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Summary of Commentary on _____

Current Economic Conditions

By Federal Reserve District

May 2016

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICTS

May 2016

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Summary*

Information received from the 12 Federal Reserve Districts mostly described modest economic growth since the last Beige Book report. Economic activity in April through mid-May increased at a moderate pace in the San Francisco District, while modest growth was reported by Philadelphia, Cleveland, Atlanta, Chicago, St. Louis, and Minneapolis. Chicago noted that the pace of growth slowed, as did Kansas City. Dallas reported that economic activity grew marginally, while New York characterized activity as generally flat since the last report. Several Districts noted that contacts had generally optimistic outlooks, with firms expecting growth either to continue at its current pace or to increase.

Consumer spending was up modestly on balance in many Districts, though contacts in the Boston, Cleveland, Minneapolis, and Dallas Districts reported mixed or flat activity, and New York reported weakened sales. Many Districts reported modest growth in nonfinancial services. Manufacturing activity was mixed across Districts. Construction and real estate activity generally expanded since the last report, and the overall outlook among contacts in these industries remained positive. Overall loan demand was up moderately in all but one of the Districts that reported it, and many Districts reported steady to good credit availability. Crop conditions were promising in many Districts, but low commodity prices continued to put pressure on agricultural incomes. The energy sector remained weak. Employment grew modestly since the last report, but tight labor markets were widely noted; wages grew modestly, and price pressure grew slightly in most Districts.

Consumer Spending and Tourism

Consumer spending and tourism activity was up modestly in many Districts, though contacts in the Boston, Cleveland, Minneapolis, and Dallas Districts reported mixed or flat activity. With respect to retail sales, only the New York District reported weakened sales in April and early May. The Boston, New York, and Philadelphia Districts indicated that cool spring weather dampened sales relative to the same time last year. Retailers across many Districts reported increased competition from online sales, citing a shift in consumer preferences away from in-store shopping. Luxury and premium product sales were notably subdued in the Richmond,

*Prepared at the Federal Reserve Bank of Minneapolis and based on information collected before May 23, 2016. This document summarizes comments received from business and other contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.

Kansas City, and San Francisco Districts since the last report. The tourism and hospitality sectors saw mixed activity in New York and Minneapolis, while Philadelphia, Kansas City, and San Francisco experienced improved activity. Contacts in the Atlanta, Richmond, and St. Louis Districts indicated that hotel and hospitality bookings were higher than a year earlier.

Among Districts that reported new and used auto sales activity, sales were steady in April and May, with the exception of Philadelphia, Atlanta, and Kansas City, where a slight decline was reported. Dealers in the Chicago District reported a rise in new and used light vehicle sales. But overall, truck and large vehicle sales outpaced auto sales across many Districts. In Cleveland, motor vehicle sales grew 1 percent over a year ago, with light trucks and SUVs dominating purchases. Dealers in the Richmond District reported that light truck sales were especially strong. Luxury vehicle sales were mixed; Cleveland reported weakened demand, whereas Chicago reported a shift upward in demand. Philadelphia, St. Louis, and Dallas reported an optimistic outlook for annual auto sales in 2016, due mostly to low gas prices.

Nonfinancial Services

Since the previous report, many Districts, including New York, Richmond, St. Louis, and Minneapolis, reported modest growth across many nonfinancial services, whereas San Francisco indicated that growth was moderate. Philadelphia indicated no significant change in the modest pace of growth since the last report, characterizing the services economy as “disappointingly stable,” according to a contact. New York contacts noted a steady rise in activity in April and early May. The Minneapolis, Kansas, and Dallas Districts reported an expansion in the technology and professional services sectors. Minneapolis and Dallas also reported expansion in the health care sector. Boston District contacts in the staffing services sector characterized activity as strong. In contrast, contacts in the Cleveland District reported that transportation services declined, with railroad activity down by as much as 35 percent from the same time last year. The Kansas City District also reported declines in transportation-related activity and capital spending. The Richmond District characterized transportation services, such as trucking and airport activity (both passenger and cargo), as “uneven” and “flat to slightly stronger.” Contacts in both the Richmond and St. Louis Districts reported optimism for the coming months for some nonfinancial services sectors.

Manufacturing

Manufacturing activity was mixed across Districts in April through mid-May. Richmond reported that activity increased on balance, and Atlanta noted that it remained strong. Reports

indicated a modest increase in manufacturing output in Cleveland, Chicago, and Minneapolis, and the manufacturing sector in Dallas grew slightly. Activity was flat in San Francisco and fell in New York, Philadelphia, St. Louis, and Kansas City. The outlook for manufacturing improved since the last report in Philadelphia, Cleveland, Atlanta, and Kansas City; outlooks in Boston and St. Louis were also positive.

District reports portrayed mixed growth across industries within manufacturing. Cleveland, Richmond, Chicago, and Minneapolis noted increased demand for construction materials or equipment, but Dallas reported that among construction-related manufacturers, demand was mixed over the reporting period and slightly down from a year earlier. Metal manufacturers in the Richmond District indicated that new orders had risen, Chicago reported growth in steel demand, and producers in Cleveland were encouraged by an increase in domestic steel prices but reported little change in demand. San Francisco noted that steel producers benefited from reduced overseas competition, but contacts reported somewhat weak demand for other manufactured metals. Philadelphia and Dallas also cited weakness in primary metals. Boston, Philadelphia, Cleveland, Chicago, and Dallas reported weakness tied to reduced demand from the energy sector.

Construction and Real Estate

Construction and real estate activity generally expanded since the last report, and the overall outlook among contacts remained positive. Commercial construction activity increased in Philadelphia, Richmond, and Minneapolis. Strong project pipelines were reported in Cleveland, and some contractors in Atlanta noted one- to two-year backlogs. An uptick in industrial construction was cited in St. Louis, while activity was varied across markets in Boston. Residential construction increased in most Districts but was mixed in Richmond and Dallas, where some markets saw a decline in single-family construction. In Chicago, a slight increase in residential construction was concentrated in single-family and suburban markets. St. Louis contacts reported an uptick in residential construction, and many contacts expected a similar increase next quarter. Multifamily construction continued to grow in many Districts, including New York, St. Louis, and Dallas, but a slowing was noted in Atlanta. In San Francisco, construction of multifamily units continued to outpace single-family units. In Boston, apartment construction remained very active, but related lending slowed among smaller banks.

Commercial real estate activity increased in most Districts that reported. Absorption of space increased in Atlanta and Kansas City, while Dallas reported healthy demand for office

space. A decline in vacancy rates and a rise in rents were noted in Chicago and Minneapolis. Contacts in San Francisco said demand for commercial real estate expanded further, particularly in urban areas with robust technology and health care industries. Residential real estate activity increased moderately across most Districts. Home sales were strong in Boston, Cleveland, Kansas City, and San Francisco. Residential sales were positive but somewhat lower in other Districts. Sales for entry-level and other lower-priced homes were particularly strong, according to Chicago and Dallas contacts. Lower inventories of homes were reported by contacts in New York, Cleveland, Atlanta, St. Louis, and Minneapolis and have led to bidding wars in the Richmond District and constrained home sales in Philadelphia. Home prices were reported higher overall; Cleveland contacts said that home prices rose 3 percent year over year. In Philadelphia, home prices were mixed across markets and price categories.

Banking and Finance

Overall loan demand was up moderately in all Districts that reported, with the exception of Dallas. Commercial and industrial loans were up in Philadelphia, St. Louis, and Kansas City. Contacts in the Atlanta District indicated that there was strong loan demand, except for the energy industry. In the Chicago District, business loan demand changed little from the previous report. Residential mortgage lending was up in the New York, Richmond, St. Louis, and San Francisco Districts. The Dallas District reported that overall lending was mixed, whereas the Philadelphia District reported that mortgages and home equity loans were down since the prior reporting period. Bankers in the Philadelphia, Cleveland, and Dallas Districts reported seeing increased activity in auto lending. The St. Louis and San Francisco Districts reported improved credit quality. Contacts in the New York and Cleveland Districts reported lower delinquency rates on the consumer side. Banking contacts from the Atlanta District indicated an optimistic outlook for the remainder of the year.

Agriculture and Natural Resources

Crop conditions were promising in many Districts, but low commodity prices continued to put pressure on agricultural incomes. Favorable weather got the growing season off to a solid start in St. Louis and Minneapolis and improved production prospects in Dallas. However, wet, cool weather in the Chicago District put planting behind the pace of last spring, and rain delayed planting and harvesting of some crops in parts of the Richmond District. In contrast, parts of the Atlanta District were experiencing abnormally dry to moderate drought conditions. Though prices for some commodities such as soybeans and hogs have increased recently from their low

points, most crop and animal product prices remained below their year-earlier levels. Chicago, St. Louis, and Kansas City noted that prices were below profitable levels for some producers.

The energy sector remained weak since the previous Beige Book. Oil drilling continued to decrease in Minneapolis, Kansas City, and Dallas. While natural gas drilling was little changed over this reporting period in Cleveland, demand was rising and output in that District remained at historic highs; natural gas extraction increased in Richmond since the previous report. Coal production was unchanged in Richmond, but fell in St. Louis and Kansas City. Contacts in Cleveland and Dallas expressed optimism that prices for natural gas and oil, respectively, may have bottomed out.

Employment, Wages, and Prices

Employment grew modestly since the last report, but tight labor markets were widely noted in most Districts. Demand for labor rose moderately in Richmond, and contacts noted continued difficulty finding workers in numerous occupations. In Boston, staffing industry contacts observed robust labor demand, particularly for specialized workers in high-skill fields. Contacts in Atlanta and Richmond said high-skill workers in high-demand fields continued to be hard to find, and low-skill jobs were also becoming harder to fill. In St. Louis, contacts that reported having trouble filling job vacancies primarily cited few applicants or candidates lacking the necessary skills. In New York, employment grew modestly, and manufacturing and services firms planned to add jobs in the months ahead. Soft labor markets were reported in energy sectors in Cleveland, Atlanta, Minneapolis, Kansas City, and Dallas.

Wages grew modestly since the last report, with increases concentrated in areas of labor tightness. Higher wages were reported for entry-level and lower-skill positions in Richmond and Atlanta. In San Francisco, minimum wage increases pushed up wages for low-skilled workers, with diminishing effects up the pay scale. Atlanta, St. Louis, and San Francisco reported wage pressure for certain high-skilled employees. In New York, a sizable share of service-sector contacts reported higher wages. In St. Louis, more than two-thirds of hiring managers reported increasing wages and salaries by more than they had in the past few years to retain employees and attract new ones. However, in Kansas City, contacts in several industries reported only slight increases in wages and expected similar increases going forward. Wage pressure was minimal in the Dallas District, due in part to compensation at energy services firms that was steady to lower for staff that have been retained.

Price pressure grew slightly in most Districts. Multiple Districts noted small price increases in building materials, including concrete and steel. Contacts in Cleveland reported higher construction prices to cover rising worker costs resulting from tight labor markets. The majority of contacts in Philadelphia reported no significant change in input costs or customer prices. In New York, contacts in manufacturing and services cited little change in selling prices but moderate upward pressure in costs. In Kansas City, retail prices rose moderately and were expected to increase further. In San Francisco, growing competition from expanding online retailers held down price growth for most retail grocery products; apparel contacts there also reported significant price discounting. The outlook for prices was moderate; survey respondents in Philadelphia and Atlanta expected inflation of about 2 percent over the coming year.

FIRST DISTRICT – BOSTON

Business contacts cite generally improving economic conditions across the First District. Most retail and manufacturing respondents report increasing sales or revenues from a year earlier; this represents a higher fraction compared with six weeks ago. Staffing services firms are seeing growth in placements and revenues. Commercial and residential real estate respondents both cite positive results. Many respondents have net hiring plans and are raising wages modestly for selected existing employees and to recruit in some positions. Contacts continue to report minimal price pressures. Outlooks are generally upbeat as firms expect “more of the same.”

Retail

Retail contacts in this round report that sales results for April through mid-May range from a slight single-digit decrease to growth in the mid-to-upper single digits. One firm notes that its lower sales were weather-related: demand for seasonal items was depressed by the atypically cool spring weather in New England. By contrast, another contact cites increased customer traffic, while a third is seeing “more stability” in sales after observing a lot of daily and weekly volatility over the past six months. Some respondents say that consumer spending patterns are changing: Besides the increasing shift to online sales, they cite the aging of the Baby Boom as a partial explanation for lower observed demand for apparel and other retail goods accompanied by increased spending on restaurants and travel.

Inventories are well-managed. Some contacts have raised inventories to meet expected continuing sales growth and demand for warm-weather items. One retailer is pushing orders ahead in anticipation of China’s shut-down of regional factories for six to eight weeks to control pollution before holding the G20 summit in early September. Wholesale prices remain steady, so retail prices are fairly flat, though prices for some items for fall will be up by a few percent. Most retail contacts are engaging in capital spending related to business expansion and IT technology. Overall expectations for 2016 are positive, as contacts say the U.S. economy is in a moderate growth cycle, bolstered by increasing employment and growth in housing starts. They anticipate that these conditions will support same-store sales growth in the low-to-mid single digits.

Manufacturing

Of 11 manufacturing firms contacted this cycle, only one reports declining sales. The latter firm—a maker of brakes and motors for machinery—attributes the decline to the effect of lower commodity prices for mining, oil and gas, and agriculture, with no signs yet of effects of the recent rebound in oil prices. Many contacts report a very strong first quarter, including manufacturers of pressure sensitive film, veterinary products, tools, and scientific equipment, as well as a diversified maker of jet engines and home HVAC systems, among other things. Several contacts indicate that the growth came after a soft second half of 2015 or that first quarter sales were much stronger than expected. For most respondents, the U.S. was a bright spot; Europe was not as strong, although not declining as in some earlier reports. Contacts note that Chinese growth has slowed but is still positive; the only problem area appears to be Latin America, in general, and Brazil, in particular.

The pricing environment appears benign. Not one of our contacts reports significant price pressure

from suppliers nor do they feel that they can increase the prices paid by customers. Exchange rates remain a problem for contacts, with 5 of the 11 noting the strong dollar has lowered their revenues or is a “headwind” for them; a couple of these respondents, however, say the negative impacts are weakening.

Inventories are stable or reflect planned increases or decreases. The one contact with declining sales says there had been destocking in the fourth quarter but “nothing like 2009.”

None of our contacts reports significant revisions to their employment plans. A manufacturer of mail-room equipment says they reduced staff, but the reduction reflects planned efficiency improvements and not any reduction in demand. Two contacts report regional shifts. A diversified manufacturer reports moving divisional headquarters out of New England at least partly because of the high cost of labor in the region. Another is expanding production in Nebraska instead of Massachusetts due to the lower cost of labor. Three contacts report having difficulty finding skilled technical and scientific workers. No firm reports significant revisions to their capital expenditure plans. Even the firm with declining sales has not changed its investment plans.

The outlook is positive for all respondents. The firms that had very strong first quarters are trying to figure out if it represents a trend. The tool manufacturer says that retail point-of-sale data show consistent strength and no sign of tapering, but they will not change plans without additional positive evidence. A manufacturer of semiconductor equipment says that some growth was tied to the introduction of new smartphones and questions whether the smartphone market has reached saturation and therefore will not generate such strong growth in the future.

Staffing Services

New England staffing services contacts generally report strong business activity through May, with upticks in both direct hires and temporary placements, and year-over-year revenue increases ranging from 1 to 35 percent. Contacts observe an increase in underlying business confidence in recent months, along with heightened market competition for workers. As a result, workers reportedly have more choices in jobs and starting salaries. Labor demand continues to be robust, with increased client demand for specialized workers in the internet technology, software, legal, medical, mechanical engineering, business services, and management consulting sectors. Workers with less specialized or non-technical skills are less in demand. Contacts report that labor supply decreased in recent months, which they attribute to a decline in overall unemployment, as well as some mismatch of skills between labor supply and demand. Firms are utilizing social media and referral networks, and offering sign-on bonuses in order to recruit job candidates. Both bill and pay rates increased from 3 to 10 percent year-over-year. Firms are reportedly recognizing the need to pay higher wages to attract top talent, and workers are negotiating higher starting salaries. Looking forward, contacts are optimistic, expecting steady sequential and year-on-year growth. They expect to end the year with year-over-year revenue increases in the low to mid-single-digit range.

Commercial Real Estate

Contacts report that commercial real estate leasing activity is steady or improving across the First District. Hartford saw a surge in industrial leasing in recent weeks and steady, if light, office leasing activity. Office leasing picked up in Providence following a slow first quarter, and rental rates in that city

are seen as stable. Boston's office leasing environment remains strong, yielding further declines in vacancy rates, although tenants appear reluctant to commit to new leases on the most expensive spaces. Portland continues to see strong leasing demand across all commercial property types and rents are described as stable. Investment sales are steady in Boston, Portland, and Hartford, although the bidding environment remains less exuberant in Boston than it was a year ago.

Construction activity remains limited in Hartford, as prospects for retail developments dim; nonetheless, industrial construction may be warranted in the Hartford area in coming months, following the recent robust leasing activity. Office construction continues to increase in Boston but remains below normal relative to fundamentals. Construction is modest in Rhode Island but is set to increase later in the year based on planned infrastructure projects. Apartment construction remains very active in Boston. However, contacts say lending for apartment construction is slowing among the region's smaller banks as they seek to stay within their own pre-set limits on that sector's loan allocation. Contacts across the District are mostly optimistic that commercial real estate activity will hold steady or improve in coming months, although one Boston contact notes the risk of a modest slowdown in office leasing.

Residential Real Estate

Residential real estate markets in the First District continue to exhibit strong trends at the end of the first quarter of 2016. March closed sales of single-family homes increased year-over-year in all six New England states; in Vermont, April data show a slight decrease. Massachusetts saw the most closed sales in any March since 2004. Pending sales for single-family homes increased year-over-year in every state, with gains as large as 36 percent in the Boston area. Most contacts note that these increases are not surprising given the mild winter relative to last year; some, however, say the momentum was even more than expected. A contact in Rhode Island reports, "we had far and away more sales than we've seen at this time of the year for quite some time." Median sales price also increased year-over-year in March in every state except Vermont.

The market for condominiums also improved relative to last year, with closed and pending condo sales up in every First District state in March (April for Vermont). Median condo prices showed moderate increases year-over-year in five states; the only exception was Connecticut where condo prices decreased.

Inventory continues to be an issue throughout the First District. Inventories of both single-family homes and condos decreased year-over-year in every state that reports these data. A Rhode Island contact comments that low inventories put sellers "in the driver's seat" in the bidding process. A contact in Massachusetts echoes previous comments that construction is too low to meet increasing demand from buyers. One notable exception to the inventory declines was the Boston area, where inventories of both single family homes and condos increased year-over-year; one contact hypothesizes that this is due to mild weather allowing sellers to put their homes on the market sooner this year than last.

Overall, contacts have a strong outlook for residential real estate markets. Several cite other economic indicators such as the stable unemployment rate, rising wages, and low interest rates as drivers of growth. Two contacts specifically note that although demand is strong, buyers are approaching the market more cautiously and avoiding risk.

SECOND DISTRICT--NEW YORK

Economic activity in the Second District has been generally flat since the last report, while labor markets remain tight. Selling prices are reported to be little changed, though contacts note continued upward pressure on input prices and wages. Manufacturers report renewed contraction in activity, while service-sector businesses indicate steady to modestly rising activity. Consumer spending weakened, and tourism activity has been sluggish. Residential real estate markets were mixed but on balance softer, while commercial real estate markets were steady to slightly stronger. Finally, banks report further strengthening in loan demand and improvement in delinquency rates.

Consumer Spending

Retailers report that sales weakened in April and remained soft in early May, with same-store sales down moderately from comparable 2015 levels and below plan. Contacts in both upstate New York and the New York City metro region note that unseasonably cool weather contributed to the weak sales performance, though it was not the predominant factor. Retailers report that inventories are on the high side—particularly for warm weather apparel—and note more price discounting than usual. The trend toward on-line shopping has continued to constrain traditional retail sales.

New vehicle sales in upstate New York are reported to be steady at a fairly high level in April, though there were scattered signs of softening in early May. Inventories of new vehicles are reported to be somewhat on the high side for this time of year. Sales of used vehicles were also described as steady in April with some signs of a pickup in May. While credit conditions generally remain in good shape, one contact notes some tightening at the low end.

Tourism activity has been mixed but generally sluggish. Hotels in both New York City and across parts of upstate New York indicate that occupancy rates and revenue per room have been running below comparable 2015 levels. Similarly, attendance and particularly revenues at Broadway theaters have softened a bit in recent weeks but remain slightly ahead of a year earlier. The

Conference Board's April survey shows consumer confidence in the Middle Atlantic states (NY, NJ, PA) rebounding modestly in April, after a steep decline in March.

Construction and Real Estate

The District's home sales and rental markets have been mixed but, on balance, softer thus far in the second quarter, with the high end of the market in many areas struggling from an over-supply and weak demand. Multi-family residential construction has remained strong, while single-family construction has risen modestly. Housing markets in upstate New York showed further signs of strength in April and early May, with brisk sales activity and tight inventories of existing homes; multiple bids continue to be common in more desirable areas. Single family home sales in Northern New Jersey have been restrained by lean inventories, while prices have been held down by a stubbornly large overhang of distressed properties. In contrast, home sales have picked up noticeably in the Lower Hudson Valley, Long Island and Fairfield County, Connecticut, though prices have thus far risen only modestly. New York City's co-op and condo market appears to have lost further momentum, most noticeably in Manhattan and especially at the high end, where a growing excess of new development is being met with tepid demand. Rental markets in and around New York City have been mixed, with particular weakness at the high end of the market. In Manhattan and Queens, markets have softened further with rents slipping slightly below year-earlier levels. However, rental markets in northern New Jersey and Brooklyn (again, except at the high end) have remained resilient, characterized, respectively, by sturdy demand and tight inventories.

Commercial real estate markets have been mostly stable thus far in the second quarter. In Manhattan, office availability rates edged up, and asking rents were flat, though still up moderately from a year ago. Across the rest of the New York City metro area, however, office availability rates edged down and asking rents climbed. In upstate New York, availability rates were steady to down slightly, and asking rents were little changed. Industrial markets continued to tighten across the

District, with asking rents continuing to climb and vacancy rates edging down to multi-year lows.

Other Business Activity

Business contacts across the District are somewhat less upbeat about business conditions than in the last report. Service-sector contacts report that business activity has been steady to rising modestly in April and early May, while manufacturing contacts report a renewed decline in activity. Both manufacturing and service-sector contacts report little change in selling prices but moderate upward cost pressures.

The labor market has continued to tighten in recent weeks. While employment levels have risen only modestly, there have been more indications of labor shortages and some acceleration in wages. Manufacturers report little change in employment at their firms, and service-sector businesses indicate only modest increases in employment; however, contacts in both sectors report that they plan to increase staffing levels in the months ahead. A sizable share of service-sector contacts continues to report that they are raising wages. Moreover, two major New York City employment agencies and one upstate agency report continued improvement in hiring activity and a pickup in wage pressures. Contacts note that employers have grown more flexible on salaries.

Financial Developments

Small to medium sized banks in the District report that overall loan demand has strengthened. There were widespread increases in demand for consumer loans, residential mortgages and commercial mortgages; demand for commercial & industrial loans, on the other hand, was reported to be little changed. Bankers report that credit standards were unchanged across all loan categories. Contacts indicate narrower spreads of loan rates over cost of funds across all categories except consumer loans, where spreads were reported to be unchanged. Respondents also report an increase in the average deposit rate. Finally, bankers report lower delinquency rates across all loan categories, particularly consumer loans.

THIRD DISTRICT — PHILADELPHIA

Aggregate business activity in the Third District continued at a modest pace of growth during the current Beige Book period. Most contacts continued to report a modest pace of hiring with some exceptions; staffing firms remained more bullish — noting moderate hiring trends, while manufacturing firms continued to report declines. On balance, prices continued to rise slightly, although home prices appeared to remain essentially flat. However, contacts are mentioning modest wage pressures somewhat more frequently than in the last report. Overall, firms continued to expect modest growth over the next six months.

Four sectors of the Third District reported changes in the direction or pace of their growth since the prior period. Lenders reported improving from a modest to a moderate pace of growth in loan volume. In contrast, according to contacts, nonauto retail sales slowed a bit to a modest pace, while auto sales and manufacturing activity appear to have fallen after growing modestly last period. The remaining sectors indicated no change to their prior performances, which ranged from slight growth for homebuilders to moderate growth for staffing services. Contacts from general services, transportation services, tourism, commercial contractors, commercial leasing agents, and real estate brokers continued to report modest growth.

Manufacturing. Reports of overall activity fell into slightly negative territory, since the prior Beige Book period, as did reports of shipments and new orders. Firms also reported that the number of employees continued to fall slightly and the average employee workweek fell sharply after rising somewhat during the last period. The makers of chemicals, electronics, and primary metal products appeared to contribute to the overall decline in activity. The makers of lumber, instruments, industrial machinery, and fabricated metal products noted the greatest improvement from the prior period and compared with the prior year; contacts with paper products firms have reported improvements since last period, but not as strong as last year. Firms continued to note stronger demand from the housing and consumer sectors, while demand from the energy sector remained weak. Overall, contacts expressed somewhat higher expectations of growth during the next six months than during the last Beige Book period. This improvement was driven by slightly increased percentages of firms expecting increases in shipments, new orders, and general activity than during the prior period. Expectations of future capital expenditures and future employment also rose.

Retail. Nonauto retail contacts have reported modest growth in sales during the current Beige Book period — a slightly slower pace than the prior period. At mall stores, negative year-over-year comparisons for apparel sales at every price point were said to have been partially offset by continued strong growth in other categories, including restaurants. Convenience store

operators also noted some slowing of sales and traffic but were uncertain as to the extent of the negative contribution from relatively colder, rainier weather and slightly higher gas prices. Contacts remained hopeful that modest growth would continue through 2016.

Overall, Third District auto dealers reported that light vehicle sales have slowed somewhat during the current period. Some dealers suggested that early May sales appeared to be coming back; others expressed concerns that sales have begun to slow from recent peaks. Dealers mentioned that lack of inventory, aggravated by high recall levels, has constrained supply; that record numbers of lease vehicles coming back to the used car market has lowered demand for new car sales. Dealers hope that total 2016 sales may still eclipse 2015, in part, due to greater use of manufacturers' incentives.

Finance. Third District financial firms reported that total loan volumes have risen substantially since the previous Beige Book period. All lending categories have been positive since the prior period except for consumer loans (excluding credit cards and auto loans). However, volumes of mortgages and home equity loans were below year-ago levels. The strongest lending categories continued to include commercial and industrial loans and auto lending, while the volume of commercial real estate loans resumed strong growth. A strong rise in credit card volumes during the reporting period is mostly seasonal in nature — a year-over-year comparison shows modest to moderate growth.

Banking contacts continued to worry about a lending environment that has led some of their competitors to take on riskier loans. Meanwhile, credit quality continued to improve for consumers and is generally positive for most commercial borrowers. While contacts signaled some rising wage pressures, most continued to report few signs of general price inflation and remained optimistic for continued slow, steady growth through year-end.

Real Estate and Construction. Homebuilders have reported that economic activity rose at the same slight pace as during the previous period and that their outlook for the year continued to be for more of the same. Some New Jersey builders may experience a brief lull in construction activity as plans are redesigned to accommodate new building codes. Builders noted few cost increases except for some manufactured inputs, such as concrete. One builder noted that the company's subcontractors have finally begun to expand capacity but have difficulty finding skilled labor.

Brokers in the major Third District housing markets reported continued modest year-over-year sales growth. A major Philadelphia-area broker expected ongoing modest growth but noted that low inventories remained a constraint, especially for moderately priced homes. Overall, home prices remained mixed — rising and falling across markets and price categories.

Nonresidential real estate contacts, predominately in the Greater Philadelphia area, reported little change in the ongoing modest gains in construction activity and in leasing activity. A developer noted that office projects have been in greater demand for over a year, while industrial/warehouse buildings have remained strong for many years. One contact indicated that existing tenants have been opting to expand at an increased rate; another noted that demand for relocation to downtown space has grown from outside firms.

Services. Third District service-sector firms reported no significant change in their own modest pace of activity. Contacts noted small net overall gains in the pace of sales and new orders with the gains occurring in the latter half of the period. The pace of employment also improved. One large national service-sector firm described the economy as “disappointingly stable.” Other contacts tended to agree with the general sentiment; however, some took more of a glass-half-full perspective. An industry analyst relayed reports of a softer market for truck freight, although numerous factors obscure the contribution from the underlying economic growth. Reports from staffing firms reflected continued moderate growth, faster decision-making by firms, and more competition. Tourism contacts generally indicated modest growth — one shore contact indicated strong traffic despite colder wetter weather compared with last year. Atlantic City casino revenues rose slightly compared with the prior year — marking two consecutive periods of gains. Expectations for future growth in services remained about the same as the prior Beige Book period — with over 90 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. About 65 percent of all contacts reported no significant change in the prices they pay nor in the prices received for their goods and services — a somewhat lower percentage than last period. Of the firms that indicated a change, more indicated price increases than decreases except for prices received by nonmanufacturers, who tended to report declines. Overall, contacts are beginning to report more signs of modest wage pressure — some firms have experienced greater turnover or raised their own starting wages, while staffing contacts reported shifting their rate structure upward and receiving more push-back from recruits on salary offers.

Over the next four quarters, nonmanufacturing firms expect their own compensation costs per employee (wages plus benefits) to rise 2.5 percent; manufacturing firms expect a 3.0 percent increase. Firms also reported expectations of 2 percent annual inflation for consumers and 2 percent increases in prices received for their own goods and services.

FOURTH DISTRICT – CLEVELAND

Aggregate business activity in the Fourth District grew at a modest pace since our last report. Manufacturing output increased on balance, albeit at a slow rate. The housing market improved, with higher unit sales and higher prices. Nonresidential contractors reported that construction pipelines are strong and backlogs continue to grow. Retailers experienced disappointing sales during March and into April. Motor vehicle sales moved slightly higher. Commercial and retail credit conditions expanded slowly. Oil and gas exploration remains depressed, while investment in pipeline projects moved forward. Freight volume trended lower.

Payrolls were little changed on balance during the past six weeks. Job increases in construction and banking were offset by losses in manufacturing and freight hauling. Wage pressure was most evident in high-skilled jobs across industries and in the retail sector. Staffing firms noted little change in the number of job openings and placements. Temporary job openings are reportedly increasing. Other than small increases for select steel and petroleum-based products, input and finished-goods prices were steady.

Manufacturing. Reports indicated a modest increase in manufacturing output on net. Activity for suppliers to the motor vehicle, aerospace, commercial construction, and housing industries remains elevated. A moderation in the appreciation of the US dollar was cited as contributing to an uptick in demand. Key factors tempering output growth include a depressed energy sector and slow growth in business fixed investment. Contacts also noted that uncertainty about the general economy motivated producers and their customers to keep inventories at low levels. Year-to-date production through April at District auto assembly plants declined 1.4 percent when compared to that of the same time period during 2015. Although little change in demand was cited, steel producers were encouraged by an increase in domestic steel prices since the beginning of the year and a slight downturn in imports. One steel executive reported that his capacity utilization rate rose 7 percentage points since the start of the year. The outlook, according to our contacts, continues to improve. Sentiment weighs toward an expansion in the coming months.

A modest increase in capital budgets was reported over the period. While allocations are primarily for new equipment and maintenance, a growing number of contacts cite increased spending for R&D and footprint expansion. The latter was attributed to asset purchases from energy and steel firms that are downsizing. On balance, raw-material prices drifted higher over the period, a circumstance which was primarily attributed to higher steel prices. That said, reports indicated declining prices for other commodities—agricultural and metals. Finished-goods prices moved slightly higher in response to rising input costs. Manufacturing payrolls continued to shrink across job categories. Firms cutting employment cited a need to reduce costs because of weakened demand. A few manufacturers noted merit increases of 3 percent to 4 percent. Otherwise, wages held steady.

Real Estate and Construction. Year-to-date sales through March of new and existing single-family homes increased by more than 8 percent compared to those of a year earlier. The

average sales price increased 3 percent. Builders and real estate agents attributed robust sales to low interest rates and an improvement in consumer confidence. Low inventories of existing homes are contributing to rising prices and are providing the impetus for potential buyers to consider building a home. Estimates of single-family construction starts rose moderately over the period. New-home contracts remain concentrated in the move-up price point categories, though reports indicated rising activity across lower price points. New-home list prices held steady over the period. Homebuilders and real estate agents expect stability or further improvement in housing markets during the upcoming months.

Nonresidential contractors said that business conditions remain favorable. They reported an increase in the number of publicly funded and industrial projects. The former was attributed to last December's passage of the congressional five-year highway bill. One builder noted that he has seen a significant increase in demand for spec-industrial construction. General contractors continue to increase their billing rates, with little pushback, in order to boost margins and cover higher labor costs. In general, construction project pipelines are strong, and backlogs continue to build. Survey respondents expect revenues for all of 2016 to be on par with or higher than those of a year ago.

General contractors reported little change in building materials prices apart from small increases for steel and petroleum-based products. Construction payrolls continued to expand, but the pace of growth has slowed over the period. Although new positions are being created, a majority of new hires are for replacement or seasonal help. The industry continues to experience wage pressure, especially for attracting and retaining high-skilled, high-performing employees. 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, many subcontractors are increasing their rates.

Consumer Spending. Retailers reported disappointing same-store sales during the post-Easter period when compared to that of the same time period a year ago. Apparel was soft apart from activewear, and reports on home furnishings were mixed. The only segment reporting strong activity was restaurants. Contacts said that market conditions are very competitive at this time as consumer shopping preferences continue to shift from brick-and-mortar locations to Internet and mobile services. Consolidation continues to be prevalent across the retail sector. Within commercial centers, small local businesses are either becoming part of a franchise or exiting the market. Little change in retail conditions is expected in the upcoming months. Vendor and shelf prices were fairly stable. Apparel retailers are pushing back on their suppliers for cost reductions as a means of stemming margin declines. Changes in staffing were limited to store openings and closings. There are growing concerns about the implications of minimum wage increases on retailers' ability to staff stores.

Year-to-date sales through April of new motor vehicles rose 1 percent District-wide compared to those of a year ago. Purchases of light trucks and SUVs continue to dominate the market. For luxury brands, weakening demand that began early in 2016 continued into April.

Although new-vehicle sales are expected to remain stable at high levels this year, dealers reported that fleet sales are rising, while retail transactions have flat lined or declined. Transaction prices were stable during the past couple of months, and leasing remains very popular. Dealer payrolls increased along seasonal trends.

Banking. Reports showed a modest expansion in business and consumer credit conditions, on net, over the period. On the commercial side, CRE, multifamily CRE, and C&I lending increased. Banks experiencing a decline in credit demand noted that uncertainty about the economy is driving down business investment in plant expansion and equipment. Demand from the energy sector was particularly weak. In retail banking, reports indicated that consumers are becoming more confident. Bankers saw a strong seasonal pickup in mortgage activity and higher demand for auto and credit card loans. Little change was reported in loan-application standards and delinquencies. Any improvement in delinquency rates was more prevalent on the consumer side. Core deposit balances in consumer, business, and public fund accounts increased over the period. Capital budgets expanded slightly. Spending was primarily for technology, including cyber-security, mobile, and regulatory compliance applications and for maintenance projects. Payrolls showed a moderate increase. Newly created jobs are mainly in commercial lending, regulatory compliance, cyber-security, and IT. In order to retain employees in these competitive job categories, above-average salary increases are being awarded on a more frequent basis.

Energy. The number of rigs operating in Marcellus and Utica Shales was little changed over this reporting period after declining precipitously over the past year. Nonetheless, the number of producing wells and regional natural gas output remain at historic highs. Demand for natural gas is rising as gas displaces coal as the fuel of choice. Investment in pipeline projects moved forward. Some of our contacts believe that wellhead prices may have bottomed out and those prices may start to increase slowly during the fourth quarter. Little hiring is occurring in the oil and gas industry at this time, and wage increases are sluggish. Even if business conditions stabilize, or begin to improve, a quick turnaround in this labor situation is not anticipated.

Freight Transportation. Freight volume contracted over the period, as well as on a year-over-year basis. Our contacts primarily attributed this situation to a general slowdown in economic activity leading to higher inventories across supply chains. Demand from the energy sector was cited as being particularly weak. Segments experiencing strong volume were automotive and building materials. There were many reports of overcapacity in the system, and it is forcing some haulers to lower shipping rates and to reduce capital budgets, especially for equipment purchases. One contact noted that the number of active railroad cars declined 35 percent compared to that of a year ago. The outlook by contacts is becoming more cautious, and they expect little change in volume during the upcoming months. Freight payrolls drifted lower. A majority of contacts reported cutting jobs in select categories based on changes in service-level demand. Attracting qualified replacement drivers and maintenance technicians remains difficult.

FIFTH DISTRICT–RICHMOND

Overview. The Fifth District economy continued to expand in recent weeks. Manufacturing activity increased moderately for most firms. Retail sales growth was flat on balance since the previous report, while revenues continued to grow modestly at other services firms. Tourist activity picked up seasonally, with the increase about on par with a year ago. In banking, overall loan demand increased since the previous reporting period, particularly on the commercial side. Residential and commercial real estate transactions rose moderately. Farm activity picked up modestly. Natural gas extraction increased, while coal production was unchanged. In District labor markets, demand rose moderately on balance, accompanied by some upward wage pressure. According to our most recent surveys, employment increased modestly at manufacturing and non-retail services firms, while retail hiring was flat. Wage gains were evident across a broader array of manufacturing and service sector firms. Prices of both raw materials and finished goods accelerated slightly, but increases remained generally modest. Additionally, retail and non-retail prices rose slightly faster than in the prior period, but the pace of price increases remained moderate.

Manufacturing. Manufacturing activity increased on balance since the previous report. Most firms reported solid growth in both shipments and the volume of new orders, and producers reported positive expectations for the six months ahead. A West Virginia manufacturer of industrial safety and hazardous material handling products said that new orders increased and production continued at a brisk pace, while a lumber company in West Virginia reported improvement in the market for higher grade lumber used for cabinets and floors. A composite materials manufacturer in South Carolina reported very strong demand and added that output firmed in the past six weeks as sales of new lightweight aircraft engines increased. In Virginia, manufacturers of engine components, furniture, and seasonal products all reported increased sales. Machinery and metal manufacturers in North Carolina indicated that new orders had risen, although backlogs were flat. In contrast, producers of chemicals (petrochemicals, industrial, and printing and ink) and manufacturers of computer and electronic equipment stated that new orders declined in recent weeks. According to our most recent survey, prices of both raw materials and finished goods rose at a slightly faster, but generally modest, pace.

Ports. Port activity varied. Automobile exports rose at two District ports, and auto imports were also strong at one of them. Container imports of consumer goods such as flooring, furniture, apparel, food, and beverages were strong. Container exports of forest products such as logs, waste paper, and pulp increased. However, exports of industrial machinery and auto parts declined. According to port officials, exports of construction equipment have been held down by weak global demand, and the outlook is for continued slow growth. Additionally, imports of agricultural equipment remained soft as low commodity

prices reduced farmers' demand for new equipment. The opening of the third set of locks through the Panama Canal has been announced for June of 2016, and officials stated that at least several months would pass before the effects of the additional capacity become clear.

Retail. Retail sales were flat since the previous report, and big-ticket sales declined. An executive at a West Virginia department store complained of online competition and the economic “domino effect” of coal mine closures, but then said that his business was good on balance. A source at a large pharmacy reported faster sales growth. A building supply retailer and an executive with a chain of convenience stores both said sales were unchanged in recent weeks. However, a big-box building supply retailer and a plumbing supply chain reported slower big-ticket sales. Sales of specialty auto parts also declined, according to another executive. Automobile and light truck sales remained fairly strong but have started to slow, according to dealers and an industry expert, while motorcycle sales were sluggish. Retail prices rose slightly faster, although increases were moderate overall.

Services. Services firms reported continued modest revenue growth in recent weeks. An executive at a national trucking firm located in the District said business was uneven, but quotes had increased for dedicated service contracts in which trucks, trailers, and rates are locked in. Regional airports reported flat to slightly stronger revenue growth in passenger and cargo. A Maryland roofing and exterior remodeler said sales were up and he was optimistic about 2016. A healthcare organization executive reported that demand for services had stabilized at normal levels following a spike in flu and norovirus illnesses in March and April, while an executive at another healthcare organization said demand remained at high levels. Price increases remained contained, rising moderately since our previous report.

Tourism strengthened seasonally in recent weeks, with reports that bookings for the Memorial Day weekend were at about the same level as a year ago. Newly built homes and rentals on the outer banks of North Carolina are expected to bring more visitors and year-round residents, according to a tourism executive. In western North Carolina, an hotelier reported a good start to the early summer season, with strong convention bookings. A Virginia Beach hotel executive said the hotel's bookings were up in recent weeks, as was the average length of stay, with group bookings expected to be good through the end of the year. A Virginia resort manager reported an increase in online bookings, and a West Virginia sports and adventure executive said revenues were up. Most reports indicated that room and rental rates were flat over this reporting period.

Finance. Since our previous report, overall loan demand rose moderately. Residential mortgage lending increased modestly, but varied throughout the District. Bankers in North Carolina, South Carolina, and Virginia reported a pickup in residential mortgage demand. In Washington and West Virginia, loan demand was characterized as stable with some localized improvements where pent-up demand and increased inventories lifted market conditions. A banker in Maryland noted an increase in lending for home remodeling. The demand for commercial loans rose more broadly. Commercial real

estate demand strengthened around Baltimore and the greater Washington metro area. Merger and acquisition activity also picked up in Washington and in Virginia as well. Commercial loan demand remained strong in North and South Carolina, with some new real estate development activity; however, one banker reported that hotel development may have peaked. The highly competitive lending environment continued, with a banker commenting that there is still a lot of cash on the sidelines. Interest rates were widely reported as unchanged or slightly higher. Credit standards for new loans loosened slightly while backward-looking credit quality measures improved somewhat.

Real Estate. Residential real estate activity grew moderately since the previous report. District real estate agents continued to report low levels of inventories, with bidding wars in a couple of locations. Days on the market varied across price range and region. A real estate agent in North Carolina said demand was steady in the \$200,000 price range, although he noted softer demand for homes above the \$500,000 price point. A residential broker in Washington reported a strong \$900,000-plus market, with increased listings and multiple offers. Residential construction reports were mixed, with contacts noting strong demand in Columbia, South Carolina and a tight single family market in Charleston, but softness in Greensboro, North Carolina and Richmond. Multi-family leasing remained strong across the District.

On the commercial side, leasing activity increased moderately overall. A commercial real estate development company in Richmond reported a very active market for retail and grocery stores. In Washington, a contact noted that limited available office space for rent was pulling vacancy rates down. A broker in Charleston, South Carolina reported robust commercial leasing and indicated that supply was limited across all leasing categories. Additionally, Charleston sources noted strong demand for industrial space and announcements of projects to accommodate new auto suppliers coming to the region. Virginia Beach leasing activity picked up, particularly in the retail sector, while commercial leasing in surrounding areas was sluggish. Rental rates and vacancy rates varied across submarkets and locales. With respect to commercial construction, increased activity was reported in Charleston, South Carolina, Charlotte, Richmond, Washington and Baltimore.

Agriculture and Natural Resources. Agricultural activity increased modestly since our previous Beige Book report, according to sources. Cotton, corn, and peanut planting are underway. However, a few Virginia and North Carolina farmers reported delayed planting and harvesting of some crops because of a protracted period of rain. South Carolina planters continued to report more labor-intensive field preparation work because of last year's flooding. According to agribusiness contacts, input prices remained unchanged in recent weeks while crop prices and beef prices declined slightly.

Natural gas extraction increased since the previous report, while coal production was unchanged. Prices of natural gas edged up slightly in the past month, and coal prices remained at low levels.

Labor. On balance, the demand for labor rose moderately since our previous report. A staffing agent in Maryland indicated an increase in demand for almost every occupation with the exception of

entry-level office jobs like customer service and clerical positions. A job matching firm stated that new job openings were outpacing new job seekers on their site. Throughout the District, contacts noted continued recruitment difficulties, even for entry-level production workers. Challenges were reported in finding engineers, nurses, medical technicians, machinists, industrial production workers, architects, sales and marketing professionals, farm hands, and construction workers. According to our most recent surveys, employment increased modestly at manufacturing and non-retail services firms, while retail hiring was flat. Reports of upward wage pressures increased modestly in recent weeks. A western North Carolina executive reported substantial upward wage pressure in the hospitality industry as restaurants, hotels, and health care employers compete for many of the same people. In Maryland, a temporary employment agent said his firm was successful in getting wage increases in most job categories, particularly for entry-level positions. More manufacturing firms reported increasing wages than in the prior period, and the average workweek lengthened for manufacturers, according to our surveys. Fewer services providers reported wage increases in recent weeks.

SIXTH DISTRICT – ATLANTA

Sixth District business contacts reported economic activity continued at a modest pace from April through mid-May. The outlook among contacts remains optimistic with most firms expecting growth to be higher than current rates over the next three to six months.

District merchants reported modest sales growth over the reporting period. Auto sales declined slightly from last year's high level. The tourism sector continued to experience solid activity. According to residential real estate contacts, new and existing home sales were flat to slightly up, inventories were down, and home prices modestly appreciated compared with a year ago. Commercial real estate contacts noted demand continued to improve. While overall nonresidential construction increased from a year ago, multifamily construction showed some signs of slowing. Manufacturing purchasing managers cited increases in new orders and production. Banking contacts indicated that there was ample credit available to qualified borrowers. District firms continued to report difficulties filling a range of positions. Wage pressures remained modest and non-labor input cost pressures were subdued.

Consumer Spending and Tourism. On balance, District retailers continued to experience modest sales growth from April through mid-May. Merchants reported a decline in sales activity from international shoppers compared with a year ago, and contacts indicated that they were being cautious in how they manage inventory levels. Auto dealers noted sales of light trucks and larger vehicles had softened slightly from previously high levels. The outlook among District merchants remains generally optimistic.

Hospitality contacts continued to report positive activity. Contacts in Georgia and Florida reported an increase in the number of visitors, while Louisiana reported some softening compared with a year ago. Year-to-date Mississippi casino gaming revenues increased compared with the same time period last year. The outlook remains optimistic, with contacts reporting healthy advanced bookings through the summer season.

Real Estate and Construction. District residential real estate contacts continued to report improving conditions since the previous report. Most builders indicated that construction activity was up from the year-ago level. The majority of builders and brokers said home sales were flat to slightly up relative to one year earlier. Most builders indicated that buyer traffic was up from the previous year's level, while broker reports were mixed. The majority of builders and brokers reported that inventory levels were down from the year earlier level. They also continued to note modest gains in home prices. The majority of contacts anticipate sales heading

into the spring and summer selling season to be comparable or slightly higher than the year-ago level. The majority of builders expect construction activity to increase slightly over the next three months.

Commercial real estate contacts continued to report 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. Most 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. Amid ongoing concern regarding the overbuilding of apartments, reports from District multifamily contacts suggested that there has been some pullback in the pace of construction. Looking forward, most commercial real estate contacts expect the pace of nonresidential construction activity to increase slightly over the next quarter. However, expectations for the pace of multifamily construction activity are mixed, with roughly half of contacts responding that the pace over the next quarter will be flat or down, while the other half report that the pace will continue to increase.

Manufacturing and Transportation. Manufacturing contacts across the region indicated that activity remained relatively strong from April through mid-May. New orders and production levels were reported to have increased from the previous report. Payroll levels also continued to increase, while supplier delivery times were longer than in the previous report. Finished inventory levels were relatively unchanged, and input prices were reported to be rising. Expectations for future production rose from the previous reporting period, with almost half of the businesses surveyed anticipating an increase in production levels.

District transportation contacts continued to report varying levels of activity during the reporting period. Ports cited strong growth in containerized, bulk, and break-bulk cargo. Railroad contacts reported that total traffic, as compared with a year ago, was down significantly due to continued substantial declines in the shipment of farm products, petroleum, and coal. Trucking activity slowed since the last report; however, contacts noted an uptick in freight in early May. Most contacts anticipate higher levels of activity over the course of the year.

Banking and Finance. District bankers indicated that credit with attractive terms remained available for qualified borrowers. Credit quality remained good and loan pipelines were healthy. Contacts reported strong loan demand and increased loan portfolios except in areas dependent on the energy sector. Businesses and consumers continued to pay down debt

and some institutions were aggressive and used low interest rates to increase loan volume. Banking contacts are optimistic about the outlook for the rest of the year.

Employment and Prices. District firms seeking employees for high-demand fields, such as information technology, healthcare, engineering, and construction continued to experience difficulty filling jobs. Business contacts also indicated that low-skill positions were becoming more difficult to fill. Layoffs continued in the oil and gas (O&G) industry, as well as other industries and areas with O&G business dealings. Contacts in parts of the District reported that these layoffs had loosened some of the local labor markets.

Many contacts across the District continued to report only modest wage pressure from April through mid-May. However, there were some reports of rising starting pay for low-skill and entry-level positions and ongoing upward wage pressure for some high-skill, low-supply positions. There were also several reports of significant wage increases in construction and skilled manufacturing. Businesses continued to report that lower input costs were supporting margins, though fewer contacts than the previous report expect a continued decline in input costs. According to the Business Inflation Expectations (BIE) survey, year-over-year unit costs were up 1.5 percent. Looking ahead, survey respondents indicate they expect unit costs to rise 1.9 percent over the next twelve months.

Natural Resources and Agriculture. The District's oil and gas sectors continued to cut capital spending budgets, reduce workforces, restructure loans, and renegotiate contracts to rebalance cash flow and expenses. Capital investment in petrochemical industrial manufacturing continued on an upward trend across the region with new facilities and expansions being fueled by low natural gas prices. Many exploration and production companies continued to sell off their upstream and midstream assets to infuse cash to service debt. Utilities in the industrial sector showed some weakness resulting from the oversupplied global market.

Agricultural conditions across the District were mixed. While most of the region remained drought free, abnormally dry to moderate drought conditions were reported in parts of Florida, Georgia, Tennessee, and Alabama. Contacts continued to focus on efficient production and controlling input costs to optimize income in a low commodity price environment. However, low feed prices benefited protein producers relying on grain for feed. On a year-over-year basis, monthly prices paid to farmers for corn, cotton, rice, soybeans, beef, broilers, and eggs declined, although on a month over month basis prices increased for soybeans, beef, and broilers.

SEVENTH DISTRICT—CHICAGO

Summary. Growth in economic activity in the Seventh District slowed to a modest pace in April and early May, tempering contacts' optimism about growth over the next 6 to 12 months. Business spending and manufacturing production grew at a modest pace, while consumer spending grew at a moderate pace. Construction and real estate activity edged up and financial conditions improved marginally. Price and wage pressures tightened some, but remained mild overall. Corn and soybean prices rose, improving farmers' earnings prospects.

Consumer spending. Growth in consumer spending picked up to a moderate pace over the reporting period. Contacts in Michigan indicated that sales were the best they had seen in over a year. Retailers reported stronger sales in the apparel, lawn and garden, furniture, and hospitality sectors, and weaker sales in the jewelry, toys, and electronics sectors. Sales of new and used light vehicles remained robust and strengthened further in recent weeks, helped by more generous incentives. Leasing activity was especially strong. Average overall transaction prices moved higher as the vehicle mix continued to shift toward larger, more expensive vehicles, and because of greater demand for high-tech options.

Business spending. Growth in business spending slowed to a modest pace in April and early May. Retail inventories were generally at desirable levels, with many contacts reporting boosting stocks in anticipation of strong summer sales. Used car inventories were low, despite a large number of vehicles coming off leases. Manufacturing inventories also were generally at desirable levels, though steel service center inventories were slightly lower than normal. The pace of current capital expenditures slowed to a more modest rate as did expectations for future spending. Outlays were primarily for replacing IT and industrial equipment. There continued to be reports of capacity expansion, though there was no increase in the number of such reports. The pace of hiring also slowed to a more modest rate, as did expectations for the future hiring. That said, many contacts indicated that the labor market continues to tighten. Demand continued to be strongest for skilled workers, particularly for many professional and technical occupations, sales, and skilled manufacturing and building trades. Staffing firms again reported flat growth in billable hours and difficulty filling orders at the wages employers are willing to pay. In contrast, an online recruiting firm reported healthy growth in customers. Demand for electricity and transportation services was little changed.

Construction and real estate. Construction and real estate activity edged up over the reporting period. Residential construction rose slightly, with growth concentrated in the single-family and suburban markets. Home sales increased across most locations and markets, most notably in urban areas and in the market for existing homes. Sales were particularly strong for homes under \$250,000. Residential rents and home prices rose moderately, though one contact reported that an increase in supply held prices flat for homes over \$500,000. Demand for nonresidential construction was little changed overall, but one contact did note an increase in industrial construction. Commercial real estate activity rose modestly, with contacts reporting gains in both the for-sale and for-lease markets, particularly in urban areas. Activity was distributed across segments, but was particularly strong for retail. Rents edged up, vacancy rates decreased somewhat, and the availability of sublease space was little changed.

Manufacturing. Growth in manufacturing production slowed to a modest pace in April and early May. Activity remained strong in autos and aerospace, but was weaker in most other industries. Growth in steel demand picked up as service centers began investing in inventories again after a year and a half of trying to pare back stocks. Specialty metals manufacturers reported little change in new orders on balance, with increases in demand from autos and aerospace but declines in orders from the oil and gas industry. Heavy machinery manufacturers reported weak growth overall, with poor results in the rental and petroleum segments offsetting stronger demand from construction. A heavy trucks manufacturer reported declining orders. Manufacturers of construction materials continued to indicate slow but steady increases in sales (in line with the improvements in the housing market), while manufacturers of display and stocking equipment for retailers reported little change in demand on balance.

Banking and finance. On balance, financial conditions improved marginally over the reporting period. Financial markets participants noted that market volatility decreased, high yield debt issuance rebounded, and upgrades outpaced downgrades for credit ratings of U.S. public financial firms. Business loan demand was little changed on balance. Contacts continued to highlight strength in commercial real estate lending, particularly in the office and healthcare segments. In addition, one contact reported a slight increase in utilization of working capital lines of credit. Loan pricing remains competitive. Contacts reported that deposit growth is outpacing loan demand growth, putting pressure on margins. Consumer loan demand was also little changed across all types of loans, with one contact characterizing conditions as “very calm.” Contacts again reported an increase in the length of auto loans. Consumer credit quality was steady.

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Prices/costs. Cost pressures again tightened some in April and early May, but remained mild overall. Most energy and metals prices increased (steel in particular), but the level remained low. Retail prices increased slightly, while firms upstream reported little change in prices on balance. Wage pressures picked up some, but contacts were more likely to report higher wages for select jobs than across-the-board increases. Growth in non-wage labor costs was steady.

Agriculture. Contacts expect the growing season to get off to a decent start in most of the District, even though wet, cool weather meant that both the planting and emergence of corn and soybeans were behind the pace of last spring. Corn and soybean prices rose during the reporting period, but soybean prices rose more, which may cause farmers to plant more soybeans at the expense of corn. At current prices, contacts believe that farms can cover this year's costs for soybean production but not for corn. Many farmers took advantage of the price rally and boosted their working capital by selling old crops and locking in prices on new crops. Milk and dairy product prices moved lower, as production remained strong. Cattle prices were down as well. Hog prices increased however, helped by solid demand from China, and there was one report of new construction of hog facilities.

EIGHTH DISTRICT—ST. LOUIS**Summary**

Economic conditions in the District have continued to improve at a modest pace since our previous report, with businesses generally holding a more optimistic outlook than a few months ago. General retailers reported slight increases in sales; auto dealers noted improving sales after mixed results over the past few months. Manufacturing firms reported modestly weaker activity. District residential real estate activity remains strong, and the commercial property market continues to improve. Banks report strong demand from both households and businesses.

Employment, Wages, and Prices

A survey of business contacts indicated that wage growth was strong, while employment and prices grew at a modest pace. On net, 50 percent of contacts reported wages during the past three months were slightly higher or higher than during the same time last year, and 20 percent reported employment and prices were also slightly higher or higher. Over two-thirds of hiring managers surveyed reported they are increasing wages and salaries by more than in the past few years to retain existing employees and attract new ones. Wage increases were mainly for those in the management, professional and technical, and sales occupations. Contacts having trouble filling job vacancies primarily cited few applicants or candidates lacking the necessary skills.

Consumer Spending

Retail growth has been modest since the previous reporting period. Most survey respondents reported no change or a slight increase in year-over-year sales and expect the same next quarter. The majority of contacts indicated that sales met expectations. Contacts from Louisville and eastern Arkansas noted favorable hotel occupancy rates in April relative to a year earlier.

Reports from auto dealers were mainly positive. Most auto dealers noted sales were in line with 2015 levels, and several Memphis used car dealers reported record sales for the month. Multiple dealers noted a shift in demand toward more high-end vehicles. Contacts continued to report the beneficial impact of low gasoline prices and low interest rates.

Manufacturing and Other Business Activity

Manufacturing activity has been modestly weaker since our previous report although the outlook has slightly improved. In a recent survey of manufacturers, a majority noted that production, capacity utilization, and new orders were either at the same level or at lower levels in the second quarter relative to a year ago. Reports from transportation equipment manufacturers were mixed, with several reports of expansions offset by a few facility closures. Manufacturers of mining equipment and related products reported that sales fell short of expectations. Conversely, several manufacturing companies reported capital expenditure and facility expansion plans in the District. The majority of manufacturing contacts expect third-quarter production, capacity utilization, and new orders to increase slightly relative one year ago.

Reports of plans in the District's service sector have been positive since the previous report. Most contacts reported that sales were either at the same level or higher than one year ago. Despite modest growth, a majority of contacts reported that sales fell short of expectations. Most contacts expect sales to improve in the third quarter.

Real Estate and Construction

Residential real estate activity remained strong in most of the District since the previous reporting period. Year-over-year April home sales increased by 29.3 percent in Little Rock, 4.9 percent in Louisville, 7.4 percent in Memphis, and 5.4 percent in St. Louis. Around 90 percent of real estate contacts noted that demand for single-family homes was slightly higher compared with the same time last year and that inventories were slightly lower. Residential construction activity continued to improve moderately. The

majority of real estate contacts reported an uptick in new residential construction relative to the same time last year, and many expect a similar increase next quarter.

Commercial real estate activity further improved. The majority contacts indicated that demand for commercial properties across all sectors was slightly higher compared with the same time last year while inventory levels have remained constant. These trends are expected to persist into the third quarter.

Commercial construction activity continued to strengthen modestly. Contacts continued to report strength in multifamily speculative building, while some also noted an uptick in the industrial sector.

Banking and Finance

A survey of District banks showed stable banking conditions across the District. Loan demand remains strong for mortgages and commercial and industrial loans, especially in the Louisville area. Since the beginning of 2016, respondents have reported consistent increases in loan demand for these categories. Loan demand for auto loans was unchanged, while demand for consumer loans was unchanged to slightly lower. Credit standards were unchanged for all loan categories, except for credit cards where they were somewhat tighter. Creditworthiness of business and household applicants was unchanged to somewhat improved.

Agriculture and Natural Resources

The District row crop outlook has slightly improved: Corn, cotton, rice, and soybeans were, as of early May, ahead of their respective five-year average levels of planting progress, and crop prices have risen from their lows. However, contacts note that, even with a near-perfect year in the field, most row crop operations will struggle to break even unless a crop price rebound is sustained and significant. District coal production continues to fall, with April production down nearly 40 percent relative to the same month last year and year-to-date production down 33 percent. With the coal extraction environment persistently worsening, contacts report that profits and profit forecasts are moving deeper into negative territory.

NINTH DISTRICT—MINNEAPOLIS

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

Consumer Spending and Tourism

Consumer spending was mixed. A mall manager in Minnesota reported that occupancy increased 5 percent from this time last year. Malls in the Minneapolis-St. Paul area and Sioux Falls, S.D., have both expanded and renovated some shops to account for growing demand. At the same time, a business supply products distributor closed a branch in Minnesota due to “changing customer purchasing habits.” A national high-end restaurant chain will open in Sioux Falls in late May, while a Minnesota-based restaurant chain reported its first decline in restaurant sales in six years. A home construction supply dealer closed in western North Dakota after three years due to the oil-related slowdown. A car dealership in central South Dakota reported that sales over the last quarter were up 60 percent since this time last year; used car sales have nearly doubled.

Tourism activity was mixed across the region. In northwestern Wisconsin, tourism spending was up more than 3 percent year over year. In the first three months of the year, tourism spending in Duluth, Minn., was up almost 8 percent from this time last year. An indoor-outdoor entertainment complex in Minneapolis-St. Paul was expanding to a second location within three years of opening its first complex. However, gaming revenue dropped in Deadwood, S.D., attributed to layoffs in coal mining and decreased agricultural income.

Construction and Real Estate

Commercial construction activity grew modestly since the last report. Nonresidential construction spending rose in Minnesota and Montana in March and April over the same period a year earlier but dropped in North and South Dakota, according to an industry report. A Minnesota trade union representative reported that its members were working record hours. Ground was broken on a \$40 million multi-use office building in Bismarck, N.D., and construction is underway for a \$70 million corporate office in western South Dakota. Residential construction overall rose modestly. Total residential units permitted in Minneapolis-St. Paul rose 2 percent in March and April over a year ago, with single-family permits increasing by 17 percent. In Rochester, Minn., single-family permits rose by more than 20 percent during this period, but they were flat in Fargo, N.D., and fell in Grand Forks, N.D.

Commercial real estate activity was modest since the last report. Office, industrial, and retail vacancy rates in Minneapolis-St. Paul either remained steady or dropped slightly, and first-quarter office and industrial rents rose less than 2 percent over a year earlier. More than 1 million square feet of space re-entered the Rochester market after a firm consolidated its offices. In western North Dakota, a source said some hotels had 25 percent occupancy rates with the regional slowdown in oil drilling. Residential real estate activity was moderate. Minnesota home sales in March and April rose almost 3 percent over a year earlier, with median prices rising almost 7 percent. Sales in St. Cloud, Minn., grew 20 percent, while sales in Minneapolis-St. Paul rose less than 2 percent, possibly held back by low home inventory. Home sales in District areas of Wisconsin over this period rose by about 6 percent. In the Flathead Valley region of Montana, March sales dropped by 9 percent but rebounded in April by 19 percent over a year earlier.

Services

The services sector grew modestly since the last report. A Minnesota telemedicine services company acquired a national software company, marking the fourth acquisition in the past 18 months. Due to increased demand, a Minneapolis-St. Paul information technology company experienced 75 percent growth in its contract business since this time last year. Brookings, S.D., recently opened a shared community workshop and creative space (referred to as Makerspace) and has 30 paying members.

Manufacturing

Manufacturing increased modestly since the last report. An April index of manufacturing conditions indicated expansion in South Dakota but contraction in Minnesota and North Dakota. In a separate survey of Minnesota manufacturers, 90 percent were optimistic for 2016. A producer of window and door components unveiled plans for a \$10 million plant in Sioux Falls, and two different food manufacturers in Minnesota announced separate \$100 million plant expansions. A custom contract manufacturer reported that orders from industrial customers were up since the beginning of the year, but demand from agricultural equipment producers remained weak.

Energy and Mining

Conditions in the energy sector weakened, while mining activity held steady at low levels. The number of active drilling rigs in the District continued to fall through mid-May, reaching its lowest level in more than 10 years. North Dakota daily oil production as of March was down 7 percent from a year earlier. In contrast, a large solar development was under way in South Dakota, a large wind farm development in Montana began a major transmission line upgrade, and a Minnesota wind farm announced an expansion. Mining activity was stable overall. An

idled Minnesota iron mine will resume production later this year. Meanwhile, an iron mine in Michigan that had been temporarily idled will close indefinitely. Production at a platinum-palladium mine in Montana was up more than 3 percent in the first quarter from a year earlier.

Agriculture

District agricultural conditions remained weak, despite favorable weather going into the growing season. Nearly all respondents to the Minneapolis Fed's first quarter survey of agricultural credit conditions reported that farm incomes were down from a year ago, and more than 80 percent expected them to fall further in the second quarter. Planting progress and early emergence for corn, soybeans, sugar beets, and small grains as of mid-May were well ahead of five-year averages in most of the District. Prices received by farmers fell in March from a year earlier for corn, wheat, soybeans, hay, hogs, cattle, chickens, eggs, and milk; prices increased for turkeys.

Employment, Wages, and Prices

Employment grew modestly since the last report, hampered by poor labor availability. An owner of staffing offices in Minnesota and Wisconsin said job orders were the same or better than a year ago, but "it's a battle every day to find workers." A Montana Job Service office had over 900 job openings, which was "close to our all-time high" in 2007, said an official. A food retailer was hiring over 50 workers to fill management-level positions in Minnesota. In May, more than 400 iron ore workers in northeastern Minnesota were called back to work, and an April job fair in Duluth, "had good turnout ... and anecdotes of employers hiring on the spot," said a local source. But job losses were also seen, including 110 after the closure of a Minneapolis-St. Paul hotel and several dozen at two idled Wisconsin frac sand mines. A North Dakota higher education institution was eliminating 138 positions due to budget cuts.

Wage pressure was moderate. A survey of District businesses in May found that most believed wages would increase between 2 percent and 3 percent in 2016. A bank with locations in North Dakota and Minnesota reported merit increases of 3 percent for 2016. Recent service union contracts at hospitals across Minnesota negotiated 2 percent annual wage increases, according to a representative. There was, however, some evidence of greater wage pressure. Thanks to higher state aid, wage increases of 10 percent or more were expected for South Dakota teachers in 2016. Price pressures remained low. Since March, average gas prices have risen, but more slowly in Minnesota and the Dakotas than the national average. A Minneapolis-St. Paul transportation services company reported that prices "have not increased in over 10 years." In South Dakota, college tuition and fees for in-state residents were frozen for next year. North Dakota municipalities reported that construction bids were coming in under budget, thanks to an increase in bidders due to a construction slowdown in oil country.

TENTH DISTRICT - KANSAS CITY

Economic activity in the Tenth District increased at a slightly slower pace compared with the previous survey, with mixed conditions across sectors. Consumer spending activity rose modestly and District real estate activity increased moderately in late April and May. Professional and high-tech firms reported moderate increases in activity, and bankers reported steady loan demand, stable deposit levels, and unchanged loan quality. On the other hand, energy activity continued to decline, and District manufacturing firms reported persistent modest declines in activity. Transportation and wholesale trade activity decreased considerably from the previous survey period, and agricultural credit conditions deteriorated further, with weak farm income and continued low commodity prices. Input and selling prices were mixed across sectors. Contacts in several industries reported a modest increase in wages, and workers in certain skilled occupations were in short supply.

Consumer Spending. Consumer spending increased modestly in late April and May, and expectations for future growth were mixed across sectors. Retail sales continued to grow moderately, but were slightly below year-ago levels. Several retailers noted an increase in sales for lower-priced items and spring outdoor products, while luxury products sold poorly. Contacts anticipated a modest slowdown in sales the next few months, and inventory levels were expected to rise moderately. 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 slowed considerably but were above year-ago levels, with contacts expecting slight improvements in the months ahead. District tourism activity improved sharply and was above year-ago levels. Tourism contacts expected some weakening in activity for the months ahead.

Manufacturing and Other Business Activity. Manufacturing activity continued to decline modestly in late April and May, while other business activity was varied. The continued decline in manufacturing was driven by both durable and nondurable goods factories, particularly for food, machinery, and plastics products. Factory activity remained weak in most District states. Production, shipments, and export orders fell modestly, and activity remained lower than the

previous year. Manufacturers' capital spending plans continued to decline but at a slower pace, and expectations for future activity improved moderately.

Outside of manufacturing, professional and high-tech firms reported a moderate increase in sales, with slight improvements expected in future months. Transportation and wholesale trade contacts noted considerable declines in activity, and many firms expected sales to slow further in the next three months. Professional and high-tech firms reported favorable capital spending plans, while transportation and wholesale trade contacts expected capital spending to remain mostly flat.

Real Estate and Construction. Real estate activity in the District increased moderately in late April and May, compared with both the previous survey and a year ago. Residential real estate sales and home prices were strongly above levels from the previous survey, and inventories were slightly higher. Sales of low- and medium-priced homes continued to outpace sales of higher-priced homes. Home sales and prices were expected to increase and inventories were expected to remain low in the months ahead. Contacts in construction supply noted an increase in housing starts, sales, prices and inventories, but traffic of potential buyers was down slightly over the same period last year. Commercial real estate activity increased slightly as absorption, completions, construction underway and prices increased, but sales edged down slightly. The commercial real estate sector was expected to expand at a slightly faster pace over the coming months.

Banking. Most bankers reported steady overall loan demand in late April and May. Respondents indicated steady demand for commercial and industrial, commercial real estate, agricultural, and consumer installment loans. A slight majority of bankers indicated increasing residential real estate loan demand. Most bankers reported loan quality as unchanged compared to a year ago and expected quality to remain essentially flat over the next six months. Credit standards remained largely unchanged in all major loan categories. Finally, a majority of respondents reported stable deposit levels.

Energy. District energy activity continued to decline moderately, and expectations for future activity remained subdued. Although oil prices picked up modestly since the last survey period, drilling activity continued to decrease and cash flows remained tight. Several District firms filed for bankruptcy in the past few months, but many expected to have enough liquidity to continue operations as normal throughout the process. Employment in the sector continued to decline at a

modest pace as more producers and services companies scaled back in an effort to reduce costs further. Activity in the District coal sector also contracted moderately with several large operators announcing layoffs affecting Wyoming mines.

Agriculture. Despite a moderate increase in soybean and hog prices in May, District contacts reported that most commodity prices remained below levels considered to be profitable, and generally at or below year-ago levels. Low commodity prices and low farm income weighed on credit conditions, and bankers reported further reductions in loan repayment rates and a significant increase in the number of farm borrowers with increased carry-over debt. District contacts expected demand for short-term financing to remain strong amid a relatively pessimistic outlook for farm income. Alongside low farm income, farmland values and cash rents also declined slightly from a year ago.

Wages and Prices. Across the District, input and selling price growth was mixed, while wages grew slightly since the previous survey period. Retail prices increased moderately and were expected to increase further in coming months. Input prices for restaurants declined, while menu prices were steady. Transportation input prices were steady, though their selling prices declined modestly. Transportation contacts expected future input prices to grow moderately, though selling prices were anticipated to stay flat. Construction prices continued to increase slightly with further increases expected. Manufacturing prices continued to decline modestly and were expected to decrease further in the near future. Contacts in several industries reported a slight increase in wages and expected a slight increase moving forward. Contacts reported a shortage of commercial drivers, various skilled technicians, and some entry-level workers.

ELEVENTH DISTRICT—DALLAS

Economic activity in the Eleventh District rose marginally over the past six weeks. Manufacturing activity ticked up and demand for nonfinancial services increased. Retail sales were mixed, with automobile sales remaining strong. Real estate activity continued to expand in most markets, while the energy sector contracted further. Loan demand growth slowed and agricultural conditions improved. Reports of employment changes and price pressures were mixed. Outlooks were generally positive but cautious.

Prices Price pressures were mixed over the reporting period. Input costs were flat to up, with some contacts noting sharp increases in steel prices. Selling prices were mostly flat to down in the manufacturing sector, although a few manufacturers reported modest increases. Auto dealers said pricing was competitive and their margins were being squeezed. Excess capacity in the rail, trucking and airline industries was exerting downward pressure on fees and prices, while professional and technical services firms reported higher prices.

Oil prices rose during the reporting period pushing up fuel and chemical prices and giving many contacts greater confidence that the market may have found a bottom. Natural gas prices were essentially flat.

Labor Market Employment reports varied across sectors. Hiring in manufacturing was mostly limited to replacing departing workers, while energy service firms continued to trim payrolls. Retail employment was flat, and one contact said they were cutting hours of store associates because of weak sales. There were reports of hiring in the service sector, with accounting firms noting ongoing labor shortages, and some leisure and hospitality firms planning to hire more seasonal workers than previously expected. Continued labor shortages for certain construction trades were noted as well.

Wage pressures were minimal. Energy service firms said compensation was steady to down for staff that have been retained. There were some reports of continued upward wage pressure for certain construction trades. While some staffing firms reported that clients were seeking low wages, they noted that candidates were not accepting the low offers.

Manufacturing The manufacturing sector grew slightly over the reporting period following weakness earlier in the year, but outlooks remained weak. Stable to slightly slower demand growth was reported in high-tech manufacturing, where contacts cited weakness in consumer electronics but strength in industrial equipment and auto-related electronics. Among construction-related manufacturers, demand was mixed over the reporting period and slightly down overall, year over year. Those noting weakness attributed it to wet weather and declines in construction activity in Houston. Fabricated metals and transportation equipment manufacturers saw an increase in new orders, but some cited continued

weakness in business tied to the energy sector. Primary metals producers said demand was flat to down. Declines in demand persisted in machinery manufacturing, particularly among those tied to the energy sector.

Refinery utilization rates and margins remained healthy, and refiners anticipate 2016 to be a good year but not as good as 2015. Gulf Coast chemical producers said margins were higher compared with the first quarter.

Retail Sales Retail sales rose in April but more recent reports were less positive. Department store sales continued to decline on a year-over-year basis, and non-department store retailers noted slowing sales growth. Contacts attributed this to continued weakness in energy-dependent regions, declines in spending by Mexican nationals along the border and sluggish apparel sales. Sales of home goods, housewares, footwear and cosmetics were strong. Overall inventories were in good shape. Outlooks for 2016 sales were revised downward.

Automobile sales held fairly steady at very high levels and were up slightly from year-ago levels. However, a few contacts noted that the contraction in the energy sector was affecting sales. Trucks and SUVs were outselling cars. Inventories were generally at desired levels, although one dealer mentioned they were a little short on trucks. Contacts expect good sales volumes in the upcoming quarter but for margins to remain under pressure. The outlook is for strong sales in 2016, down very slightly from record highs reached in 2015.

Nonfinancial Services Overall demand for nonfinancial services continued to expand over the past six weeks. Staffing services firms said demand remained strong in the Dallas area but weakened further in Houston. Overall, orders from the accounting, finance and healthcare sectors were solid. There were reports of increased demand for contract workers, which one firm attributed to clients being very selective in hiring permanent workers. Demand for professional and technical services increased. Consulting and legal firms said there was a lot of corporate restructuring work materializing in Houston, and an accounting firm reported solid demand, aside from a drop off in activity from energy-related industries. Leisure and hospitality contacts reported continued growth in demand in most major markets, but noted temporary dips in activity due to severe weather in some areas. Leisure and hospitality contacts were cautiously optimistic, with demand growth this summer expected to exceed last year's level.

Cargo volumes were mixed over the reporting period. Small parcel shipments rose, led by strength in e-commerce shipping, while there were broad-based declines in truck and rail cargo. Air and seaport cargo volumes were stable, as was airline passenger demand.

Construction and Real Estate Home sales rose during the reporting period. New home sales continued to be characterized as good in Austin and Dallas-Fort Worth, and steady to down in Houston. Sales of entry-level and first-move-up homes were strong in most markets. Home prices were flat to

slightly up, although there were reports of incentives and discounts being offered in Houston. Single-family housing starts rose markedly in Austin but fell in Houston in the first quarter, according to contacts. Apartment demand remained solid except for continued weakness in Houston, where rent concessions were being offered especially in submarkets with new Class A product in lease-up phase. Multifamily construction remained elevated but starts have slowed, particularly in Houston. Outlooks for the residential sector were positive except for Houston, where contacts expect further weakness this year.

Demand for office space was healthy in Austin and Dallas-Fort Worth, but deteriorated in Houston where sublease space continued to rise, putting pressure on office rents. Industrial leasing was generally active and vacancies were tight. In Houston, however, the picture was mixed as the market benefitted from ongoing petrochemical expansions and solid demand from retailers and third party logistics firms, but experienced an increase in industrial sublease space in the first quarter partly due to weakness in oil and gas-related manufacturing.

Financial Services Loan growth slowed over the past six weeks. Demand for business lending softened, particularly for commercial and industrial loans, and reports of weaker commercial real estate demand were concentrated largely in Houston. Consumer loan demand held steady. Auto loans expanded strongly, and lines of credit continued to grow, especially in North Texas. Residential real estate loan growth was mixed, again reflecting weakness in Houston and continued growth in Dallas and Austin. Credit standards related to energy loans were very tight. One contact noted capping the supply of loans secured by multifamily residential projects. Deposit growth was mixed, and net interest margins remained narrow. Outlooks were largely pessimistic, especially among banks focused on business lending.

Energy Demand for oilfield services remained depressed. Drilling continued to decline, with losses concentrated in oil-directed rigs. The financial positions of many firms, particularly smaller ones, remained weak. Some service firms were purchasing drilling or completion equipment at heavily discounted prices. Confidence continued to build that oil prices have found a bottom; however, firms want prices to remain at these levels for a while longer before making any changes to existing business plans. Outlooks remained somber for 2016, with little hope for growth before 2017.

Agriculture Favorable weather and good soil moisture improved production prospects for 2016 crops. Contacts noted that above-average yields, if materialized, would help offset some of the negative impact of low crop prices on farm income. Cattle prices declined sharply in April, partly a result of higher beef production, but recovered some of the loss in early May as retail beef demand increased in anticipation of the Memorial Day holiday. Milk prices plummeted from already-low levels over the past six weeks, putting further pressure on dairies' profit margins.

TWELFTH DISTRICT—SAN FRANCISCO**Summary**

Economic activity in the District grew at a moderate pace during the reporting period of early April through mid-May. Overall price inflation was modest, while wage pressures picked up. Sales of retail goods grew slightly, while activity in the consumer and business services sector expanded at a moderate pace. Demand for manufacturing products was largely flat. Activity in the agriculture sector expanded somewhat. Residential and commercial real estate market activity continued to expand at a robust pace. Lending activity grew moderately.

Prices and Wages

Overall price inflation was modest over the reporting period. Strong demand for building materials pushed up their prices and hence overall construction costs, particularly in large cities. Global supply shortages pushed up steel prices somewhat. Price changes varied for pharmaceutical products, with contacts reporting continued growth in the price of branded products and price declines for many generic drugs. Prices for electronic components were flat. In the retail grocery sector, growing competition due to expansion by online retailers held down price growth for most products. Contacts in the apparel industry reported significant price discounting.

Wage inflation picked up somewhat across the District. Contacts reported that minimum wage increases pushed up wages for low-skilled workers in various service sectors, with diminishing ripple effects up the pay scale. Firms in some states with typically lower labor costs reported that a recent influx of business investment has increased the demand for labor and pushed up wages in general. Rising demand for skilled labor boosted total compensation packages in the aerospace and defense sector. By contrast, wage increases in the semiconductor industry have remained modest. On balance, labor shortages in the construction sector increased wage pressures for skilled workers. One contact in the real estate development industry noted that upward wage pressures had moderated in the San Francisco Bay Area relative to earlier this year.

Retail Trade and Services

On balance, retail sales grew slightly over the reporting period. Food and beverage producers reported

a slight uptick in sales, and wholesale grocers noted that consumer demand for higher-priced premium products remained subdued. Sales of motor vehicles varied across the District: Contacts in major metropolitan areas reported continued moderate growth, while rural region sales slowed, in part due to insufficient inventories of light trucks. Demand for apparel products remained somewhat weak and inventories increased, causing concern that oversupply would hold down profitability in the coming months. Contacts reported that sales of gaming products strengthened despite slowdowns in a few foreign emerging markets.

Activity in the consumer and business services sector expanded at a moderate pace. Contacts reported that activity in the tourism industry strengthened as unusually ample late-season snowfalls boosted visits at ski resorts in parts of the District. Activity in the transportation sector picked up as next-day deliveries were propelled by strong e-commerce sales. Sales of cybersecurity and cloud computing services picked up further. Sales at restaurants slowed, driven in large part by a slowdown in same-store sales at quick service restaurants.

Manufacturing

Manufacturing activity was largely flat over the reporting period. Makers of pharmaceuticals reported tightening financial conditions and setbacks in the production of pipeline products, somewhat slowing activity in the sector. Orders of electronic components and computers were flat, keeping factory utilization rates below historical norms. Steel producers benefited from reduced overseas competition. More generally, however, contacts reported somewhat weak demand for other manufactured metals, as the favorable effects of lower input prices on production and profits only partially offset a lack of global competitiveness stemming from an elevated dollar. Manufacturers in the aerospace and defense industry reported that federal sequestration continued to constrain demand and production activity somewhat, although overall domestic and foreign demand for fighter jets remained strong. Contacts in the electric utility sector reported that demand from the manufacturing sector remained soft, but they expect some strengthening in the future as higher oil prices lead to increases in extraction and refining activity.

Agriculture and Resource-Related Industries

Activity in the agriculture sector expanded somewhat over the reporting period. Domestic demand

and sales continued to grow for a wide variety of crops. Contacts reported that an oversupply of potatoes from the 2015 harvest has created excess inventories and led some growers to switch acreage to wheat production. The strong dollar continued to hold down agricultural exports in general, although overseas sales of pork products registered further strong growth. Demand for poultry exports was robust as pent-up demand from last year's avian flu outbreak persisted and lower input prices helped exporters remain competitive globally. By contrast, activity in the cattle industry declined further, and feedlots faced challenges to remain profitable.

Real Estate and Construction

Real estate market activity grew at a robust pace across most of the District. Demand for residential real estate remained strong for both multifamily and single-family units. Growth in the construction of multifamily units continued to outpace that for single-family units. Contacts reported construction lead times of up to six months for multifamily projects in some urban areas constrained by shortages of skilled labor and building materials. Building permits for all types of residential construction picked up in most parts of the District. Demand for commercial real estate expanded further, most notably in urban areas with robust technology and health-care services industries. Contacts in states that have legalized sales of cannabis products noted a pickup in demand for retail storefront property.

Financial Institutions

Lending activity grew moderately over the reporting period. Demand for business loans increased in most areas, although small business lending remained weak in Southern California. Mortgage originations picked up, although one contact noted that institutional investors remained wary of securitized mortgages not backed by government guarantee. Deposit growth at banks was strong and most contacts reported ample liquidity. Credit quality improved across most asset classes, but a few contacts mentioned a tightening of underwriting standards, particularly for mortgages. Contacts reported that costs associated with increased regulation remained a barrier to profitability at smaller banks. Still, net margins improved across the industry, after having been low for some time.