slowed some in January.

Employment and Prices. Employment activity across the District varied based on market segment. Some retailers continued to note that hiring had become easier, particularly for low to mid-skilled positions. However, firms seeking employees for high-demand fields, such as information technology, engineering, and construction continued to experience difficulty filling jobs. A number of businesses reported hiring less qualified workers and increasing investment in training programs in response to challenges finding experienced labor. The oil and gas industry continued to impose layoffs as conditions deteriorated.

Wage growth remained subdued, with little evidence of a broad-based acceleration in wages outside of select skill categories, industries, and geographies. Within District firms, wage pressures remained concentrated towards top performers, those with specialized skills and lower skill, entry-level employees. Non labor input cost pressures continued to be restrained, and a number of firms that had held prices steady in 2015 have begun to experience pressure to pass commodity cost savings to their customers. According to the Atlanta Fed's Business Inflation Expectations (BIE) survey, unit costs were up 1.2 percent from a year ago (their lowest level since the survey's inception in late 2011). Survey respondents also indicated they expect unit costs to rise 1.8 percent over the next 12 months.

Natural Resources and Agriculture. Continued weak global demand and an oversupply of oil and gas were driving down business investment and employment in the District's energy sector. Contacts noted that businesses that had shifted from exploration to production, and merger and acquisition activity continued to preserve cash flow. Refinery demand along the Gulf Coast remained steady and pricing for gas-based feedstock continued to be competitive. Utilities experienced increased usage in residential and commercial power while industrial sector sales slowed across the District.

With the exception of Florida, where rainfall was categorized as much above normal, the District saw January rainfall totals ranging from near average to below average. However, by mid-February the District was drought free with only a small portion of Georgia characterized as abnormally dry. In parts of Florida where rainfall was excessive, there were reports of flooding, damaged fields, and delayed fieldwork. Florida's orange forecast remained unchanged from January and down from last season. On a year-over-year basis, monthly prices paid to farmers for corn, cotton, rice, soybeans, beef, broilers, and eggs have declined.

SEVENTH DISTRICT—CHICAGO

Summary. Economic activity continued to increase at a modest pace in January and early February. Consumer and business spending, construction, and real estate activity all rose at modest rates, while manufacturing production grew at a moderate pace. Financial conditions tightened some. The turmoil in financial markets also led contacts to express greater uncertainty and more pessimism about the pace of growth over the next 6 to 12 months. Both price and wage pressures remained subdued. Crop farmers continued to cut capacity after a year of low incomes.

Consumer spending. Growth in consumer spending remained modest, and the pace of growth slowed some over the reporting period. Sales in the general merchandise, hobby, and jewelry sectors were stronger while sales in the apparel and food and beverage sectors were weaker. Contacts expressed disappointment in the extent to which lower gas prices and improvements in the labor market were translating into sales growth. They suggested that some households were working off debt instead of spending and that the increase in financial market volatility had made consumers more reluctant to spend. The pace of sales of new and used light vehicles slowed some but remained strong and exceeded dealers' expectations. Increased leasing over the reporting period contributed to the strong sales numbers. Low gasoline prices continued to shift the sales mix from cars to light trucks.

Business spending. Growth in business spending remained modest in January and early February. Most retailers indicated that inventories were at comfortable levels, though some auto dealers reported shortages of popular models, and inventories of heavy trucks were higher than desired. Steel service center inventories declined some but remained elevated. Contacts expect steel inventories to return to normal levels sometime in the second quarter of 2016. Several contacts expressed concern that the State of Illinois's fiscal problems would affect future activity, though they did not indicate any impact on current hiring or spending decisions. In contrast, a number of contacts noted that heightened financial market and international uncertainties had led them to hold off on making planned capital expenditures until they were more certain about economic conditions. Despite these comments, growth in current capital spending and plans for future outlays picked up some over the reporting period, though it remained modest for both. The reported pace of hiring picked up some, but remained slow overall. There also was a pickup in the number of contacts saying they planned to increase workforces over the next 6 to 12 months. Demand continued to be strongest for skilled workers,

particularly for many professional and technical occupations, sales, and skilled manufacturing and building trades. Staffing firms again reported flat growth in billable hours and difficulty filling orders at the wages employers are willing to pay.

Construction and real estate. Construction and real estate activity increased modestly on balance over the reporting period. Residential construction expanded modestly, with growth concentrated in the single-family market and spread across urban, suburban, and rural areas. Home sales, home prices, and residential rents all inched up over the reporting period. Nonresidential construction contacts reported little growth on balance, with a slowdown in industrial construction demand and little improvement elsewhere. In contrast, demand for existing commercial real estate space continued to grow robustly, with only a bit of a slowdown from the average pace over the past couple of years. The market for for-lease properties was particularly healthy and was broad-based across the retail, industrial, and office segments. One contact noted that the slow pace of nonresidential construction combined with strong demand for commercial and industrial space was creating concern about space shortages. Indeed, contacts continued to raise concerns that the strong growth may be creating a price bubble.

Manufacturing. Gains in manufacturing production continued at a moderate pace in January and early February. Growth remained strong in the auto and aerospace industries, but was slower in most other industries. Demand for steel picked up some. Specialty metals manufacturers reported a slight pickup in demand, with suppliers to the auto and aerospace industries still seeing strong orders while those producing primarily for the oil and gas industry continued to experience weakness. Soft demand for agriculture and mining machinery remained a drag on the heavy machinery industry. Demand for heavy trucks slowed some, while demand for medium trucks held steady, spurred by consistent growth in construction. Manufacturers of construction materials also continued to report slow but steady increases in sales.

Banking/finance. On balance, credit conditions tightened some over the reporting period. Contacts reported that concerns about slower global economic growth, especially in China, led to declines in equity markets, wider spreads for asset-backed securities, and an increase in financial market volatility. Business loan demand grew slightly over the reporting period and loan pricing remained extremely competitive. Contacts reported an increase in demand for commercial real estate loans and an improvement in commercial real estate loan quality. Overall, consumer credit demand grew slightly and loan quality was little changed. Growth in demand for autos loans remained strong, with ongoing support from longer-term loans

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for new vehicles and from an increase in subprime loans for used vehicles. Contacts in the agriculture sector noted that lower farm incomes last year have led to a greater reliance on loans to finance operations and that repayment rates have deteriorated.

Prices/costs. Cost pressures continued to be subdued in January and early February. Energy and metals prices remained low. Retail prices changed little, with the exception of higher average overall motor vehicle transaction prices, which reflect in part the shift in sales mix toward larger, more expensive vehicles. Nonretail contacts also reported little change in prices over the reporting period, with those firms reporting higher prices more likely to cite increased demand than rising costs. Wage pressures remained mild overall and were generally stronger for management and professional and technical occupations. A staffing firm reported that the minimum wage increase in Michigan had led to wage increases for workers whose wages are generally priced at some premium over the legislated minimum. In general, growth in non-wage costs also continued to be subdued, though some contacts reported sizeable increases in healthcare costs.

Agriculture. Crop farmers continued to cut capacity following another year of low incomes coupled with unexpectedly small declines in input costs. There were reports of major downsizings of large operations and of some farms going out of business. Farmers are also cutting capacity by purchasing cheaper but lower-yielding seeds and by selling machinery. Correspondingly, prices for used farm machinery are low because of plentiful supply. Corn, soybean, and wheat prices moved higher during the reporting period, but remained quite low compared to their five-year averages. Dairy, egg, hog, and cattle prices were up from the prior reporting period, but remained low.

EIGHTH DISTRICT—ST. LOUIS**Summary**

Economic activity in the Eighth District has been mixed since our previous report. Business contacts reported strengthening wage pressures, while employment and prices grew at a modest pace. Businesses across most sectors reported that the rate of economic activity was generally unchanged, with retailers describing sales as generally flat, manufacturing contacts noting little change in production or new orders, and other service sectors reporting mixed activity. Real estate activity, however, has been robust for both residential and most commercial property types. A survey of District banks showed improving conditions, with generally strong growth in loan demand.

Employment, Wages, and Prices

A survey of business contacts indicated that wage growth was strong, while employment and prices grew at a modest pace. On net, fifty-six percent of contacts reported that wages during the past three months were slightly higher or higher than during the same time last year, the strongest reading in the past two years. Specifically, manufacturing contacts in Louisville reported strong demand for high-skilled workers and increasing wages to attract and retain employees. Consistent with previous reports, job growth remains modest: On net, only 20 percent of contacts reported higher employment relative to the same time last year. Inflation pressures also remain modest: On net, only 21 percent of contacts reported that prices charged to customers were slightly higher than the same time last year, which is a slightly lower share than in previous reports.

Consumer Spending

Retail growth has been flat since the previous reporting period. Most survey respondents reported no change in year-over-year sales and expect the same next quarter. However, multiple contacts noted that low gasoline prices have been beneficial to their business by either lowering costs or increasing consumer spending. A Louisville hospitality contact indicated that convention-related business missed expectations so far in 2016. Reports from auto dealers indicated a recent slowdown of sales following a strong December. The majority of auto dealers reported that current-quarter sales have been slightly lower

compared with a year earlier but that these sales were still in line with expectations. A few dealers noted that they are undergoing renovations to increase the size of their showrooms. Contacts noted a continued shift in demand toward trucks and SUVs away from smaller more fuel-efficient vehicles.

Manufacturing and Other Business Activity

The general sentiment among manufacturing contacts is that activity has remained unchanged since our previous report. Several companies reported capital expenditure and facility expansion plans, including firms that manufacture chemical products and furniture. However, reports from food and beverage manufacturers were mixed, with several reports of expansions offset by a few large facility closures. Reports from the primary metals industry were similarly mixed: Construction began on a new steel production facility, while an aluminum manufacturer announced plans to cease production in response to low prices. Firms tied to the energy industry, including manufacturers of mining machinery and steel pipes, continued to report declines in activity. In a recent survey of manufacturers, a majority noted that production, capacity utilization, and new orders were either at the same level or at lower levels in the first quarter relative to a year ago, with responses split evenly between the two. Contacts expect production, capacity utilization, and new orders to be unchanged relative to one year ago.

Reports from service sector have been positive since the previous report. Firms that provide health care and social assistance services, leisure and hospitality services, and business support services reported plans to hire new employees and expand facilities. In a recent survey of service providers, a majority reported that sales in the current quarter met expectations. Contacts reported that sales were at the same level or higher relative to one year ago and expect an improvement in sales in the second quarter relative to the second quarter one year ago. Reports from the transportation sector were mixed. Some contacts in the trucking industry reported plans to hire new drivers and expand service. A contact in water transportation noted a reduced volume of barges hauling liquid petroleum.

Real Estate and Construction

Residential real estate activity continued to expand at a robust pace. Compared with the same period in the previous year, January home sales increased on a year-over-year basis: 17.4 percent in Little Rock, 2.8 percent in Louisville, 3.1 percent in Memphis, and 23.4 percent in St. Louis. Over half of contacts have reported higher demand and lower inventory in this current quarter. Residential construction activity continued to be positive throughout most of the District. The general sentiment from contacts was positive. Compared with the same time a year ago, activity was higher this quarter and contacts expected activity to be higher in the next quarter.

Commercial real estate market activity has strengthened since our previous report. Contacts reported demand across all sectors was slightly higher than one year ago and expect higher demand overall going forward, especially in the industrial sector. Commercial construction activity remained positive throughout all sectors. Industry contacts have reported speculative construction projects that are primarily in the multi-family sector with some in the industrial sector.

Banking and Finance

A survey of District banks reported improving conditions. Loan demand was stronger for mortgages and commercial and industrial loans. A St. Louis contact noted strong loan demand for construction loans. Memphis and Louisville contacts reported particularly strong commercial and industrial loan demand. Demand was unchanged for consumer loans. Credit standards were unchanged to somewhat tighter for all loan categories. Most respondents noting tighter standards were in the Memphis area. Loan delinquencies were unchanged to slightly lower for all loan categories, and creditworthiness of applicants improved.

Agriculture and Natural Resources

As of the end of January, almost 93 percent of the District winter wheat crop was rated fair or better. Red meat production in 2015 was 6 percent higher than in the previous year, an increase that has been explained, in part, by lower feed costs, although meat prices also fell during the year. January District coal production was 32 percent lower than in January 2015, continuing a decline that industry contacts attribute to low alternative fuel prices.

NINTH DISTRICT--MINNEAPOLIS

The Ninth District economy grew modestly since the last report. Growth was noted in construction and real estate, tourism, and manufacturing. Consumer spending and professional services were mixed, while energy, mining, and agriculture were down. Labor markets remained tight, while wage pressures were moderate and price pressures remained low.

Consumer Spending and Tourism

Consumer spending was mixed since the last report. A mall in Michigan's Upper Peninsula was struggling after the exit of some of the retailers, while a mall in Minot, N.D., announced that several national chain stores will be opening there. A mall in the Minneapolis-St. Paul area reported that sales were up 2 percent from the previous report, which reflected the post-holiday "gift card effect." As the U.S. dollar continued to remain strong relative to the Canadian dollar, border crossings and related retail sales decreased, according to a retailer in Whitefish, Mont. A coffee store chain in Minnesota reported that stores saw a 9 percent jump in sales from a year ago, even though in-store traffic softened after the holidays; consumers spent an additional 50 cents per order on average over this time last year. In Eau Claire, Wis., a retail jeweler reported "a rough January that was even more off than usual after the holidays," but that February was starting off stronger. Sales of trucks were off by 20 percent in eastern North Dakota since the last report, according to an auto dealership; new and used car sales there were up slightly.

Tourism conditions strengthened since the previous report. A ski resort manager in northern Minnesota stated that the ski season started slowly in December, but has picked up in January and February. "Revenue in January was the highest it's been since 2010," she reported. Tourism activity was solid in the national parks of Montana and South Dakota's Black Hills, and it carried into the winter months. A state tourism official in South Dakota stated that sales were "tremendous," adding 6 percent to the state's economy. Duluth, Minn., reported strong tourism industry growth and saw an 8 percent increase in food and beverage sales from the previous year.

Construction and Real Estate

Commercial construction continued to be robust since the last report. Significant new industrial space was under construction in Minneapolis-St. Paul, along with continued strong retail and office activity. January commercial permit values were up in Billings, Mont., and Sioux Falls, S.D. In a recent survey, Minnesota contractors expected dollar volumes to be higher in 2016, especially for multifamily and office developments. Residential construction rose moderately. The number of permitted housing units in January grew from a year earlier in Minneapolis-St.

Paul, Billings, and Rochester, Minn.; permitted units were flat in Rapid City, S.D., over the same period, but permit value was up.

Commercial real estate activity was strong since the last report. Fargo, N.D., has seen “a lot of activity,” according to a local source. In Minneapolis-St. Paul, property sales have been “especially strong” to start the year with some big trades in downtown Minneapolis, said an industry source, while vacancy rates were nearing or below prerecession levels despite significant new construction. St. Paul saw more net absorption in the last year than in the previous 10 years combined, according to an industry source. Residential real estate activity was moderate. January sales were 18 percent higher than a year earlier in Minneapolis-St. Paul, but down 9 percent in Sioux Falls. Local sources in the Butte and Flathead Valley regions of Montana reported strong January activity. However, low inventories of for-sale homes were negatively affecting sales across the District.

Services

Activity among professional services firms was mixed. A design firm in Minneapolis reported strong activity at the start of the year and a need for more talent to keep up with demand. Utility services spending in Wisconsin increased almost 4 percent in 2015 compared with a year earlier. However, a railroad recently announced plans to decrease capital expenditures by 25 percent from 2015, which reflected the drop in oil and coal freight. A railroad executive stated that even though regional shipments were down, online orders increased 5 percent in 2015.

Manufacturing

Manufacturing rose slightly since the last report. An index of manufacturing activity released by Creighton University increased to levels indicating expansion in January in Minnesota and South Dakota; the index increased in value from a month earlier in North Dakota but remained at contractionary levels. A survey of Montana manufacturers indicated that they expected higher sales for the coming year. A medical device maker in Minnesota announced a facility expansion. However, an electronics producer and a metal fabricator in Minnesota were cutting capital expenditures due to lower demand.

Energy and Mining

The slowdown in the energy and mining sectors continued. The number of active drilling rigs as of early February in the District fell to its lowest level since 2009. In North Dakota, state agencies were ordered to slash their budgets by 4 percent due to the reduction in oil tax revenue. Output at Minnesota iron ore mines was expected to decrease substantially in 2016, after falling

by 35 percent in 2015. Montana coal mines saw shipments fall last year and were expecting to ship less coal in the coming year due to weak international demand. Meanwhile, a Minnesota oil refinery announced plans to invest \$750 million in upgrades over three years. An electrical utility said it will accelerate plans to expand its wind energy capacity over the next several years.

Agriculture

District agricultural conditions remained weak. A majority of respondents to the Minneapolis Fed's fourth quarter (January) survey of agricultural credit conditions reported that farm incomes and capital spending fell in the previous three months compared with a year earlier. An animal feed dealer reported that after several years of strong sales, its revenue outlook was flat due to recent declines in the prices of livestock. Prices received by farmers fell in December from a year earlier for corn, wheat, soybeans, hay, hogs, cattle, chickens, eggs, and milk; prices for turkeys increased from a year earlier.

Employment, Wages, and Prices

Labor markets remained tight, but more softness was noted since the last report. Several iron ore and coal mines, along with railroad companies, announced layoffs related to slack demand. In Minnesota, two manufacturers laid off 185 and 100 workers, respectively; heavy equipment makers eliminated more than 200 jobs in northern Wisconsin and 70 in eastern North Dakota. At the same time, a South Dakota manufacturer announced expansion plans along with up to 100 new jobs; a new urea fertilizer plant in North Dakota hired 400 construction workers. A Wisconsin window manufacturer was seeing "crazy-busy hiring," according to a local source. Employers continued to struggle finding skilled labor. A Minnesota firm had 50 to 60 openings, many in accounting, "and we can't fill them." Employer interest in job fairs for college graduates has been reportedly strong.

Wage pressures were moderate. A Wisconsin staffing firm said that wages for some jobs were still increasing, "but seems to have slowed." Three District cities reported pay raises of 3 percent or more for municipal workers; in one city, workers received their largest raise in five years. A new contract with a large health care union in Minnesota included 2 percent raises for three years. In contrast, a survey of Minneapolis-St. Paul technology workers found that wages rose 9 percent from a year earlier. Price pressures remained low. A Montana utility reported that heating bills were down 14 percent over the same period a year ago due to warmer weather and lower prices. Nonresidential building costs in Minneapolis-St. Paul were projected to rise about 3 percent in 2016, roughly on par with their historical average, according to an industry estimate.

TENTH DISTRICT - KANSAS CITY

Economic activity in the Tenth District declined modestly in January and early February, but expectations for future activity continued to be positive outside of the energy and agriculture sectors. Consumer spending decreased modestly as sales in the retail, auto, restaurant and tourism sectors fell. Manufacturing activity continued its broad-based decline, in part due to weak agriculture and energy sectors. Other business activity also remained subdued in January and early February, as transportation and wholesale trade contacts noted continued moderate declines while professional and high-tech firms reported mostly flat sales. District real estate activity edged down slightly, as seasonal factors continued to weigh on residential real estate activity and commercial real estate activity held steady. Most bankers reported steady loan demand and deposit levels and unchanged credit standards and loan quality. District energy activity declined further, with many contacts reporting decreased capital spending plans as well as lower financial borrowing bases. Farm income weakened further due to persistently low crop prices and sharp declines in cattle prices across the District. Contacts in most industries reported that input prices were increasing at a faster pace than selling prices and that wages held steady.

Consumer Spending. Consumer spending declined modestly since the previous survey period, and activity was weaker than a year ago. However, expectations were positive heading forward in most sectors. Retail sales fell modestly in January and early February, but were similar to year-ago levels. Several retailers noted a drop in sales for luxury products, while sales of products related to colder weather were favorable. Retail contacts anticipated a considerable increase in sales over the next few months; nonetheless, inventory levels were expected to rise moderately. Auto sales continued to decline and remained below year-ago levels. However, auto dealer contacts expected a moderate pickup in sales for the months ahead. Auto inventories decreased but were expected to rise slightly in coming months. Restaurant sales were slightly below year-ago levels, but contacts expected solid improvements in the months ahead. District tourism activity declined moderately and remained lower than a year ago. However, resort areas of the District performed better, and tourism contacts expected some strengthening in activity in the months ahead.

Manufacturing and Other Business Activity. Manufacturing, transportation and wholesale trade activity continued to decline moderately in January and early February, while professional and high-tech services activity was flat. The decline in manufacturing came from both durable and

nondurable goods factories, particularly for food and beverage, chemical, metals, and plastic production. Manufacturing activity was fairly weak throughout the Tenth District, in part due to continued sluggishness in agriculture- and energy-related manufacturing. Production, shipments, and new orders were all lower than in the last survey period. Manufacturers' capital spending plans fell moderately, even as expectations for future activity remained positive. Outside of manufacturing, professional and high-tech firms reported mostly flat sales, although sales were well above year-ago levels and expected to rise further in future months. Transportation and wholesale trade contacts noted continued moderate declines in activity, although many firms expected activity to rise steadily in the months ahead. Professional and high-tech firms reported favorable capital spending plans, while transportation and wholesale trade firms expected capital spending to fall modestly.

Real Estate and Construction. District real estate activity declined slightly since the previous survey period but remained above year-ago levels. Residential real estate sales and inventories edged down in January and early February but were above year-ago levels, as contacts continued to cite typical seasonal factors for the slowdown. Contacts also noted that a lack of inventory was putting downward pressure on sales, but expectations for sales in the months ahead were positive. Sales of low- and medium-priced homes continued to outpace sales of higher-priced homes. Residential home prices were higher than the previous survey period as well as the same time last year and were expected to continue to rise over the coming months. Residential construction firms reported a decrease in construction starts and traffic of potential buyers, and construction supply contacts noted a decrease in sales in late January and February. Commercial real estate activity was flat since the previous survey period. Commercial real estate sales decreased and vacancy rates edged up. However, the absorption rate, construction underway and construction completed increased. The commercial real estate sector was expected to grow slightly over the coming months.

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

Energy. Energy activity declined moderately, and expectations remained pessimistic. The number of active oil and gas drilling rigs declined at a similar pace as in the last survey period, but most of the recent decline came from natural gas rigs, rather than oil rigs. Low oil prices continued to drive cuts in activity across the District. Several producers announced large cuts to their annual capital spending budgets during the survey period, and an increased number of producers expected further budget and payroll cuts along with selling assets to raise cash over the coming months. Some respondents also commented that financial borrowing bases were being reduced which was expected to create liquidity issues this year. In the natural gas market, prices remained weak but recovered slightly in January as demand picked up somewhat.

Agriculture. Tenth District farm income weakened further since the last survey period, and cropland values declined modestly. Persistently low crop prices and sharp declines in cattle prices contributed to lower farm income in all District states. District cropland values continued to decrease slightly, while ranchland values levelled off. Similarly, cash rental rates on all types of farmland moderated and were expected to fall further in the next three months. Alongside lower farm income, farm loan repayment rates weakened further, and demand increased for new loans as well as loan renewals and extensions. Looking forward, District contacts expected modest declines in cropland values as well as continued pressure on credit conditions amid tighter profit margins for crop and livestock producers.

Wages and Prices. Contacts in most industries reported that input prices were increasing at a faster pace than selling prices, and that wages held steady. Retail input prices increased moderately since the previous survey, while selling prices declined. Retailers expected input prices to continue rising faster than selling prices. Restaurant menu prices were steady this survey period, though input prices grew modestly. Transportation selling prices declined at a slower pace, and input prices increased slightly. Prices in construction continued to increase, and expectations were for additional gains. In contrast, manufacturers reported price declines for both raw materials and finished goods. However, respondents expected raw materials prices to increase over the coming months, while finished goods prices were expected to decline. Wages in the retail sector declined at a modest pace, but retailers did not expect this to continue in the coming months. Wages for restaurant and transportation positions increased, but at a slower pace than in the previous survey. Contacts reported a shortage of commercial drivers, skilled technicians, and retail salespeople.

ELEVENTH DISTRICT—DALLAS

Economic activity in the Eleventh District was flat over the last six weeks. Manufacturing weakened modestly and reports from nonfinancial services firms were mixed. While real estate and financial services activity continued to expand, retail sales declined and the energy sector contracted further. Reports of price pressures and employment trends were varied, but there was an uptick in price concessions and layoffs from the prior reporting period. Outlooks were still somewhat optimistic, although generally cautious, with several mentions of low oil prices driving uncertainty.

Prices Price pressures over the reporting period were mixed, although reports of deflationary pressures were slightly more prevalent than they have been in the recent past. Retailers noted more promotional pricing than is common for this time of year, and auto dealers said the competitive auto market has led to a very favorable pricing environment for customers through manufacturer rebates and dealer incentives. Staffing services firms mentioned pressure from clients to reduce prices and fees. Transportation firms and airlines lowered their prices, largely due to excess capacity and lower fuel costs. Price reports among manufacturers were mixed, with some noting a negative impact from the stronger dollar. Meanwhile, professional and technical services firms noted higher prices year over year.

Oil and natural gas prices moved lower over the past six weeks, affirming pessimistic outlooks for the energy sector for 2016. Although fuel prices fell, refiners' margins remained robust.

Labor Market Employment reports were mixed, with more instances of layoffs than in the prior reporting period. Retail employment was down slightly over the period, with one contact laying off people and another announcing store closings, both due to weak sales. A couple of transportation firms laid off workers or offered buyouts to employees, and in the energy sector, further employment cuts were underway. In contrast, hospitality contacts said they continued hiring at a steady pace. Auto dealers said they were hiring some mechanics returning from the oilfields but were generally treating them as temporary workers, assuming they might leave when oil prices go back up. Banks and professional and technical firms noted higher headcounts year over year.

Wages were flat to up from six weeks ago. Staffing services contacts said wage pressures have eased, especially in Houston where some downward pressures have been reported. However, contacts across several industries noted difficulty finding workers. Shortages of truck drivers remained, and construction and petrochemicals contacts continued to note a tight market for skilled or specialized labor.

Manufacturing The manufacturing sector seems to have weakened slightly over the reporting period, with contacts citing the decline in the energy sector and the strength of the dollar as the dominant headwinds. For fabricated metals and machinery manufactures—whose customer base is often more

concentrated in the energy sector than other manufacturing—the energy downturn was taking a toll on some firms, resulting in reduced demand, more pessimism, and layoffs and facility closures. A primary metals manufacturer also noted that the downturn in the energy sector was depressing their production and outlook. Modest growth persisted in high-tech manufacturing, and construction-related manufacturers continued to fare well, citing strength in homebuilding activity.

Refinery utilization rates remained robust. Gulf Coast chemical producers reported softer global demand and a stronger dollar as sources of continued weakness in year-over-year comparisons. Expectations for 2016 remain positive for refineries but less rosy for chemicals producers.

Retail Sales Retail sales generally softened this reporting period. Contacts blamed the unseasonably warm weather (which hampered cold-weather apparel sales), the stronger value of the dollar, and the decline in oil prices for causing the decline in sales. Most contacts reported that Texas' retail performance was worse than the rest of the nation. Outlooks were mixed.

Automobile sales slowed, partly due to typical seasonal sluggishness, but sales were also lower than a year ago. Contacts cited uncertainty, a decrease in consumer confidence, and weakness in the energy sector as driving factors. Contacts were mostly optimistic for business in 2016, but they expressed a little more concern for the outlook than in recent periods.

Nonfinancial Services Demand for nonfinancial services varied over the past six weeks. Staffing services firms said demand was flat to down, with contacts noting that weakness was concentrated in Houston and that the effects of sharply lower oil prices continued to spread into energy-related services and manufacturing. Demand for professional and technical services increased slightly, with strength coming from the real estate and medical sectors. For transportation services firms, cargo volumes declined except for small parcels which saw a surge early in the year. Rail cargo was down in every category except autos. Airlines noted weaker demand than last year at this time, with weakness continuing to come mainly from travel to South America.

Leisure and hospitality demand grew at a modest pace on net. Activity in major markets such as Dallas and Austin continued to grow at a moderate pace but activity in the oil patch continued to slow. The outlook for the first half of 2016 remained positive but cautious, with the largest concerns relating to minimum wage legislation and slowing demand if the weakness in the energy sector spreads further to other industries and regions of the state.

Construction and Real Estate Housing demand improved during the reporting period. Home sales were generally off to a good start this year, following a seasonal slowdown toward the end of last year. Sales of moderately-priced homes were solid. Dallas-Fort Worth remained the strongest market, and some contacts said sales in Houston were not as weak as anticipated. Builders were focused on

completing homes in the pipeline. New home prices generally remained elevated, and outlooks were positive except in Houston.

Demand for office space remained strong in Austin and Dallas-Fort Worth, but continued to soften in Houston, where rent concessions were being offered. Industrial leasing was mostly active and vacancies remained tight. Outlooks were positive with the exception of the market for office space in Houston.

Financial Services Loan growth continued to slow over the past six weeks. Business lending, including commercial and industrial loans and commercial real estate, increased but at a slower pace. Contacts noted that uncertainty due to low oil prices continued to suppress demand. However, consumer loans, including mortgage and auto lending, grew at a steady clip. Loan standards tightened, especially for energy-sensitive projects, where loan quality is beginning to deteriorate. Deposit growth showed signs of tapering off. One contact noted that they raised interest rates on deposits in step with the Federal Reserve's recent increase in the target interest rate. While overall effects from energy-sector weakness appeared to be contained, contacts said they were guarded about 2016 growth prospects due to additional uncertainty from financial markets and monetary policy.

Energy Demand for oilfield services remained depressed as drilling continued to decline. Capacity utilization of equipment was reported to be below 50 percent. An oil producer said they lowered their number of active rigs in the oilfield and were considering deeper cuts to 2016 capital expenditures than they projected late last fall. At recent pricing and demand, the financial positions of many firms continued to deteriorate, particularly smaller firms. Outlooks remained somber for 2016, with worry that mid-2016 will bring more defaults, bankruptcies, and mergers and acquisitions.

Agriculture Soil moisture conditions remained healthy, with only 2 percent of Texas considered abnormally dry in February, compared with 56 percent last year in some level of drought. While prospects for 2016 crop production are strong, farmers face low prices and downward pressure on exports because of the strong dollar. Industry contacts said many producers will not be able to cover their production costs at the current crop price levels, and some have received calls from their lenders voicing concern. Cotton—Texas' top crop—has seen prices push even lower with risks to the downside. Contacts reported that low prices and weakening demand will likely result in fewer cotton acres planted this year. Milk prices continued to drift unprofitably low, despite the supply disruption in the wake of winter storm Goliath, which killed roughly 30,000 dairy cows in West Texas and New Mexico. Cattle prices were lower than the record levels posted a year ago but are still relatively high.

TWELFTH DISTRICT—SAN FRANCISCO**Summary**

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

Prices and Wages

Overall price inflation remained minimal during the reporting period. Extensive competition and slightly elevated inventories following the holiday season contributed to continued price discounting for apparel producers. Further declines in component costs and vigorous supplier competition held down prices for consumer electronics. Commodity prices contracted further, reducing energy prices for transportation services and holding food prices at retail grocery and restaurants flat. Pharmaceutical prices continued to rise at a brisk clip, and employers reported that the costs of health plans jumped noticeably in recent months. Construction costs continued to rise as the available supply of labor and material inputs was insufficient to meet rising demand.

Wage pressures continued to creep up across the District. Strong demand continued to push up wages significantly for skilled labor in the technology sector, although one contact reported that a cooling market for tech startups could ease wage pressures in the near term. Wage inflation for workers in the financial services sector picked up. In the aerospace and defense industry, contacts noted rising retention challenges and upward wage pressures, and they expect further increases over the coming year. Low prices for energy and agricultural commodities have led to layoffs and held wages flat in the energy and agriculture sectors.

Retail Trade and Services

Retail sales grew at a moderate pace over the reporting period. While demand for automobiles remained strong, sales were constrained somewhat by inventory shortages. Sales of pharmaceutical

products remained robust as firms capitalized on shifting demographic trends and development of new and more effective drug treatments. Sales of apparel products were flat, and suppliers struggled somewhat to clear inventories from a slower-than-expected holiday season. In the retail grocery sector, competition from online entrants and expanded product offerings at large chain pharmacies held down sales and profits somewhat for traditional retailers.

Demand for consumer and business services continued to expand at a modest pace. The tourism industry saw further gains, with hotel profitability picking up further and new restaurants continuing to open in parts of the District. Demand for health-care services softened somewhat as contacts reported that consumers have postponed elective medical procedures for affordability reasons. Health-care providers remain concerned about additional legislation focused on further reducing reimbursements for federal programs.

Manufacturing

On balance, activity in the manufacturing sector was flat. Manufacturers of aluminum products increased capacity through productivity enhancements to meet continued robust demand. Sales of pharmaceuticals rose and industry consolidation continued, but contacts reported that negative attention from recent pricing decisions have raised industry expenses for public relations and lobbying. Although deliveries of commercial aircraft reached near-record levels, weaker global demand has held down new orders and caused some manufacturers to reduce their workforces in anticipation of production cuts. Slower sales of electronic components contributed to a rise in inventories. Demand for steel products remained weak as foreign competition and the elevated dollar held down exports. Additionally, while the fall in energy prices has reduced production costs for steel products, contacts reported that lower demand for energy-related manufacturing goods has more than offset those savings. Contacts noted that unfavorable export conditions and global uncertainty have held back capital expenditure plans for the coming year.

Agriculture and Resource-Related Industries

Activity in the agriculture sector was flat over the reporting period. Continued dollar appreciation

slowed agricultural exports in general, although exports of pork products rose as demand from Asia strengthened. Contacts reported that domestic demand from restaurants slowed for some vegetable products. Despite an unusually wet winter, overcoming prior drought conditions remains a costly challenge for growers and ranchers in much of the District. Contacts expect conditions in the agriculture sector to remain roughly the same over the coming year as commodity prices remain soft and exports continue to be subdued.

Real Estate and Construction

Real estate market activity grew at a robust pace across most of the District. Demand for residential housing ticked up, particularly in technology hubs, with one contact reporting that residential lots sold as quickly as they were developed. Construction of multifamily units continued to outpace new single-family dwellings. The costs of residential construction continue to increase: According to one report, a developer walked away from two large projects that had become uneconomical. On the commercial side of the market, occupancy rates continued to rise, spurring higher lease rates and additional construction projects. In some parts of the District, foreign investment continues to flow into commercial real estate projects despite falling capitalization rates.

Financial Institutions

Lending activity grew modestly over the reporting period. Loan demand ticked up across the District, yet lender competition for qualified borrowers was vigorous, with contacts noting that some new originations stemmed from borrowers shifting liabilities across lending institutions. On balance credit quality improved, although contacts expressed concern that continued low commodity prices could undermine asset quality in the agriculture sector. Contacts reported that newly emerging financial institutions have increased market share by leveraging technological advances and big data to reduce search, acquisition, underwriting, and transaction costs.