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

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### What is The Beige Book?

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

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

### How is the information collected?

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

### How is the information used?

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

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This report was prepared at the Federal Reserve Bank of Philadelphia based on information collected on or before May 22, 2017. This document summarizes comments received from contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.
National Summary

Overall Economic Activity
Most of the twelve Federal Reserve Districts reported that their economies continued to expand at a modest or moderate pace from early April through late May. Boston and Chicago signaled that growth in their Districts had slowed somewhat to a modest pace since the prior Beige Book period, while New York indicated that activity had flattened out. Consumer spending softened with many Districts noting little or no change in nonauto retail sales, while auto sales have edged down from last year’s record highs in several Districts; tourism activity has continued to keep pace with the general economy. Meanwhile, the majority of Districts continued to report moderate growth in manufacturing activity and in most nonfinancial service sectors. Construction of new homes and nonresidential structures also continued to grow at modest to moderate rates, as did sales of existing homes; nonresidential leasing picked up a bit. Lending volume trends tended to mirror (and support) the general activity of the economy. Agricultural conditions remained mixed with some regions negatively affected by unusually wet weather. Most energy sectors tended to modestly improve. A majority of Districts reported that firms expressed positive near-term outlooks; however, optimism waned somewhat in a few Districts.

Employment and Wages
Labor markets continued to tighten, with most Districts citing shortages across a broadening range of occupations and regions. Despite supply constraints impeding the ability of firms to attract and retain qualified workers, most Districts reported that employment continued to grow at a modest to moderate pace. Similarly, most firms across the Districts noted little change to the recent trend of modest to moderate wage growth, although many firms reported offering higher wages to attract workers where shortages were most severe. A manufacturing firm in the Chicago District reported attracting better applicants and improving retention for its unskilled workforce by raising wages 10 percent.

Prices
On balance, pricing pressures were little changed from the prior report, with most Districts reporting modest increases. Rapidly rising costs for lumber, steel, and other commodities tended to push input costs higher for some manufacturers and the construction sector. In contrast, some Districts noted falling prices for certain final goods, including groceries, apparel, and autos. Energy prices and farm prices were mixed across products and among Districts. Low inventories of for-sale homes were pushing house prices higher in many markets.

Highlights by Federal Reserve District

Boston
Overall, economic growth was modest, with only one-half of retail and manufacturing contacts reporting year-over-year gains in revenue. Housing markets were strong despite low inventories. Labor markets remained tight, with employers facing limited supply. Price pressures continued to be modest. The outlook remained positive, with a bit of added caution.

New York
Economic activity has flattened out in recent weeks. Labor markets remained tight, and wages for skilled workers have continued to grow moderately. Input cost pressures have remained fairly widespread, while selling prices have increased at a modest pace. Housing markets have been steady, on balance, while commercial real estate markets have been mixed.
Overall, economic activity continued to rise modestly. The pace of nonresidential construction and existing homes sales ticked up, while nonfinancial services slowed. On balance, employment, wages, and prices continued to grow modestly; however, wage pressures were noted in some regions and for some occupations — relieved at times by substituting capital for labor.

Business activity generally expanded at a moderate pace. Labor markets tightened, with employers looking to enhance benefits packages as a means of employee retention. Single-family home sales picked up after slowing early in the first quarter. Motor vehicle production was down slightly, while orders for heavy equipment rose. Businesses reported increasing selling prices more frequently due to rising input costs.

Economic activity expanded modestly across a wide array of industries, and firms continued to add workers to their payrolls. However, labor shortages persisted in most areas, keeping upward pressure on wages, while hindering growth in some industries. The hard-hit coal industry was recently buoyed by supply constraints in Australia, where adverse weather temporarily idled coal production facilities.

Economic activity modestly improved. The labor market remained tight. Firms noted use of training programs to attract and retain workers. An uptick in wage growth was reported for high-demand positions. Retail sales were soft, however, sales of trucks and large vehicles remained solid. Manufacturers noted increases in new orders and production.

Growth slowed to a modest pace. Employment, business spending, and manufacturing production grew at a moderate rate, while construction and real estate grew modestly and consumer spending decreased slightly. Prices rose modestly. Conditions were little changed in the financial and agricultural sectors.

Economic activity has continued to increase at a modest pace, and contacts continue to hold a generally optimistic outlook for overall activity for the remainder of 2017. Reports from auto dealers, however, indicate slowing sales since our previous report; they expect this downward trend to continue into the third quarter.

Economic activity grew modestly. The professional services, residential construction, manufacturing, energy, and mining sectors saw growth, while commercial and residential real estate activity declined slightly. Commercial construction increased in some regions but was flat in others and slower in segments outside of multifamily building. Employment and wages both saw moderate growth.

Economic activity increased moderately. Manufacturing and real estate activity expanded at a moderate pace, and energy activity continued to increase modestly. Consumer spending rose at a modest pace, with a strong outlook for future growth. Agricultural conditions remained generally weak due to subdued farm income and continued low commodity prices.

Economic activity grew moderately, and outlooks remained positive. Retail sales accelerated slightly, despite some softness in auto sales. The energy sector saw further improvement, partly supporting output growth in manufacturing. Home sales continued to trend upward, but there was continued softness at the higher end. Nonfinancial services activity expanded and loan demand increased.

Economic activity continued to expand at a moderate pace. Overall, price inflation was steady. The labor market tightened further, and wage pressures grew moderately. Sales of retail goods grew modestly, and growth in the consumer and business services sectors remained strong. Manufacturing activity picked up to a modest pace. Activity in the real estate sector remained strong. Lending activity grew moderately.
Summary of Economic Activity

Reports from business contacts in the First District were slightly less positive in mid-May than in early April or February. The overall pace of growth was modest. Retail contacts were evenly divided between small declines and small increases in sales from a year earlier. One-half of responding manufacturers reported year-over-year revenue gains, but most of the others cited decreased sales. With one exception, staffing-firm contacts reported revenue declines, mostly reflecting a dearth of applicants to fill their clients’ positions. Commercial real estate markets were mostly unchanged, with stable leasing activity. Residential real estate markets were reportedly strong, despite low inventories. Labor markets remained tight, and employers said wage increases were modest to moderate. Firms continued to report that price pressures were modest. The outlook generally continued to be positive, although a bit less so than in the last round.

Employment and Wages

Respondents in several sectors mentioned tight labor markets. None of our manufacturing contacts reported any significant hiring moves either up or down. A maker of envelopes said that they expected to hire significantly in the near future but not right now. Several manufacturing contacts said it was hard to find qualified workers. A manufacturer of semiconductors and related goods said that they had to raise starting wages to fill vacant positions in New England. A manufacturer of furniture said that retaining new hires was a major challenge as some workers quit within days of being hired. Staffing firms continued to report strong labor demand and tight labor supply. They singled out the following positions as particularly hard to fill: systems administrator, network engineer, and medical assistant. All contacted staffing firms indicated that bill and pay rates had increased.

Prices

Price changes remained modest. Retail contacts continued to report that input and selling prices were steady or increased slightly. Manufacturing contacts reported modest pricing pressure. An industrial distributor said that they had seen vendors successfully increase prices for the first time in several years. Otherwise, manufacturing firms reported mixed changes of modest size in input and selling prices and no price surprises from vendors. Home prices increased, driven by strong buyer demand confronting low inventories: Median sales prices of single family homes and condominiums increased year-over-year across the board, with the exception of condos in Vermont. With supplies dwindled and demand robust, upward pressure on housing prices is expected to persist across the First District.

Retail and Tourism

Retail contacts consulted in mid-May reported that year-over-year comparable-store sales ranged from low-single-digit declines to low-single-digit gains. Furniture sales were said to have been unexpectedly soft. Other retailers attributed some of the weakness in sales to decreased customer traffic in brick-and-mortar stores. While some contacts said the outlook for the rest of 2017 is a bit uncertain, most continued to expect that sales will end up growing by low single-digit percentages over the year.

Manufacturing and Related Services

Of the eight firms contacted in mid-May, three reported lower sales, one reported flat sales, and the balance reported higher sales. Reasons for weakness were varied. A firm that makes envelopes attributed flat sales to uncertainty among its financial customers about future government policy. A chemical firm said greater exports from China were putting downward pressure on the price of one important chemical and cutting into its internation-
al business. A firm that provides veterinary services indicated that patient visits were down due to the weather. By contrast, an industrial distributor said that sales were up year-on-year in April for the first time in two years. A manufacturer of lab equipment reported higher sales but said that uncertainty about government policy was slowing demand.

No contacts reported revisions to capital spending plans. An aerospace and industrial distribution firm said that they had placed a convertible bond last week and there was strong demand.

The outlook was generally positive but cautious. One contact said they initially attributed down sales earlier in the year to the fact that the relevant comparison period, the first quarter of 2016, was exceptionally strong, but continued weakness has made them wonder. Several contacts expressed concern about policy uncertainty and said that was holding back spending.

**Staffing Services**

All of the contacted staffing firms in New England saw revenues decline year-over-year for their temporary placements, while one respondent saw an overall increase in revenue because of strong activity on the permanent placements side of the business. Although one firm recently lost a big client and seeks to broaden its listings, the revenue declines mostly reflect difficulty recruiting applicants. Firms are brainstorming and trying new ways to recruit people to fill their clients’ jobs. Two firms are spending more money on recruitment. Two firms are working with non-profits to find and attract more qualified employees. One firm hired an additional internal staff member who will focus on social media as a recruitment tool. Two firms raised their referral and signing bonuses and one firm will pay college tuition for qualified employees to receive a degree related to their job. Looking forward, staffing firms are not as optimistic as they were last quarter.

**Commercial Real Estate**

Commercial real estate markets were mostly flat in the First District in recent weeks. In greater Hartford, office leasing remained subdued as foot traffic slowed further. In Boston, office leasing activity and vacancy rates were said to be stable, but contacts reported that few firms outside of the life sciences industry were expanding their footprints. Some life sciences firms seeking to add space in greater Boston have turned to converting vacant suburban office space into laboratory space. Also in the Boston area, office construction remained limited while apartment construction has shifted increasingly to the suburbs. Commercial real estate activity was also stable in Portland, with continued light leasing activity in the office market and strong demand from developers for vacant industrial space and for the construction of hotels and high-end urban condominiums. Contacts across the District reported that investment sales demand held steady while the supply of commercial properties for sale stayed flat or declined and was quite low in absolute terms. Most contacts forecasted that market conditions would stay the same or improve modestly going forward, but the outlook remained less optimistic in Connecticut, which has seen flat employment in the past year and faces a severe state budget deficit.

**Residential Real Estate**

Residential real estate markets in the First District saw a strong start to spring. For single family homes, closed sales were up year-over-year from March 2016 to March 2017 in three of the six First District states, while pending sales increased year-over-year in every state but Rhode Island. For condos, closed sales increased year-over-year in every state. A contact in Boston reported that “March is historically a telling month for how the spring market is going; with positive sales numbers we experienced last month and buyer demand we’re seeing, it’s clear that we’re set for a very busy market.” Low inventory continues to present challenges for buyers, however, especially those purchasing a home for the first time. Inventories fell on a year-over-year basis in every state. A Massachusetts contact noted that inventories have been at all-time lows for months and said “without more inventory, prices will continue to rise and price buyers out of the market.”

Most contacts seemed optimistic about market activity and continued strong buyer demand, despite the strains on inventory. Many noted that low unemployment has helped spur consumer confidence, which contributes to the demand for residential real estate.

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

Economic activity in the Second District has been essentially flat since the last report, while labor markets have remained tight. Input price pressures have persisted, while selling prices have been steady to up modestly. Manufacturers indicated that business activity has flattened out, while service-sector contacts have continued to report steady to modestly expanding activity. Consumer spending has been flat since the last report, while consumer confidence has retreated from a multi-year high. Housing markets were mixed but, on balance, steady since the last report. Commercial real estate markets were also mixed: office markets were mostly steady, industrial markets were steady to slightly stronger, while retail markets weakened further. New construction activity has been sluggish across most of the District, on both commercial and residential structures. Banks reported that loan demand was steady to stronger, while delinquency rates declined.

Employment and Wages

The labor market has remained tight. Contacts at employment agencies characterized the job market as steady and fairly tight—especially for engineers and other tech workers, but also for skilled workers more generally. Two major New York City agencies characterized hiring as steady at a moderate level, while an upstate agency notes some pickup in the second quarter. Manufacturers have continued to add jobs in recent weeks, and employment is also reported to be on the rise among businesses in education & health services, transportation, and finance. Businesses in other service industries report steady employment levels. Looking ahead, firms in manufacturing and most service industries indicated that they expect employment to rise, on balance, in the months ahead.

Contacts across all service industries reported moderate wage growth and expect comparable increases to continue in the months ahead. Employment agency contacts in New York City noted a bit more upward pressure on wages and salaries—employers were said to be increasingly negotiable on pay, but mainly for highly sought-after, skilled, and specialized workers. An upstate New York agency indicated that wages have held steady.

Prices

Business contacts continued to note rising input costs but only modest increases in selling prices. Those in the retail, wholesale, transportation, and leisure & hospitality industries reported modest increases in selling prices, on balance, while businesses in other sectors indicated little changed in prices received.

General merchandise retailers reported that prices have been flat, and New York City hotels indicated that room rates have held steady. Broadway theaters, in contrast, reported that average ticket prices have picked up noticeably in recent weeks and have been running roughly 15 percent above comparable 2016 levels.

Consumer Spending

Retailers reported that sales were steady to down moderately. Retailers in upstate New York reported that sales have been essentially flat in April and early May. A major retail chain noted that same-store sales fell below plan and were down from a year earlier in April but have picked up somewhat in May. Sales in New York City slightly lagged the region overall. Inventories were generally said to be at desired levels. Retail contacts have become somewhat less optimistic about the near-term sales outlook.
Auto dealers in upstate New York reported that sales of new and used vehicles softened in April and were lower than a year earlier—a trend seen continuing into early May. One contact noted that inventories of some new, mainly domestic, vehicles makes have swelled somewhat, though inventories generally remain at or near desired levels. Retail and wholesale credit conditions were reported to be in good shape, though there has been further tightening for sub-prime auto loans.

Consumer confidence in the Middle Atlantic states (NY, NJ, PA) retreated in April after reaching a 16-year high in March.

Manufacturing and Distribution
Manufacturers reported that business activity has leveled off thus far in the second quarter, following brisk growth in the first three months of the year. Businesses in the wholesale trade and transportation industries also reported a pause in growth. Looking ahead, however, manufacturers remain widely optimistic about the near-term outlook, while those in transportation and wholesale trade remain somewhat upbeat.

Services
Businesses in most service industries noted little change in general business activity, while contacts in education & health services continued to indicate steady, moderate growth. Looking ahead, however, businesses in education & health were generally the least sanguine about the outlook, while contacts in the information, professional & business services, and leisure & hospitality industries were fairly optimistic.

Tourism has picked up somewhat in New York City. Broadway theaters reported that business improved noticeably in April and the first half of May, with attendance running roughly 10 percent ahead of 2016 levels and revenues up more than 25 percent.

Real Estate and Construction
Housing markets across the District have been mixed but, on balance, steady since the last report. New York City’s rental market has remained mostly steady, though increased landlord concessions have further lowered effective rents and spurred some pickup in leasing, especially at the high end. In contrast, rents continued to rise across northern New Jersey, the Lower Hudson Valley, southwestern Connecticut and upstate New York.

The sales market for homes has strengthened in northern New Jersey and across upstate New York but has been essentially flat in New York City. Home resale activity across downstate New York, and especially in New York City, has slowed to more normal levels, following an unusually brisk first quarter. Prices of New York City co-ops and condos have remained mixed, rising at the low end, falling at the high end, and holding steady in the middle. Inventories have continued to edge up in Manhattan but have fallen to exceptionally low levels elsewhere—mostly notably in upstate New York and northern New Jersey.

Commercial real estate markets have been mixed in recent weeks. The market for office space has generally been steady, as both availability rates and asking rents have not changed significantly. The industrial market, which had been strengthening steadily over the past year, has lost some momentum in recent weeks but has continued to tighten. While availability rates have largely leveled off, rents have continued to climb, running 8-12 percent ahead of a year earlier. In contrast, the market for retail space has softened further: vacancy rates reached multi-year highs throughout the District, while asking rents were little changed.

Finally, both residential and commercial construction have remained sluggish overall. New starts of single-family homes have remained subdued, while new multi-family construction has slowed substantially. On the commercial side, although there is a good deal of office construction in progress—especially in New York City—there has been very little new office development, except in northern New Jersey.

Banking and Finance
Bankers reported stronger demand for consumer loans and residential mortgages but no change in demand for commercial loans or mortgages. Bankers also indicated that refinancing activity decreased for all types of loans. Credit standards were reported to be unchanged across all loan categories. Banks noted wider spreads of loan rates over cost of funds for consumer loans but no change in spreads for other loan categories. Contacts also reported an increase in the average deposit rate, on net. Delinquency rates were said to be lower across all loan categories—particularly residential mortgages.

Summary of Economic Activity

Aggregate business activity in the Third District continued at a modest pace during the current Beige Book reporting period. Manufacturing and homebuilding continued at a moderate pace of growth, but nonfinancial services appear to have slowed to a modest pace. Nonresidential construction and existing homes sales picked up a bit, which is echoed by changes in loan volumes to those sectors. On balance, employment, wages, and prices continued to grow at a modest pace; however, tight labor markets are reported in some regions and for some occupations. Contacts noted that some wage pressures have eased as firms substitute technology for labor. Overall, firms continued to expect moderate growth over the next six months.

Employment and Wages

Employment has continued at a modest pace of growth. Manufacturing firms reported increases in employment and in the average hours worked compared to the prior period. Employment indicators from nonmanufacturing firms were mixed, as contacts noted fewer net additions to full-time staff, more net additions to part-time staff, and little change in hours.

On balance, wage pressures continue to be muted; reports of tight labor markets are scattered by region and occupation. Contacts tend to note significant price increases only in association with commodity price hikes that are more readily passed through to customers. Several contacts from banking and finance noted that wage pressures are real and rising but that firms in many sectors are using technology whenever possible to substitute for labor.

Pennsylvania staffing firms have remained very busy since the start of the year. Contacts from staffing firms in labor markets with lower unemployment rates have noted greater wage pressure, while contacts operating in markets with higher unemployment rates report minimal wage pressure.

Prices

Price pressures appeared to ease a bit, although on balance, levels continued to rise modestly. Nearly two-thirds of firms’ contacts reported no change at all in prices paid and prices received. Of the remaining firms, more reported increases than decreases, but the differential has diminished. Homebuilders noted rapidly rising lumber costs due to recent tariffs imposed on Canadian lumber. Overall, the sales prices of existing homes rose modestly, although this varied across markets and price categories.

Looking ahead one year, firms anticipate a 2.25 percent increase in prices received for their own goods and services — slightly higher than one quarter prior. Firms also reported expectations of 2.50 percent annual inflation for consumers — a bit lower than last winter.

Manufacturing

On balance, manufacturers continued to indicate moderate growth with higher percentages of firms reporting increases in current activity and shipments this period compared with the prior period. However, new orders began to soften late in the current period.
Overall, gains in activity were indicated by many major sectors, including the makers of paper products, chemicals, fabricated metal products, and industrial machinery; some reductions of new orders and/or shipments were noted by the makers of lumber products, primary metal products, and electronic products.

While manufacturing contacts continued to expect growth over the next six months, the breadth of optimism has narrowed. Less than half of the firms are now expecting growth — down from two-thirds during the prior period. Similarly, the expectations for future employment and capital expenditures also softened.

**Consumer Spending**

Nonauto retail contacts noted little sales growth and expressed skepticism that rising consumer confidence has had a significant, positive impact. In fact, one large retailer reported that “if anything, we feel like there has been a little pullback from the lower-end consumer.” Moreover, retailers noted that consumers are shifting their spending somewhat away from goods to dining and experiences. That trend, plus the ongoing shift toward online sales, continues to hemorrhage sales from brick-and-mortar stores. One large retailer stated that consumer confidence is a leading indicator that should result in increased sales but not until the second half of 2017.

On balance, auto dealers reported flat year-over-year sales during the current period: Pennsylvania dealers reported that sales were up slightly, while New Jersey dealers reported that sales were down slightly relative to last year’s high levels. New Jersey contacts did note a little pickup in early May. Generally, dealers expect another strong year of sales even if a bit below last year’s level. Manufacturing incentives are helping to sustain sales, but maintaining the same level of profitability is more of a struggle.

Tourism activity continued to grow at a modest pace, according to several contacts. After a slower first quarter, several events lifted Philadelphia area hotel and restaurant activity to stronger levels. A Delaware shore contact noted that bookings and rates are higher than last year at hotels representing several price points. Even in Atlantic City, casino revenues are beginning to eke out slight increases on an ongoing year-over-year basis.

**Nonfinancial Services**

Third District service-sector firms reported modest growth in general activity — slowing a bit from the moderate pace of the prior period. Most indicators, especially new orders, suggested slower growth; however, all were representative of a normal pace for the Third District. One large service-sector firm noted continued growth of its consumer base and improved credit behavior of its base; the firm also noted unexpected weakness from part of its business-oriented sales. Expectations about future growth have also abated since the prior Beige Book period but have remained quite positive with nearly 60 percent of the firms anticipating increased activity.

**Financial Services**

Financial firms reported modest growth of overall loan volumes (excluding credit cards) after relatively little change during the prior Beige Book period. Commercial real estate loans, residential mortgages, and auto loans contributed the strongest growth in loan volume. Commercial and industrial loan volumes were up slightly, while home equity loans were essentially flat. Credit card volumes are highly seasonal but have grown over the year at a modest rate and grew during this Beige Book period at a faster rate than the change observed over the same period last year. Banking contacts continued to express cautious optimism for slow, steady growth.

**Real Estate and Construction**

Homebuilders continued to report moderate increases in traffic and contract signings and expressed concerns that the labor supply will not support higher levels of construction activity. A South Jersey builder attributed the gains to greater confidence borne of increased jobs and income.

Brokers in most major Third District housing markets noted that existing home sales continued to strengthen from a slight pace of growth last period to a modest increase this period. The spring selling season failed again to trigger a significant influx of new inventory. In some areas, rental market activity is increasing. Still, brokers expect to end the year with somewhat higher sales totals than last year.

Nonresidential real estate contacts covering much of the Third District reported modest growth, as the existing high levels of construction activity broadened across sectors and geographically throughout the region. Overall, leasing activity changed little, although contacts noted that deals within the Philadelphia office market were a bit below expectations until late in the current period.

For more information about District economic conditions visit: www.philadelphiafed.org/research-and-data/regional-economy
Summary of Economic Activity

Aggregate business activity expanded at a moderate pace in the Fourth District during the reporting period. Labor markets continued to strengthen, with wage pressure coming from both low- and high-skilled workers. Upward pressure on input prices was prevalent in the construction and manufacturing sectors. Firms facing higher input prices frequently reported that they were able to raise selling prices and billing rates. Consumer spending at brick-and-mortar establishments rose slightly, while new motor vehicle sales strengthened. Manufacturing activity grew slightly, with a marked improvement for heavy equipment producers. Freight volume continued to expand. After slowing early in the first quarter, sales of new and existing single-family homes picked up. Activity in the commercial real estate market remains elevated. Credit portfolios grew slightly on balance.

Employment and Wages

Payrolls grew across a broad range of industries, with continuing wage pressures in some skilled occupations and at the lower end of the pay scale. Staffing firms noted an increase in the number of job openings and placements during the past two months, a situation which they attributed to an improving business climate. Because of difficulties in attracting and retaining employees, companies are placing a greater emphasis on expanding benefits and work-life-balance initiatives, while at the same time increasing wages and salaries. Banking contacts noted significant wage pressure for IT staff and compliance personnel. High turnover remains an issue in the freight transportation industry. In order to retain drivers, one firm increased driver pay by 3 cents per mile, equating to a 7.5 percent wage increase. Attracting qualified applicants for low-skilled manufacturing jobs is difficult, and many newly hired workers prove to be unreliable. That said, competition for low-skilled workers is strong and is driving up starting wages.

Prices

Similar to the previous reporting period, statements about rising input costs originated primarily among construction and manufacturing contacts. Building contractors noted higher material prices across the board, but especially for Canadian softwood. Contractors expect a dramatic increase in lumber prices unless a tariff agreement is reached. Several contacts reported that construction subcontractors are constrained by a lack of qualified workers and are operating at capacity, resulting in significantly higher price quotes. Manufacturers pointed to rising steel prices as a primary factor driving up their input costs. Manufacturers, homebuilders, and general building contractors experienced little pushback when attempting to raise their selling prices. Freight haulers generally reported that their markets were able to sustain higher freight rates in the low-single digits. Grocery store shelf prices declined slightly.

Consumer Spending

Consumer spending at brick-and-mortar retailers rose slightly during the period and was attributed to the rollout of spring merchandise and promotional activity. Sales of household furnishings picked up, while electronics and apparel transactions were fairly soft. One chain reported that liquidations and accelerated store closures by retailers, who are rationalizing their brick-and-mortar footprint, are having an impact on foot traffic at malls. The contact
noted that with more dark stores, the appeal of a mall decreases, and this may create a downward spiral. Foot traffic in grocery stores was flat. However, one chain reported that dollars spent per customer rose, so total revenue was up slightly. Year-to-date sales through April of new motor vehicles increased 3.5 percent compared to those of the year-earlier period. Auto dealers are concerned about higher-than-normal inventories and credit tightening for subprime buyers. A dealer group noted the group’s new vehicle inventory was at its highest level since 2004.

**Industrial Production**

Activity in the manufacturing sector picked up slightly during the period. Contacts noted rising output by producers of heavy equipment sold to other manufacturers. This market segment had reported flat to declining orders since the beginning of the past recession. Suppliers to the construction and food services industries said that demand remains elevated. Demand for consumer packaged products was weaker than expected during the first quarter, although demand was above year-ago levels. First-quarter motor vehicle production at District plants declined when compared to that of the same time period a year earlier. Increased light truck production was insufficient to offset larger declines in car production. Manufacturers cited the strong dollar as the primary factor tempering offshore sales. A growing number of producers are increasing capital budgets. There was a notable increase in the number of contacts who are allocating monies for plant expansion.

The number of drilling rigs operating in the District continued to trend higher, albeit at a slow pace. Natural gas output remains at historic highs. High levels of coal production were maintained because of rising demand and reduced customer inventory.

**Real Estate and Construction**

First-quarter unit sales of new and existing single-family homes increased almost 4 percent compared to those of a year earlier. The average sales price rose 6 percent. Homebuilders attributed stronger sales to an improving job market and rising prices for buyers’ existing homes. Estimates of single-family construction starts during the first quarter were much higher in Ohio compared to those of a year earlier. Estimated starts in District regions outside Ohio were flat or declining. The strongest demand for new homes was found in the move-up and high-end price point categories. Purchases by first-time buyers declined markedly during the period.

Activity across the commercial real estate sector remains elevated. Increases were reported in transaction volume and the average price per square foot for industrial and office properties during the first quarter compared to prior-year results. Office vacancy rates declined, and asking rents increased, although both at a slow pace. Nonresidential contractors reported that inquiries and backlogs remain strong. The highest demand is for commercial property development, public infrastructure projects, and education buildings.

**Financial Services**

Bankers reported that their credit portfolios grew slightly on balance since the last report. Although customer confidence remains high, that confidence has not yet translated into additional commercial or retail lending. On the commercial side, strongest demand is for CRE loans and M&A financing. Contacts expect that the current level of activity in these segments will continue. Although banks were still experiencing relative strength in auto lending and home equity products, several contacts noted a small decline in consumer lending overall, especially for credit cards. Activity in mortgage lending expanded slightly, mainly for new purchases. Contacts noted little change in loan application standards and delinquency rates.

**Nonfinancial Services**

Professional and business services firms generally reported moderate levels of activity during the period. Strongest demand was seen by engineering services and software and IT services firms. Factors contributing to strong demand for software and IT include clients’ concerns about cyber security and data protection and a transitioning by many companies from owning and managing software to cloud computing.

Freight volume expanded during the period, and this expansion was attributed to improving economic conditions. Increased demand was seen primarily from steel producers and service centers and the energy sector. A majority of our contacts reported that they were able to push through rate increases.
Summary of Economic Activity

The Fifth District economy expanded at a modest pace since the prior reporting period, with broad-based improvement across industry sectors. Manufacturers continued to see strong new orders and increased output. Shipments through District ports rose modestly, and reports on land and air freight were more positive. Retail sales growth picked up, on balance, as did tourism-related spending. Housing market activity continued to increase, although supply-side constraints limited growth. Lending picked up moderately, mostly due to more strength in business loan demand. Non-financial services firms reported moderately higher revenues. Coal production increased, in large part due to supply disruptions in Australia, while agricultural conditions improved slightly. The District’s labor markets remained tight, and businesses continued to report modest wage increases. Prices were reportedly stable to rising moderately.

Employment and Wages

Labor demand strengthened moderately in recent weeks amidst continued reports of worker shortages. Employment agencies reported a modest increase in new job openings across all sectors, while executives in the services and retail industries noted increases in hiring. Generally, contacts reported labor shortages for computer scientists, computer engineers, data scientists, welders, and technicians. Also, more manufacturers had difficulty finding quality workers for technical roles. Wages increased modestly for firms in most industries, and employment agencies said that clients had started to increase wages for positions that remained unfilled.

Prices

Prices were generally stable to rising modestly. Manufacturers’ final goods prices continued to grow at a modest rate, according to our most recent surveys; however, increases in input goods prices outpaced those in final goods. Specifically, prices recently rose for stainless steel and corrugated paper. Services firms indicated that price growth remained modest, overall, with the retail sector reporting a slightly faster pace of growth than the non-retail sector. Commercial real estate rents were stable to increasing slightly. Residential real estate prices generally continued to rise modestly, with most of the growth coming from low to mid-priced homes. Beef and chicken prices were up slightly while energy prices were largely unchanged.

Manufacturing

Manufacturing firms continued to report strong growth in new orders and shipments. Producers of machinery, plastics and rubber, metal, corrugated packaging, and food manufacturing noted stronger business conditions in recent weeks. Overall, global supplier delivery times were unchanged, while some firms reported shorter domestic lead times. Expectations for the next six months were generally optimistic, with firms anticipating moderate increases in new orders and shipments.

Ports and Transportation

The volume of shipments through District ports was generally robust and increased moderately, with contacts at some facilities indicating that shipments set new record highs again in March and April. Moreover, port executives indicated that both imports and exports continued to rise, although the pace of exports growth slowed somewhat, on balance. Imports of consumer goods were particularly robust, despite the struggles reported by national brick and mortar retailers; and light vehicle exports continued to increase at a healthy pace. Trucking firms reported seasonal increases in shipments, with modest gains compared to a year earlier. A rail operator said that volumes rose in recent weeks due in part to more coal shipments to the ports. And a regional airport executive said that air freight was up strongly due to healthy manufacturing activity in his region.
Retail, Travel, and Tourism
Retail activity increased more quickly in April based on respondents’ assessment of sales and shopper traffic. The manager of a home goods store said that sales picked up in April as this Easter’s results exceeded those of a year earlier. An auto dealer in North Carolina noted a dramatic upturn in business, while a dealer in West Virginia saw a significant fall off in April following unusually strong sales in March.

An adventure camp facility in western Virginia reported that bookings increased at a better-than-seasonal pace from March to April. Demand for hotel rooms remained strong in western North Carolina and the upstate region of South Carolina. In the outer banks of North Carolina, summer bookings were running ahead of previous years.

Real Estate and Construction
Residential real estate sales increased moderately since the previous report. Sources reported stable levels of buyer traffic for new and existing single family homes, and expected steady buyer demand extending into early summer. Inventories remained low with the quick absorption of new homes, and average days on the market decreased modestly. Brokers reported that demand for condos increased at a steady pace; however limited inventory left sales unchanged. Homebuilders reported a reduction in buyer incentives, while sales in highly desirable communities rose modestly. The lack of subcontractors continued to push back construction timelines and limit new home starts.

On balance, commercial real estate leasing rose moderately. Retail leasing and sales remained strong, while office and industrial activity slowed modestly as inventory remained limited. Land sales for new construction were steady, with continued robust pipelines. Contacts noted increased remodeling activity of grocery-anchored developments across the District. Rental rates increased moderately in most industrial, retail, and office markets. Retail development remained steady, while agents reported limited office and industrial construction. Multifamily building continued at moderate levels; however a few lenders noted that fewer new developments were being approved for financing.

Banking and Finance
Lending improved moderately since our previous report. Demand for residential mortgages was little changed on balance; however, demand picked up moderately in the District of Columbia. Residential refinance activity was stable to increasing modestly. Commercial real estate demand continued to expand at a moderate to robust pace although some contacts expressed concerns that multifamily was nearing a saturation point. A lender in Washington, D.C. also mentioned some worries of overbuilding in the hospitality segment. Business lending increased modestly. Deposits by both consumers and businesses rose moderately, according to a banker in North Carolina, as deposit rates moved slightly higher. Credit quality was stable and credit standards were generally unchanged; however, a West Virginia banker noted slight tightening in certain commercial real estate categories, such as hospitality and retail.

Non-Financial Services
On balance, services firms indicated moderate revenue growth in our most recent survey. Telecommunication, administrative, and hospital services were the most consistently positive sectors. A contact in South Carolina saw a surge in demand for customer service and general office administration services. Strong reports also came from arts, entertainment, and amusement firms. A civil engineering company had an increase in new projects; however, revenue was down slightly as competition drove down bid prices. Meanwhile, a marketing executive in Virginia noted a moderate decline in demand in recent weeks.

Agriculture and Natural Resources
Energy markets improved modestly in recent weeks. Coal production rose as supply constraints due to severe weather phenomena in Australia led to stronger global demand for domestically produced coal (both steam and metallurgical). Coal mining firms anticipate making capital investments in the near future if production and prices hold up. Agriculture conditions also improved slightly, particularly for beef and dairy farmers. In South Carolina, cotton and peanut planting was slightly behind schedule due to rain.

For more information about District economic conditions visit: www.richmondfed.org/research/regional_economy
Summary of Economic Activity

Sixth District business contacts reported economic activity continued at a modest pace from April through mid-May. The outlook among contacts remains optimistic with most firms expecting growth to accelerate over the next three to six months. District firms continued to report difficulties filling a range of positions, and wage growth remained steady. Non-labor input cost pressures were subdued. On balance, District merchants reported no change in sales since the previous report; however, auto dealers indicated sales of light trucks and SUVs continued to improve. The tourism sector noted some softening in activity. According to residential real estate contacts, new and existing home sales were up, and home prices modestly appreciated compared with a year ago. New home construction increased since the previous report. Commercial real estate contacts noted demand continued to improve. While overall nonresidential construction increased from a year ago, multifamily construction showed some signs of slowing. Manufacturing purchasing managers cited increases in new orders and production.

Employment and Wages

While some contacts noted that demand for mid- to high-skilled professional and business service positions had moderated, many continued to describe a tightening labor market among information technology, skilled craft and technical, and increasingly in entry-level positions, particularly in hospitality and food services. Many contractors and manufacturers from construction-related fields continued to report that their inability to find qualified workers was impeding growth. Contacts from the energy industry mentioned that the lack of available skilled craft labor was a roadblock to petrochemical-related construction. In response to labor shortages and rising turnover, a growing number of firms indicated that they were directing resources towards creating internal training and development programs for both new hires and existing staff, covering technical education as well as company culture and soft skills. Firms also continued to mention workforce development partnerships, apprenticeships, early education training, and dual enrollment programs at high schools. Wage growth remained stable with exceptions in high-growth areas and in high-demand trades.

Prices

Non-labor input costs remained muted in general; however, manufacturing purchasing managers continued to note greater increases in commodity prices. Contacts still indicated limited ability to raise prices. According to the Atlanta Fed’s Business Inflation Expectations survey, year-over-year unit costs were up 1.8 percent in May. Survey respondents indicated they expect unit costs to rise 2.0 percent over the next twelve months.

Consumer Spending and Tourism

On balance, District retail contacts reported that sales levels remained flat since the last report. Retailers noted that consumers were cautious about their discretionary spending and expect modest increases in spending over the summer months. Sales of light trucks SUVs increased in April, according to auto dealers.

Sentiment among tourism and hospitality contacts across the District remains cautiously optimistic. Reports noted an increase in the number of visitors in the first four months of the year compared to the same time period last year. However, contacts noted that the pace of food, beverage, and merchandise spending from visitors slowed since the last report, a trend that is expected to persist for the remainder of the year.

Construction and Real Estate

Reports from District residential real estate contacts in April signaled continued growth. Most builders noted that construction activity was up from the year-ago level. Many brokers and builders reported an increase in home sales relative to one year earlier. The majority of builder and broker contacts said buyer traffic was up from the
previous year’s level. Residential contacts noted that inventory levels were unchanged or down compared to the year-ago level. Both builders and brokers indicated modest gains in home prices. Home sales expectations were positive, with most brokers and builders anticipating sales will increase slightly over the next three months relative to the year-earlier level. Most builders expect construction activity to hold steady at the current pace or increase slightly over the next three months.

Many District commercial real estate contacts reported improvements in demand that have resulted in rent growth and increased absorption, but 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 risen from one year ago, with many reporting increasing backlogs. While most reports indicated that the pace of multifamily construction matched or exceeded the year-ago level, a growing share of contacts reported that multifamily construction is down. Looking forward, the majority of District commercial construction contacts expect nonresidential construction activity to increase in the second quarter, while expectations for the pace of multifamily construction was mixed.

Manufacturing
District manufacturers continued to indicate that overall business activity remained strong. New orders and production levels increased at a solid pace and purchasing agents reported that supply delivery times were persistently getting longer. The outlook for future production remained optimistic, with just over half of firms expecting higher production levels over the next six months.

Transportation
District transportation contacts indicated that demand was largely consistent with the previous report. Rail activity, including intermodal, remained relatively flat. District ports noted further strength in shipments of containers, automobiles, and breakbulk cargo. Trucking companies cited increased movements of construction-related materials, and logistics contacts reported continued growth in ecommerce shipments. Roughly half of contacts expect higher levels of activity in the second half of the year.

Banking and Finance
Credit remained readily available for most qualified borrowers, although some small businesses continued to experience difficulty obtaining loans. Contacts noted that regulatory capital requirements constrained commercial and construction lending at some banks, and most commercial lending activity revolved around refinancing. Lenders increased oversight of construction loans and were growing more cautious in multi-family lending.

Energy
Reports from energy contacts indicated that rising shale production created new pipeline projects to transport oil and gas to refining centers on the Gulf Coast. Contacts also indicated that oil and gas inventories remained elevated despite increased demand. Utility industry contacts across the District reported that demand in industrial and residential usage increased slightly while commercial demand declined.

Agriculture
Agriculture conditions across the District were mixed. By early-May, overall drought conditions had improved in Louisiana, Mississippi, and Tennessee while Alabama, Georgia, and Florida reported sizeable areas of drought conditions ranging from abnormally dry to extreme. The May forecast for Florida oranges was up slightly from April but remained considerably lower than last season’s production. District cotton, soybean, rice, and peanut plantings in early May were ahead of the five-year average, with the exception of Tennessee’s cotton and soybean crops and Florida’s peanut crop, which were modestly below their five-year averages. On a year-over-year basis, prices paid to farmers in March were up for cotton, soybeans, and broilers but remained down for corn, rice, beef, and eggs.

For more information about District economic conditions visit: www.frbatlanta.org/economy-matters/regional-economics
Summary of Economic Activity

Growth in economic activity in the Seventh District slowed to a modest pace in April and early May. Respondents’ outlooks for growth over the next 6 to 12 months also pulled back some, but remained positive on balance. Employment, business spending, and manufacturing production grew at a moderate rate, while construction and real estate grew modestly and consumer spending decreased slightly. Prices rose modestly. Conditions were little changed in the financial and agricultural sectors.

Employment and Wages

Employment growth remained at a moderate rate over the reporting period, and contacts expected it to continue at this pace over the next six to twelve months. Contacts continued to report that the labor market was tight and that it was difficult to fill positions at any skill level. Hiring was focused on professional and technical, sales, and production workers, and there was an increase in the number of contacts hiring sales and production workers. A staffing firm that primarily supplies manufacturers with production workers reported an increase in billable hours after more than a year of little change. Wage growth was modest overall, with increases more likely for high-skilled occupations. That said, a manufacturing firm that was expanding raised wages for unskilled workers 10% and noted a significant improvement in retention and the quality of applicants. A number of contacts reported a rise in benefits costs.

Prices

Prices again rose modestly overall in April and early May. That said, retail prices changed little in general, though prices fell some at grocery stores. Materials costs were generally little changed over the reporting period, though a number of contacts noted that prices of many commodities were higher than they were six months ago.

Consumer Spending

Consumer spending decreased slightly overall in April and early May. Non-auto retail sales levels were flat, with strong growth in e-commerce balancing out declines for brick and mortar stores. Nevertheless, contacts continued to expect stronger sales in the summer months. Sales of new light vehicles slowed some, and automaker and dealer contacts reported that they had revised down expected sales for the calendar year. In contrast, contacts reported an increase in sales of used vehicles.

Business Spending

Growth in business spending picked up to a moderate pace in April and early May. Many retailers indicated that their inventories were slightly elevated, while a number of auto dealers thought their stocks were much too high. Manufacturing inventories were generally at desired levels, with the exception of those at steel service centers, which continued to be low. Growth in capital expenditures picked up to a moderate pace, and contacts expected growth to continue at a moderate pace over the next six to twelve months. Outlays were primarily for replacing industrial and IT equipment. Shipping volumes increased slightly.
Construction and Real Estate

Construction and real estate activity increased modestly on balance over the reporting period. Residential building rose moderately, led by growth in the single-family segment. The pace of home sales was little changed, but prices increased moderately, as multiple contacts reported a limited supply of homes. Demand for nonresidential construction increased slightly, with improvements concentrated in the industrial sector. The pace of commercial real estate activity also increased slightly, with gains in both the for-lease and for-sale segments. Contacts in the Chicago area believed that the market was cooling some, while a contact in West Michigan indicated that the market was the strongest it has been for some time. Commercial rents edged up, as vacancy rates and the availability of sublease space decreased a bit.

Agriculture

The outlook for crop income was unchanged through April and early May despite wet weather slowing planting in much of the District. Corn and soybean planting was behind the pace of a typical year, and in some areas wet and cold spells killed crops that had already been planted. Corn and soybean prices were up slightly. Incomes for dairy farmers deteriorated a bit on balance. Some dairy operations in the District scrambled to find alternative buyers after new restrictions on imports of ultrafiltered milk into Canada cut demand for U.S. milk. Incomes for hog and cattle operations improved as prices increased in spite of ample supply. Michigan fruit growers faced increased uncertainty after a major freeze potentially damaged their plants.

Manufacturing

Manufacturing production again grew at a moderate rate in April and early May, and growth was widespread across sectors. Demand for steel continued to grow at a moderate pace, as contacts reported strong demand from auto manufacturers and improving demand from the energy and heavy machinery industries. Heavy machinery manufacturers themselves reported increased demand, led by the energy sector. Specialty metals manufacturers also reported growing order books, and contacts highlighted new orders from the defense and energy sectors. Manufacturers of construction materials continued to report slow increases in shipments, in line with the pace of improvement in construction. Production in the auto and aerospace sectors was unchanged, but remained at high levels.

Banking and Finance

Banking and financial conditions were largely unchanged over the reporting period. Financial market participants reported stable market conditions and low volatility. Business loan demand was up slightly, credit quality remained strong, and contacts reported declining delinquencies in the oil and gas sector. Consumer loan demand was steady on balance, though credit quality declined slightly. Residential mortgage activity increased, with contacts noting more originations and home equity loans. One contact said that the low supply of homes for sale was leading to increased interest in home construction loans. Credit card volume was steady, though delinquencies ticked up. Auto loan demand declined slightly.

For more information about District economic conditions visit: chicagofed.org/cfsbc
Summary of Economic Activity

Economic conditions have continued to expand at a modest pace since our previous report. District labor market conditions continue to improve, with modest employment growth and moderate growth in wages. Reports from retail contacts paint a mixed picture on consumer spending, with signs of weakening auto sales but positive reports from non-auto contacts. Manufacturing contacts generally reported increases in new orders. Real estate contacts reported that low inventories and higher construction costs continue to reduce home sales and push up prices, while banking contacts reported strong growth in the demand for mortgages. In general, business contacts surveyed in mid-May continued to hold an optimistic outlook for growth in 2017. On net, 55 percent of contacts expect District economic conditions in 2017 to be better or somewhat better than last year. This outlook was generally unchanged since contacts were surveyed in mid-February.

Employment and Wages

Employment has increased modestly since the previous report. Of the business contacts surveyed in mid-May, on net, 31 percent reported that second-quarter employment was higher or slightly higher than a year ago and 40 percent expect third-quarter employment to be higher or slightly higher than a year ago. Contacts continued to report difficulties finding skilled or motivated employees. Construction contacts in St. Louis, Louisville, and Memphis reported shortages of workers, with a contact in Louisville noting that the shortage has affected their ability to complete work.

Contacts reported moderate wage growth since the previous report. On net, 61 percent of contacts reported wages and labor costs were higher or slightly higher than a year ago; however, a slightly smaller share expect increases in the third quarter. Contacts in construction, manufacturing, and banking reported increasing wages to retain and attract employees. However, a contact in Louisville noted that a shortage of workers in information technology has not resulted in increased wages. In addition, depressed agriculture prices have kept wage increases to a minimum in eastern Arkansas.

Prices

Price pressures in the District were moderate. Business contacts surveyed reported that prices charged to consumers and non-labor input costs increased moderately. Contacts reported prices and non-labor costs were slightly higher or higher than a year ago. Contacts also reported that healthcare costs have increased moderately.

House prices increased moderately. Real estate contacts reported that high costs of residential construction are pushing house prices higher and lack of construction labor is pushing up costs of commercial construction projects. Contacts reported increasing costs of raw materials. In particular, prices of lumber, concrete, and sheetrock have increased more than expected.

Contacts in the agriculture sector in Memphis and St. Louis reported that lower crop prices continued to negatively affect their business. Since the previous report, cash prices of wheat and corn decreased moderately. However, prices for sorghum and cotton have increased moderately and the price of soybeans increased slightly, while rice and coal prices did not change.

Consumer Spending

Reports from general retailers, auto dealers, and hoteliers portray a mixed picture of consumer spending activity. General retailers reported moderate sales growth, although contacts in Arkansas and Missouri reported year-over-year declines in April sales tax collection. Sixty-three percent of surveyed auto dealers reported a re-
duction in year-over-year sales halfway through the second quarter. On net, 50 percent expect this negative growth to continue into the next quarter. Hospitality contacts in St. Louis and Louisville indicated a modest increase in business activity after a slow first quarter.

Manufacturing
Manufacturing activity has increased at a moderate pace since our previous report. Several companies across a broad range of industries reported capital expenditure and facility expansion plans, including firms that manufacture textiles, nonmetallic mineral products, transportation equipment, and food products. In a recent survey, contacts reported continued improvement in manufacturing conditions. The majority reported that production, new orders, and capacity utilization increased in the second quarter relative to one year ago. The results are generally unchanged from our previous survey in mid-February. Contacts were generally optimistic about the third quarter, with 65 percent, on net, expecting further growth in production, new orders, and capacity utilization. Despite the optimistic outlook, some contacts expressed concerns about regulatory uncertainty and the difficulty of finding employees.

Nonfinancial Services
Reports from the service sector have been positive since the previous report. More than two-thirds of transportation and service contacts reported that sales met or exceeded expectations in the current quarter. On net, 25 percent of contacts expect sales to be higher in the next quarter than they were at that time last year. Firms that provide transportation, utility, and information technology services reported plans to expand facilities and hire employees. Reports from healthcare firms remain mixed. One major hospital announced layoffs in the Louisville area, citing uncertainty around healthcare reform and low patient volumes. Another healthcare provider cited high costs as a reason for lower-than-expected sales over the past quarter. Other healthcare providers in Louisville and Memphis announced expansions.

Real Estate and Construction
Residential real estate activity has declined modestly since the previous report. Home sales remained flat or decreased in the District’s largest metro areas. Several contacts reported that significant shortages in inventory have hindered sales, particularly in Louisville, as single-family demand has continued to be strong. Local inventory levels are mostly expected to decline further in the coming months. Some contacts noted a beneficial impact from a slight decrease in mortgage rates.

Residential construction improved modestly since the previous report. On net, 40 percent of contacts reported a slight increase in residential construction relative to the same time last year and about the same fraction expect this trend to continue through the third quarter.

Commercial real estate activity has also improved modestly since the previous report. Contacts continued to indicate an increase in demand for both office and industrial properties compared with the same time last year. Meanwhile, most contacts reported no change or a slight increase in multifamily property demand and no change or a slight decrease in retail property demand.

Commercial construction activity remained robust. Local construction contacts reported relatively no change to demand across most property types. Some contacts noted an increase in multifamily and industrial building.

Banking and Finance
Banking conditions continued to strengthen at a moderate pace, driven primarily by strong growth in demand for business and mortgage loans. Demand for auto loans was flat over the period and is expected to remain level over the coming quarter, while overall loan demand is expected to grow at a moderate rate. The creditworthiness of applicants for agriculture loans worsened for a third straight quarter; credit standards for agricultural lending increased relative to a year ago and are expected to continue tightening in the near term.

Agriculture and Natural Resources
Agriculture conditions deteriorated significantly due to flooding across the District. Mid-May percentages of corn and rice crops rated fair or better were down or unchanged from a year ago in every state for which data were reported. Flooding and rain also slowed planting, with planned acreage planted for corn, cotton, rice, and soybeans each below the percentages of the previous year. Cotton was the farthest off last year’s planting pace.

Natural resource extraction conditions improved modestly from the previous report and year. Seasonally adjusted coal production growth was up slightly from March to April, and April production was also 14 percent above last year’s level.

For more information about District economic conditions, visit: www.research.stlouisfed.org/regecon/
Summary of Economic Activity

The Ninth District economy grew modestly overall since the last report. Employment grew moderately, tempered by poor labor availability. Wage pressure was moderate to strong, while price pressure was modest. The District economy showed growth in professional services, construction, manufacturing, energy, and mining. Consumer spending and tourism were mixed, while residential and commercial real estate activity declined slightly, and agriculture remained weak.

Employment and Wages

Employment grew moderately since the last report, tempered by poor labor availability. Initial unemployment claims dropped by 16 percent over the most recent six-week period compared with a year earlier, and continuing claims dropped by 11 percent. April employment figures were strong, and contacts reported healthy labor demand. Job openings were growing in the oil-producing area of North Dakota, including for jobs outside energy production. A Minnesota staffing contact said, “We can’t keep up. I have to say no to clients regularly – there is strong demand from our clients for talent,” but a lack of available workers. A job fair in exurban Minneapolis-St. Paul saw employer booths sold out for the second straight year and a “much longer” wait list for booths. A job-fair contact in Missoula, Mont., said job openings were plentiful and employers were more anxious to fill openings, with some spot hiring. In northern Minnesota, “some businesses are suggesting they may have to cut back in services if they cannot find more workers,” said a regional source. Another said it was “constantly” trying to fill 30 open positions among a workforce of 250. However, there were a number of layoffs, including 200 at a distribution center, 232 at a business services firm, and 250 from an insurer, all in Minnesota. Numerous government agencies also announced labor cutbacks, though many were through attrition.

Wage pressure was moderate to strong since the last report. An ad hoc survey of professional services firms in Minnesota found that average wages were expected to rise about 3 percent in 2017. Anecdotally, contacts said average wages were increasing up to 3 percent, with some technical and health care jobs receiving wage increases closer to 5 percent. In Michigan’s Upper Peninsula, construction workers were seeing 3 percent to 4 percent wage increases. A distribution center in southern Minnesota was hiring again and raised starting wages to $17.50 per hour, the third consecutive annual rise in starting wages, according to a local contact. In western Montana, wages were trending upward, but more modestly because “employers tend to tout benefits and working conditions more than wages.”

Prices

Price pressure was modest since the last report. Just over half of respondents to a Minneapolis Fed survey of District businesses reported that input costs had increased slightly compared with a year earlier, while 40 percent said costs were unchanged. An electrical utility in Minnesota announced plans to raise residential rates 2.7 percent this year, about half as much as it increased rates last year; a Montana electrical utility also announced that it was reducing rates. Most prices received by farmers decreased in March from a year earlier, with the exception of soybeans, milk, chickens, and hogs.
Consumer Spending and Tourism
Consumer spending across the District was mixed since the last report. Car dealers from Rapid City, S.D., reported that used car sales rose by as much as 25 percent, but new car sales remained flat over the past six months. Elsewhere in South Dakota, sales tax revenues were down by 1 percent, indicating a slight downturn in consumer spending in the state. A national shoe store chain was closing eight stores across the Ninth District due to bankruptcy. Benefiting from healthy home construction in Minnesota, a tile-supply chain store saw first-quarter sales increase by 9 percent from the previous year.

Tourism conditions were mixed since the previous report. Canadian tourists decreased across Ninth District states, which tourism officials attributed to the exchange rate. However, tourists from China and across the United States continued to show up in record numbers to national parks in Montana. With high levels of snow still on the mountains of Montana, ski resorts reported record numbers of visitors.

Services
Professional services activity was up modestly. A scanning technology firm saw increased business, due in large part to increased activity in construction and engineering. A law firm with offices across the Ninth District reported increased business associated with security risks and concerns. An electronic health records software firm witnessed an uptick in business since the last report.

Construction and Real Estate
Construction activity was up modestly since the last report. An industry count of total nonresidential construction projects in the District showed an increase compared with the same period a year earlier, including a notable increase in local government projects. Commercial permitting in April rose in Fargo, N.D., Sioux Falls, S.D., and Rochester, Minn., but was flat in other regions, and declined in Minneapolis and Rapid City. Strong multifamily housing development continued in many District markets. But construction in other commercial sectors was slower, according to industry contacts, particularly in Minneapolis-St. Paul. Residential building, on the other hand, strengthened since the last report. Sizable increases in the number of permitted, single-family homes in April occurred in Minneapolis-St. Paul, Rochester, and Missoula, with smaller increases in Billings, Mont., and St. Cloud, Minn. Home building remained lower among North Dakota metros.

Commercial real estate declined slightly since the last report, though from strong levels. Retail and office vacancy rates in Minneapolis-St. Paul ticked higher, while industrial rates remained unchanged. Commercial real estate transactions also slowed slightly. Thanks to significant new construction, hotel occupancy rates in Minnesota were expected to decline, leading to a drop in average room rates by the end of the year, contacts said. Residential real estate slowed, much of it reportedly due to low inventory. April home sales were lower in the Flathead region of Montana, as well as in northern and western Wisconsin counties. In many cases, slow April sales followed strong March sales. In Minnesota, March home sales rose 8 percent, only to fall by 11 percent in April. In Sioux Falls, April sales fell 11 percent after jumping 18 percent in March, but April median prices there were up 6 percent from a year earlier, according to an industry source. “Buyer demand has not abated, nor is it expected to in the immediate future.”

Manufacturing
District manufacturing activity increased modestly since the last report. An index of manufacturing conditions produced by Creighton University indicated increased activity in April compared with a month earlier in Minnesota and the Dakotas. Respondents to an annual survey of Minnesota manufacturers indicated the highest level of confidence in the 10-year history of the survey. A truck trailer manufacturer was expanding into a recently shuttered boat factory in Minnesota. However, a plant that produces matches was shut down in Minnesota, and a producer of residential construction materials delayed plans to open a new plant.

Agriculture, Energy and Natural Resources
District agricultural conditions remained weak since the previous report because of continued low commodity prices. However, growing conditions have improved. After heavy rains slowed early planting, progress as of mid-May was roughly on par with five-year averages in most District states. Activity in the energy and mining sectors increased. District oil and gas drilling as of mid-May increased slightly from a month earlier. A Montana gold mine announced plans to expand, and a Minnesota iron mine began producing a new ore output.
Summary of Economic Activity

Economic activity in the Tenth District continued to increase moderately in April and early May, and most sectors expected continued growth in future months. Professional, high-tech, and transportation firms reported a strong increase in sales, and manufacturing activity expanded at a moderate pace. District real estate activity rose moderately, and consumer spending contacts reported a modest increase in sales. District energy activity also expanded modestly compared to the previous survey period, and bankers reported steady overall loan demand, stable deposit levels, and a slight decline in loan quality. Agricultural credit conditions remained weak, with subdued farm income and continued low commodity prices. Employment and employee hours continued to increase at a modest pace in late April and May, and contacts in most sectors reported moderate wage growth. Input prices were up slightly over the previous survey period, while selling prices held steady in most sectors.

Employment and Wages

Overall District employment and employee hours continued to increase at a modest pace in late April and May, and expectations were positive for the coming months. Contacts in the retail, wholesale trade, transportation, professional and high-tech, real estate, tourism, and manufacturing sectors noted an increase in employment over the previous survey period, while contacts in the auto, health services, and restaurant industries noted a decline. All sectors except auto, restaurants, and tourism reported positive expectations for employment in the coming months. Average employee hours for the services sector rose modestly over the previous survey period, while the manufacturing sector saw a slight decline but was on par with year-ago levels. Average employee hours’ expectations for both the services and manufacturing sectors were positive. Respondents noted a shortage of commercial drivers, skilled technicians, and service workers.

Contacts in most sectors reported moderate wage growth, and anticipated continued moderate wage growth in the coming months.

Prices

Overall, input prices were up slightly compared to the prior survey period, while selling prices rose or held steady, and contacts expected additional price increases in the months ahead. Respondents in the retail sector reported modestly higher input and selling prices, with both expected to rise moderately moving forward. Restaurant input prices were up slightly, while selling prices held steady. In the transportation sector, input prices edged up and selling prices were stable. Construction prices rose moderately, and expectations were for moderate price increases in the coming months. Manufacturers reported slight growth in prices for finished goods, and raw material costs continued to edge higher. Manufacturers anticipated modest increases in both finished goods and raw material prices over the next few months.

Consumer Spending

Consumer spending activity continued to rise modestly, while expectations for future growth increased at a strong pace. Retail sales expanded slightly over the previous survey period and were moderately above year-ago levels. Several retailers noted an increase in sales for outdoor and sale items, while luxury products sold poorly. Contacts anticipated sales to rise strongly in the next few months, and inventory levels were expected to moderate. Auto sales fell modestly but were above year-ago levels. Dealer contacts anticipated a strong increase in sales for the months ahead. Auto inventories were expected to remain mostly flat heading forward. Restau-
rant sales fell moderately but were above year-ago levels. Contacts expected a strong rebound in activity heading forward. District tourism activity increased moderately and remained above year-ago levels. Tourism contacts expected strong activity heading into the summer months.

Manufacturing and Other Business Activity
Manufacturing activity expanded at a moderate pace in April and early May, and most other business contacts reported increased sales. Manufacturers reported continued modest growth in production, particularly for metals, machinery, and aircraft products. Shipments, new orders, and order backlogs expanded slightly, and activity was modestly higher than a year ago. Manufacturers’ capital spending plans were mostly positive, and firms’ expectations for future activity remained favorable.

Outside of manufacturing, professional, high-tech, and transportation firms reported strong sales increases, while wholesale trade contacts indicated a smaller increase in sales than the previous survey. All firms expected a moderate improvement in sales in the next six months. Professional, high-tech, and wholesale trade firms reported strong capital spending plans, while transportation firms anticipated more modest growth in capital expenditures heading forward.

Real Estate and Construction
District real estate activity rose at a moderate pace since the previous survey period, and contacts expected additional gains moving forward. Residential home sales and prices were slightly higher than year-ago levels and expectations were for continued growth. Sales of low- and medium-priced homes outpaced sales of higher-priced homes. Inventories in residential housing were moderately below year-ago levels, but expectations were for a modest increase in the months ahead. Activity in residential construction increased at a moderate pace as new home sales, housing starts, and inventories rose. Commercial real estate activity continued to increase at a modest pace over the previous survey period as vacancy rates declined and absorption, completions, construction, sales, prices and rents rose. The commercial real estate sector was expected to increase at a modest pace in the coming months.

Banking
Bankers reported steady overall loan demand for the period from April through early May. A majority of respondents indicated a steady demand for commercial and industrial, residential real estate, agricultural and consumer installment loans. While most bankers reported stable demand for commercial real estate loans, a relatively higher proportion than other types indicated increasing demand. Most bankers indicated loan quality was unchanged compared to a year ago, although nearly one third reported a slight decline in quality. In addition, most respondents expected loan quality to remain essentially the same over the next six months. Credit standards remained largely unchanged in all major loan categories. Finally, a majority of respondents reported stable deposit levels.

Energy
District energy activity expanded modestly compared to the prior survey period, and expectations remained positive. The announcement by OPEC and Russia to maintain production quotas through early 2018 was seen as contributing toward rebalancing the oil oversupply. The number of active oil and gas drilling rigs continued to increase, particularly in Oklahoma. Some respondents commented that mostly stable prices have helped promote increased drilling activity, but they continued to closely monitor the effects of price changes on budgets. Contacts also reported further slight increases in services costs for well completions.

Agriculture
Persistently weak farm income continued to weigh on the District’s farm economy and agricultural credit conditions. District contacts reported that wheat and corn prices remained below profitable levels. Soybean prices were also lower than in the previous year, but remained mostly profitable. Cattle prices increased since the previous reporting period and feedlots reported a modest increase in profits. However, adverse weather and wildfires in the western portion of the District reduced production expectations for cattle and wheat in the region. More generally, bankers in the western portion of the District reported a sharper decline in farm income and credit conditions than bankers in the eastern portion. Overall, District bankers continued to report weaker repayment rates on agricultural loans and an increase in borrowers with carry-over debt.

For more information about District economic conditions visit: www.KansasCityFed.org/Research/RegionalEconomy
Summary of Economic Activity

The Eleventh District economy continued to expand at a moderate pace over the past six weeks. Manufacturing output rose, and activity in nonfinancial services increased. Retail sales strengthened slightly, despite some reports of softening in auto sales. Housing demand grew, lending activity increased, and the energy sector saw further improvement. Production prospects for crops were mostly favorable. Employment and wages rose, as did prices. Outlooks generally improved, although a few firms noted they were in wait-and-see mode due to uncertainty surrounding U.S. trade policies.

Employment and Wages
Overall employment rose moderately, and upward wage pressures were similar to the last report. Manufacturers added to payrolls, with some noting that labor shortages were putting pressure on wages. Hiring in the services sector continued, including slight job gains in retail. The construction labor market generally remained tight, although a slight easing in the availability of workers and an easing in upward wage pressures was noted. Staffing firms noted a surge in demand for white-collar workers in the oil and gas industry, and energy firms cited upward wage pressures, particularly for certain skills sets and experienced personnel. Leisure and hospitality contacts said they have not been able to fill many entry-level and seasonal positions due to a lower number and inferior quality of applicants compared with past years.

Prices
Selling prices generally increased over the reporting period. An exception was in retail, where prices held steady. Some leisure and hospitality contacts reported increased pricing power, and oilfield service firms reported higher prices, reflecting a pickup in demand for their services. Construction contacts noted higher lumber prices, while auto dealers reported downward pressure on margins, particularly for new vehicle sales. Retail gasoline and diesel prices fell over the reporting period as softer oil prices, high product inventories and slowing demand growth weighed on markets. Cattle prices experienced a strong spring rally, supported by solid domestic and international demand for beef. Corn and sorghum prices remained near breakeven levels, while wheat prices were below production costs.

Manufacturing
Expansion in the manufacturing sector continued over the past six weeks. Output growth picked up for nondurables, and remained positive for durables, particularly for nonmetallic mineral product, primary metals and fabricated metals manufacturing. Outlooks stayed positive, although a few firms expressed concern regarding trade policy uncertainty.

Refinery utilization rates increased across the U.S. as the spring maintenance season wrapped up. Contacts said that 2017 will likely be a difficult year for the refining business because large product inventories and expectations of slower demand growth will likely keep margins low. Gulf coast chemical producers noted both healthy global demand and margins. The outlook for domestic chemical manufacturers remained optimistic due to expectations of persistent raw materials cost advantages over their international counterparts.
Retail Sales
Retail sales rose at a slightly faster pace than the previous reporting period, and outlooks were positive. Contacts continued to express concern about weak sales along the Texas-Mexico border, although luxury retailers in this region were expected to fare better than other retailers. Auto sales rose but there were some reports of softening in sales. Contacts said auto dealers were seeing rising inventories and declining margins. Auto lenders have tightened credit amid an increase in delinquencies.

Nonfinancial Services
Demand for nonfinancial services expanded moderately over the past six weeks, and outlooks remained fairly optimistic. Most staffing firms said demand increased since the last report, and all contacts noted that orders were up year over year. Staffing demand remained particularly strong in Dallas, and Houston saw an uptick as well, albeit a smaller one. Professional and technical service firms cited revenue gains, with several firms noting a pickup in activity. Transportation service firms mostly reported higher revenues and increased cargo activity. Rail cargo rose, with continued strength in shipments of grains and crushed stone, which is used for fracking sand. Air and parcel shipments were up, while trucking cargo volumes were flat. Reports from the leisure and hospitality sector were mixed, with some noting increased activity and others reporting declines.

Construction and Real Estate
Home sales rose during the reporting period, although respondents noted persistent softness at the higher end. Contacts said the spring selling season was shaping up well, with year-to-date sales mostly on or ahead of plan for builders. However, buyers remained price sensitive, making it difficult to raise prices despite higher costs, squeezing builders’ margins. Contacts said builders are becoming more selective in lot purchases due to high prices, and some are shifting their focus to bringing more moderately priced products to market. Outlooks were positive, and overall sentiment in Houston was more upbeat than this time last year.

Apartment leasing activity in Houston was better than expected, and one contact noted that absorption (year to date through April) was slowly returning to a more normal pace. Apartment construction remained elevated in Dallas-Fort Worth (DFW), but was moderating in Austin. Financing for new multifamily properties remained difficult to obtain.

Office leasing activity was solid in DFW, but continued to be sluggish in Houston. Industrial demand was holding up in DFW, but there was some concern about the elevated level of construction.

Financial Services
Loan demand increased in the district over the reporting period. Total loan volumes expanded, with a substantial portion of the gains concentrated in commercial and industrial (C&I) lending and in residential and commercial real estate (CRE) loans. Lenders reported higher net interest margins and non-interest income, improved loan performance, and a slight tightening of credit standards on C&I and CRE loans. Deposit volumes expanded over the past six weeks, supported by an increase in interest rates. The outlook for the next six months or so was mostly optimistic, with expectations of improved loan demand and business activity.

Energy
Demand for oilfield services continued to improve, and firms noted receiving higher prices for their services, particularly in the Permian Basin. Drilling activity rose further in the Permian and Eagle Ford regions. Several contacts said the increase in the rig count is likely not sustainable and expect that it will taper off or even plateau around mid-2017. Outlooks remained positive, although contacts were more guarded in their optimism compared with the previous report.

Agriculture
Moisture levels remained favorable across the district. The wheat crop was in good shape and harvest was getting underway, although acreage was down from last year because prices were below the cost of production. Production prospects for corn and sorghum were strong. This year is expected to be a good one for Texas cotton, with a sharp rise in acres planted prompted by relatively high prices, and strong yields expected due to good subsoil moisture. Demand for cotton continued to be strong, particularly for exports.

For more information about District economic conditions visit: www.dallasfed.org/research/texas
Summary of Economic Activity

Economic activity in the Twelfth District continued to expand at a moderate pace during the reporting period of April through late May. Overall, price inflation was steady. The labor market tightened further, while upward wage pressures grew moderately overall. Sales of retail goods grew modestly, and growth in the consumer and business services sectors remained strong. Manufacturing activity picked up to a modest pace, and conditions in the agriculture sector were mixed. Contacts reported continued strong activity in residential real estate markets. Lending activity grew at a moderate pace.

Employment and Wages

On balance, the labor market tightened further, and contacts reported continued moderate wage gains. In the technology, financial services, and health-care sectors, demand for skilled information technology (IT) labor remained strong, pushing up wages for those workers. Contacts in the hotel industry noted widespread strong upward wage pressure for all positions, with one contact reporting plans to raise workers’ wages. Recent changes in immigration policy created substantial labor supply shortages for low-skilled workers in the agriculture sector; as a consequence, some growers discarded portions of their harvest. Several contacts observed that applicants for some low-skilled positions did not meet the minimum job requirements or were unable to pass pre-employment screenings such as drug tests. Cost pressures in the steel industry resulted in employment reductions and slowed wage growth.

Prices

Overall, price growth was steady over the reporting period. Electricity prices expanded at a moderate pace. Prices for branded and generic pharmaceuticals continued to increase more slowly than in previous years. Competitive pressures pushed down prices for cloud computing services and data storage. Price growth in the apparel industry declined, as consumers continued a long-run shift from designer products towards lower-priced substitutes. Contacts in the restaurant industry reported that increased labor costs via minimum wage increases were passed along to consumers.

Retail Trade and Services

Overall, retail sales expanded at a modest pace. Sales at clothing and accessories retailers improved modestly, but one contact reported that bankruptcies and store closures were on the rise. Sales of beverage products rebounded from a slow first quarter, although vendors without an online presence continued to lose market share to online sales. Demand for automobiles weakened and inventories rose. Contacts expect vehicle sales to continue to decline. Pharmaceutical sales growth slowed somewhat.

Activity in the consumer and business services sectors remained strong, with growth varying by industry. Demand for IT business services remained robust due to investments in cloud computing and big data solutions in the financial services, health-care and manufacturing sectors. However, demand for legacy IT services continued to soften. E-commerce sales continued to drive strong domestic demand for transportation services. Hotel bookings edged up from the same period last year, but contacts reported that changes in immigration policy slowed international arrivals markedly. The possibility of increases in infrastructure spending boosted demand for engineering services. Demand for business consulting
services slowed somewhat, and contacts noted that any optimism regarding potential federal government policies to reduce corporate tax burdens had not translated into increased investment in many industries.

**Manufacturing**

On balance, manufacturing activity picked up to a modest pace during the reporting period. In the aerospace and defense industry, capacity utilization improved modestly. Deliveries of commercial aircraft slowed somewhat from the same period in the previous year, but new orders doubled. Credit demand from manufacturers picked up, and a few contacts reported that previously delayed investments were moving forward. Increased investment spending in the manufacturing sector and continued strength in residential construction lifted the demand for steel and fabricated metals. Sales of semiconductors stayed strong; however, concerns remained over the elevated dollar and potential changes in trade policy. Contacts reported that manufacturers’ demand for energy in eastern Washington was flat.

**Agriculture and Resource-Related Industries**

Conditions in the agriculture sector were mixed. A wet winter in much of the West boosted water supplies and improved crop yields. However, cool wet weather delayed some plantings in Idaho. One contact in the Mountain West noted that credit demand from the agriculture sector softened as overall growing conditions remained challenging and yields were down somewhat. Demand from canneries for tomatoes softened, and the number of new tomato plantings is expected to decline. While contacts in the agricultural export sector reported optimism that rising global demand would boost overall sales, they continued to express concerns over competition from foreign producers and the still elevated dollar.

**Real Estate and Construction**

Real estate market activity continued to grow at a strong pace, but activity varied by region. Residential construction activity remained strong in urban centers but slowed to a moderate pace in some rural regions, due in part to especially wet ground conditions in areas of the Mountain West. Permits for single and multi-family units edged up, but contacts noted that construction was somewhat hampered by shortages of available land in some areas. Supply shortages and strong demand continued to fuel rapid home price growth in most parts of the District; contacts in urban centers reported that bids routinely came in significantly above the asking prices. Demand for commercial real estate loans in California remained strong.

**Financial Institutions**

Lending activity continued to grow at a moderate pace over the reporting period. In parts of the Northwest, loan demand jumped after a slow start to the year. Demand for automobile loans slowed. A few contacts reported increased use of personal credit lines. Deposit growth continued to expand at a moderate pace. Delinquency rates for automobile loans increased, but overall credit quality remained at a high level. A few contacts reported that increased competition among lenders contributed to a softening of loan standards. Liquidity remained ample.