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Summary of Commentary on _____

Current Economic Conditions

By Federal Reserve District

April 2016

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICTS

April 2016

TABLE OF CONTENTS

SUMMARY	i
First District – Boston	I-1
Second District – New York	II-1
Third District – Philadelphia	III-1
Fourth District – Cleveland	IV-1
Fifth District – Richmond	V-1
Sixth District – Atlanta	VI-1
Seventh District – Chicago	VII-1
Eighth District – St. Louis	VIII-1
Ninth District – Minneapolis	IX-1
Tenth District – Kansas City	X-1
Eleventh District – Dallas	XI-1
Twelfth District – San Francisco	XII-1

SUMMARY*

Reports from the twelve Federal Reserve Districts suggest that national economic activity continued to expand in late February and March, though the pace of growth varied across Districts. Most Districts said that economic growth was in the modest to moderate range and that contacts expected growth would remain in that range going forward. Consumer spending increased modestly in most Districts and reports on tourism were mostly positive. Labor market conditions continued to strengthen and business spending generally expanded across most Districts. Demand for nonfinancial services grew moderately overall. Manufacturing activity increased in most Districts. Construction and real estate activity also expanded. Credit conditions improved, on net, in most Districts. Low prices weighed on energy and mining output as well as prospects for agricultural producers. Overall, prices increased modestly across the majority of Districts, and input cost pressures continued to ease.

Consumer Spending and Tourism. Consumer spending in most Districts increased modestly in late February and March, and retailers generally remained optimistic about the outlook for growth over the remainder of the year. Several Districts cited the continuation of generous discounts and promotions, favorable credit conditions, and low gasoline prices as factors supporting a steady pace of growth in consumer spending. However, contacts in the Chicago District again expressed disappointment that low gas prices and improving labor markets were not providing more of a boost to consumer spending. The Kansas City, Philadelphia, Richmond, and San Francisco Districts reported increases in spending on nondurable goods and services, while some Districts noted higher sales in select categories of durable goods, such as furniture. Auto sales remained strong in several Districts, and the Cleveland, Chicago, and New York Districts reported that leasing activity increased.

Reports on tourism were mostly positive across the Districts, and contacts were largely optimistic about near term prospects. Business and leisure travel remained strong in Atlanta, while business travel was up in Boston and leisure travel was up in Chicago and Richmond. Hoteliers in the Richmond District reported both a strong close to the winter season and a strong start to the spring season. In addition, ski resorts in the Kansas City District reported robust

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activity. In contrast, contacts in the Atlanta, Boston, Minneapolis, and New York Districts noted fewer international visitors.

Hiring and Business Spending. Labor market conditions continued to strengthen in late February and March. Most Districts again reported job gains, with only Cleveland indicating a decline in overall employment. Service industry employment rose in Boston, New York, Philadelphia, Richmond, St. Louis, and Dallas. Retail payrolls expanded in Richmond, but declined in Dallas. Growth in employment at financial firms was subdued in New York and employment declined in Cleveland. Manufacturing payrolls rose in Boston, Richmond, and Atlanta, but fell in Philadelphia and Cleveland. Energy companies continued to reduce their workforces, with reports of layoffs coming from Cleveland, Atlanta, St. Louis, Minneapolis, and Dallas. Several Districts indicated that contacts had difficulty filling certain positions in a number of low- and high-skilled occupations. Notably, contacts reported difficulty finding quality retail workers (Boston), low-skilled manufacturing workers (Boston and Chicago), construction workers (Cleveland, Richmond, Atlanta, and San Francisco) and skilled professionals in occupations such as information technology, accounting, engineering, and customer service (Richmond and Atlanta).

Business spending generally expanded across most Districts. Districts reporting on inventories indicated that they generally were in line with sales. Retailers in Boston, New York, and Chicago said that inventories for most items were at desirable levels, though contacts in New York, Chicago, and Dallas noted that the mild weather resulted in excess stocks of winter-related items. Manufacturers in Boston and Chicago said inventories were comfortable, while manufacturers in Atlanta said they were somewhat elevated. Capital spending increased on balance in most Districts, with scattered reports of spending for capacity expansion. Retailers in Boston and San Francisco were spending for replacement, and some contacts in Boston were aggressively expanding capacity. Manufacturers in several Districts reported increases in capital outlays (Boston, Cleveland, Chicago, St. Louis, and Minneapolis). Capital spending remained modest for manufacturers in San Francisco and for refiners in Dallas, and declined further for manufacturers in Kansas City. Outlays for oil and gas extraction were mixed. Contacts in Cleveland reported ongoing expansion (though at a slower pace), while there was little growth in Atlanta and Dallas, and declines in Kansas City. District reports mentioned a variety of other sectors where capital investment had expanded: tourism (Philadelphia and Atlanta), construction

and finance (Cleveland), professional, high-tech, and wholesale trade (Kansas City), and pharmaceuticals (San Francisco). In contrast, capital spending by transportation contacts declined in Cleveland and Kansas City.

Nonfinancial Services. Growth in demand for nonfinancial services picked up to a moderate rate and contacts expected this pace of growth to continue. Several Districts reported increases in demand for professional and business services. Contacts in the Boston, Kansas City, and Minneapolis Districts reported moderate increases in demand for information technology, architecture, or legal services and the Boston District reported some growth in demand for consulting. Activity in the health care sector grew at a solid pace in a number of Districts. Contacts in the San Francisco District reported robust demand for health care services (resulting in capacity shortages at some facilities) and contacts in the Richmond District reported a late surge in demand for healthcare services because of a flu and norovirus outbreak. Results were also mostly positive for staffing firms. Transportation activity rose moderately, with several Districts reporting increases in freight volumes. Port contacts in the Richmond District cited record import volumes in February that moderated in March, as well as a modest rise in exports in part because of stronger shipments of agricultural and forest products. San Francisco noted an increase in cargo volumes. Kansas City indicated that transportation and wholesale trade activity had increased sharply, and the Atlanta and Richmond Districts cited notable increases in truck tonnage. In contrast, the Atlanta and Dallas Districts each reported additional decreases in rail cargo, and contacts in the Cleveland and Dallas Districts said that ongoing softness in the energy and steel sectors continued to weigh on freight volumes.

Manufacturing. Manufacturing activity increased in most Districts in late February and March. Contacts described the overall pace of growth as moderate in Richmond and Chicago, while growth was more modest in Philadelphia, St. Louis, and San Francisco. Only Cleveland and Kansas City reported declines in activity. By industry, district reports indicated that the strongest performers were autos (Cleveland, Richmond, Chicago, and Dallas), aerospace (Philadelphia, Cleveland, and Chicago), and computers and electronics (Boston and Dallas). There also were solid gains in construction materials (Philadelphia, Cleveland, and Chicago), food processing (Richmond and Dallas), defense (Chicago), and pharmaceuticals (San Francisco). Results were mixed for producers of paper products, metals, and chemicals. Demand was weak according to plastics manufacturers in Richmond and Kansas City. Demand for steel

changed little according to contacts in Cleveland and Chicago, but declined in Kansas City. Several Districts reported weak overall demand for heavy machinery, with Chicago and Minneapolis noting softer demand for agricultural and mining machinery than for construction machinery. Suppliers for the oil and gas industry consistently reported weak demand (Philadelphia, Cleveland, Richmond, Chicago, St. Louis, and Dallas), and some contacts in Chicago and Dallas indicated they were trying to adjust their product offerings toward other industries. Expectations for future manufacturing growth were mixed. In general, contacts' outlooks were optimistic in Boston, Philadelphia, Cleveland, and Richmond, but pessimistic in Atlanta, Minneapolis, and Dallas.

Construction and Real Estate. Construction and real estate activity generally expanded in late February and March, and contacts across Districts maintained a positive outlook for the rest of the year. Residential real estate activity strengthened, on balance, with robust growth in San Francisco, Cleveland, and Boston, but more mixed reports from Dallas, Kansas City, and Atlanta. Several Districts credited a mild winter for stronger home sales, and the pace of home price increases picked up in a number of Districts. Multi-family construction remained strong in most Districts. Chicago, Cleveland, and St. Louis also noted some improvement in demand for single-family home construction, and a contact in San Francisco reported backlogs of more than six months for new single-family units. Commercial real estate activity generally increased, with leasing activity and rents rising in many Districts: particularly strong leasing was noted in retailing in Chicago and in the industrial sector in Dallas. Vacancy rates either moved lower or were unchanged in most Districts. Most Districts reporting on nonresidential construction said that demand increased. Contacts in Boston said the education, health care, hospitality, retail, and office sectors all contributed to its recent construction boom. Nonresidential contractors in Cleveland cited broad-based demand, with particular strength in education and healthcare projects, where several builders expressed concern about their capacity to take on additional projects. In contrast, Chicago noted continued weak demand for industrial construction, and Philadelphia reported fewer starts of new nonresidential projects.

Banking and Finance. Credit conditions improved, on net, in most Districts, with the exception of Dallas where contacts indicated that the lending outlook remained cautious. Overall, the lending environment remained competitive. Contacts in Richmond said that competition continued to intensify with reports of compression on net interest margins along with an ongoing

trend toward bank consolidation. San Francisco said vigorous competition for borrowers was holding down profit margins for some institutions. Boston described the commercial real estate environment as particularly competitive. Business lending grew across several Districts. Commercial and industrial loan demand continued to increase in New York, Philadelphia, St. Louis, and Cleveland. A majority of Districts also noted continued growth in lending for commercial real estate, though Cleveland indicated that the pace of growth had slowed. For consumer lending, New York, Cleveland, and San Francisco all reported increased demand for residential mortgages, while Dallas indicated that growth in mortgage loan volumes had slowed. San Francisco also reported strong growth for revolving credit, and Chicago indicated that credit card utilization rates increased. The Chicago and Philadelphia Districts also cited a pickup in auto loan demand. Reports on changes in credit quality were mixed. Philadelphia and Atlanta noted improvements in credit quality, and Cleveland, New York and Dallas reported that delinquency rates remain low. In contrast, contacts in Dallas said that loan quality continued to mildly deteriorate because of ongoing stress in the energy sector, while contacts in Atlanta said that financial institutions in areas dependent on energy faced continued risk, with some adding to loan loss reserves.

Agriculture and Natural Resources. Agricultural conditions were mixed across the Districts. Contacts in Chicago, St. Louis, Minneapolis, Kansas City, and Dallas reported poor prospects for agricultural profitability because product prices remained low and input costs remained relatively high. Contacts across Districts noted that compared with a year ago, prices were lower for cotton, corn, soybeans, wheat, hay, rice, cattle, chickens, eggs, hogs, and milk. However, contacts also reported some relief in input costs since the previous period, with lower costs for diesel, fertilizer, and farmland rents. That said, costs for chemicals went up and seed costs remained elevated. There were typical seasonal increases in fieldwork in Richmond and Chicago. Earlier flooding made fieldwork more difficult in parts of the Richmond and Atlanta Districts, but harm from flooding in St. Louis was limited. San Francisco reported improved agricultural activity as ample rains enhanced growing conditions and reduced the impacts of the ongoing drought in California. Contacts in Dallas said beef production was higher than a year ago. The elevated dollar held back agricultural exports according to contacts in San Francisco.

Natural resource reports ranged from mixed to negative across Districts. Oil and gas production continued to fall in Atlanta, Kansas City, and Dallas, though contacts in some

Districts reported signs that the declines were close to an end. Contacts in Cleveland and Atlanta noted that natural gas prices were under pressure because the warm winter left inventories elevated. Cleveland and Dallas reported that persistently low energy prices were hurting the financial positions of energy firms. Coal output declined in Richmond and St. Louis. In contrast, some idled iron mines in Minneapolis reported plans to reopen soon. San Francisco contacts reported solid domestic timber demand but those in Minneapolis indicated that the warm winter slowed logging activity.

Prices and Wages. Retail prices increased modestly across the majority of the Districts while input cost pressures continued to decline in late February and March, driven importantly by low energy prices. Transportation costs fell, as freight companies passed lower fuel costs through to shipping rates. The Cleveland District reported that diesel fuel surcharges have been largely eliminated. Residential construction contacts in the Philadelphia and Cleveland Districts reported that low energy prices have significantly reduced costs for petroleum-based materials such as shingles. Contacts in San Francisco said that lower fuel prices have improved airline profit margins. Several District reports indicated that contacts generally expect energy and raw material prices to remain at low levels, though a manufacturer in the Minneapolis District expected steel prices to increase later this year.

Wages increased in all but one District (Atlanta), and several Districts reported signs of a pickup in wage growth over the last survey period. New York, St. Louis, Minneapolis, and San Francisco reported moderate wage growth, while wage pressures were characterized as mild in Chicago, mostly contained in Kansas City, and stable in Atlanta. The strongest wage pressures were for occupations where labor shortages are pressing and turnover is elevated. Contacts in the Boston, Cleveland, and St. Louis Districts cited sizeable wage increases for workers in fields such as information technology services and skilled construction and manufacturing trades. In addition, some firms in Philadelphia indicated that they had raised their starting wages in order to attract higher quality workers, and Chicago noted an increase in the number of contacts who raised wages for low-skilled entry-level workers.

FIRST DISTRICT – BOSTON

Most First District businesses continue to report rising sales and revenues. Retail and tourism contacts mostly cite positive results; two-thirds of contacted manufacturers and software and IT services firms report sales increases. Home sales are up in all six states and commercial real estate market conditions vary across the region. More respondents say they plan to increase hiring than has been the case in the last few Beige Book rounds and some mention wage increases. Contacts cite no price issues, although several manufacturers and retailers note positive effects of low energy prices. Outlooks are generally positive, as contacts expect recent results to persist.

Retail and Tourism

Similar to six weeks ago, this round's retail contacts report a range of year-over-year comparable-store sales results, varying from a slight single-digit decrease to a 10 percent increase. Two contacts specifically note that their sales gains were driven by increased customer traffic; contacts also say that the mild 2016 winter, combined with lower fuel costs, freed consumers to spend in other categories. Contacts operating in Canada or near the Canadian border note that the strong U.S. dollar is lowering sales and profits. Inventories are well-managed. Capital spending plans range from doing minimal maintenance and IT investment to aggressive expansion plans. Most respondents this round plan to hire additional workers. One cites continuing difficulty finding quality hires amid a "more competitive" labor market. Contacts say they currently expect same-store sales growth overall in 2016 to be in the low-to-mid single digits.

Final 2015 results for Boston hotels recently became available: new all-time highs were set for occupancy rates (81.8 percent) and average room rates (\$255 per night, up 6 percent over 2014). The hotel forecast for 2016 as a whole is robust, with the average occupancy rate down slightly and the average room rate up, to yield an expected 5 percent increase in hotel revenues. A contact notes that corporate travel activity, while still strong, may have softened a bit, but that leisure travel is holding up; however, international visitors seem to be spending less in high-end stores, perhaps because of the strength of the U.S. dollar. Boston-area restaurants are doing much better in the first quarter than a year earlier. Boston's tourism forecast for the second quarter is strong; besides the seasonal boost from college graduations, more corporate meetings are scheduled and leisure travel is expected to benefit from the beginning of new and/or direct flights from Europe and China.

Manufacturing and Related Services

Two-thirds of the manufacturing firms contacted this cycle report higher sales. A toy-maker says that volatility in financial markets and uncertainty surrounding the economy at the beginning of the year had no discernible effect on demand for toys. A manufacturer of semiconductors says the market slowed in the middle of last year, leading to an overall sales decline in 2015 versus 2014, but indicates that sales picked up in mid-November and have been up 5 percent to 8 percent year-on-year since then. He attributes some of that increase to replenishment of stocks depleted during the slowdown. Firms that reported declining sales included a frozen fish producer, a furniture manufacturer, and a chemical firm; the latter attributed some of the weakness to developments in the Brazilian market. The furniture maker has been dealing with declining sales for several years, but says the declines are significantly worse now.

Overall, none of our contacts report significant price pressures either on the supply or demand side. Several contacts note that the benefits of lower energy prices are finally showing up in their bottom lines.

All but one of our contacts report that they are hiring. The semiconductor firm reduced hiring during its slowdown last year but is back to normal now. Several firms report that it is hard to find or keep workers; a manufacturer of garden hoses says that finding low skill workers has become very problematic. A chemical firm is raising wages by 15 percent at a southern U.S. facility to keep trained workers from leaving. Respondents report no news on inventories aside from idiosyncratic factors.

Capital expenditures are up or unchanged for all but one contact. A specialty chemical maker says they exhausted the incremental gains from plant improvement and are considering building a new plant for the first time since well before the 2008 recession.

The outlook is positive for all manufacturing respondents except the furniture manufacturer. A publisher has a positive outlook for the first time in many years.

Software and Information Technology Services

A healthcare software firm reports mid-single digit revenue growth from a year ago, which represents a full year of normal steady growth after a low point around Q1 2015. This firm's growth tends to be relatively invariant to economic conditions, but had slowed after ARRA subsidies for hospital automation software phased out. A business and consulting IT firm cites mid-single digit organic growth over last year, as well as revenue-growth contributions from three major acquisitions. Bookings for an IT firm serving manufacturing customers represent low single-digit decreases year-over-year, which the contact attributes to softening manufacturing demand from emerging markets in particular, and overseas in general, due to lingering headwinds from a strong dollar. Although it is a small percentage of their business, this firm is seeing strong growth in its "internet of things" projects.

Prices are stable at the healthcare and business IT firms, and up 4 percent from last year at the primarily manufacturing IT firm; the latter also expanded margins by actively cutting expenses. A healthcare IT firm notes that increasing employee healthcare costs was a burden.

Hiring is net positive for all contacts. A healthcare IT firm is hiring across the board, while business and manufacturing IT firms are hiring more selectively in growth areas. They all say wages are increasing in the mid-single digits, though several note particular competition for developers.

A healthcare IT contact is optimistic and expects steady growth for the foreseeable future; most hospitals in the United States already use some sort of automation software, so opportunities for growth are mainly overseas. A manufacturing IT contact is optimistic, feeling that currency headwinds are dying down and the domestic economy is stabilizing. Their main concern lies with potential weakness in Europe, as it has been a "bright spot" during an otherwise soft few years. A business and consulting IT contact also expresses optimism but sees some uncertainty in domestic markets—particularly with the election cycle—and identifies overseas factors as the biggest potential destabilizers.

Commercial Real Estate

Reports from commercial real estate markets across the First District are mixed. Office leasing activity is increasing in Portland and maintaining a strong pace in Boston, but remains slow in Providence and very slow in Hartford. In greater Boston, the office vacancy rate edged down further—to as low as 6 percent in the Cambridge area—and rents increased marginally. Elsewhere in the District, leasing fundamentals are roughly flat since the last report. Investment sales volume is down in Boston from one year ago and contacts perceive that prices are levelling off, despite the fact that one office tower in the city recently sold at a near-record price per square foot. Investment sales demand remains strong in

Portland and steady in Hartford, but contacts in both cities report that bidding has become less aggressive in recent months. Construction activity increased significantly in greater Boston in recent months. Local construction wages are up from a year ago, especially among skilled trade workers such as carpenters (8 percent) and crane operators (6 percent), according to a contact. The education, health care, hospitality, retail, and office sectors all contributed to Boston's recent construction boom; although construction in Boston's multifamily sector remains robust, its pace of growth is slowing. Construction is steady in Portland, up modestly in Providence thanks to new institutional projects, and remains slow in Hartford. While some contacts note that construction loans are becoming harder to obtain, other contacts describe the lending environment—particularly for loans on existing structures—as aggressive, with loans offered at very low spreads over the LIBOR rate. Aside from fiscal stress in Connecticut, the main risks to the outlook cited by contacts are political uncertainty in advance of the presidential election and national and international macroeconomic risks. Even given the recent increases in office construction in Boston, contacts do not foresee a glut in office space because construction activity remains low by historical standards and the new buildings are mostly pre-leased.

Residential Real Estate

Residential real estate markets in the First District had a strong start to 2016. For single family homes, closed sales increased in February on a year-over-year basis in all six states. Massachusetts had the most closed sales in the month of February since 2007. Pending sales for single-family homes also increased consistently from last year. Contacts unanimously cite the mild winter weather and low mortgage rates as explanations for higher-than-usual demand. Additionally, price increases for single-family homes moderated. While Rhode Island and the Boston area experienced significant increases in median sales price, all other areas saw only small increases or decreases. The market for condominiums also improved relative to last year, though less uniformly than the single-family market. Both closed and pending condo sales were up in every state but Vermont. Median sales price numbers were mixed, with increases from last year in three states and decreases in three states. Overall, contacts agree that high buyer demand is the main driver of increased activity. As a contact in Connecticut reports, borrowing power has increased for buyers thanks to low interest rates. This has led to “people entering the market in droves” and “buyers coming out in force” across the First District.

Low inventory continues to affect the First District residential real estate market. For both single-family homes and condominiums, inventory decreased or remained flat year-over-year in every state but Rhode Island. Despite the modest inventory increase in Rhode Island, our contact says that the “quicken pace of sales is beginning to outstrip supply.” All reporting states recorded a decreasing number of days on market and months' available supply of single family homes and condos since February of last year. Contacts in Vermont and New Hampshire say the inventory shortages are attributable to both lagging construction and a dearth of sellers of existing houses coming to the market.

Overall, respondents say the pending sales numbers indicate a bright outlook for the residential real estate market. Contacts predict that the costs associated with buying a home will continue to be low, as there is no indication that mortgage interest rates will increase any time soon. Recent mild weather has helped the market to start the year strong and contacts expect this to continue into spring.

SECOND DISTRICT--NEW YORK

Economic activity in the Second District has grown at a modest pace since the last report, and labor markets have continued to strengthen. Businesses across a broad array of sectors, including manufacturing, report some pickup in activity. Selling prices were little changed, though businesses report continued upward pressure on input prices. Consumer spending has been steady, and tourism activity has picked up slightly. Residential real estate markets improved modestly, while commercial real estate markets were mixed. Finally, banks report further strengthening in loan demand and improvement in delinquency rates.

Consumer Spending

Retailers report that sales were generally steady in February and March, with same-store sales little changed from comparable 2015 levels. Retail contacts indicate that the unseasonably mild winter led to an overhang of winter apparel inventory, but otherwise weather was not much of a factor. One major retail chain indicates that sales were on plan in February but slipped below plan in March, while another describes sales as below plan in both months. Retailers in upstate New York report that consumer spending has remained restrained, despite a pickup in shopper traffic. The ongoing shift toward on-line shopping has continued to constrain traditional retail sales. Inventories are generally reported at or near desired levels, aside from an overhang of cold-weather merchandise, which is being whittled down by steep discounts and promotions. Tourism activity has picked up modestly but remains sluggish.

New vehicle sales in upstate New York are reported to be steady to up modestly, at a high level in February and March. Sales have been buoyed by a combination of mild weather, attractive lease options, and low gas prices in early March. However, sales of used vehicles remain soft. Auto dealers describe wholesale and retail credit conditions as favorable. The Conference Board's March survey

shows consumer confidence in the Middle Atlantic states (NY, NJ, PA) retreating modestly, after climbing to an 8-month high in February.

Construction and Real Estate

The District's housing markets have improved modestly in the latest reporting period, though rental markets have softened; multi-family residential construction has continued to strengthen. In general, sales activity was buoyed by mild weather in both February and March. Housing markets in upstate New York picked up somewhat in March, with strengthening sales and scattered reports of bidding wars, and real estate agents expect 2016 to be a strong year. Northern New Jersey's market for single-family homes continues to improve modestly; despite strong demand and lean inventories, prices are being restrained by a sizable overhang of distressed properties, which is coming down only gradually. New York City's co-op and condo market has generally continued to strengthen, particularly in Brooklyn, as both activity and prices have risen moderately. However, these trends do not hold for the high end of the market, where a glut of new development has put downward pressure on prices. Rental markets have softened, most notably at the high end. While rents remain on a moderate upward trajectory in Brooklyn and parts of northern New Jersey, rents across most of the region have retreated and, in most areas, are now down from a year ago.

Commercial real estate markets have been mixed in recent weeks. Office markets across the District were mostly steady in the first quarter, though asking rents have moved up modestly in Brooklyn, Queens, and northern New Jersey. The market for retail space has weakened, with vacancy rates rising to multi-year highs in New York City, as well as in northern New Jersey and upstate New York. In contrast, the market for industrial space has strengthened: vacancy rates are at or near multi-year lows across most of the District, while rents are running 5-10 percent ahead of a year ago. Industrial and warehouse construction has picked up in northern New Jersey, but elsewhere commercial construction activity remains sluggish.

Other Business Activity

Business contacts across the District report a rebound in business activity, following a brief slump early this year. Both manufacturing and service-sector contacts report little change in selling prices. In contrast, service-sector firms report continued upward cost pressures, and manufacturing contacts note some pickup in input prices.

The labor market has been increasingly robust in recent weeks, with labor shortages in certain areas and some acceleration in wages. Two major New York City employment agencies report continued improvement in hiring activity and moderate increases in salaries. One notes that more candidates are getting multiple job offers and that employers are becoming less picky about prospective hirees' skills and experience. However, a major employment agency in upstate New York reports some slowing in hiring and notes that employers have become more selective. Hiring remains subdued at manufacturing firms and large financial firms but brisk in most service industries. More service-sector contacts than in the last report expect to raise wages in the months ahead.

Financial Developments

Bankers report further strengthening in loan demand. In particular, bankers note a widespread increase in demand for residential mortgages, and continued growth in demand for commercial mortgages and C&I (commercial and industrial) loans. On the other hand, in the case of consumer loans, bankers report little change in demand. Banks report that credit standards were unchanged across all loan categories. Similarly, bankers indicate no change in spreads of loan rates over cost of funds across all loan categories except commercial mortgages, for which bankers reported narrower spreads. Bankers report declining delinquency rates on home mortgage loans, C&I loans and commercial mortgages, while they report steady delinquency rates on consumer loans.

THIRD DISTRICT — PHILADELPHIA

Aggregate business activity in the Third District appears to have resumed a modest pace of growth during the current Beige Book period — following slight growth during the prior Beige Book period. Modest growth is normal for Third District expansions in recent decades. Hiring appears to have continued at a modest pace, according to most contacts; staffing firms reporting moderate gains and manufacturing firms reporting slight declines were the exceptions. On balance, wages and prices continued to rise slightly; however, home prices appeared to remain essentially flat. Firms generally adhered to recent expectations that growth would be modest over the next six months.

Among Third District business sectors, several sectors rebounded from a slower growth rate (or decline) during the prior period. Brokers reported modest growth of existing home sales — an uptick from the prior period of slight growth. Auto dealers reported modest growth following a period in which sales were flat at very high levels, and manufacturers reported modest growth following prior reports of slight declines. Homebuilding and loan volumes were reported as growing slightly after declining slightly last period. The remaining sectors repeated their performances of the prior period. Contacts from general (nonauto) retailers continued to report a moderate pace of sales growth during this Beige Book period, as did staffing services contacts. Continued modest growth was reported by contacts from general services, tourism, and commercial contractors and commercial leasing agents.

Manufacturing. Reports of overall activity rebounded sharply out of negative territory to a modest increase — the strongest change in the growth rate in over a year. Firms reported similar improvements in shipments and new orders since the prior Beige Book period. Firms also reported that the average employee workweek increased after declining last period; however, the number of employees continued to fall slightly. Reports of increased activity were widespread. The makers of lumber, paper, chemicals, and primary metal products noted the greatest improvement from the prior period and compared with the prior year; contacts with fabricated metals and industrial machinery firms have reported improvements since last period, but not as strong as last year. Firms noted stronger demand from the housing and consumer sectors and from aerospace, while demand from the energy sector remained weak.

Overall, contacts expressed significantly higher expectations of growth during the next six months than during the last Beige Book period. This improvement was driven by a decreased percentage of firms expecting declines in shipments, orders, and general activity, following

elevated levels in the prior period. Expectations of future capital expenditures and future employment also rebounded to prior higher levels.

Retail. Nonauto retail contacts continued to report moderate growth in sales during the current Beige Book period. Stronger sales continued to be noted for lower-priced necessities and convenience goods as well as some luxury goods. Convenience store operators reported that customer traffic for the current period remained very strong with no signs of slowing, nor any reduction from the slight uptick in gas prices. Contacts remained optimistic that growth would continue through 2016.

Overall, Third District auto dealers reported that growth in auto sales resumed at a modest pace after a weak start to the year. Sales were stronger in larger urban areas, but activity, including maintenance on existing vehicles, has been slacking off in smaller industrial cities, shale regions, and other rural areas. With sales continuing at high levels, dealers have begun talking about, and planning for, the likelihood that sales are reaching a plateau. However, they remain optimistic for 2016 based, in part, on continued low gas prices, fairly loose credit, and the resumption of greater manufacturers' incentives.

Finance. Third District financial firms reported that total loan volumes have risen somewhat since the previous Beige Book period. And based on revised data, loan growth was better during the prior Beige Book than we had originally estimated. Ongoing growth of commercial and industrial loans and a resumption of growth in auto lending bolstered overall volumes, while volumes of commercial real estate loans held steady. Home mortgages and home equity lines dropped in volume. A seasonal decline in credit card volumes that began in the prior period continued. The rate of decline is similar to the change observed over the same period last year; however, volumes were up moderately over the year. Banking contacts continued to note a competitive lending environment and generally improving credit quality. Generally, contacts continued to report few signs of inflation and remained optimistic for continued slow, steady growth in 2016.

Real Estate and Construction. Homebuilders have reported an improvement in traffic since last period and expect contract signings to finish slightly up for this period compared with last year. A nationwide firm reported a large increase in its backlogs, which suggests stronger construction activity for its Third District properties, given that local builders noted that mild weather helped keep their crews busy. While builders noted a few cost increases in new contracts (concrete, for example), lower energy costs have significantly lowered other input prices (such as shingles). With the relatively slow, steady pace of construction activity, builders reported no problems with labor costs or availability of labor.

Brokers in the major Third District housing markets reported an uptick to modest year-over-year sales gains; however, inventories remained low and sale prices rose little, if at all. A major Philadelphia-area broker noted some problems with mortgage approvals but expects modest growth to continue throughout the year.

Nonresidential real estate contacts, predominately in the Greater Philadelphia area, reported ongoing modest gains in construction activity although new starts were fewer, and noted that leasing activity showed continued modest strengthening with higher rents and fewer concessions. Contractors were confident that construction activity would remain at high levels through 2018 in light of the projects currently underway and recently announced significant future projects. According to contacts, total man-hours have not eclipsed 2008 levels, but firms may be operating more efficiently since the recession.

Services. Third District service-sector firms reported little change overall in their own modest pace of activity. Contacts noted slight upticks in the pace of sales and new orders, while the pace of employment and overall activity edged slower — but all contacts remained positive. One service firm with a broad client base throughout the national economy reported that current growth within the education sector has been slightly slower than in recent years and that consolidations have constrained growth somewhat within the health sector. Reports from staffing firms generally reflected continued moderate growth. Contacts reported being busy and exceeding their projections.

Tourism contacts remained generally positive — with the sector continuing to grow at a modest pace, spurring investment in new attractions, new capacity, and refurbishing of older facilities. Unseasonably warm weather altered activities in the mountains and attracted more visitors to the shore. Atlantic City casino revenues rose 15 percent in February compared with the prior year — a rare increase that may reflect stronger-than-normal convention bookings.

Expectations for future growth in services have rebounded somewhat since the prior Beige Book period — with about 85 percent of the service-sector contacts expecting activity to grow or remain the same.

Prices and Wages. On balance, general price levels have continued to rise slightly since the previous Beige Book period. On average, about 70 percent of all contacts reported no significant change in the prices they pay nor in the prices received for their goods and services. Of the firms that indicated a change, more indicated price increases than decreases. Overall, contacts continued to report little upward wage pressure, although some firms reported raising their starting wages to attract quality workers.

FOURTH DISTRICT – CLEVELAND

On balance, the economy in the Fourth District expanded at a modest pace since our last report. Manufacturing output weakened slightly. The housing market improved, with higher unit sales and higher prices. Nonresidential contractors reported very favorable results for the first quarter of 2016. Midway through the first quarter, consumer spending at retail outlets and restaurants increased on a year-over-year basis. Motor vehicle sales continued to move higher. The demand for credit by commercial and retail customers was unchanged. Although regional natural gas output remains at historic highs, some upstream oil and gas companies are finding it more difficult to access credit. Freight volume expanded along seasonal trends.

Payrolls showed a modest contraction on balance during the past six weeks. Robust increases in construction jobs were offset by declines in manufacturing, energy, and freight transportation. Wage pressure was most evident in the entry-level and high-skilled segments. Staffing firms reported an increase in job openings and placements, primarily in healthcare and technology. One staffing firm noted that most openings were for part-time jobs. Overall, input and finished-goods prices were steady. Energy and commodity prices drifted lower.

Manufacturing. Reports indicated a slight weakening in manufacturing output on net. Key factors tempering output growth include the strong dollar, low oil and natural gas prices, and softness in some emerging market economies. A rise in disposable household income is seen as a primary factor supporting growth. Activity for suppliers to the motor vehicle, aerospace, commercial construction, and housing industries remains elevated. Year-to-date production through February at District auto assembly plants rose 8 percent when compared to that of the same time period during 2015. Reports from the steel industry were little changed. Overcapacity combined with weak demand from the oil and gas industry and machinery producers kept steel shipments down. Although demand for manufactured goods has become somewhat more tenuous since our last report, the outlook by our contacts has improved. Sentiment is weighed toward an expansion in the upcoming months.

A modest increase in capital budgets was reported over the period. Monies were allocated primarily for new equipment and maintenance projects. Capacity expansion was cited by several contacts. Downward pressure on energy and commodity prices helped push input costs lower. Finished-goods prices moved slightly lower in response to rising competition and declines in raw material prices. On balance, manufacturing payrolls shrunk across job categories. Firms cutting employment cited a need to reduce costs because of weakened demand. Other than cost-of-living increases of 2 percent to 3 percent, wages held steady.

Real Estate and Construction. Year-to-date sales through February of new and existing single-family homes increased 10 percent compared to those of a year earlier. The average sales price increased by more than 3 percent. Several builders and real estate agents attributed robust sales to low interest rates and continued pent-up demand. A few commented that recent financial market volatility had negatively impacted consumer confidence and may have dampened new-home sales. Estimates of single-family construction starts rose moderately over the period. New-

home contracts remain concentrated in the move-up and high-end price point categories. New-home prices increased over the period, a circumstance which builders attributed to rising labor (including subcontractor) and material costs. Homebuilders and real estate agents expect further improvement in housing market conditions in the upcoming months.

Nonresidential contractors reported very favorable results for the first quarter of 2016. The unusually mild winter resulted in higher revenues than expected. Financial market volatility had reportedly little impact on customers' willingness to move forward with projects. Construction project pipelines are strong and backlogs continue to build. Several builders expressed concern about their capacity to take on additional projects. Demand is broad based, though it is weighted toward higher education- and healthcare-related projects. In general, contractor revenues for all of 2016 are expected to be on par with or higher than those of a year ago. Over the past couple of months, many general contractors were able to increase their billing rates with little pushback. These higher rates enabled them to cover rising labor and development costs and to build margins.

Capital budgets are allocated primarily for expanding capacity, including investments in technology, equipment, and plant expansion. General contractors reported rising prices for concrete and drywall. Prices declined for other commodity-based products such as shingles and diesel fuel. Otherwise, materials costs were stable. Reports indicated robust hiring over the period across job categories. Hiring was for newly created positions and replacement. The current pace of hiring is expected to continue into the summer months. Wage pressures are mainly limited to craft workers and project managers. Subcontractors remain very busy. They are challenged by labor shortages, and, as a result, many are selective when bidding. In order to cover rising labor costs and to widen margins, most subcontractors are increasing their rates.

Consumer Spending. Midway through the first quarter, consumer spending at retail outlets and restaurants increased when compared to that of the same time period a year ago. The increase was attributed in part to expanded promotional activity, a stronger product assortment, and milder weather. Segments selling particularly well included home furnishings, women's apparel, and health and wellness. Grocers noted that the unusually mild weather had a negative impact on food sales. Same-store revenues for the second quarter are expected to increase compared to those of a year ago. Vendor and shelf prices were fairly stable, other than declines in gasoline. Meat and dairy prices decreased in recent months, but there was little pass-through to the consumer because the lower wholesale food prices were offset by higher labor costs for some restaurants and grocers. Changes in staffing were limited to store openings and closings. Retailers continue to cope with stiff labor competition. Higher turnover combined with a smaller pool of qualified workers is driving up wages.

Year-to-date sales through February of new motor vehicles rose 7 percent District wide compared to those of a year ago. Purchases of light trucks and SUVs continue to dominate the market. Dealers expect new-vehicle sales to remain stable at high levels this year. Transaction prices rose slightly during the past couple of months, but manufacturer incentives have been

keeping pace. Leasing continues to gain in popularity. In Ohio, 45 percent of all new-vehicle transactions are leases. As the spring selling season approaches, dealers are adding to payrolls, but the market for sales and service personnel is tight, putting upward pressure on wages.

Banking. Reports showed little change in business and consumer credit conditions, on net, over the period. On the commercial side, demand for C&I loans increased, while the pace of growth for CRE loans slowed. In retail banking, reports indicated that consumers are becoming more cautious. That said, bankers saw a seasonal pickup in mortgage activity, auto lending, and drawdowns on home equity products. Little change was reported in loan-application standards and delinquencies, which are at very low rates. On balance, core deposits increased during the first quarter. However, several bankers said that business core deposits declined or their rate of growth fell below expectations. These losses were partially offset by public fund deposits. Capital budgets increased slightly over the period. Spending was primarily for technology, including applications in mobile, IT, and regulatory compliance. Payrolls declined: Newly created jobs in commercial lending and regulatory compliance did not offset job cuts in retail. Some wage pressure is being felt at the entry level and for higher-skilled technology jobs.

Energy. The number of rigs operating in Marcellus and Utica Shales was little changed after declining precipitously over the past year. Nonetheless, regional natural gas output remains at historic highs. Reduced demand owing in part to the unusually warm winter has boosted inventories and put further downward pressure on wellhead prices. Because of the sharp drop in wellhead prices, asset values are being marked down, a situation which affects credit to the industry. The end result could be additional bankruptcies. Hedges at higher prices began rolling off at the start of 2016, exposing natural gas producers to lower prices. Significant layoffs in the upstream segment continued. Reports indicate that investment in pipeline and mid-stream projects moved forward, but at a slower pace. Not much change is expected across the sector during 2016.

Freight Transportation. Freight volume expanded slightly over the period, though some of the increase was seasonal. However, compared to a year earlier, freight volume is lower owing to weakness in the energy and steel industries and lower demand for industrial goods generally. Auto-related volume remains strong. Our contacts anticipate a modest expansion in volume during the upcoming months. Overcapacity is forcing some haulers to lower shipping rates. Diesel fuel surcharges have been largely eliminated. Additional reductions were made to capital investment budgets, with spending allocated mainly for maintenance projects and equipment. Some of the spending is in response to regulatory requirements. Freight payrolls drifted lower. A majority of our contacts reported cutting jobs in select areas based on changes in service-level demand.

FIFTH DISTRICT–RICHMOND

Overview. Fifth District economic conditions strengthened since the previous Beige Book report. Manufacturing activity increased moderately on balance. Retail sales increased briskly and revenues rose modestly at other services firms. Winter tourism ended on a high note. Residential mortgage demand was uneven, but rose slightly overall. In contrast, there was a broad-based increase in commercial loan demand. Residential and commercial real estate activity grew moderately. Agricultural activity increased. Production of natural gas was unchanged and coal edged down. Labor demand continued to rise modestly. According to our most recent surveys, employment grew moderately at manufacturing firms and rose robustly at retail and other service establishments. Average wage growth broadened at both manufacturing and service sector businesses. Prices of both raw materials and finished goods rose slowly, but at a faster pace than in the previous report. Retail and non-retail price increases slowed.

Manufacturing. Manufacturing activity increased moderately on balance since the previous report. Most firms reported solid growth in shipments and the volume of new orders, and producers reported positive expectations for the six months ahead. An automotive parts manufacturer in West Virginia said new orders had risen, and added that he purchased equipment for fabrication of new product types. A boat manufacturer stated that low gas prices are boosting sales, and that mid-size boat sales in particular increased in the past month. A corrugated box producer also reported an increase in the volume of new orders along with a decline in supplier prices. Food manufacturers increased production in recent weeks and they looked for the next six months to remain busy. In contrast, a plastic coatings plant manager said business volume varied across product lines in the past month, while furniture manufacturers generally saw a decline in new orders. In addition, machinery manufacturers indicated that sales and backlogs declined, especially for large equipment. Manufacturers of products for the oil and gas sector stated that their business conditions deteriorated further in recent weeks. According to our most recent survey, prices of both raw materials and finished goods rose at a faster, albeit slow, pace.

Ports. Port activity increased since our previous report. In fact, some ports indicated that import volume growth set records in February before moderating somewhat in March. Automobile imports remained strong and container shipments increased moderately. At one port, strong import growth was driven by consumer goods, such as furniture, toys, and apparel. Port officials said that exports had risen modestly, and one source noted an increase in inquiries regarding exporting. Outbound shipments of agricultural and forest products, including logs, lumber, wood pulp, and paper were stronger. Chinese regulations on logs and certain types of grains continued to limit exports of those products.

Retail. Retail sales increased briskly in the weeks since the previous report. Reports of a pickup came from several sources across the District, including those in grocery and pharmacy sectors. Building

supply merchants also said sales were up. In addition, automobile and light truck sales remained robust. Retail prices rose at a slower pace since the previous report.

Services. Revenues rose modestly at services firms. Trucking firms reported stable to stronger growth in demand in recent weeks. Additionally, an executive at a healthcare organization reported being “inundated” as a result of a large, late-season increase in flu and norovirus cases. In contrast, an executive at a West Virginia CPA firm saw little change since our last report, and noted that the decline in coal production was reducing state revenues from severance taxes. Price increases moderated at services firms.

Tourism ended the winter months on a high note and most hoteliers said that the spring season was already looking good. Spring break and Easter coming in March this year brought increased bookings to several resorts. In some areas of the Carolinas, the opening of more local hotels was not expected to noticeably decrease sales at existing establishments because room demand had been rising briskly. General managers at resorts with softer bookings said their current slow sales were likely related to late-season snow and cold temperatures. However, all sources were optimistic about a strong summer season. Room rates were mostly unchanged. Restaurant sales reportedly grew more rapidly.

Finance. On balance, loan demand increased moderately since our previous report. Residential mortgage demand rose slightly overall, but varied across the District. For example, demand picked up in central and northern Virginia but remained low in southwestern Virginia and in West Virginia. There was a broad-based increase in commercial loan demand. In North Carolina, demand rose for commercial real estate and business loans, with the exception of the energy sector. In Virginia, one banker said the pipeline for commercial loans was stronger now than it had been for the last year and a half, and included lending for both new and expanding business activity as well as for some refinancing. Competition continued to intensify with reports of compression on net interest margins, along with an ongoing trend towards bank consolidation. Interest rates reportedly moved slightly lower, particularly for applicants with high credit scores. Overall, credit quality improved slightly in recent weeks while no changes to credit standards were reported.

Real Estate. Residential real estate activity grew moderately since the previous report. Real estate agents continued to report low levels of inventories. Days on the market varied across price range and region, although some contacts reported a slight decrease in average days on the market due to limited supply. A real estate agent in northern Virginia noted robust sales in recent weeks, with multiple offers on homes. He added that home prices rose slightly for most price ranges, although they were mostly unchanged for the \$800,000-plus price range. Home sales in Richmond picked up in recent weeks, with stronger movement in the \$250,000 to \$375,000 range. A Greensboro, North Carolina broker stated that while residential sales activity generally increased, demand was softer in the \$700,000 to \$800,000 price range. A broker in Roanoke, Virginia reported the busiest first quarter in six years, with modest growth in residential construction. A residential builder in Charlotte, North Carolina said that backlogs

increased 40 percent in the past month, and buyer traffic was strong. Home building activity was reported to be up in Asheville, North Carolina, where contacts noted that limited speculative building had driven home prices up slightly in the past month. Multi-family leasing remained strong across the District, while the pace of construction slowed in some regions.

On the commercial side, leasing activity increased moderately overall since the previous report. A commercial real estate agent in Richmond reported a robust retail leasing environment, with increased sales and solid upward movement in property prices. In contrast, a broker in Charleston, West Virginia reported a decrease in leasing and sales activity. Real estate agents continued to report a decline in office leasing activity, despite more concessions. Rental rates and vacancy rates varied across submarket and region; however more contacts reported elevated retail rates. Commercial construction grew moderately in Charlotte and Richmond and modestly in Washington, D.C. and Baltimore. A Realtor in Virginia Beach reported modest growth in the number of new retail, multi-family and mixed-use construction projects. In Columbia, South Carolina, an agent stated that retail and restaurant construction remained strong.

Agriculture and Natural Resources. Agricultural activity increased since the previous report as corn and spring vegetable planting began. Farmers in South Carolina reported that flooding last October delayed planting due to poor field conditions and some fields are still unusable. Several District farmers reported that they have made limited capital purchases in recent weeks and project little change for the next six months. According to agribusiness contacts, input prices varied since the previous report. Chemical prices grew modestly while fertilizer prices decreased slightly and seed prices remained elevated. Crop prices stabilized on balance.

Natural gas production was unchanged since the previous report, while coal production edged down. Prices of natural gas increased mildly in the past month, and coal prices were unchanged.

Labor. Since our previous report, the demand for labor continued to rise at a modest pace. A staffing service executive in North Carolina said that demand rose for permanent and temporary placements, specifically in the real estate, construction, automotive, and professional services industries. She added that temporary placements would be even stronger if more qualified workers were available. Throughout the District, employers also reported continued difficulties finding skilled workers. In particular, contacts said they had a hard time finding IT professionals, accountants, construction workers, skilled tradespeople, mechanics and technicians, customer service agents, and talent acquisition professionals. Upward wage pressure persisted but varied by location and occupation. According to our most recent surveys, employment increased moderately at manufacturing firms and rose robustly at retail and non-retail establishments. Average wage growth broadened at both manufacturing and service sector businesses and the average manufacturing workweek lengthened.

SIXTH DISTRICT – ATLANTA

Sixth District business contacts indicated that economic conditions, from mid-February through March, were unchanged from the previous report. However, the short term (next three to sixth months) outlook for growth among the majority of firms remains positive.

Retail sales grew for low-end retailers, while high-end sales softened over the reporting period. Automotive dealers cited improved sales levels since the previous report. Tourism-related contacts noted domestic and business travel remained solid. Residential real estate builders indicated that construction was up, new home sales were slightly up, and inventory levels were mixed compared with a year ago. Residential real estate brokers indicated that existing home sales were mixed and inventory levels were down from a year earlier. Most real estate contacts noted modest home price appreciation. Demand for commercial real estate continued to improve and construction increased from the year-ago level across most of the District. Manufacturers cited increases in new orders and production. On balance, bankers reported improvements in credit conditions. Reports on hiring were mixed. Firms noted stable wage growth and soft non-labor input costs.

Consumer Spending and Tourism. Off-price District retailers continued to experience rising demand. However, high-end merchants reported softer sales activity, particularly from international shoppers, from mid-February through March compared with a year earlier. Auto retailers experienced higher sales activity in February compared with the previous reporting period and noted that continued lower fuel prices was prompting some buyers to purchase larger vehicles. On balance, the outlook among District merchants remains positive.

Across the District, hospitality contacts reported domestic and business travel remained strong, while Florida and Georgia reported softening demand from international visitors from a year ago. Capital expenditures on tourism-related infrastructure for 2016 are expected to be in line with or above 2015 levels. The outlook remains optimistic as advanced bookings in the hotel and conference segments is strong for the second quarter.

Real Estate and Construction. Reports on activity from District residential real estate contacts continued to be upbeat. The majority of builders reported that construction activity was up from the year-ago level. Many builders indicated that home sales were up slightly relative to one year earlier while broker reports remained mixed. The majority of builders and brokers indicated that buyer traffic was flat to slightly up from one year ago. Most brokers continued to note that inventory levels were down from the year earlier level, while the inventory report from

builders remained mixed. Builder and broker contacts reported modest gains in home prices. Many real estate contacts expect home sales to increase slightly over the next three months, while the majority of builders expect construction activity to be flat to slightly up over the same time period.

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 varied by metropolitan area, submarket, and property type. Commercial contractors indicated that the pace of nonresidential construction activity had increased from one year ago, with many reporting backlogs of one to two years. Reports on multifamily construction suggested that activity remained fairly robust across the District, although there seemed to be growing concerns around overbuilding. District commercial real estate contacts expect the pace of construction activity to increase slightly over the next quarter.

Manufacturing and Transportation. Industry contacts indicated that overall manufacturing activity continued to strengthen from mid-February through March. New orders increased and production levels were higher than the previous report. Payroll levels rose slightly. Supply delivery times were faster and finished inventory levels were notably higher. Input prices continued to be low. Expectations for future production fell from the previous reporting period, with a little less than one-third of businesses anticipating an increase in production levels.

Transportation activity in the District was largely unchanged, on net, since the last report. Year to-date total rail traffic was down as coal, farm products, petroleum, primary metal products, and forest, lumber, and wood shipments declined substantially compared with year earlier levels; however, intermodal and auto shipments increased. Trucking contacts cited notable increases in overall tonnage during the reporting period. Port contacts cited continued growth in container traffic, bulk and break bulk cargo, and autos.

Banking and Finance. Banking contacts reported that credit remained available with attractive terms for qualified borrowers. The increase in bank lending rates was noted as having little impact on borrowing or lending behavior. Credit availability tightened somewhat for financially and economically vulnerable companies and for risky deals. Traditional institutions were less willing to lend for development and developers often turned to private equity firms for financing. Financial institutions in areas dependent on the energy sector noted continued risk, with some adding additional reserves for bad debt. Business contacts continued to indicate that

credit was readily available, though activity tended to be focused on refinancing or paying down debt. Demand for business loans increased in metropolitan areas but was weak in rural areas.

Employment and Prices. Firms seeking employees for high-demand fields, such as information technology, engineering, and construction continued to experience difficulty filling jobs. Outside of these specialized fields, challenges finding workers eased some. Some businesses that hired inexperienced workers to fill open positions reported an increase in training investment. The oil and gas industry continued to impose layoffs as conditions deteriorated.

Most contacts reported relatively stable wage growth, despite continued upward pressure for select high-skill positions and high-demand sectors. Several businesses noted strength in margins, as they successfully held the line on prices in the face of soft or declining input costs. According to the Atlanta Fed's Business Inflation Expectations (BIE) survey, year-over-year unit costs were up 1.3 percent. Survey respondents also indicated they expect unit costs to rise 1.8 percent over the next 12 months.

Natural Resources and Agriculture. Contacts indicated that output and supply of oil and gas continued to remain greater than demand. Oil and gas business activity continued to decline and investment activity focused on maintenance. The unusually warm winter weather decreased natural gas demand. Refineries began spring maintenance outages that are not expected to adversely affect the supply of gasoline, jet fuel, or distillate fuel. Utilities experienced normal usage in residential power across the District while commercial and industrial sector usage slowed.

Agricultural conditions were mixed, while most of the District remained drought free, there were some areas in Florida, Georgia, and Louisiana categorized as abnormally dry. Due to excessive rain and flooding earlier in the year, the USDA designated several counties in central and southern Florida as primary natural disaster areas. Florida's orange crop forecast increased from the previous month but continued to be lower than 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. Growth in economic activity in the Seventh District picked up to a moderate pace in late February and March, and contacts expressed renewed optimism about the outlook for growth over the next 6 to 12 months. Business spending and manufacturing production increased moderately, while consumer spending and construction and real estate activity grew at a modest pace. Financial conditions improved some. Price and wage pressures tightened, but remained mild overall. Crop prices rose and input costs declined, but not by enough to appreciably improve farmers' earnings prospects.

Consumer spending. Growth in consumer spending maintained a steady, modest pace over the reporting period. Contacts reported stronger sales in the furniture, restaurant, and tourism sectors, and weaker sales in the electronics and appliances, sporting goods and toys, and food and beverage sectors. Retailers again expressed disappointment that lower gas prices and improvements in the labor market were not providing more of a boost to consumer spending. In contrast to the national data, District dealers generally reported that the pace of sales of new and used light vehicles picked up some and remained strong, and that leasing activity further accelerated.

Business spending. Growth in business spending rose to a moderate pace in late February and March. Most retailers indicated that inventories were at comfortable levels, though the mild weather left excess stocks of winter-related items and some auto dealers reported undesirably high inventories of certain models. Most manufacturers reported comfortable inventory levels, and contacts said that steel service center inventories had declined to normal levels for the first time since last winter. Some contacts in the financial industry reported that fiscal issues for Illinois and Chicago are becoming major headwinds for their small business clients' strategic decisions. Current capital outlays and plans for future outlays picked up to a more moderate pace. Outlays were primarily for replacing equipment and there was no increase in the number of contacts expanding capacity. Hiring also picked up to a more moderate pace, as did the number of contact saying they planned to increase their workforces in the future. Demand continued to be strongest for skilled workers, particularly for many professional and technical occupations, sales, and skilled manufacturing and building trades. A number of manufacturers reported more difficulty finding quality entry-level workers and that they were using additional tools to retain current workers, such as reviewing pay more frequently in order to reward their best workers more regularly. A staffing

firm 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 slightly on balance over the reporting period. Residential construction edged up, with growth concentrated in single-family markets and in urban areas. Residential rents and home prices rose slightly. A contact in the Chicago area noted that real estate activity was stronger in the central city neighborhoods than in outer-city neighborhoods and the suburbs. Demand for nonresidential construction was little changed, and contacts again highlighted weak demand for industrial construction. Commercial real estate activity rose moderately, with healthy gains in both the for-sale and for-lease markets and particularly strong activity in the retail segment. Commercial rents and availability of sublease space rose modestly, while commercial vacancy rates were little changed.

Manufacturing. While manufacturing production rose at a modest rate early in the reporting period, growth increased to a moderate pace by the end March. Activity remained strong in the auto and aerospace industries and picked up in most other industries. Demand for steel was steady, but contacts expected production to pick up some in the coming months because service centers' inventories have finally declined to desired levels. Most specialty metals manufacturers reported an increase in orders in March after a slow start to the year, with contacts serving the defense industry reporting particularly strong orders. Soft demand for agriculture and mining machinery continued to weigh on the heavy machinery industry, though one contact indicated that the drag from the oil and gas industry was abating. That said, manufacturers primarily serving the oil and gas sector reported adjusting their product offerings toward other industries. Manufacturers of construction materials continued to indicate slow but steady increases in sales, in line with the improvements in the housing market.

Banking and finance. Overall, financial conditions improved some over the reporting period. Equity markets regained much of their losses from the previous reporting period and volatility subsided. Business loan demand improved marginally; loan pricing remains competitive while volumes declined slightly. Contacts indicated that commercial real estate loan demand remains strong. Consumer loan demand was little changed, on balance. Credit card utilization rates increased, though balances remained steady. Residential real estate loan demand declined some, while auto loan volumes continued to grow steadily.

Prices/costs. Cost pressures tightened some in late February and early March, but remained mild overall. Most energy and metals prices increased, but remained low. Retail prices changed

VII-3

little, on balance. However, the food and beverage sector continued to experience lower pricing, particularly for meats, while average overall motor vehicle transaction prices moved higher, partially because of the shift in sales towards larger, more expensive vehicles. Nonretail contacts also reported little change in prices over the reporting period; those firms reporting higher prices were equally as likely to cite rising costs as increasing demand for the reason behind the price changes. Wage pressures remained mild overall and were generally stronger for management and professional and technical occupations, though there was an increase in the number of contacts who reported raising wages for low skill entry-level workers. Growth in non-wage costs also remained mild.

Agriculture. Spring arrived early in much of the District, allowing fieldwork to begin. Corn, soybean, and wheat prices moved up, and fertilizer prices and land rents moved down. However, these changes were not large enough to appreciably improve crop farmers' earnings prospects. Cattle prices edged higher, while hog and dairy prices were somewhat lower. The drop in dairy prices was large enough that many operations now face losses unless they had made forward contracts at higher prices.

EIGHTH DISTRICT—ST. LOUIS**Summary**

Economic activity in the Eighth District has improved at a modest pace since our previous report. Business contacts continued to report strengthening wage pressures and difficulties finding qualified workers. On net, businesses reported modest improvements although some contacts remained downbeat. Retailers reported slight increases in sales, with mixed reports on auto sales. Manufacturing firms reported increases in capital spending, and District banks reported strong growth in commercial and industrial loans. Real estate activity remains robust for residential and most commercial property types.

Employment, Wages, and Prices

Anecdotal information suggests that wages in the Eighth District rose at a moderate pace, while employment grew modestly and prices remained about the same. Contacts throughout the District reported that the lack of skilled labor will continue to put upward pressure on wages, especially in construction and advanced manufacturing. One contact in the Memphis area reported that the skills gap is affecting production and profitability for area employers. Contacts in the service and healthcare industries around the District reported increases in employment, while contacts in the natural resources and mining industry reported layoffs.

Consumer Spending

Retail sales growth has been modest since the previous reporting period. Most contacts reported a slight increase in sales compared with 2015 levels. A contact in southern Indiana noted that the ratio of area retail store openings to closings has been about two to one in recent months. In contrast, a northwest Mississippi contact indicated that convenience store sales are down in the region while fuel sales remain flat. Hospitality contacts in Arkansas continued to report favorable occupancy rates. Plans for new hotels were announced in both Louisville and Memphis.

Reports from auto dealers remain mixed. Multiple dealers continued to report a decrease in year-over-year sales since the previous reporting period. Others indicated that recent sales have been strong,

especially for trucks. Several used car dealers reported that sales are on pace with or slightly exceeding 2015 levels. Some Arkansas dealers saw an increase in foot traffic due to a mild winter. A few contacts also noted robust sales from their parts and service departments.

Manufacturing and Other Business Activity

Manufacturing activity has increased modestly since our previous report. Several companies reported capital expenditure and facility expansion plans in the District, including firms that manufacture paper products, chemical products, food products, and transportation equipment. Reports from the furniture manufacturing industry have been mixed, and one contact noted that sales to retail customers have been unusually soft for this time of year. Contacts also reported mixed impact from lower energy prices. Manufacturers of heavy machinery reported excess capacity as a result of declining demand from the coal, oil, and natural gas industries, and one manufacturer of mining equipment announced layoffs. Other manufacturers, however, noted benefits from lower prices for heavy machinery and lower operating expenses.

Activity in the District's service sector has also expanded modestly since the previous report. Several firms, including providers of business support services and food services, announced expansion plans. News from the health care industry was mixed: Several health care providers reported plans to hire new employees and expand facilities, while others in the District announced plans to lay off employees. Reports from the transportation sector were similarly mixed. A contact in the trucking industry reported an increase in revenue and reduced costs from low diesel prices, and others in the industry have announced expansion plans. In contrast, a shipbuilding contact noted a lack of orders from customers shipping petroleum and grain.

Real Estate and Construction

Residential real estate activity was strong in most of the District. Compared with the same period the previous year, February home sales increased on a year-over-year basis: 5.8 percent in Little Rock, 22.4 percent in Louisville, 6.9 percent in Memphis, and 0.1 percent in St. Louis. Residential construction

activity was modestly positive throughout most of the District. Single-family building permits in February, compared with the same period a year ago, increased in almost all MSAs. About half of contacts expect slightly higher to higher activity in residential construction in the second quarter of 2016.

Commercial real estate activity continued to strengthen throughout most of the District. In most of the regions, vacancy rates have dropped and asking rents have increased. Commercial construction activity strengthened moderately. About 80 percent of construction industry contacts in St. Louis reported that the number of construction projects has increased in the past 12 months and expect the number of projects to increase in the next 12 months. Business contacts reported that the strength in construction remains in multi-family properties and build-to-suit construction for other property types.

Banking and Finance

Banking conditions in the District accelerated in March. Loan growth in all categories is stronger than it was in the previous year. Total loans outstanding at a sample of about 80 small and midsized District banks increased 20 percent in March from the same time last year. Real estate lending increased 20 percent over the period of reference. Commercial and industrial loans increased 26 percent over the period, and loans to individuals increased 40 percent.

Agriculture and Natural Resources

Still facing low crop prices, farmers plan to increase acreage to cover as much of their fixed costs as they can. District corn, cotton, rice, and soybeans acreage is expected to be higher last year. Concerns about December flooding impacting the winter wheat crop have been unfounded so far, as more than 93 percent of the crop is rated fair or better. District coal production continues to fall, as February production was more than 24 percent below February 2015.

NINTH DISTRICT—MINNEAPOLIS

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

Consumer Spending and Tourism

Since the last report, consumer spending was up. Chain stores have opened in new locations across the District. Since January, new grocery stores opened in Minneapolis-St. Paul and Duluth, Minn. A strip mall in Williston, N.D., was filling up with local and national retailers, and the city “continues to evolve as a retail hub,” said an economic development official. In Bismarck, N.D., a number of national chain stores that opened six months ago in a large mall reported earnings “above their sales projections and continue to outperform sales expectations,” according to a local report. Sales of cars and trucks have “been good and remain steady,” since the last report, according to a dealership in La Crosse, Wis.; “New car sales were down slightly, but used car sales are doing better” compared with the previous quarter.

Tourism conditions were mixed since the previous report. Canadian travel to eastern North Dakota dropped due to the strength of the dollar, according to a travel agency representative. A northern Montana ski resort reported that visitors since the last report were down only “very slightly,” which one official considered “not too bad given the crunch we’re feeling from the lack of Albertan visitors.” In Wisconsin, visits to the state’s tourism website rose 24 percent in the past few months “after late snows arrived for ski enthusiasts,” according to a tourism official. Visits to the South Dakota Badlands were up since the last report, which officials attributed to low gas prices, a mild winter, and a new visitor center at a historic site.

Construction and Real Estate

Commercial construction has been strong since the last report. Several large projects in Marquette, Mich., including a new hospital, are making for an “above-average construction season” in the Upper Peninsula, according to a local source. Commercial permit value over the first two months of 2016 was robust in Rapid City, S.D., Rochester, Minn., and Sioux Falls compared with the same period a year earlier. The owner of a construction firm in southwestern Montana stated that “we haven’t had this much work in a decade.” However, commercial permit activity in Bismarck and Billings, Mont., slowed over this period. Residential construction activity was modest. In Minneapolis-St. Paul, total units and permitted value for the first quarter of 2016 were lower than a year earlier. New single-family permits rose in Missoula, Mont., but fell in St. Cloud, Minn. Multifamily permitted units rose strongly in Rochester and Sioux Falls.

Commercial real estate activity was moderate since the last report. In Minneapolis-St. Paul, vacancy rates remained low, and several sales of apartment complexes saw notable price appreciation. In Sioux Falls, vacancy rates for industrial, office, and retail space were flat or falling since the last report; however, apartment vacancies have risen. Residential real estate activity was moderate, while low inventory was inhibiting sales. Rochester saw January-February home sales drop by 8 percent over a year earlier. “The primary story ... is a dwindling supply of inventory,” according to an industry source. Homes for sale in Minneapolis-St. Paul in February were almost 20 percent lower than a year earlier, and were at record lows. Early 2016 home sales were up in Bozeman and Missoula, Mont., compared with a year earlier, and rose by 10 percent across Minnesota and by 12 percent in 14 northern Wisconsin counties.

Manufacturing

Manufacturing increased slightly since the last report. A manufacturing index by Creighton University indicated increased activity in March in Minnesota and South Dakota; North Dakota remained at contraction levels, but its index increased from a month earlier. A staffing firm in southern Minnesota said that “things are starting to pick up” at two major manufacturing clients; one was adding new product lines, and the other was expanding plant capacity. An equipment producer reported that demand for construction equipment was strong, but other sectors were off and agricultural equipment demand remained weak.

Energy and Mining

Conditions in the energy sector remained weak, while mining activity stabilized. The number of active drilling rigs as of late March in the District fell further from a month earlier. Coal shipments on regional railroads were down from a year ago. A currently idle iron mine in Minnesota will resume production in May; another idled mine announced plans to start back up later this year, but did not give a date. A mine in Montana announced plans to increase production and add up to 100 new workers. In contrast, two Wisconsin mines that produce sand for hydraulic fracturing announced that they were laying off workers.

Agriculture

District agricultural conditions remained weak. A contact in eastern Montana reported that less-profitable farms were leaving the business, and more exits were expected. Reports indicated that District farmers intended to plant fewer acres of wheat but more acres of corn in 2016 compared with last year, and an early forecast pointed to a strong growing season in parts of the District this year. Logging in northern Wisconsin was slowed by a warm winter that made the ground too soft for equipment. Farm prices fell in February from a year earlier for corn, wheat, soybeans, hay, hogs, cattle, chickens, eggs, and milk; prices for turkeys increased from a year earlier.

Services

Activity since the last report among professional services firms was moderate. An architectural firm expanded its services to Sioux Falls. A dental service provider expanded services to Sidney, Mont. A communications firm in St. Paul reported that large clients were still cautious with their budgets and “are kicking the can down the road” with communication campaigns. However, early adopters and emerging-category companies, such as organic and natural brands, were “active and don’t want to miss out on market share.” A Maple Grove, Minn., accountant reported that “this quarter’s business is up, primarily due to year-end and reporting requirements.”

Employment, Wages, and Prices

Employment grew moderately since the last report. Staffing firms in St. Cloud and Mankato, Minn., reported stronger placements and revenue in the first quarter of 2016 compared with a year earlier. A food processing company announced an expansion in Minneapolis-St. Paul, bringing 150 workers. Job postings in Sioux Falls in March were up about 15 percent from a year earlier; a new discount store there was bringing 300 jobs. An uptick in construction in the Upper Peninsula of Michigan was expected to increase labor needs by 25 percent over the coming year, said an industry source. Meanwhile, firms were struggling to find workers. A Minneapolis-St. Paul staffing firm said billable hours “are way down. Not because of the lack of jobs, but lack of candidates.” At the same time, a health care start-up in Minneapolis-St. Paul cut more than 20 workers, and a food processor in southeastern Minnesota closed and cut about 120 workers.

Wage pressure was moderate. A Minnesota staffing firm said there was a “slight increase” in starting wages since the first of the year. In Minneapolis-St. Paul, a teachers union received annual raises averaging 2.25 percent over two years, and a service workers union negotiated a four-year contract with a total wage increase of 12.3 percent, reportedly its largest in 20 years. Some skilled labor categories were seeing wage increases; a survey of high-tech employers in Montana found that wages were expected to rise 5 percent this year. Price pressures remain low. A Twin Cities builder said the firm was “projecting flat overall pricing.” A Minnesota manufacturer noted that “steel and plastic raw material prices remain low, but I suspect steel will begin to increase this summer.” A railroad serving the District announced a reduction in shipping rates.

TENTH DISTRICT - KANSAS CITY

Economic activity in the Tenth District increased slightly since the prior Beige Book, with continued mixed conditions across sectors. Consumer spending and District real estate activity increased modestly, and transportation and wholesale trade firms noted a sharp rise in sales. Professional and high-tech firms reported moderate increases in activity, and bankers reported slightly higher loan demand, stable deposit levels, and overall steady loan quality. On the other hand, energy activity continued to decline moderately, and District manufacturing firms reported persistent declines in activity. Agricultural conditions remained subdued with weak profit margins, although prices and growing conditions improved slightly. Input prices were mixed across sectors, while selling prices were steady or declined slightly. Although wage pressures were mostly contained, contacts in the retail and restaurant industries reported modest increases.

Consumer Spending. Consumer spending activity increased modestly in March, and expectations were positive in most sectors. Retail sales improved considerably over the previous survey period and were above year-ago levels. Several retailers noted an increase in sales for used and lower-priced items, while luxury and cold-weather products sold poorly. Contacts anticipated a moderate increase in sales the next few months, with inventory levels expected to rise modestly. Auto sales continued to decline at a moderate pace and remained below year-ago levels, although dealer contacts expected a modest pickup in sales for the months ahead. Auto inventories decreased but were expected to rise slightly in coming months. Restaurant sales increased sharply and were well above year-ago levels, with contacts expecting further improvements in the months ahead. District tourism activity continued to decline, but at a slower pace, and remained lower than a year ago. Contacts reported weak energy-related business travel but continued solid activity at ski resorts. Tourism contacts expected some weakening in activity for the months ahead.

Manufacturing and Other Business Activity. Manufacturing activity continued to decline in March, while most other business activity increased moderately. The continued decline in manufacturing came from both durable and nondurable goods factories, particularly for steel, plastics, and paper products. Factory activity remained weak in most District states. Production, shipments, and export orders were all lower than in the last survey period. Manufacturers' capital spending plans continued to decline, and expectations for future activity weakened modestly.

Outside of manufacturing, professional and high-tech firms reported a moderate increase in sales, with further improvements expected in future months. Transportation and wholesale trade contacts noted sharp increases in activity, and many firms expected continued growth in sales the next three months. Professional, high-tech, and wholesale trade firms reported favorable capital spending plans, while transportation contacts expected capital spending to fall modestly.

Real Estate and Construction. District real estate activity increased modestly in March, and further growth was expected in the coming months. Residential real estate sales and home prices increased moderately since the previous survey period as well as compared to the same time last year. However, a contact in Oklahoma noted slower sales due to a weak energy sector. Numerous contacts in the residential real estate market continued to cite low inventory as a driving factor of growth. Sales of low- and medium-priced homes continued to outpace sales of higher-priced homes. Expectations for sales and home prices were strong, and inventories were expected to fall further over the coming months. Residential construction firms reported an increase in construction starts and traffic of potential buyers, and expectations were positive for the coming months. Construction supply contacts noted moderate growth in sales and flat inventory levels. Commercial real estate activity increased modestly as sales, construction underway, completions, and absorption were up over year-ago levels and vacancy rates declined. The commercial real estate sector was expected to continue to strengthen at a modest pace over the coming months.

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

Energy. Energy activity continued to decline moderately, and expectations remained negative. The number of active oil and gas drilling rigs declined at a similar pace as the last survey

period. Most respondents expected domestic oil production to decline this year, as a result of low rig counts and reduced capital spending. The average oil price needed to be profitable continued to fall among local producers but remained modestly higher than their year-end price outlook. Most producers also reported concerns about high global oil inventories and the potential negative effects on prices. In the natural gas market, high inventory levels and continued strong production weighed on prices.

Agriculture. The District farm economy remained subdued since the previous reporting period, though crop prices improved slightly and growing conditions were mostly positive. Crop prices increased moderately in March, but were generally below previous-year levels. Some crop input prices, such as fertilizer and diesel prices, moderated from year-ago levels, but profit margins were expected to remain relatively weak due to suppressed commodity prices. Growing conditions for winter wheat in Oklahoma and Kansas were primarily rated between fair and good, but conditions deteriorated slightly from the previous month due to somewhat warmer weather and relatively little precipitation. Despite a brief rebound in March, livestock prices were significantly lower than a year ago, and profit margins at cattle feedlots remained soft, as livestock prices have decreased more than input costs over the past year.

Wages and Prices. Selling prices in most sectors were steady or declined, while input prices were mixed and wages increased slightly. Retail input prices increased modestly, though selling prices were flat. Restaurant menu prices grew slightly, and input prices were steady. Transportation input prices rose modestly with further increases expected, while selling prices were unchanged. Construction prices experienced slight increases and were expected to continue to grow. Manufacturers reported continued slight declines in raw materials and finished goods prices, with stable prices expected in coming months. Retail contacts reported modest wage increases, the first since the end of last year. Wages in transportation were steady, while restaurant wages experienced slight increases. Contacts in both of these sectors, however, expected wages to increase in the near future. Respondents noted a shortage for commercial drivers, technicians, and retail salespeople.

ELEVENTH DISTRICT—DALLAS

Economic activity in the Eleventh District was flat to up slightly over the past six weeks. Manufacturing held fairly steady on net while demand for nonfinancial services increased modestly. Retail sales edged down except for automobiles, where sales pushed to even stronger levels. Real estate activity continued to expand in most markets, while the energy sector contracted further. Reports of price pressures and employment trends were varied. Outlooks were still somewhat optimistic, although generally cautious, with oil price volatility and the presidential election driving some of the uncertainty.

Prices Price pressures over the reporting period were mixed, with slight upward pressure on prices and fees in the service sector but continued deflationary pressure on prices for manufacturing output. Contacts in the airline industry said ticket prices increased marginally as the industry started to adjust to the overcapacity seen last year. Retail prices returned to normal after being held down by promotions during the last reporting period. Among manufacturers, selling prices were flat to down.

Oil prices rose over the past six weeks, leading many contacts to suggest the market may have found a bottom. Gasoline prices moved up but remained soft, and several contacts noted that low gasoline and natural gas prices were helping keep input costs in check.

Labor Market Employment reports were varied. Scattered reports of hiring were noted throughout the service sector, especially among hospitality firms, and among food producers and a few other manufacturers. Retail employment was flat to down slightly, and several transportation services firms continued to trim payrolls. Layoffs were noted among several manufacturers, particularly of energy-related goods such as fabricated metals. Some energy contacts noted they were loath to cut more jobs and were instead completely eliminating overtime or no longer matching 401K contributions, but many energy firms said they may still have to trim headcounts further this year.

Wage pressure remained subdued, although a few contacts noted concerns about minimum wage legislation and the impact from companies like Wal-Mart and McDonald's raising their minimum wages. Respondents continued to report shortages of accountants and high-skilled high-tech workers, while labor shortages in the construction sector were not as acute as before.

Manufacturing The manufacturing sector stabilized somewhat over the reporting period after weakness earlier in the year. Stronger demand was reported by food and transportation manufacturers, as well as in high-tech manufacturing, where contacts cited auto-related electronics as a continued source of strength. Construction-related manufacturers said demand was strong in Dallas but weak in West Texas and Houston. For example, a cement contact expects commercial and industrial backlogs in Houston to dry up toward the end of the year. Among fabricated metals and machinery manufactures—whose customer base is often more concentrated in the energy sector than other manufacturing—declines in

demand continued but at a slower rate. There were several reports of these firms diversifying to aerospace, construction or other markets to boost business.

Refinery utilization rates remained healthy despite seasonal maintenance. Refiners are projecting 2016 to be a good year but not as good as 2015. Gulf Coast chemical producers were still conservative regarding budgets and capital spending in 2016, but some sectors were modestly more optimistic than they were six weeks ago. Most notably, PVC producers became more bullish regarding U.S. construction demand.

Overall, outlooks in the manufacturing sector remained cautious. Some contacts said the uptick in oil prices provided some relief to customer sentiment while others continued to voice concern about low oil prices and the weakness in the energy sector rippling through to their customers. The strong dollar and weak global growth were also mentioned as headwinds.

Retail Sales Retail sales worsened slightly since the previous report. Contacts attributed this to continued weakness in energy-heavy areas, the strength of the dollar dampening sales to Mexican nationals along the border, and unseasonably warm weather hurting winter apparel sales. Texas continued to perform worse than the national average. Retailers expect a slight pickup in the second half of the year but think 2016 sales overall will come in below 2015.

Automobile sales remained strong and were up slightly from the last reporting period. Year-over-year sales in February were up considerably because the number of selling days last year was greatly reduced by poor weather and ice storms. Inventories were reported to be high, with mixed views on the desirability of those levels. The outlook is for 2016 sales growth to be as strong as it was in 2015; however, margins will be more challenged this year.

Nonfinancial Services Overall demand for nonfinancial services increased slightly over the past six weeks. Staffing services firms said the Dallas area was still very strong while demand continued to be flat in Fort Worth and declining in Houston. Demand for professional and technical services increased, although growth in the accounting sector was restrained by a lack of available workers. Legal firms noted that bankruptcy and corporate restructuring work began to materialize among oil and gas companies. An application developer reported that slowing demand from oil and gas clients was offset by growth in the healthcare, retail and food industries.

Most transportation services contacts reported that cargo volumes declined. Truck and air cargo was down and rail cargo was down for most commodities except for motor vehicles. One contact noted that steel imports were down dramatically from a year ago, largely attributable to the slowdown in oil exploration. Airlines said demand was stable over the reporting period and leisure and hospitality contacts reported that activity remained strong in all major markets, with robust growth expected to continue through the summer.

Construction and Real Estate Home sales grew during the reporting period. New home sales were characterized as solid in Austin, good but not as great as last spring in Dallas, and steady to down in Houston. Sales of entry-level and first-move-up homes remained solid. Apartment demand was strong except for a softening in leasing of Class A space in Houston, where up to 2 months of free rent was being offered on new 12-month leases. Multifamily construction remained elevated but permitting and starts have slowed in Houston. Outside Houston, outlooks for the housing sector were positive and home prices were generally flat at elevated levels. There were reports of home price concessions being offered in Houston, and contacts expect further weakness in the Houston apartment market.

Demand for office space was healthy in Austin and Dallas-Fort Worth, but continued to weaken in Houston. Industrial leasing remained active and vacancies were tight, although one contact noted slight energy-related softening in Houston. Industrial construction was elevated in Dallas-Fort Worth.

Financial Services The majority of financial services contacts noted zero or slightly negative loan growth overall. Agriculture loan demand softened, largely due to lower crop and cattle prices. Residential mortgage growth slowed as banks began adjusting to new Consumer Financial Protection Bureau regulations that were put in force January 1st. Loans to small- and medium-sized businesses were down slightly, including loans to auto dealers, while steady growth was seen in consumer lending. Loan quality continued to deteriorate mildly due to stress in the energy sector, although delinquency rates remained at low levels. Scrutiny of energy lending has increased, mildly tightening credit availability. Deposit growth slowed over the reporting period, and interest rates, both on loans and deposits, remained low. Outlooks remained very cautious.

Energy Demand for oilfield services remained depressed as drilling continued to decline. The financial positions of many firms continued to deteriorate despite slightly higher prices in March, particularly smaller firms. Further cuts to capital expenditures have become less likely, as sentiment grew that the energy sector may have found a bottom. Outlooks remained somber for 2016, with little hope for growth before 2017.

Agriculture Row-crop farmers were busy preparing fields or planting, and the USDA Prospective Plantings report showed acreage increases in Texas for cotton, corn and soybeans this year versus 2015, and acreage declines for sorghum and wheat. Production prospects for 2016 crops are quite positive in light of healthy soil moisture and a favorable weather outlook. While crop prices generally increased slightly over the past six weeks, they remained low and contacts continued to mention stressful financial situations among many producers in the region. On the cattle side, prices increased over the reporting period, largely seasonally, and beef production was higher than a year ago.

TWELFTH DISTRICT—SAN FRANCISCO**Summary**

Economic activity in the District grew at a moderate pace during the reporting period of mid-February through the end of March. Overall price inflation firmed somewhat, while upward wage pressures grew at a moderate pace. Sales of retail goods and consumer and business services expanded moderately. Demand for manufacturing products grew modestly. Activity in the agriculture sector picked up, and residential and commercial real estate market activity continued to expand at a robust pace. Lending activity continued to grow at a modest pace.

Prices and Wages

Overall price inflation firmed somewhat over the reporting period. Prices for pharmaceuticals increased in line with higher production costs, with one contact expecting further cost and price increases. Prices in the construction industry grew at a moderate pace as the effects of labor shortages outweighed lower material costs. Contacts in the food and beverage industry expect commodity prices to rise somewhat over the coming months; however, they anticipate having to absorb those increases through lower profit margins rather than passing them on to consumers. Low commodity prices continued to hold down material costs in most sectors, and the prices of some agricultural goods also remained low.

Wage inflation remained moderate overall. Contacts in the hospitality and restaurant industries reported significant wage increases and more upward pressure in general as minimum wage laws began to take effect. Wages for information technology workers strengthened in most industries, particularly in the financial services sector, as firms increased IT spending to help meet regulatory requirements and boost online security systems. In the construction industry, continued labor shortages increased upward wage pressures. Contacts in the food and beverage sector reported that levels of wages and compensation were largely unchanged.

Retail Trade and Services

Retail sales expanded at a moderate pace over the reporting period. Contacts generally reported a slight uptick in consumer spending as improved household balance sheets helped bolster consumer

confidence. Motor vehicle sales remained strong, and auto dealers replenished depleted inventories that previously had held back sales. Sales of food and beverage products rose, and activity in the grocery industry expanded modestly in general, spurred in part by new product offerings. Investment spending was mixed but somewhat muted on balance, with many contacts noting that expenditures were focused largely on productivity enhancements rather than capacity expansion.

Activity in the consumer and business services sector grew at a moderate pace. Cargo volumes increased in the transportation sector, and airline revenue rose due to higher demand and lower fuel prices. In the health-care sector, demand remained robust and contacts reported capacity shortages at some facilities. Activity in the restaurant industry was largely flat, with little change in same-store sales noted for recent months; one contact reported that a number of chain restaurants had scaled back plans to remodel. More generally, investment spending in the services sector grew modestly over the reporting period.

Manufacturing

Activity in the manufacturing sector grew modestly. For makers of pharmaceuticals, shifting demographic trends continued to support strong demand growth, prompting increased investment spending for business expansion and development of new and more effective drug treatments. Sales of electronic components grew modestly but at a pace slightly below long-term trends. Orders of new commercial aircraft slowed, and deliveries were flat compared with the same period last year. Conditions in the steel sector remained weak as low foreign demand and an elevated dollar slowed exports. Energy consumption by manufacturers slowed, and capacity utilization rates remained slightly depressed relative to historical averages. Investment plans for much of the sector remained modest and in line with expectations that sales growth will be held down by exports.

Agriculture and Resource-Related Industries

Activity in the agriculture sector picked up over the reporting period. Growing conditions in California and other parts of the District have been bolstered by ample winter rainfall that has partially alleviated the challenges created by sustained drought. A seasonal improvement in domestic demand for timber products somewhat offset weaker foreign demand. However, contacts reported that the elevated dollar

continued to weigh down exports for most products. Domestic sales of produce strengthened. Despite weak exports, herd costs fell, reducing losses in that sector. Contacts reported that capital spending plans were focused on productivity enhancements and replacing equipment rather than capacity expansion.

Real Estate and Construction

Real estate market activity grew at a robust pace across most of the District. Demand for residential units remained strong, with one contact reporting construction backlogs of more than six months for new single-family units in his region. Contacts outside of major cities reported that demand for luxury units was relatively lower than for affordable units. Construction of residential units picked up, particularly in technology hubs. Construction materials remained in ample supply, but some areas reported that permits for new residential construction have not kept pace with increased demand, in part reflecting constraints from labor shortages. Demand for commercial space has been growing rapidly in some urban areas, and new construction completions have not kept pace, putting upward pressure on lease rates.

Financial Institutions

Lending activity grew modestly over the reporting period. Contacts noted especially strong growth for revolving credit and mortgage loans. Credit quality improved further, but, despite strong demand, lenders remained cautious with respect to borrowers with lower credit scores. One contact reported that credit unions in his region had purchased high volumes of subprime mortgages. Low interest rates, vigorous lender competition for qualified borrowers, and costs of regulatory compliance reportedly held down profit margins for some institutions. Investment spending by financial institutions grew modestly and was primarily focused on productivity enhancements and strengthening cyber security.