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Summary of Commentary on _____

Current Economic Conditions

By Federal Reserve District

November 2016

**SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICT**

November 2016

TABLE OF CONTENTS

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

Summary*

Reports from the twelve Federal Reserve Districts indicate that the economy continued to expand across most regions from early October through mid-November. Activity in the Boston, Minneapolis, and San Francisco Districts grew at a moderate pace, while Atlanta, Chicago, St. Louis, and Dallas cited modest growth. Philadelphia, Cleveland, and Kansas City cited a slight pace of growth. Richmond characterized economic activity as mixed, and New York said activity has remained flat since the last report. Outlooks were mainly positive, with six Districts expecting moderate growth.

Demand for manufactured products was mixed during the current reporting period, with the strong dollar being cited as a headwind to more robust demand in a few Districts. Modest to moderate increases in capital investment are expected in several other Districts. Business service firms saw rising activity, especially for high-tech and information technology services. Reports from ground freight carriers were mixed, while port cargo increased. A majority of Districts reported higher retail sales, especially for apparel and furniture. New motor vehicle sales declined in most Districts, with a few Districts noting a shift in demand toward used vehicles. Tourism was mostly positive relative to year-ago levels. Residential real estate activity improved across most Districts. Single-family construction starts were higher in a majority of Districts, while multifamily construction reports were mixed. Activity in nonresidential real estate expanded in many Districts. Banking conditions were largely stable, with some improvement seen in loan demand. Farmers across reporting Districts were generally satisfied with this year's harvests. However, low commodity prices continue to weigh on farm income. Investment in oil and gas drilling increased slightly, while reports on coal production were mixed. A tightening in labor market conditions was reported by seven Districts, with modest employment growth on balance. Districts noted slight upward pressure on overall prices.

Manufacturing

Demand for manufactured products was mixed during the current reporting period. Boston, New York, Atlanta, Chicago, and St. Louis reported modest or moderate growth, while Richmond noted that factory activity declined. The remaining Districts said that production was mixed or grew slightly. Gains in activity among chemical firms were reported in Boston, Philadelphia, and Dallas. The auto industry was a source of strength in Cleveland, Richmond, Chicago, and St. Louis. Machinery manufacturing rose in Philadelphia, St. Louis, and Kansas City, but it declined in Chicago and Dallas. Aerospace-related

* Prepared at the Federal Reserve Bank of Cleveland based on information collected on or before November 18, 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.

manufacturers saw improving activity in Chicago, St. Louis, and Kansas City, while their counterparts in San Francisco saw orders decline. Philadelphia and Dallas noted weakening in fabricated metal products manufacturing, while producers in St. Louis are expanding capacity. The electronics industry expanded in Kansas City and San Francisco, while firms in Philadelphia noted weaker activity. The strong dollar remains a key concern for exporters in the Boston, Dallas, and San Francisco Districts. In contrast, Kansas City reported that export orders continued to expand. Modest to moderate increases in capital investment are expected in the Philadelphia, Richmond, St. Louis, Minneapolis, and Kansas City Districts, with several companies announcing facility expansion plans in St. Louis and Minneapolis. The overall outlook by manufacturers in New York, Philadelphia, Atlanta, St. Louis, Kansas, and Dallas is positive, with most expecting growth in new orders and production during the next several months.

Nonfinancial Services

Most Districts experienced growth in nonfinancial services since the previous reporting period. New York was an exception, with reports of flat to declining activity among service-sector firms. Nevertheless, New York service contacts remained positive about the near-term outlook. High-tech and information technology services expanded in Richmond, St. Louis, Kansas City, Dallas, and San Francisco. Most healthcare contacts anticipated future growth; however, San Francisco expressed concerns about potential changes to the Affordable Care Act.

Reports on transportation services were mixed. Kansas City reported a moderate decline in activity, while Atlanta reported little change and Dallas reported mixed cargo volumes. On the other hand, Cleveland, Richmond, St. Louis, and San Francisco experienced varying degrees of expansion. Atlanta and San Francisco noted continued strength in e-commerce shipments, while Cleveland contacts noted that Internet retailers are transitioning to on-demand delivery service providers for shipping as opposed to traditional ground carriers. Atlanta reported growth in port cargo shipments and a decline in trucking activity. Richmond noted stronger port traffic in recent weeks, and a national trucking firm in that District reported downward rate pressures because of excess capacity. Dallas noted steady truck and seaport cargo volumes.

Consumer Spending and Tourism

The Boston, Minneapolis, and San Francisco Districts reported that retail sales expanded at a moderate pace on balance. Retailers in New York, Chicago, St. Louis, and Kansas City reported that sales were mixed to slightly higher, while their counterparts in Philadelphia, Richmond, and Atlanta characterized sales as unchanged. Weakening sales were seen in Cleveland and Dallas. Apparel sales were doing well in Boston, Philadelphia, Minneapolis, and San Francisco, while contacts in Cleveland and Dallas suggested that the unusually warm weather may have hurt apparel sales. Boston, Cleveland,

and Chicago saw an increase in furniture purchases. Cleveland and San Francisco noted declining sales at brick-and-mortar stores, a situation which they attributed to a consumer shift toward online purchasing. Contacts in Cleveland and Atlanta noted that sellers have little control over product pricing. Retailers in Boston, Cleveland, Atlanta, and Kansas City expect modest positive sales growth during the rest of the year and remain optimistic for the holiday season. Dallas suggested that retail demand may not increase in the near term, driven partially by low sales in border cities because of the strong value of the dollar.

Motor vehicle sales declined slightly in most reporting Districts during the period. Kansas City saw sales decline well below year-earlier levels. In contrast, new vehicle sales in Chicago were characterized as strong, a circumstance which dealers attributed in part to aggressive incentives. Philadelphia indicated that light vehicle sales were plateauing at high levels, while Cleveland reported modest growth in motor vehicle sales but noted that this was driven by the used vehicle market. The New York and St. Louis Districts also noticed a shift in demand toward used vehicles. Richmond and St. Louis contacts suggested that softening vehicle sales might be attributed to uncertainty surrounding the presidential election, while contacts in Dallas point to energy-related weaknesses as a factor in the sales decline. Respondents in St. Louis and Kansas City expected a modest pickup in vehicle sales during the next several months, while contacts in Dallas were less confident for future growth.

Tourism was mostly positive relative to year-earlier levels: Boston, Minneapolis, and San Francisco experienced strong growth, while Philadelphia and Kansas City reported modest growth in activity. Respondents in Boston noticed continued strong international travel, although some contacts expressed uncertainty about the trend's continuing in 2017 if the dollar remains strong. New York reported that attendance at Broadway theaters slumped in October; however, revenues have increased and are on par with those of a year earlier.

Real Estate and Construction

Residential real estate activity improved across Districts. Reports about existing- and new-home sales were mixed, but most Districts noted a slight to modest increase during the period. Residential construction was up in the Cleveland, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, and Dallas Districts. Home prices grew in many Districts, including Boston, Philadelphia, Cleveland, Atlanta, St. Louis, Kansas City, and San Francisco. Philadelphia reported that the strength of the single-family market is in high-end housing. In contrast, Kansas City reported that sales of low- and medium-priced homes continued to outpace sales of higher-priced homes. Dallas reported that the sales of lower-priced homes remained solid. Home inventories were generally reported to be low or declining and restraining sales growth. Boston, Philadelphia, Cleveland, Richmond, and Minneapolis reported low or decreasing inventories. Reports on inventory levels varied in Atlanta, while inventories held steady in Kansas City.

Commercial construction activity moved higher in the New York, Cleveland, Richmond, Atlanta, St. Louis, Kansas City, and San Francisco Districts. In contrast, Minneapolis noted a slowing in commercial construction. The Boston, Richmond, Minneapolis, and San Francisco Districts reported increases in leasing activity, while Philadelphia noted a lull in nonresidential leasing growth compared with the prior period. Dallas reported leasing activity as mostly unchanged. Commercial sales activity continued to be robust in Minneapolis and grew modestly in Kansas City. Ongoing multifamily construction has been steady at a fairly high level in New York. Multifamily construction varied in the Atlanta District and slowed somewhat in Richmond, Minneapolis, and San Francisco.

Banking and Finance

District reports indicated that the demand for credit varied widely. On the commercial side, New York, Philadelphia, and St. Louis experienced strong demand for commercial and industrial loans, while C&I lending was slower in Dallas. Commercial real estate lending was strong in the New York, Philadelphia, and Cleveland Districts. In Atlanta, some small businesses had trouble obtaining credit, and St. Louis reported slightly lower credit worthiness for agricultural customers only. Residential mortgage activity was steady in New York and Kansas City; higher in Philadelphia, Richmond, Chicago, and Dallas; and strong in Cleveland and St. Louis. Auto lending was unchanged in St. Louis, up in Philadelphia and Dallas, and strong in Cleveland and Chicago. Credit quality was unchanged across most Districts, though improvements were seen in New York, Philadelphia, and Chicago. Credit standards tightened in select loan categories in the Boston, New York, and Philadelphia Districts, but they loosened slightly in Richmond, where contacts reported facing competition that used more aggressive loan structures.

Agriculture and Natural Resources

Although agricultural conditions varied widely, farmers across reporting Districts were generally satisfied with this year's harvests. However, low commodity prices continue to weigh on farm income. Atlanta, Chicago, Minneapolis, and Dallas reported strong yields of corn and soybeans. Cotton harvests were above year-ago levels in Atlanta, St. Louis, and Dallas. The Richmond District reported that the biggest impact on international trade was in the poultry industry, with the loss of four million to five million birds killed by Hurricane Matthew and related floods. San Francisco noted that the strong dollar continued to hold back exports of agricultural products, particularly apples and pears. Contacts in St. Louis, Minneapolis, Kansas City, and Dallas said that farm incomes are flat or lower compared to those of a year ago. There were scattered reports about issues surrounding loan repayment and crop financing for 2017.

The energy sector continued to improve slowly across many of the reporting Districts. Cleveland,

Minneapolis, Kansas City, and Dallas saw a slight increase in oil and gas drilling. Contacts in Dallas re-affirmed that oil and gas activity will pick up gradually in 2017. However, these expectations have moderated in light of recent revisions to the global oil demand and supply outlooks. An oversupply of crude oil and gasoline continued in the Atlanta District, a situation which perpetuated a high demand for inventory storage. Coal production increased slightly in the Cleveland and Richmond Districts, but declined in St. Louis. The Minneapolis District noted that shipments of iron ore on the Great Lakes in September were more than 5 percent below levels of a year earlier. Contacts in Minneapolis and Atlanta reported expansion of renewable energy projects, particularly solar and wind.

Employment, Wages, and Prices

Employment continued to expand during the period. The Richmond, Chicago, St. Louis, and San Francisco Districts all reported moderate increases, while Boston and Minneapolis saw employment rise at a modest pace. Overall, employment increased slightly in Philadelphia, was little changed in Cleveland, and held steady or increased in Dallas. Manufacturing employment reports were mixed, with four Districts reporting flat or declining payrolls and two Districts reporting increases in manufacturing employment. The Boston, Philadelphia, and Cleveland Districts noted increases in retail employment or hours, while the Richmond District noted decreases. Most Districts saw increases in staffing activity. Boston reported fairly strong activity, with most staffing firms' revenues increasing 10 percent to 25 percent year-over-year. Staffing firms in Cleveland attributed a modest decline in the number of job openings and placements to uncertainty stemming from the presidential election.

As in the past four *Beige Books*, wage growth was characterized generally as modest, on balance, by district contacts. The St. Louis, Minneapolis, and San Francisco Districts all reported moderate wage growth. Wage growth was modest in six of the twelve Districts: Boston, New York, Philadelphia, Atlanta, Kansas City, and Dallas. In the Richmond District, wages increased slightly. Cleveland reported that wage pressures were more evident for select occupations, while Dallas noted that wage pressures were more widespread. Seven districts—Boston, New York, Philadelphia, Atlanta, Chicago, St. Louis, and Dallas—noted that labor markets were tightening. Staffing services reported rising wages or difficulty filling positions without wage increases in a majority of the Districts.

Overall, there was slight price growth during the period. The Philadelphia, Chicago, St. Louis, and Minneapolis Districts reported modest price increases, while most of the remaining Districts reported slight or limited price increases. The retail and services sectors reported slight to modest price increases, while agricultural product prices have stabilized at low levels. Contacts in the Philadelphia, Cleveland, Atlanta, St. Louis, and Minneapolis Districts reported increases in the cost of building materials, and contacts in the Atlanta and Dallas Districts noted downward pressure on freight transportation prices.

FIRST DISTRICT – BOSTON

Most First District businesses contacted in early November reported ongoing moderate growth in sales or revenues. Retailers cited year-over-year sales results ranging from very small declines to mid-single-digit increases. Manufacturing respondents reported increased sales from a year ago. Staffing firms noted fairly strong year-over-year revenue increases in recent months. In commercial real estate, leasing activity was flat or up modestly in most First District markets. Residential real estate contacts continued to cite rising prices, but closed sales were up in some states and down in others. Most respondents indicated they were raising wages modestly to recruit and retain workers. Prices were said to have increased only slightly.

Retail and Tourism

Retail contacts consulted this round reported year-over-year sales results – both overall and on a same-store basis – through October and mid-November ranging from flat or very low single-digit decreases to increases in the mid-single digits. Prices remained flat or rose 1 percent to 2 percent. Respondents said they expect that the current fiscal year will end with modest positive sales growth and that this positive growth will continue in 2017. All categories of apparel, furniture, and home furnishings sold well. Contacted retailers said they plan to hire more workers, raise wages for some or all positions to attract new hires, and raise wages for some or all categories to retain existing workers. Two contacts noted that the need to pay higher wages would cut into their operating profits and one of them indicated that competitive pressures prevent them from raising retail prices in order to absorb higher labor costs.

A Boston-based tourism contact reported that their latest data (through September) showed continued strong business and leisure travel. Inbound air travel to Logan International Airport was up 6 percent year-over-year through 2016:Q3; international visitors were up 19 percent over the same period. The number of travelers from Asia increased 34 percent at least in part because of new airline service to Boston in 2016. Self-reported data indicate that one-third of this increase in visitors from Asia reflects business travel and two-thirds leisure travel. Occupancy rates in Boston-area hotels were flat in September, but average September room rates were up 5 percent from a year earlier, bringing the average room rate to a high not seen since 2012. Attendance at local area attractions and museums in September was up 6 percent year-over-year. Contacts expressed some uncertainty about whether the strong international travel numbers will continue in 2017, especially for leisure travelers, if the U.S. dollar remains strong against other major currencies.

Manufacturing and Related Services

All nine manufacturing respondents in this Beige Book round reported increased sales from a year earlier. A furniture manufacturer reported strong sales for the first time after several years in which the

long-term viability of the firm was in question. Three contacts said that the strong dollar and weak commodity prices have slowed sales; two of these indicated that the strong dollar had weakened sales in Europe. A manufacturer of specialty chemicals reports that his plants are running “24/7.”

There appears to be little upward pricing pressure right now. All contacts reported that prices were steady or down. A milk producer said that milk prices were down 10 or more percent versus a year ago.

Despite seeing stronger sales, only two contacts reported major hiring. One, a specialty chemical manufacturer, said that finding hourly workers was exceedingly difficult. This contact said that only one out of every three or four hourly hires works out; the problem is absenteeism, with many workers unable or unwilling to work five days in a row. Another respondent said that eight out of ten potential hourly hires either cannot pass a drug test or cannot pass a simple math test. Several of our contacts said they had trouble finding engineers. Two contacts reported lower headcount due to “attrition” or new systems.

One contact reported significant revisions to capital expenditure plans since we last talked 12 weeks ago; they said that they will more than double spending on new plant and equipment as a result of the successful introduction of a new product. The contact noted that the bar for investment is higher than before the recession: before the recession, an investment project needed to make sense even if sales fell 5 percent but now the rule is that it must make sense even if sales fall 25 percent.

Staffing Services

Business activity in the New England staffing services industry has been fairly strong in the past couple of months: year-over-year revenues increased between 10 percent and 25 percent for all but one responding firm. Labor demand continued to increase and labor supply continued to tighten in the fall. Legal, marketing, and medical assistant positions were particularly hard to fill. One contact cited the “often negligible” difference between public benefits that potential job candidates receive and earnings from a minimum wage job as a possible explanation of the tightening labor supply. Bill and pay rates have stayed flat or risen: most staffing firms are not getting pushback in response to increasing pay rates. One contact pointed out that his clients recognize that it has become more costly to recruit and secure qualified and experienced candidates. Most of the staffing firms plan to increase in size in 2017, citing the need for specific skills to grow the company, overworked staff, and expected increases in revenue. All firms plan to increase wages for their employees over the next year. Looking forward, staffing contacts were optimistic about how their companies will fare in the coming months; however, they recognize that the new administration introduces some uncertainty. Two contacts expressed optimism concerning the new political climate, predicting tax cuts.

Commercial Real Estate

Commercial leasing activity was flat or up modestly across the First District. In the Portland area, office leasing activity was flat at a slow-to-modest pace, but vacancy rates remained very low. Office

leasing was also flat in greater Hartford. However, Connecticut continued to see fairly robust activity in the industrial property market, including sales, construction, and leasing. In Rhode Island, commercial leasing activity was up modestly from the third quarter, the office vacancy rate was down significantly from a year earlier, and asking rents for office space were on the rise. A contact noted that despite these improved fundamentals, office rents in downtown Providence remain too low to justify new office construction. In Boston, office leasing volume was flat and one contact said the rate of growth of high-tech firms was slowing. However, Boston's office vacancy rate continued to decline slowly, thanks to the paucity of new construction in recent years. Contacts reported that lending terms for construction loans continued to tighten. While some investors reportedly are nervous that property prices in prime commercial real estate markets such as Boston are poised to decline moving forward, the most sought-after properties in the Boston area continued to trade at record prices.

The outlook among contacts was cautiously optimistic, on balance, and most agreed that it was too soon to predict the impact on commercial real estate markets of the incoming Trump administration. Nonetheless, contacts in Boston and Hartford expect tepid economic growth moving forward based on local conditions, and a Providence contact cited space constraints as a barrier to economic growth. All contacts expected borrowing costs for commercial real estate to increase and price appreciation to slow or turn negative as a result. However, contacts opined that investors' equity positions are strong enough to weather moderate price declines.

Residential Real Estate

As in recent months, residential real estate markets in the First District showed healthy buyer activity with increasing strains on inventory. Closed sales for single-family homes and condos were mixed, with moderate year-over-year increases in some states and moderate decreases in others (five of the six First District states as well as the Boston metro area reported year-over-year changes from September 2015 to September 2016; Maine reported changes from October 2015 to October 2016). Pending sales, however, were up across the board for single-family homes and mostly increasing for condos. A Boston contact noted that buyer demand was "remarkable" while a contact in Rhode Island called 2016 "a banner year for home sales." Despite the mixed results for closed sales, the increasing pending sales numbers indicate a positive outlook going forward. A Massachusetts contact said "buyers in October kept up this summer's momentum into the fall." As usual though, many contacts cited decreasing inventory as a drag on the market. Inventories decreased year-over-year in every reporting region for both single-family homes and condos. Contacts expressed concern that this trend is driving prices up and pricing out first-time home buyers.

Prices also were generally increasing year-over-year. Median sales prices for single-family homes increased in every reporting region. For condos, the same was true in all but two First District states.

Buoyed by strong buyer demand and shrinking inventories, prices remained at or near record levels in some areas. Several contacts again characterized the market as a “seller’s market,” given that sellers are able to price homes at their desired level and still have an abundance of buyers to choose from.

Overall, contacts seemed optimistic about the outlook. Many were wary of low inventory, but maintained that buyers seemed unfazed by the heavy competition and high prices. Several contacts cited low interest rates, low unemployment, and the stable economy as reasons for their optimism.

SECOND DISTRICT--NEW YORK

Economic activity in the Second District has remained flat since the last report, while labor markets have remained tight. Contacts continue to report little change in selling prices, as well as in price and wage pressures, though a rising number of service-sector contacts anticipate wage hikes in the months ahead. Manufacturers note a modest pickup in business activity, while service firms continue to report steady to softer activity. Both consumer spending and tourism have remained sluggish since the last report. Residential and commercial real estate markets have been mixed but steady overall. Residential construction has held steady, while office construction has picked up. Banks report strengthening loan demand, continued improvement in delinquency rates, and somewhat tighter credit standards on commercial borrowers.

Consumer Spending

Retail merchandise sales remained soft in October but showed some signs of picking up in early November. Two major retail chains report that sales in the region remained sluggish and below plan in October, though both note a modest pickup in the first half of November. Similarly, retailers in upstate New York note that sales were essentially flat in October but improved somewhat in early November. Prices throughout the district are reported to be steady to up slightly, while discounting has remained about the same. Inventories are described as being in good shape.

Auto dealers in upstate New York report that new vehicle sales have been steady to somewhat weaker in October and into early November, while sales of used vehicles were flat to up modestly. One contact attributes some of the recent weakness to manufacturers having scaled back incentives, noting that production has been scaled back. Inventories of new vehicles are reported to have risen moderately due to slowing sales activity. Retail and wholesale credit conditions remain favorable.

Tourism activity has been mostly steady since the last report. Attendance at Broadway theatres slumped in October and early November and was below comparable 2015 levels; however, revenues have increased and are on par with a year earlier, reflecting higher average ticket prices. After rising in September, consumer confidence in the Middle Atlantic states (NY, NJ, PA) retreated in October, though it remains at reasonably high level.

Construction and Real Estate

The District's housing markets have been mixed since the last report, with the high end continuing to underperform. New York City's rental market has been mostly steady, except at the high end, where the inventory has risen and rents have drifted down. Landlord concessions have grown increasingly prevalent, especially in Manhattan and Brooklyn. In contrast, rental markets in northern New Jersey and

across upstate New York have strengthened further: vacancy rates are at or near multi-year lows, while rents continue to climb and are up roughly 4 percent from a year earlier.

New York City's co-op and condo resale market has been mixed. In Manhattan, resale inventories have risen, while prices have declined at the high end of the market but remained steady for more moderately priced units; bidding wars have become noticeably less prevalent. Resale markets in Brooklyn and Queens have been more resilient: prices have continued to edge up, sales activity has been strong, and inventories have declined. Similarly, realtors in parts of upstate New York State report that the home resale market has remained robust; tight inventories have pushed up prices, and sales activity is described as fairly brisk for this time of year.

Commercial real estate markets have been mixed in recent weeks. Since the beginning of October, office availability rates have risen in Manhattan, Long Island, Westchester, and Fairfield counties, while they have held steady in northern New Jersey and across upstate New York. Industrial real estate markets, on the other hand, have strengthened throughout the District, with rents rising rapidly, and availability rates slipping to multi-year lows across New York State, and holding steady at multi-year lows in northern New Jersey.

Permits for single-family construction have risen modestly in New York State but declined in New Jersey; they remain at subdued levels in both states. Ongoing multi-family construction activity has been steady at a fairly high level, though there has been very little new development in recent weeks. Office construction starts have picked up across most of the District.

Other Business Activity

Manufacturing contacts report that business activity and new orders have picked up modestly in recent weeks, while inventories have fallen broadly. Service-sector businesses, on the other hand, continue to report flat to declining business. Still, both manufacturing and service sector contacts generally indicate that they are fairly optimistic about the near term outlook. Business contacts report little change in selling prices. Service firms report that input price pressures remain fairly widespread, while manufacturing contacts report only modest input price pressures.

The labor market has remained tight. A number of business contacts maintain that they are having trouble both finding and retaining skilled workers. One New York City employment agency reports that hiring activity has slowed somewhat, while another indicates that hiring has been fairly strong for this time of year. Both report modest growth in wages and salaries. An upstate New York employment agency reports steady demand for labor and rising wages for some categories of jobs. Retail contacts report that they plan to hire somewhat more holiday-season workers than in 2015. Manufacturers indicate that they have continued to reduce headcounts, on balance, though they plan to increase employment in

the months ahead. A growing proportion of service-sector contacts anticipate wage hikes in the months ahead.

Financial Developments

Contacts at small to medium-sized banks in the District report stronger demand for commercial mortgages and commercial & industrial (C&I) loans but little change in demand for consumer loans and residential mortgages. Credit standards were unchanged for consumer loans and residential mortgages, but bankers report some tightening of standards for commercial mortgages and C&I loans. Bankers report narrower spreads of loan rates over cost of funds across all loan categories. The decrease in spreads was most notable for residential mortgages. Respondents also report an increase in the average deposit rate. Finally, bankers report lower delinquency rates for consumer loans and C&I loans, and no change in delinquency rates for other loan categories.

THIRD DISTRICT — PHILADELPHIA

Aggregate business activity in the Third District continued to grow slightly during the current Beige Book period. Most contacts reported slight increases in hiring with some exceptions: Staffing firms indicated modest increases, while manufacturers reported declines. On balance, general price increases picked up to a modest pace over the current period, while home prices continued to grow at a slight pace. Contacts reported that wages continued to rise modestly and generally noted a tightening of the labor market. Overall, firms continued to expect moderate growth over the next six months.

Third District contacts reported moderate growth for lending volumes, and modest growth for general services, staffing services, and tourism. Slight to no change in activity was noted by manufacturers, auto dealers, nonauto retailers, and all residential and nonresidential real estate sectors. The only notable shift in activity was a reported lull in the growth of nonresidential leasing activity from a prior period of slight growth.

Manufacturing

On balance, manufacturers described a slight, ongoing expansion of overall activity, although 60 percent of the contacts reported no change. Contacts reported greater increases in new orders and shipments than during the prior period. In addition, current inventories grew for the first time in over a year. The makers of paper products, chemicals, primary metal products, and industrial machinery and equipment noted overall gains in activity from the prior period, while the makers of lumber, fabricated metals, and electronic equipment noted weaker activity. Firms noted that the ongoing decline in employment continued, albeit slightly, while the average hours worked grew this period, after falling for over half the year. Contacts remained optimistic about growth over the next six months, and expectations for future capital expenditures increased. However, firms expressed somewhat lower expectations for general activity and future employment.

Retail

Overall, nonauto retail contacts continued to report little change in sales during the current Beige Book period. Gardening supplies sold well throughout the late summer/early fall season. Outlets reported that sales were up slightly during the period and noted that apparel sales did unusually well over the Veterans Day weekend. For some stores, the Black Friday sales have already begun with deep discounts now and slightly deeper discounts promised later.

Light vehicle sales in the Third District were broadly described as plateauing at high levels. Sales figures have bounced around a bit from month to month, but year-over-year growth has averaged about 1.0 percent for the first ten months of the year. While dealers' operations have stayed relatively lean, they are beginning to look at cutting back expenses, including personnel.

Finance

Third District financial firms continued to report moderate growth of total loan volumes over the Beige Book period. Volumes within all major lending categories continued to grow, except credit card volumes, which leveled off — a typical seasonal trend prior to the significant growth expected through the holiday season. Commercial and industrial (C&I) loans and commercial real estate (CRE) loans grew at a slower pace than during the same period one year ago but were two of the fastest growing loan categories recently, along with other consumer lending. Auto loans, mortgages, and home equity loans were up slightly during the period, but volumes in the latter two categories remained slightly below last year's volumes.

On balance, banking contacts continued to report healthy loan portfolios and improving customer credit quality, although a few are starting to see scattered problem loans emerge. Several contacts expressed concerns about a potential overheated housing market, primarily for multifamily development in larger urban areas. In addition, a few banks have tightened credit standards since last period — primarily for C&I lending and CRE. Overall, banking contacts continued to express cautious optimism for slow, steady growth.

Real Estate and Construction

On balance, homebuilders continued to report little change in activity during the current Beige Book period. While contacts also reported few immediate cost increases, they did note that ongoing incremental cost increases for land, development, materials, labor, and financing have been rising faster than new home values, which creates barriers to delivering affordable new homes. Qualified entry-level buyers are also hard to find, thus the strength of the single-family market is in high-end housing.

Brokers in most major Third District housing markets continued to report slight growth of existing home sales, and sales continue to be constrained by low inventories of available homes. Home prices also continued to rise slightly, although this varies across markets and price categories. A major Philadelphia-area broker revealed no meaningful change in the firm's outlook for home sales in 2017.

Nonresidential real estate contacts, predominately in the Greater Philadelphia area, reported that construction and leasing activity remained steady at healthy levels, which represents a bit of a lull in leasing growth compared with the prior period. However, demand has grown incrementally over many years, such that rents and cranes have risen and contractors remain busy, especially for office space and multifamily housing in urban areas, and warehouse space along the interstate corridors.

Services

On balance, Third District service-sector firms continued to report modest activity. Similarly, contacts also noted continued modest growth in the pace of sales and new orders. Since the prior period, employment indicators have shown improvement, as contacts have reported nearly steady use of full-time

workers, increases in part-time hires, and an increase in workweek hours. Expectations for future growth in services remain very positive; however, they have fallen somewhat since the prior Beige Book period.

Tourism contacts generally indicated a continuation of slight to modest growth against high levels from the prior year. Pleasant fall weather helped hotels throughout the District maintain high occupancy rates and boost room rates. Mountain resort areas reported strong bookings for the remainder of the year, while convention bookings are reported as strong for the first quarter of next year. Atlantic City remains a weak spot, as recent casino revenues continued to decline against prior year levels.

Prices and Wages

Price levels rose modestly, on balance, a bit more than during the previous Beige Book period. Most contacts reported greater increases in the prices they received for their goods and services; manufacturers also noted an increase in prices they paid. Looking ahead one year, manufacturers anticipate a 2.0 percent increase in prices received for their own goods and services, and nonmanufacturers expect a 2.8 percent increase. Manufacturers also reported expectations of 2.3 percent annual inflation for consumers, while nonmanufacturers expect 2.0 percent inflation.

On balance, wage pressures continued to be modest, according to banking and staffing contacts, with more pressure for certain skilled positions and for nonskilled labor in certain geographic markets. One staffing firm noted that wage pressures were becoming more broad based. Generally, staffing firms reported that labor markets were tightening, while overall growth of hires remained modest. Staffing contacts noted that they are getting less pressure from their client firms to keep wages down; firms are accepting increases in order to attract talent. Over the next year, most firms expect their own compensation costs per employee (wages plus benefits) to rise 3.0 percent.

FOURTH DISTRICT – CLEVELAND

Economic activity grew slightly on balance across the Fourth District since our last report. Production at manufacturing plants was generally stable, though output from motor vehicle assembly plants continued to trend lower. The housing market improved, with higher unit sales and higher prices. Commercial builders reported a strong pick-up in backlogs. Retailers saw weakening same-store sales on a year-over-year basis, while sales of new motor vehicles declined. Commercial and retail credit expanded slowly. The number of drilling rigs operating in the Utica and Marcellus Shales and coal production increased. Freight volume expanded over the period, but it remains at a low level.

Payrolls were little changed on balance since our last report. Job gains in construction and banking were partially offset by losses in manufacturing. Wage pressures were most evident in the construction, retail, and banking sectors, both for low- and high-skilled jobs. Staffing firms reported that the number of job openings and placements declined, a situation they attributed to jitters about the presidential election. Contacts noted an increase in the number of temporary positions. Input costs moved slightly higher, while selling prices were little changed.

Manufacturing

Manufacturing output was little changed over the period. Activity for suppliers to the motor vehicle, construction, and personal consumer products industries remains elevated. Factors tempering output growth for other manufacturing industries include a general malaise in the industrial products market, weakness in the energy sector, and uncertainty about the economic health of offshore markets. Year-to-date production through September at District auto assembly plants fell more than 5 percent when compared to that of the same time period during 2015. A growing number of contacts are expressing concern about a sustained decline in new motor vehicle sales. The steel industry, while benefitting from price increases attributable to recently enacted tariffs, does not see this resolution as sustainable. The strong dollar continues to put downward pressure on steel exports. Manufacturers expect little change in business conditions during the upcoming months.

Although there were scattered reports about a pickup in equipment purchases, overall capital spending continues to decline. Two contacts said that firms are postponing investment decisions until more is known about the tax policies of the incoming president. Input costs rose since our last report primarily because of increasing prices for raw materials and employee health insurance. Competitive pressures kept finished-goods prices stable on balance. Manufacturing payrolls were trimmed slightly over the period. Firms cutting employment cited weak sales and a need to cut costs. Other firms noted that while they are not proactively reducing payrolls, they are not replacing employees who leave voluntarily. Attracting and retaining low-skilled employees remains challenging. Wages held steady.

Real Estate and Construction

Year-to-date unit sales through September of new and existing single-family homes increased about 5 percent compared to those of a year earlier. The average sales price rose almost 4 percent. Real estate agents cited low existing-home inventory as the primary factor driving up prices. First-time buyer contracts moved higher. Homebuilders and real estate agents reported that the presidential election dampened housing market activity over the period. However, they believe the slowing is temporary. One builder pointed to an increase in his finished-home prices as a factor for weakening demand. Year-to-date estimates of single-family construction starts were much higher in Ohio and Kentucky compared to those of a year ago.

Nonresidential contractors reported an elevated level of activity. They believe that a strong rise in backlogs over the period was due to aggressive bidding on their part and by customers' suddenly moving projects out of the pipeline and into the construction phase. That said, several builders believe that market uncertainty is increasing. This uncertainty is driven seemingly by the regulatory environment, presidential election jitters, and, to a lesser extent, a potential rise in interest rates. Demand for construction services was seen across market segments. A majority of general contractors and subcontractors increased billing rates to cover rising labor costs and to increase margins.

Homebuilders and commercial contractors reported modest increases in building material prices, particularly for framing lumber, drywall, and concrete. Hiring continues at an aggressive pace, both for replacement and for newly created positions. The industry continues to experience some wage pressure, especially from high-skilled workers. Subcontractors remain very busy. They are challenged by labor shortages, and, as a result, many are selective when bidding.

Consumer Spending

For the period from mid-September through late October, retailers reported weakening sales on balance when compared to those of the same time period a year ago. Declines were seen in apparel purchases, while sales of personal care products and furniture were higher. Retailers cited the unusually warm autumn weather, uncertainty surrounding the presidential election, and stiff competition from Internet retail options as factors contributing to transaction declines. With the presidential election behind them and the holiday shopping season approaching, retailers are looking for sales to improve. Vendor and shelf prices were stable, except for slight declines in food products and gasoline. A producer of consumer electronics noted that traditional brick-and-mortar retailers are facing a significant challenge from Internet sellers for control of product pricing. Payrolls increased over the period as stores are hiring for the holiday season. The market for distribution workers remains tight, a situation which is driving up wages.

Year-to-date sales through September of new motor vehicles declined almost 2 percent when compared to those of the same time period in 2015. Light trucks and SUVs continue to dominate

transactions. In contrast, used motor vehicle transactions have increased more than 3 percent. Seasonal staffing declines at dealerships have been completed for the most part. Our contacts reported that attracting and retaining qualified service technicians and entry-level employees remains difficult. Dealers have been forced to increase wages for both job categories.

Banking

Bankers were generally satisfied with their commercial and retail credit portfolios. Growth was characterized as slow but steady. Credit quality remains strong, and little change was reported in loan-application standards. On the commercial side, the strongest demand was for CRE loans. Several bankers mentioned uncertainty as a headwind to more robust commercial lending. One contact said that although customers have confidence in the sustainability of their businesses, they have less confidence in the political environment. As a result, they are cautious before making an investment. Reports from retail banking indicated that demand was strongest for auto, mortgage, and home equity products. Core deposit balances continued to increase over the period. While banking payrolls increased on net, the rise in payrolls was tempered by mergers and branch cutbacks. A majority of our contacts reported increasing wages over the period, mainly because of competition for qualified workers.

Energy

The number of permits issued and the number of drilling rigs operating in the Marcellus and Utica Shales are trending slowly higher as wellhead prices rise at a slow pace. Nevertheless, upstream activity remains significantly below levels seen a couple of years ago. Coal production and prices continue to move higher as customers respond to their low inventories and improving market (domestic and foreign) conditions. Energy payrolls and wages were stable.

Freight Transportation

Freight volume expanded over the period on balance, but volume was flat compared to that of the same time period a year ago. Some of the increase was attributed to seasonal factors and, to a lesser extent, an uptick in steel shipments. One contact observed that Internet retailers are making greater use of on-demand delivery service providers for shipping versus contracting with traditional ground transportation providers. As a result, it is possible that not all shipments are being captured by conventional metrics. Several contacts noted they have been able to raise shipping rates over the period. Payrolls were flat on balance; hiring is limited to replacement and some seasonal employees. Firms continue to pay cost-of-living increases. Capital spending was primarily for new equipment.

FIFTH DISTRICT—RICHMOND**Overview**

We have received mixed signals on economic activity since the previous Beige Book report. While Hurricane Matthew caused evacuations, flooding, and temporary shut-downs in some coastal areas, most sources reported that areas were rebuilding in recent weeks and activity was returning to normal. Manufacturing continued to decline, albeit more slowly. Revenues rose at a modest pace at most services firms, but retail sales were little changed. Tourism slowed, consistent with normal seasonal patterns, with the exception of hard-hit coastal resorts which ended their season early. In finance, demand increased moderately for new home loans, while demand for commercial loans was unchanged. Residential real estate activity continued to increase at a modest pace, while commercial leasing and construction increased moderately. Despite hurricane-related delays in harvesting, agricultural activity increased slightly. Natural gas extraction was unchanged, while coal production rose slightly.

Labor demand increased moderately across the District and there were more reports of wage increases. According to our most recent surveys, employment rose slightly among manufacturing and non-retail services firms but declined for retailers. Our survey measures of average wages indicated a broadening of wage gains among manufacturers while fewer services firms reported wage increases in recent weeks.

Surveyed manufacturers reported that average input prices continued to edge up overall, and average prices received increased modestly faster. Services price increases remained modest and slowed somewhat compared to our last report, while retail prices also increased at a slightly slower pace. Crop prices remained low. Natural gas prices fell slightly, while coal prices were unchanged.

Manufacturing

Manufacturers reported that activity declined since our previous Beige Book report, albeit more slowly. According to surveyed firms, shipments flattened in recent weeks, while the volume of new orders remained sluggish, and more firms noted decreasing backlogs. Manufacturers reported an uptick in capital spending, particularly on software. New orders fell for textiles, transportation equipment, primary metals, furniture, and medical equipment and supplies. Among the few categories with increasing business activity were automotive inputs and advanced manufacturing products. According to our most recent survey, average input prices continued to edge up, and average prices received increased modestly faster, compared to the previous report.

Ports

Port authorities reported stronger traffic in recent weeks. Notable imports included foods and beverages, furniture, appliances, and other household goods, as well as chemicals, plastics, steel, and iron.

Food and beverage exports increased, in addition to chemicals and agricultural commodities such as cotton and forest products. At one port, automotive parts were especially strong. A port official said that flooding in the Carolinas caused by Hurricane Matthew had delayed some agricultural exports. Since the opening of the new Panama Canal locks, some ports reported a decline in vessel calls while container volume increased.

Retail

Retail sales were mostly unchanged since the previous Beige Book, with a few exceptions. A frozen food supplier and an HVAC wholesaler reported increases in revenues. Auto sales declined, which a couple of dealers attributed to election-related uncertainty. Retail prices increased at a slightly slower pace than the mild rise previously reported.

Services

Revenues at services firms rose modestly in recent weeks. Software companies reported increased revenues, while healthcare organizations reported no change in demand. A national trucking firm located in the District reported downward rate pressure as excess capacity persisted in the industry. Price increases remained modest.

Tourism

Tourist activity softened overall in recent weeks, consistent with normal seasonal patterns. In the nation's capital, the seasonal uptick in conventions was strong, while other tourist activity was seasonally lower. A general manager at a West Virginia resort reported that early bookings for December through February were at normal levels. On the outer banks of North Carolina, Hurricane Matthew brought the tourist season to an early finish for some hotels and restaurants due to heavy property damage. Restaurants and some other businesses in a flood area of eastern North Carolina were closed for four to five days following the storm because they were without running water. However, the general manager at an inland hotel reported that all hotels in town were fully booked during the hurricane and remained booked with FEMA personnel several weeks after the storm. Room and rental rates were unchanged.

Finance

Overall loan demand rose slightly since the previous Beige Book. Residential loan demand increased moderately in recent weeks. Lenders in South Carolina and Virginia reported moderate growth in residential mortgage activity, although the Virginian felt that transactions were being limited by low home inventories and limited available lots. In contrast, a banker in West Virginia said that loan demand softened somewhat. Residential refinancing activity remained at low levels, according to several sources. Commercial loan demand was mostly flat in recent weeks. A banker in Maryland said that there was little activity outside of multi-family construction. Lenders' interest rates were unchanged, on balance. The competitive environment stiffened and net interest rate margins were compressed. No changes to credit

quality were reported. Credit standards, on the other hand, loosened slightly as some bankers reported seeing competitors using more aggressive loan structures, such as nonrecourse loans. Core deposit growth increased, according to a Virginia banker.

Real Estate

Overall, real estate activity continued to increase at a modest pace. Home sales rose modestly in a few areas, but elsewhere seasonal slowing in buyer traffic was reported. Inventories remained low across the District. A contact in Maryland reported strong markets in both new and existing homes. A Richmond agent noted a slight uptick in the number of sales and sale prices. Realtors in Greensboro, Winston-Salem, and High Point, North Carolina said buyer traffic had slowed, with no change in the number of sales. Builders reported modest increases in new home sales in the past six weeks, and said that new home inventories remained low.

On balance, commercial real estate leasing rose moderately in recent weeks, while vacancy rates varied across submarkets. Across the District, industrial leasing activity rose moderately. A Baltimore agent stated that distribution warehouse leasing was healthy. A Richmond agent said leasing and sales of large industrial spaces increased. Most sources continued to report a sluggish office market; however, commercial agents in Charlotte and Richmond reported decreasing vacancy rates, and strong leasing activity. Rental rates were mostly unchanged. A contact from Columbia reported that construction continued to be very strong across all sectors and a Charlotte source reported “booming” commercial construction. However, multifamily construction slowed somewhat since the previous report. A multifamily builder described activity as being in the “late innings of a double header,” with limited interest from lenders.

Agriculture and Natural Resources

Agricultural activity picked up slightly. According to a Virginia farmer, weather conditions in recent weeks were excellent for harvesting. In the Carolinas, some harvests were delayed by Hurricane Matthew. The biggest impact on international trade was in the poultry industry, with the loss of four to five million birds killed by the hurricane and related floods. Crop prices remained low.

Natural gas extraction was unchanged in recent weeks. Meanwhile coal production rose slightly, but remained below year-ago levels. Natural gas prices edged lower, while coal prices were unchanged.

Labor

Labor demand increased at a moderate pace since the previous Beige Book. The demand for contingent labor picked up slightly in the last several weeks, according to a staffing agent in North Carolina. A contact from Virginia added that their staffing firm entered the busy season in recent weeks and was tracking last year’s pace. In the District as a whole, demand recently picked up for the permanent placement of skilled tradespeople, construction workers, engineers, scientists, elevator mechanics,

accountants, and IT professionals. According to our most recent surveys of business activity, employment rose slightly in manufacturing and non-retail services but declined in retail. Wages were reported as increasing slightly. Staffing services firms in the Carolinas were seeing more wage increases, with one noting that higher turnover led businesses to raise wages. Our survey results indicated that wage gains were spreading in manufacturing, but narrowing in services.

SIXTH DISTRICT – ATLANTA

Reports from Sixth District business contacts described economic conditions as modestly improving since the previous report. On balance, the outlook remains optimistic with the majority of contacts expecting growth to be sustained at or slightly above current rates for the remainder of the year and the early part of 2017.

In general, retail sales across the District were flat since the previous report and sales of vehicles softened from a year ago. Reports from the hospitality sector were positive in the parts of the District not impacted by Hurricane Matthew. Residential real estate contacts noted that existing home sales were flat to down, while new home sales were flat to up from a year ago. Home prices improved modestly from last year. Commercial real estate contacts continued to report that the pace of construction had picked up from a year ago. Manufacturers indicated that levels of new orders and production increased since the previous report. Bankers reported loan activity varied across the region. The District continued to experience a tightening labor market as firms continued to face difficulty finding workers. On balance, nonlabor input costs remained stable and wage growth was modest.

Consumer Spending and Tourism

District retail contacts reported relatively flat sales activity since the previous report. Contacts reported having little to no pricing power. However, the outlook among merchants remains optimistic for the upcoming holiday season. Contacts in the automotive industry reported softer sales in the month of October compared with the same time period last year.

Reports from tourism and hospitality contacts across the District were mixed. Mississippi casino gaming revenues increased year-over-year. Reports from areas in Florida and Georgia directly impacted by Hurricane Matthew indicated that room revenues were negatively impacted. However, other parts of the region benefitted from full occupancies as evacuees relocated. The outlook among most contacts for the remainder of the year remains optimistic.

Real Estate and Construction

Residential real estate contacts continued to report slow but steady growth. The majority of builders noted that construction activity was up from the year-ago level. Many brokers noted that home sales were flat to slightly down relative to the year-earlier level, while many builders indicated that home sales were flat to slightly up over the same period. Most builders noted that buyer traffic was equal to or higher than the previous year's level, while reports from brokers continued to be mixed. Brokers reported that inventory levels were flat to down from the previous year, while most builder reports on inventory levels varied. Builders and brokers continued to note modest gains in home prices. Home sales expectations continued to moderate, with mixed broker outlooks and many builders anticipating a leveling off over the

next three months relative to year-earlier levels. Most builders anticipate construction activity will hold steady at the current pace or increase slightly over the next three months.

Most commercial real estate contacts noted improvements in demand resulting in rent growth and increased absorption, but cautioned that the rate of improvement varied by metropolitan area, submarket, and property type. The majority of commercial contractors indicated that the pace of nonresidential construction activity had picked up from one year ago, with many reporting backlogs greater than one year. Reports from contacts on the pace of multifamily construction varied, with roughly half indicating that the pace had increased from the year-earlier level and the rest suggesting that the pace had leveled off or slowed. Looking forward, most District commercial real estate contacts expect the pace of nonresidential construction activity to increase slightly over the next quarter, while many anticipate the pace of multifamily construction to continue to level off in the coming quarter.

Manufacturing and Transportation

Manufacturing contacts indicated that overall business activity increased from the last report. New orders and production levels were higher than the previous period, and supplier delivery times were taking longer. Purchasing managers also indicated that finished inventory levels decreased. Payroll levels for manufacturers increased moderately from the previous report and contacts reported a notable increase in commodity prices. Contacts were more optimistic about business activity going forward, as almost half indicated they expect an increase in production levels over the next six months, compared with only one-third in the previous report.

Transportation activity in the District was little changed since the previous report. Railroad firms cited a continuing slowdown in overall traffic. However, freight forwarders and logistics contacts reported continued strength in e-commerce shipments. At District ports, break bulk cargo, container, and automobile shipments strengthened, while trucking contacts noted declines in overall tonnage. Pricing power in the transportation industry remains weak across all modes due to overcapacity.

Banking and Finance

Credit remained readily available for most qualified borrowers. However, some small businesses reported difficulties obtaining credit. Loan demand remained strong for most types of loans in metropolitan areas but was not as robust in rural parts of the District. Banking contacts in metropolitan areas noted increased competition for deposits.

Employment and Prices

Reports from most business contacts suggested ongoing tightening in the labor market. Construction industry contacts continued to cite difficulties finding enough workers, often resulting in project delays. Additionally, contacts from the medical field noted accelerating nursing shortages. In response to the challenges finding workers, a number of firms continued to engage in partnerships with community

colleges and workforce development organizations to develop customized training programs and internship opportunities, or to invest in automation to replace difficult-to-fill jobs.

Wage growth remains modest, with the exception of persistent wage pressures for some high-skilled positions and increased reports of rising wages in the construction industry. Nonlabor input costs were mostly stable with the exception of some construction material costs. Most contacts continued to report limited ability to increase prices. According to the Atlanta Fed's Business Inflation Expectations (BIE) survey, year-over-year unit costs were up 1.7 percent. Survey respondents also indicated they expect unit costs to rise 2.0 percent over the next twelve months.

Natural Resources and Agriculture

Liquefied natural gas projects were underway while other petrochemical projects that were previously on the books for 2016-2017 were delayed into 2018-2021. Energy industry contacts indicated that oil and gas producers will proceed with prudent capital investment plans. Renewable projects continued to expand in the region, particularly wind energy. Oversupply of crude oil and gasoline continued, which perpetuated high demand for inventory storage. Energy contacts reported that employment levels were flat for this period.

Agriculture conditions across the District were mixed. Drought conditions expanded and deepened throughout much of the District, with conditions ranging from abnormally dry to exceptional drought and contributed to many wildfires across the region. Due to damages and losses attributed to drought conditions, the USDA designated many counties in the District as natural disaster areas. Nevertheless, harvesting was ahead of the five-year average for soybeans in Louisiana, Mississippi, and Tennessee; peanuts in Alabama, Florida, and Georgia; corn in Tennessee; and the District's cotton crop. Florida's November orange forecast was up from last month, but remained below last season's production. Low agriculture prices continued to challenge District producers.

SEVENTH DISTRICT—CHICAGO

Summary

Growth in economic activity in the Seventh District slowed to a modest pace in October and early November, but contacts expect growth to return to a moderate pace over the next six to twelve months. While business spending and manufacturing production grew at moderate rates, consumer spending and construction and real estate activity increased only slightly. Financial conditions were little changed. Cost pressures increased modestly, but remained mild overall. Record crop yields implied that more farmers would break even this year than previously expected.

Consumer spending

Consumer spending increased slightly over the reporting period, primarily reflecting gains at middle-market retailers. Contacts reported stronger sales in the furniture, building material, garden supply, and personal service segments, but weaker sales in the clothing, sporting goods, and restaurant segments. Sales of new light vehicles remained strong in the District, supported in part by increasingly aggressive incentives aimed at reducing inventories, which some dealers reported as approaching uncomfortable levels. Used light vehicle sales increased slightly, helped by lower prices resulting from a high number of new vehicles coming off lease.

Business spending

Growth in business spending continued at a moderate pace in October and early November. Retailers (other than some auto dealers) generally indicated that inventories were at comfortable levels. Most manufacturers' inventories were at desired levels as well, though heavy machinery and truck producers reported that dealers' stocks were too high. Steel service center inventories remained below historical norms, but in alignment with slowing demand. Current capital expenditures continued to grow at a moderate pace, though contacts expected only modest growth in expenditures over the next six to twelve months. Outlays were primarily for replacing industrial and IT equipment. Employment growth remained moderate, and contacts expect little change in the rate of hiring over the next six to twelve months. Contacts continue to indicate that the labor market is tight and that it is getting more and more difficult to fill positions at any skill level. There were also reports of delayed construction projects because of difficulties in finding workers. A staffing firm again reported no change in billable hours and ongoing difficulty filling orders at the wages employers were willing to pay. Demand for electricity in the Chicago area was flat, but down slightly in the Detroit area, reflecting lower demand from industrial consumers. Shipping volumes increased slightly in the District.

Construction and real estate

On balance, construction and real estate activity increased slightly over the reporting period. Residential construction edged up, with growth concentrated in the single-family market and in urban locations. Home sales and prices increased slightly overall, though sales varied by price range: Demand was strong for homes priced under \$250,000, modest in the \$250,000 to \$500,000 price range, and declining in the over \$500,000 market. Demand for nonresidential construction grew little on balance, with increases in the industrial and office sectors offsetting declines in other markets. Commercial real estate activity edged up from an already robust pace, with contacts reporting gains across most segments. Commercial rents inched up, commercial vacancy rates again decreased slightly, and the availability of sublease space was little changed.

Manufacturing

Growth in manufacturing production continued at a moderate pace in October and early November, with strong increases in autos and aerospace (though slowing a bit again in autos) and modest gains overall among other industries. Steel demand fell some, pushing capacity utilization lower. Prices for foreign steel rose and imports declined, but the market share of imported steel remained above historical norms. Heavy machinery manufacturers again reported declining demand due to ongoing reductions in rental inventories at dealers, though there were reports that end-user demand was stabilizing. Sales of heavy trucks also declined, with contacts indicating that strong sales in 2015 had pulled forward some demand from 2016. Specialty metals manufacturers reported slight declines in their overall order books, as increases from strong industries such as aerospace were more than offset by declines from weaker sectors such as energy and heavy machinery. Manufacturers of construction materials and equipment again reported slow but steady increases in shipments, in line with the pace of improvement in construction.

Banking and finance

On balance, financial conditions were little changed over the reporting period. Financial market participants noted that while U.S. Treasury bond yields were up after the U.S. elections, corporate bond spreads declined. Contacts also noted an increase in volatility, particularly in foreign exchange markets, where the dollar was near a thirteen-year high. There were numerous reports of businesses seeking to refinance loans in anticipation of future interest rate increases. Loan demand for middle-market businesses was little changed overall. Loan quality improved again from already high levels with the exception of lending to the agriculture, energy, and steel sectors. Household credit demand was unchanged overall. While mortgage originations and refinancing increased slightly, home equity loan originations declined. Loan demand for autos stayed strong, with customers continuing to migrate toward

VII-3

longer-term contracts. One contact noted that for many auto loans, the purpose was not to reduce monthly payments, but to increase loan size.

Prices/costs

Cost pressures increased modestly in October and early November, but remained mild overall. Energy prices remained low, but industrial metals prices rallied, and steel prices rebounded a bit. Retail prices were little changed. Wage pressures were steady overall, with larger increases for high-skilled occupations than for low-skilled occupations, though a number of contacts reported increasing wages equally for all employees. Non-wage labor costs picked up some, with many contacts reporting healthcare cost increases.

Agriculture

Record corn and soybean yields, combined with stable corn prices and rising soybean prices, implied that more crop operations than previously expected would at least break even this year. However, some operations were unlikely to be able to cover their costs, resulting in further refinancing of loans and some asset sales. Government assistance based on poor 2015 farm revenues supplemented incomes in certain counties. Corn yields were high enough in some locales to exceed storage and transportation facilities' capacity, forcing some crop to be stored in the open air. Strong production levels for livestock products continued to boost supplies. Nonetheless, some prices seemed to have bottomed out: dairy, egg, and cattle prices were up modestly, whereas hog prices continued to fall.

EIGHTH DISTRICT—ST. LOUIS**Summary**

Information received from business contacts suggests that economic conditions in the Eighth District have modestly improved since our previous report. Employers reported continued tight labor market conditions, moderate hiring, and moderate wage pressures. Price pressures remain modest as businesses remain reluctant to increase selling prices. Consumer spending activity was generally mixed. Real estate activity was unchanged for residential properties while activity improved modestly for commercial property types. District bankers continued to report strong loan demand, but the outlook slightly deteriorated.

Employment and Wages

Contacts reported moderate growth in employment and wages. Among businesses surveyed in mid-November, 40 percent reported employment was higher or slightly higher than at the same time last year, and over half expect their firm to increase employment over the next twelve months. Contacts cited growth of sales and a need for skills not possessed by their current staff as the top factors behind their hiring plans. Contacts cited an inability to find workers with the required skills as the top factor restraining hiring plans. The tight labor market has led to moderate growth in wages. Over half of contacts reported wages were higher or slightly higher than during the same period last year, and 60 percent reported increasing wages and salaries to attract or retain employees, particularly those in professional and technical, production, and administrative positions.

Prices

A survey of business contacts indicated that consumer prices increased modestly. Over half of contacts reported non-labor input prices were higher or slightly higher than a year ago. However, only a third of contacts reported prices charged to customers were higher or slightly higher than the same period last year. Several contacts in the construction industry reported higher material costs in Louisville, while a manufacturing contact in St. Louis reported raw material pricing remained low. House prices across the District increased moderately, with several contacts citing low inventory levels. As for commodity prices, cash prices for rice, corn, and soybeans remained relatively unchanged since the previous report, while cash prices for coal increased moderately and prices for sorghum decreased slightly.

Consumer Spending

Reports from general retailers, auto dealers, and the hospitality industry paint a mixed picture of consumer spending activity in the District. General retailers in Louisville and Memphis indicated a slowdown in general retail sales since the previous report. Multiple auto dealers across the District also reported a slowdown in sales, which some attributed to the uncertainty caused by the presidential election.

Most dealers expect an increase in sales and inventory in the next quarter. In addition, several dealers also noted a shift in demand toward used vehicles. Contacts in the hospitality industry in East Arkansas continued to report favorable occupancy rates.

Manufacturing and Other Services

Manufacturing activity has increased modestly since our previous report. The majority of contacts reported that production and capacity utilization increased in the fourth quarter relative to one year ago and that new orders were about the same or higher. Several companies reported capital expenditure and facility expansion plans in the District, including firms that manufacture transportation equipment, machinery, and fabricated metal products. In particular, an aircraft manufacturer announced a large, multi-year expansion. Reports from manufacturers of paper products were mixed. One manufacturer of pulp products for the personal care industry announced a major investment in new machinery to meet demand, while a manufacturer of paperboard products for packaging announced a plant closure. In the steel industry, contacts reported that increased demand from the automotive sector has partially offset the decline in demand from the energy sector, but that oversupply remains a concern. Nearly all contacts surveyed expect production, new orders, and capacity utilization to increase in the first quarter of 2017 relative to the first quarter of 2016.

Reports from District's service sector have been positive since the previous report. About two-thirds of contacts reported sales met or exceeded expectations in the current quarter. Several firms that provide information technology services, leisure and hospitality services, and healthcare announced plans to build new facilities or expand current facilities and hire new employees. Reports from retail services were mixed, with restaurant and grocery store closings and openings reported across the District. Reports from the transportation sector were positive. A Memphis contact reported revenues are up, and Little Rock contacts reported shipment increases have outperforming seasonal highs.

Real Estate and Construction

Residential real estate activity has been relatively flat since our previous report. Seasonally adjusted home sales declined marginally in Louisville, Memphis, and St. Louis from September to October but ticked up in Little Rock. Year-to-date home sales remained strong in all four MSAs, increasing by 10 percent in Little Rock, 7 percent in Louisville, 8 percent in Memphis, and 5 percent in St. Louis compared with the same time last year. Most real estate contacts reported fourth-quarter demand for single-family homes has remained flat, but more than half expect demand to increase slightly in the first quarter of 2017. Residential construction has strengthened moderately since our previous report. The majority of local real estate contacts reported seeing a slightly higher level of construction than a year ago, and about half expect this level of activity to continue into the next quarter.

Commercial real estate activity has improved modestly since our previous report. Most survey respondents reported that demand for office and retail properties was about the same or slightly higher than a year ago, while a slim majority indicated that demand for industrial properties has been slightly higher. These trends are expected to continue in the coming months. Commercial construction activity increased modestly, as a majority of local construction contacts indicated an increase in demand for office and retail properties so far in the fourth quarter; they also expect demand to carry into the first quarter. Reports on speculative construction projects were mixed. Many local real estate contacts reported no changes in the level of speculative building. However, some respondents indicated an increase in office speculative building in St. Louis and industrial speculative construction in Louisville.

Banking and Finance

A survey of District banks indicates growth in loan demand during the current quarter with some signs of slowing demand in the first quarter of 2017. District bankers reported that demand for mortgages and commercial and industrial loans has been strong during the fourth quarter. Contacts expect strong demand for commercial and industrial loans to continue into 2017; however, there was an uptick in the number of bankers expecting the demand for mortgages to slow slightly in early 2017. The demand for auto loans has been generally unchanged; again, there was an uptick in the number of bankers expecting the demand for auto loans to slow slightly. Credit standards were unchanged in all loan categories. Creditworthiness of applicants was slightly lower for agricultural loans and unchanged for all other loan categories.

Agriculture and Natural Resources

Forecasted corn and rice production are now slightly lower than projected in September. Meanwhile, cotton and soybean production forecasts are up slightly. Overall, contacts believe production levels will not provide any relief from the environment of low crop prices, which means farmer solvency issues will only worsen heading into the next crop year. Year-to-date coal production through October is down 20 percent from one year ago. However, October coal production is up 10 percent from the September level and slightly higher than one year ago. Contacts noted that the outlook has improved modestly in recent weeks; however, the supply and low price of natural gas continues to temper long-run growth prospects.

NINTH DISTRICT—MINNEAPOLIS

The Ninth District economy grew moderately overall since the last report. Growth was noted in consumer spending, tourism, real estate, residential construction, professional services, and energy. Manufacturing and mining activity were mixed, while commercial construction and agriculture slowed. Employment was flat overall since the last report, wage pressures were moderate, and price pressures were modest.

Consumer Spending and Tourism

Consumer spending was moderate. There were numerous reports of openings of retail stores, conveniences stores, and restaurants throughout the District, including in Minot, N.D., Sioux Falls, S.D., Minneapolis-St. Paul, and northern Minnesota. An electronics retailer based in Minnesota saw online revenue jump 24 percent in the third quarter. At the same time, a national department store closed its doors in Wisconsin, and automobile and truck sales were down across the Ninth District.

Tourism activity was strong overall for this transitional season. In Helena, Mont., big game hunting licenses sold out for nonresident hunters, a change from previous years. The increase was attributed to higher numbers of deer and elk, along with improvements in the overall economy, according to a state official. In Whitefish, Mont., two new hotels added a jump in tax revenue collection, a continuation of a very good tourism season in the area. In northern Minnesota and the Upper Peninsula of Michigan, warm weather extended the tourism season and tourism officials reported “noticeably increased traffic,” which was considered a “bright spot in an overall great tourism year.”

Construction and Real Estate

Commercial construction activity continued to slow since the last report. A contact in Minneapolis-St. Paul believed construction activity there had peaked, with the pullback “more of regression to the mean” after several years of very strong activity. Contacts in southeastern Minnesota and western Wisconsin also reported slow activity, which “is okay because all of our employees need a break after so many projects,” said one source. The value of commercial permits dropped considerably in October over a year earlier in Duluth, Minn., Fargo, N.D., and Sioux Falls. Residential construction rose modestly. A source in Eau Claire, Wis., reported that home building was strong and that lot sales were up. In Minneapolis-St. Paul, single-family permits in September-October rose over the previous year, though multifamily units permitted slowed. Single-family permits were also up in St. Cloud, Minn., and Rapid City, S.D.; activity was flat in Rochester, Minn., and down in Billings, Mont.

Commercial real estate activity was moderate since the last report. In Minneapolis-St. Paul, industrial space leasing was strong and vacancy rates remained low in the third quarter, but both retail and office space saw weaker demand and higher vacancies. Sales activity and total sales values continued to

be robust. In Rapid City, leasing and sales have also been strong, according to a local source. “I don't see any slowdown anywhere.” Residential real estate activity was modest. After a strong September, Minnesota home sales declined slightly in October. A similar September-October pattern was seen in western Wisconsin and the Sioux Falls and Bozeman, Mont., regions. Sources pointed to shrinking inventory as a major impediment. New listings in October dropped by almost 10 percent in Minneapolis-St. Paul compared with October 2015, and total statewide inventory was 17 percent lower, sparking faster selling and higher median prices in many markets.

Services

Service-providing industries reported strong activity since the last report. A Minnesota-based health insurance company posted a 23 percent increase in sales in the third quarter. In Sioux Falls, several service providers posted positive growth: A call center was “just booming,” a real estate insurance company reported that “everything is up,” and an app developer was opening a new office in Sioux Falls, which extended the company’s expansion into a third market in the Ninth District.

Manufacturing

District manufacturing was mixed since the previous report. An index of manufacturing conditions by Creighton University indicated decreased activity in October in Minnesota and the Dakotas. A Minneapolis-St. Paul area industrial supplier reported a “sales slump” recently. A producer of recreational vehicles reported weaker-than-expected sales so far this year. Manufacturing activity in southern Minnesota had slowed within the past few months, according to a hiring contact there. However, several industrial component producers were planning to add capacity in order to meet demand. An ammunition maker in Minnesota also announced an expansion. Contacts in the plastics industry reported strong demand.

Energy and Mining

Activity in the energy sector was up slightly since the last report. District oil and gas exploration activity as of early November increased slightly from low levels a month earlier. An oil refinery announced plans for a large expansion. Several new solar power farms began operations in Minnesota, and a utility announced plans for four new wind farms. Mining activity was mixed since the last report. Output at a precious metals mine in Montana increased in the third quarter from a year earlier, and an expansion was under way. Shipments of iron ore on the Great Lakes in September were more than 5 percent below levels a year earlier.

Agriculture

District agricultural conditions remained weak overall. Among respondents to the Minneapolis Fed’s third quarter (October) survey of agricultural credit conditions, 85 percent reported that farm incomes decreased from a year earlier, with the remainder reporting flat incomes. District states saw strong

harvests of corn and soybeans, hitting records in some cases, but these were generally not expected to offset the impact of continued low commodity prices. Prices received by farmers decreased in September from a year earlier for corn, wheat, hay, cattle, hogs, turkeys, eggs, and milk; prices for soybeans increased from a year earlier.

Employment, Wages, and Prices

Employment was flat overall since the last report. October employment in Minnesota fell; however, initial unemployment claims from mid-September through October were lower in every District state except for South Dakota. Three staffing agencies covering portions of Wisconsin and Minnesota all reported strong October job orders, though each also reported significant difficulty finding necessary workers. A health services firm in western Wisconsin announced that it expected to double its workforce—adding 1,200 workers—over the next year. But job demand was slower in some sectors and regions. October online job openings in North Dakota were almost 20 percent lower than a year ago. A Minnesota commercial construction firm that hired “many new people” in May and June recently laid them off because of slowing work.

Wage pressure was moderate since the last report. Employers in western Wisconsin have become “very favorable” toward increasing wages, said a staffing contact. Several manufacturers in the District reported wage increases between 2.7 percent and 4 percent, while annual wage increases at a large hog processor ran as high as 5 percent. A Minnesota construction source expected a 2017 labor union contract to increase wages by at least 4 percent. Price pressure was modest since the last report. Certain construction materials, like concrete, have reportedly seen increases of as much as 10 percent. Overall, however, “we are seeing materials prices be steady or slightly lower,” said an energy construction contractor. Two grocery contacts said prices for dairy, eggs, and meat continued to be weak. Jokingly, said one, “the carton costs more than the eggs” being sold now.

TENTH DISTRICT - KANSAS CITY

Economic activity in the Tenth District increased slightly compared with the previous survey, with mixed conditions across sectors. Consumer spending activity increased slightly, and District real estate activity also edged higher in October and early November. Professional and high-tech firms reported considerably higher sales, and bankers reported steady loan demand, stable deposit levels, and unchanged loan quality. Energy activity rose modestly, and District manufacturing firms reported slight expansion. Transportation and wholesale trade activity declined moderately from the previous survey period, and agricultural credit conditions remained weak, with falling farmland values and continued low commodity prices. Input prices rose modestly, while selling prices were mixed across sectors. Contacts in many industries reported a slight increase in wages, and workers in certain skilled occupations were in short supply.

Consumer Spending

Consumer spending increased slightly in October and early November, and expectations for future growth were mostly positive. 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 fall/winter products, while luxury products sold poorly. Contacts anticipated sales to rise in the next few months, and inventory levels were expected to remain mostly flat. Auto sales fell markedly in October and early November, and remained well below year-ago levels. However, dealer contacts expected a modest pickup in sales for the months ahead. Auto inventories increased and were expected to rise slightly in coming months. Restaurant sales fell considerably but were mostly consistent with year-ago levels. Contacts expected activity to weaken slightly heading forward. District tourism activity rose modestly and was above year-ago levels. Tourism contacts expected mostly flat activity for the months ahead.

Manufacturing and Other Business Activity

Manufacturing activity expanded slightly in October and early November, while other business activity was varied. Manufacturers reported improved activity in both durable and nondurable goods production, particularly in aircraft, computer equipment, metals, and machinery. Production, shipments, and export orders continued to expand during the survey period. Manufacturers' capital spending plans increased moderately, and they expected activity to improve further heading forward.

Outside of manufacturing, professional and high-tech firms reported a considerable increase in sales, with strong improvements expected in future months. Transportation and wholesale trade contacts noted moderate declines in activity, although many firms expected sales to increase significantly in the coming months. Professional, high-tech, and wholesale trade firms reported favorable capital spending plans, while transportation contacts expected capital spending to ease slightly.

Real Estate and Construction

District real estate activity increased slightly from the previous survey as both residential and commercial construction activity rose. Residential home sales were lower than the previous survey period, with contacts citing seasonal factors and political uncertainty for the slowdown in residential real estate activity. Sales of low- and medium-priced homes continued to outpace sales of higher priced homes, and inventories held steady. Home prices were moderately above the previous survey period and were expected to continue to rise. Residential construction activity continued to expand at a modest pace as housing starts and sales were higher than the previous survey period and same time last year.

Respondents in the residential construction sector expected a modest decline in activity over the months ahead. Commercial real estate contacts continued to report modest growth as absorption, construction underway, sales, and prices increased. Expectations for the commercial real estate market were for continued modest growth.

Banking

Most bankers reported steady overall loan demand for the period from October through early November. Respondents indicated a steady demand for commercial and industrial, commercial real estate, residential real estate, agricultural, and consumer installment loans. Most bankers indicated loan quality was unchanged compared to a year ago. In addition, a majority of respondents expected loan quality to remain essentially the same over the next six months. Credit standards remained largely unchanged in all major loan categories. Finally, a majority of respondents reported stable deposit levels.

Energy

District energy activity rose modestly, and expectations were mostly positive. The number of active oil and gas drilling rigs continued to pick up modestly across several District states. Oil and gas prices stayed within a narrow range, and respondents commented that sustained global oil oversupply would keep oil prices from rising significantly in the coming months unless OPEC agreed to cut production. Some firms mentioned that services companies were trying to increase their prices but have been mostly unsuccessful. Natural gas prices eased somewhat as inventories reached a record high in early November. However, cooler weather forecasts were expected to push up demand and prices in the coming weeks.

Agriculture

Low commodity prices continued to weigh on farm income in the Tenth District. Prices for most agricultural commodities were slightly less than a year ago due to strong production expectations for 2016. Amid persistently low farm prices and incomes, farmland values of all types declined moderately, capital spending and household spending fell slightly, and demand for farm loans increased modestly when compared with a year ago. Farm loan repayment rates were expected to decline further in the

coming months alongside relatively weak profits for many agricultural producers in the Tenth District. Due to weaker agricultural credit conditions and increased risk in the farm sector, District contacts reported notable increases in collateral requirements and slight increases in interest rates on farm loans.

Wages and Prices

Input prices in most sectors edged up compared to the prior survey period, while selling prices were mixed and wages continued to grow. Retail prices were up slightly, and were expected to grow moderately moving forward. Input prices for restaurants increased modestly after falling in the previous survey, and menu prices edged up. Transportation input prices contracted modestly, while selling prices decreased moderately with further decreases expected in the next few months. Construction prices rose slightly with expectations for prices to hold steady. Manufacturers reported continued modest declines in finished product prices, while raw material costs were up slightly after holding steady in the prior survey. Manufacturers expected both finished goods and raw materials prices to pick up in the coming months. Contacts in most sectors continued to report slight wage growth, and expectations were for moderate increases moving forward. Respondents reported shortages of skilled technicians, commercial drivers, and service workers.

ELEVENTH DISTRICT—DALLAS**Summary of Economic Activity**

Economic activity in the Eleventh District expanded modestly over the past six weeks. Manufacturing activity rose, and demand for nonfinancial services increased. Retail sales fell, and automobile sales softened. Real estate activity continued to expand in most markets. Loan demand was stable, and the energy sector saw slight improvement. Agricultural producers faced mixed conditions, as low commodity prices pressured farm revenues, despite higher crop yields and good pasture conditions. Upward price pressures remained limited. Employment increased and wage pressures were more widespread. Outlooks were mostly positive but cautious.

Prices

Prices rose slightly on net. There was continued upward pressure on input costs, while selling prices were mostly flat. Airlines noted stable to higher fares, while trucking and railroad contacts noted downward pressure on shipping rates. Food services firms said they plan to increase prices in the near term. Home prices and construction costs generally stayed elevated. Oil and natural gas prices fell toward the end of the reporting period, giving up all of their earlier gains. Fuel prices fell, as persistently high levels of inventory put downward pressure on refined product prices.

Employment and Wages

Employment levels held steady or increased at most responding firms. Some staffing firms cited a tight labor market, with many candidates receiving multiple job offers. Energy firms noted that layoffs were mostly done, however there is little hope for recovery in employment levels in 2017 if oil prices do not increase above \$50. Construction labor shortages were easing in Austin and Houston, but remained acute for certain trades in Dallas-Fort Worth.

Reports of wage pressures were more widespread than the past reporting period, in part due to rising benefits costs and partly due to the new overtime regulation. Some firms stated that they will have to limit and/or cut hours of those eligible for overtime pay under the new rule.

Manufacturing

The manufacturing sector expanded at a slower pace than the previous reporting period. Output rose for durables, although continued weakness was seen in energy-related categories such as machinery and fabricated metals manufacturing. Demand for construction materials was flat to up slightly, and one contact noted that backlogs continued to decline in Houston but were steady in Dallas. Nondurable manufacturing production was flat. Outlooks remained positive, although some contacts continued to cite the strong dollar as a headwind for exports.

Refinery utilization rates were healthy and ticked up along the Gulf Coast. Chemical producers reported better-than-expected orders for November and December, although a strong dollar continued to dampen export demand. Refiners expect to end the year with slightly below-average margins, while chemical manufacturers noted a positive outlook for this year and next.

Retail Sales

Retail demand fell during the reporting period and outlooks were pessimistic. Contacts cited sluggish sales in border cities due to the strong value of the dollar. Continued weak activity in the oil patch and warm weather hurting winter apparel sales were also factors affecting demand. Automobile sales softened in part due to energy-related weakness, and contacts were rather pessimistic in their outlooks.

Nonfinancial Services

Demand for nonfinancial services generally increased. Staffing services firms said demand was flat to up, with activity in North Texas remaining strong. Staffing contacts noted strength in demand from the healthcare, logistics, distribution, manufacturing, and construction sectors, while oil- and gas-related activity remained tepid. Professional and technical services firms saw some softening in activity, although revenues increased on net. Reports from leisure and hospitality firms were mixed, with some contacts noting continued growth in the large metro areas, while others citing flat activity along the Texas-Mexico border. Airlines reported stable demand, with domestic travel remaining strong. Cargo volumes were mixed over the reporting period. Courier cargo volumes increased, driven by continued strength in retail shipping. Truck and seaport cargo volumes held steady, while rail shipments dipped in nearly every category. Services firms were generally optimistic in their outlooks, with some anticipating an increase in revenues next year.

Construction and Real Estate

Home sales rose over the reporting period. Sales of lower-priced homes remained solid, and contacts in Dallas-Fort Worth cited a pickup in demand at mid-price points. New home starts rose in Austin and Houston in the third quarter. Land prices remained elevated, although some contacts in Houston noted a decline in lot prices in selected submarkets.

Apartment occupancy remained fairly stable at high levels and rents rose in most major metros except in Houston, where persistent declines were noted. Contacts expect apartment construction and rent growth to moderate next year. Office leasing activity was mostly unchanged from the previous report, with continued strength in Dallas-Fort Worth and ongoing weakness in Houston.

Financial Services

Loan demand was stable to up slightly over the reporting period. Increases were reported for residential real estate, home equity, and automobile loans, while demand for C&I and interbank loans was

somewhat sluggish. One contact reported increased competition for consumer lot loans (residential), which have been a solid source of income over the past few years. Respondents indicated stable loan quality, and cited improvements in the quality of energy related loans, likely due to the recent stabilization in the energy sector. Deposits grew at a steady pace, with some contacts noting higher-than-expected levels. Interest rate margins remained stable. Outlooks were marginally improved compared with the last reporting period.

Energy

Drilling activity and demand for oil field services improved slightly over the reporting period. The increase was largely driven by an uptick in activity in the Permian Basin, while activity in the Eagle Ford region remained subdued. One contact said that about half of the increase in the Permian Basin was driven by profits and the other half was due to maintenance of existing leases. Contacts reaffirmed that oil and gas activity will gradually pick up and 2017 will be a better year than 2016; however, these expectations have moderated in light of recent revisions to the global oil demand and supply outlooks.

Agriculture

Harvest season wrapped up for many crops, and the latest USDA estimates for Texas suggested 2016 production of cotton, corn, and soybeans was up from last year while sorghum production declined. With prices for these crops, in addition to wheat prices, remaining at mostly sub-profitable levels, there is continued worry about low producer revenue, loan repayment for the current year, and financing for the coming year. Livestock conditions remained positive across the District, with abundant forage due to good pasture conditions. Cattle prices continued to slide lower, which contacts attributed to recent financial losses at cattle feedlots and an increase in domestic beef production.

TWELFTH DISTRICT—SAN FRANCISCO**Summary**

Economic activity in the District continued to expand at a moderate pace during the reporting period of early October through mid-November. Overall price inflation was limited, while upward wage pressures increased further. Sales of retail goods continued to expand at a moderate pace, and growth in the consumer and business services sectors was solid. Manufacturing activity changed little on balance. Agricultural yields and sales grew further. Activity in the residential and commercial real estate sectors remained high. Lending activity expanded moderately.

Employment, Prices and Wages

Overall price inflation was limited over the reporting period. Commodity price growth remained quite limited on balance, but one contact noted that steel prices picked up somewhat in anticipation of a possible increase in public infrastructure spending. Price pressures for semiconductors were mixed, with some contacts reporting firming while others noted that supplier competition continued to hold down prices.

Wage pressures picked up from the previous reporting period but were uneven across industries and regions. Labor shortages in the financial services, health-care, and technology sectors pushed up wages further for skilled IT professionals. In metropolitan areas, concerns about housing affordability and long commute times, coupled with strong demand for entry-level labor, increased compensation pressures in the hospitality industry. In response to recent minimum wage increases, some restaurants in Southern California are actively considering replacing tips with a mandatory service charge that would be distributed equitably among staff. Contacts in the aerospace industry reported that modest employment cutbacks have eased upward wage pressures for skilled workers such as machinists and engineers. Upward wage pressures in the steel industry remained weak for all except the most experienced workers, with one contact noting that many companies have reduced labor inputs significantly over the past few years to reduce production costs.

Retail Trade and Services

Retail sales continued to expand at a moderate pace on balance. Sales of gaming products grew strongly, and one contact reported that labor shortages were a key constraint to growth. Demand for beverage products increased further, although sales at grocery stores more generally were flat. Apparel sales continued to grow at a modest pace, and one contact reported that sales were slower than expected given the moderate pace of overall economic growth. Sales at brick-and-mortar stores were held down by an ongoing consumer shift towards purchasing products online.

Demand for consumer and business services continued to expand at a solid pace. Activity in the

hospitality sector strengthened, with one contact noting that bookings at Southern California hotels were slightly ahead of last year's holiday season. Demand for IT and cloud computing services remained solid, and contacts expect infrastructure investments in the financial services, manufacturing, and health-care sectors to boost future growth. E-commerce sales continued to drive growing domestic demand for transportation services, while international shipments picked up slightly. Contacts reported that demand for health-care services remained strong, but the election outcome had greatly increased uncertainty around the Affordable Care Act and raised concerns about the possibility of slower industry growth and cutbacks in the near term.

Manufacturing

Manufacturing activity changed little on balance compared with the prior reporting period. Conditions in the steel and manufactured metals industries remain challenging as the elevated dollar and excess global supply continue to hold down exports. Additionally, capacity utilization rates remain below historical averages. By contrast, demand for aluminum products picked up, and one contact reported that production was at a historical high and firms are adding capacity. Activity in the semiconductor industry continued to expand at a moderate pace, although one contact noted that revenue growth was somewhat sluggish. New orders and deliveries of commercial aircraft were down from the same period last year and are expected to continue declining modestly. Contacts from both the defense and commercial side of the aerospace industry noted that growth prospects have been clouded by increased uncertainty over the direction of national fiscal and trade policies.

Agriculture and Resource-Related Industries

Activity in the agricultural sector expanded further. Ample harvests propelled crop supply and sales growth but pushed up inventories, depressing prices and undermining grower profitability. High yields for wheat, corn, onions, and potatoes caused supply to outstrip demand. Contacts expect ranchers to reduce herd numbers due to persistently low prices for cattle. The elevated dollar continued to hold back exports of agricultural products, particularly apples and pears. Harvests in California were better than expected, but growers remain concerned that drought conditions will present ongoing operational challenges.

Real Estate and Construction

Real estate market activity remained solid on balance. Residential construction activity eased slightly from its strong pace in the previous reporting period, as a slowdown for multifamily dwellings offset a pickup for single-family units. Real estate market conditions were particularly strong in the Intermountain West, where economic activity is expanding faster than in other parts of the country. House prices and rents continued to rise, particularly in regions where robust growth in the technology sector has driven strong local economic expansions. Commercial construction activity, sales, and leasing continued to expand at a strong pace. Shortages of qualified labor and materials held back growth in construction

activity in parts of the District; however, a contact reported that competition for contractors in the Seattle area had eased somewhat. Contacts expect real estate investment by foreign buyers to pick up in the Pacific Northwest following the recent enactment of a tax on foreign buyers in Vancouver, Canada.

Financial Institutions

Lending activity grew at a moderate pace over the reporting period. Loan demand expanded further, and one contact noted that community banks have been able to expand their market share of loans of less than \$10 million as larger banks appear focused on larger projects. Deposits ticked up, and liquidity was ample. Credit quality remained strong, with low delinquencies. Contacts reported that regulatory costs and the low interest rate environment continue to depress net margins, but some anticipate a rise in rates, which is likely to boost profitability.