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.
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.

This report was prepared at the Federal Reserve Bank of Minneapolis based on information collected on or before October 6, 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
Reports from all 12 Federal Reserve Districts indicated that economic activity increased in September through early October, with the pace of growth split between modest and moderate. The Richmond, Atlanta, and Dallas Districts reported major disruptions from Hurricanes Harvey and Irma in some areas and sectors, including transportation, energy, and agriculture. Manufacturing activity and nonfinancial services expanded modestly to moderately in most Districts. Retail spending rose slowly, while vehicle sales and tourism increased in most Districts. Residential construction continued to increase, and growth in commercial construction was up slightly on balance. Low home inventory levels continued to constrain residential sales in many areas, while nonresidential real estate activity increased slightly overall. Loan demand was generally stable to modestly higher. Growth in the energy sector eased slightly. Agricultural conditions were mixed; while some regions were reporting better-than-expected harvests, low commodity prices continued to weigh down farm incomes.

Employment and Wages
Employment growth was modest on balance, with most Districts reporting flat to moderate increases. Labor markets were widely described as tight. Many Districts noted that employers were having difficulty finding qualified workers, particularly in construction, transportation, skilled manufacturing, and some health care and service positions. These shortages were also restraining business growth. Firms in several Districts reported that scarcity of labor, particularly related to construction, would be exacerbated by hurricane recovery efforts. Despite widespread labor tightness, the majority of Districts reported only modest to moderate wage pressures. However, some Districts reported stronger wage pressures in certain sectors, including transportation and construction. Growing use of sign-on bonuses, overtime, and other nonwage efforts to attract and retain workers were also reported.

Prices
Price pressures remained modest since the previous report. Several Districts noted increased manufacturing input costs, but in most cases these weren’t passed through to selling prices. Retail prices generally increased slightly. Transportation, energy, and construction materials prices increased more rapidly, with some Districts citing effects from hurricanes.

Highlights by Federal Reserve District

Boston
Economic activity expanded at a modest to moderate pace since August, according to contacts. Respondents in manufacturing, retailing, and software and IT services said revenues continued to increase year over year. Commercial and residential real estate market conditions were mostly unchanged. Looking forward, business contacts remained upbeat about the outlook.

New York
The District’s economy has continued to expand at a moderate pace since the last report, while labor markets have been tight. Input prices continued to rise moderately, while selling prices rose more modestly. Housing markets have strengthened somewhat, on balance, but commercial real estate markets have been flat.
Overall, economic activity continued at a modest pace of growth. Most sectors, including manufacturing and nonfinancial services, continued to grow modestly. Non-auto retail sales showed slight improvement, and auto sales grew modestly after declining in the previous period. On balance, employment changed little, while wages and prices continued to grow modestly.

Business activity increased from that of the previous reporting period, but the overall pace of growth was moderate. After slowing during the summer months, hiring picked up across industries. Input price pressures outpaced selling price pressures. Retail store spending was flat; auto sales rose. Nonresidential construction remains healthy, but there are signs the industry may be slowing.

The economy expanded moderately. Manufacturing and port activity picked up, retail sales rose, and tourism remained strong. Commercial real estate leasing and lending activity increased modestly. Labor markets strengthened and wage pressures broadened. Prices rose moderately, partially due to supply chain disruptions from the hurricanes.

Economic conditions improved modestly since the last report. Tightness in the labor market continued with few reports of wage pressures. Input cost pressures were subdued. Non-auto retailers cited steady sales growth. Tourism, energy, and agriculture were impacted by Hurricane Irma. Home sales and prices increased. New orders and production rose. Credit was available to most borrowers.

Growth continued at a modest rate. Employment, business spending, and manufacturing increased modestly, while consumer spending increased slightly. Construction and real estate activity was little changed, as were financial sector conditions. Wages and prices rose modestly. Contacts expected the District’s corn and soybean harvests to be close to trend.

Economic activity has continued to improve at a modest pace since our previous report. The District continues to see relatively stronger growth in both manufacturing and banking sectors, although growth in both sectors has decelerated somewhat since the beginning of the year.

Economic activity grew modestly. Despite employer demand, job growth suffered from a lack of available workers. Tourism saw growth, but consumer spending overall showed some signs of weakness. Home construction rose, while home sales fell due to tight inventories. Commercial construction continued to lag. Manufacturing and mining activity picked up.

Economic activity in the Tenth District continued to expand modestly, and expectations for future growth were positive in most sectors. Retail sales increased modestly, the manufacturing sector expanded moderately, and transportation and wholesale trade firms noted strong sales. However, growth in the energy sector eased, and the agricultural sector continued to soften.

Economic activity grew moderately. The impact from Hurricane Harvey varied by location and industry, and most contacts do not expect significant long-term disruption. The manufacturing sector exhibited notable strength with stronger output, increased hiring, and a pickup in price inflation. Auto sales surged in response to the loss of storm-damaged vehicles, and labor market shortages persisted and may become more acute as hurricane recovery continues.

Economic activity continued to expand at a moderate pace. Overall price inflation was flat and remained low, while upward wage pressures strengthened somewhat and conditions in the labor market tightened further. Sales of retail goods picked up, and growth in the consumer and business services sectors remained strong. Conditions in the manufacturing sector improved. Activity in the residential real estate market was strong.
Summary of Economic Activity

Most business contacts in the First District reported modest to moderate year-over-year revenue increases in recent weeks. Both retailers and manufacturers cited sales and revenue improvements and most software and information technology services firms reported strong results. Commercial real estate conditions in the region were reported to be unchanged from the last report, with office leasing activity steady, albeit at different paces in individual markets. Residential real estate contacts also cited little change, with low inventories and rising home and condo prices. Most firms said they were doing only modest net hiring, although some raised wages. Manufacturing firms mentioned price increases somewhat more often than in the recent past. Firms in the District retained a positive outlook.

Employment and Wages

Most First District business contacts reported little change in regional labor markets. Some retailers reported that they have raised their wage offers somewhat in order to attract new hires. All manufacturing contacts said that employment grew in line with expectations; in most cases, that meant that employment did not grow by much. A tech contact selling online backup solutions was aggressively hiring. Other software and IT services contacts were hiring in the low single-digit percentages; all noted the labor market for technical positions remained tight globally, and particularly in New England.

Prices

Contacts reported some price increases this round. Retailers indicated that prices for goods remained steady, though one contact in the hardware industry said that paint prices had recently gone up 5 percent. Several manufacturing contacts reported price increases. A packaging firm recently raised prices 10 percent; they also reported an 8 percent to 10 percent increase in material costs over the year, although they said that materials prices remained well below levels from a few years ago. A chemical manufacturer said customers accepted a price increase more easily than expected. A manufacturer of frozen fish said it had reduced discounts.

Retail and Tourism

All responding retailers reported that sales improved over the last six weeks. Whereas previous reports sometimes cited flat or negative year-over-year results, contacts this round reported year-over-year comparable-store gains in the 2 percent to 4 percent range. Consumers reportedly spent on clothing, furniture, and home improvement items. Contacts were generally optimistic that the recent positive sales trend would continue through the end of the year.

The most recent year-over-year results for the tourist industry run through August: compared to 2016, international air travel to Boston increased 11 percent; in total, domestic and international air travel to Boston rose 6.2 percent. Hotel occupancy rates for August were 1 percent higher in the Boston area than a year earlier, while the average monthly room rate was up almost 3 percent year-over-year. This strong performance alleviated some previous concern that a slower trend in tourism during the first half of the year would continue into the high summer-fall travel season. A tourism contact noted that hotels are facing increasing competition from alternative lodging sources, which may partly account for a slight drop in 2017 year-to-date occupancy rates. However, this contact hypothesized that the options offered by non-traditional lodging services may appeal to leisure
travelers who are more sensitive to price, and that a traditionally expensive destination like Boston could see an overall increase in tourism as a result.

Manufacturing and Related Services
Based on an unusually low number of respondents this round, 60 percent of manufacturing firms reported higher sales in line with expectations. One contact reported a decline driven mostly by disruptions in its chemical business due to the hurricanes; specifically, a plant delivering a key input was destroyed by Hurricane Harvey and the firm temporarily shifted its sourcing to costlier South American sources. A toy manufacturer also reported some hurricane-related problems related to plastic supply. Neither firm expected any long-term effects from the Hurricane. A company that produces packaging used by Internet retailers reported strong sales growth although lower than in comparable periods in recent years. None of our contacts reported any revisions to their capital expenditure plans.

All responding firms reported a positive outlook with only small revisions from previous rounds. A toy manufacturing contact said they were less optimistic than when they last spoke to us, but still optimistic.

Software and Information Technology Services
Software and IT services respondents serving the healthcare and health devices industries continued to thrive in New England. A healthcare IT firm converted strong demand for new browser-based offerings into 17 percent revenue growth year-over-year. Firms providing IT for manufacturing and online backup experienced low-to mid-teen revenue growth year-over-year. Demand from manufacturing and business customers continued to firm in this quarter. An enterprise software contact continued to struggle, with revenues down 5 percent year-over-year; however, the contact maintained that their market was healthy and demand was steady – their struggles were largely internal.

All contacts were optimistic about the future. The only potentially negative factor was uncertainty surrounding the health care landscape in Washington.

Commercial Real Estate
Commercial real estate contacts in the First District reported that conditions were mostly unchanged since late August. Office leasing activity was steady across the District, but still at a very slow pace in Hartford and Portland and at a decent pace in Providence and Boston. Medical office leasing and related construction gained momentum in Maine. Demand for industrial space remained strong throughout the District, resulting in increases in sales prices and rental rates compared with last year and a modest amount of new construction activity. Investment sales activity in Greater Boston softened a bit amid a modest decline in foreign capital flows, but prices for premier commercial properties in the area reportedly held steady. Also in Greater Boston, apartment construction slowed amid a perceived oversupply of luxury units. Modest increases in loan defaults were reported for retail centers in Maine and for obsolete office buildings in Connecticut.

Contacts expected that commercial real estate activity would at least hold steady moving forward. Some noted downside risks related to potential further increases in interest rates and to proposed federal tax changes.

Residential Real Estate
Heading into the fall, residential real estate markets in the First District faced continuous upward pressure on prices. (All six states and the Greater Boston area reported changes from August 2016 to August 2017.) For single family homes, five out of the seven reporting areas reported increases in closed sales, while Massachusetts and Boston experienced moderate decreases. For condos, closed sales were up in New Hampshire and Rhode Island; other reporting areas experienced no change or decreases. Rising median sales prices were reported throughout the First District. According to a contact in Rhode Island, “Prices have been consistently on the rise, hitting levels that we haven’t seen since 2007.”

Most areas are still struggling with inventory shortages. Except for Connecticut, all areas reported decreases in inventory for both single family homes and condos. Contacts expressed different outlooks on inventory, with those in Massachusetts concerned that shortages were likely to continue.

Looking forward, contacts maintained a positive outlook for substantial demand and stable economic indicators. Respondents said they expected especially strong demand for fully renovated houses and for homes on the lower end of the price spectrum.

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

Economic activity in the Second District continued to expand at a moderate pace in the latest reporting period, and labor markets have remained steady and tight. Input prices continued to increase moderately, while selling prices were up only modestly. Manufacturers reported continued brisk growth in activity, and businesses engaged in wholesale trade and information noted a pickup in activity since the last report. However, contacts in professional & business services and health & education services generally characterized business activity as flat. Consumer spending was generally steady since the last report, while consumer confidence edged up. Housing markets have been mixed but, on balance, a bit stronger, though the high end of the market has been soft. Commercial real estate markets were mostly steady. New residential construction activity has slowed further, while commercial construction has been steady to weaker. Finally, banks reported a pickup in demand for home mortgage loans and lower delinquency rates across all loan categories.

Employment and Wages

The labor market has remained tight. One major employment agency in New York City and another in upstate New York both described the job market as tight but steady, with only modest upward pressure on wages in most industries. Businesses continued to report difficulty finding qualified workers.

Business contacts in manufacturing and in most service-sector industries reported that they have added jobs on net, though to a modest degree. Similarly, hiring plans for the months ahead are subdued but positive, on net.

Overall, wages have continued to rise at a modest pace, though contacts in education & health, leisure & hospitality, and real estate report somewhat more widespread wage hikes.

Prices

Businesses generally indicated that input prices continued to rise modestly, though contacts in retail, real estate, and education & health noted more widespread increases.

Selling prices overall continued to rise modestly, though contacts in the retail and leisure & hospitality industries noted increasingly widespread price increases in the latest reporting period. One noteworthy example has been ticket prices at Broadway theaters, which have been running about 12 percent ahead of comparable 2016 levels. On the other hand, prices of used vehicles have softened, and some general merchandise retailers have recently become more aggressive with price discounting and promotional activity. Education & health firms reported moderate increases in prices received, while contacts in other industries generally reported that selling prices were steady.

Consumer Spending

Retail contacts reported that sales have been mixed but, on balance, flat in recent weeks. Retailers in upstate New York indicated that both traffic and sales activity have been steady and little changed from a year earlier. A general merchandise chain indicates that sales in the District have picked up and were ahead of plan but still down slightly from a year earlier. Retail inventories were generally reported to be steady and at satisfactory levels.

Auto sales, on the other hand, have remained solid. Dealers in upstate New York reported that demand for new vehicles was fairly robust in September and that sales were up from a year earlier, led by strong leasing.
activity. New auto sales across upstate have been near record highs. Used vehicle sales have been steady to modestly stronger. Vehicle inventories were said to be at satisfactory levels. Retail and wholesale credit conditions have remained favorable, according to dealers.

Consumer confidence in the Middle Atlantic states (NY, NJ, PA), which was already at a fairly high level, edged up further in September.

**Manufacturing and Distribution**

Manufacturers reported continued brisk growth in business activity in recent weeks. Contacts in the wholesale trade sector noted a pickup in growth, while those in the transportation industry continued to report modest growth. Looking ahead, manufacturers and wholesalers remained broadly optimistic about the near-term outlook, while transportation firms have grown considerably less optimistic.

**Services**

Service-sector firms generally reported sluggish growth. Contacts in both professional & business services and education & health services noted that activity was flat, on balance, while firms in the information and leisure & hospitality industries noted a pickup in growth. Service sector businesses remained mildly optimistic about the near-term outlook, except in the professional & business services industry, where contacts were considerably less upbeat than in recent months.

Broadway theaters reported that attendance and revenues were fairly strong through the first half of September but have tapered off in recent weeks, with attendance falling below comparable 2016 levels.

**Real Estate and Construction**

Housing markets across the District have been mixed but, on balance, moderately stronger. Real estate contacts in upstate New York report that sales volume has been hampered by a lack of inventory, while prices have continued to climb, with homes often selling for above the asking price. In the suburbs around New York City, home sales volume has been strong and prices have accelerated somewhat, though the high end of the market continues to lag, reflecting excess supply. New York City’s condo and co-op market has strengthened modestly; home prices have continued to rise moderately in Brooklyn and Queens but have risen only slightly in Manhattan. Across the city, the high end has continued to lag; sellers have become more negotiable and this has boosted activity somewhat.

Rental markets have also been mixed. Rents in and around New York City have been rising moderately for smaller apartments but declining for larger and pricier units. Landlord concessions have leveled off but remain fairly widespread.

Commercial real estate markets have mostly remained steady. The market for office space has softened further in upstate New York, Long Island and Brooklyn but has been steady to slightly stronger in Manhattan and northern New Jersey. Vacancy rates for industrial space, which had been declining steadily in recent years, have leveled off in and around New York City, though they have continued to decline in upstate New York. Industrial rents have continued to rise at a brisk pace throughout the District.

Single-family home construction has been sluggish—particularly for low and mid-priced homes—and appears to have tapered off somewhat since the last report. New multi-family construction starts have picked up further in northern New Jersey but have remained lackluster across the rest of the District. Still, there continues to be a good amount of ongoing multi-family construction in progress throughout the District. Similarly, new commercial development—of both office and industrial space—has strengthened further in northern New Jersey but has been increasingly sluggish across the rest of the District.

**Banking and Finance**

Small to medium-sized banks in the District reported higher demand for residential mortgages but no change in demand for consumer loans, commercial mortgages, or commercial & industrial loans. Bankers also reported that refinancing activity decreased, on net. Contacts reported tighter credit standards for commercial mortgages, and unchanged credit standards across all other loan categories. Banks reported higher loan spreads overall, largely reflecting higher spreads on commercial mortgages. Respondents also reported an increase in the average deposit rate. Bankers reported lower delinquency rates across all loan categories.

Summary of Economic Activity

Aggregate business activity in the Third District continued at a modest pace of growth during the current Beige Book period. Manufacturing, nonfinancial services, new home sales, and tourism grew modestly; nonresidential construction and leasing appeared to grow slightly; and nonauto retail sales and new home construction activity exhibited little change. Auto sales, which had declined modestly in the prior period, showed modest growth in the current period. On balance, wages and prices continued to grow at a modest pace, but employment flattened out. Overall, firms appear to anticipate continued modest growth over the next six months, with a larger percentage of firms expecting growth.

Employment and Wages

Employment changed little during the Beige Book period, slowing from a modest pace of growth in the prior period. Reports of net additions to staff were subdued for both manufacturing and nonmanufacturing firms, and most contacts reported no change in staff levels. Average hours worked decreased over the period for manufacturing firms but held steady among nonmanufacturers.

On balance, wage growth held steady at a modest pace. Staffing firms and other contacts generally reported steady wage growth and tight labor markets in certain areas and for certain occupations. One staffing firm noted strong order activity and a need to act quickly to fill positions.

Prices

On balance, prices continued to rise modestly. Among manufacturing contacts, more firms reported increases, particularly in input costs, during the current period than the prior period; slightly fewer service-sector contacts reported input cost increases. A majority of contacts indicated no change in prices paid and received.

Retailers and banking contacts generally noted no signs of inflation, while homebuilders reported further increases in lumber costs. Overall, existing home prices continued to edge up.

Manufacturing

On balance, manufacturing activity continued at a modest pace of growth and showed signs of improvement. Higher percentages of firms reported increases in new orders and shipments compared with the prior period.

Firms in most sectors continued to note gains in both new orders and shipments, including makers of paper products, chemicals, fabricated metal products, industrial machinery, and electronic products.

Generally, manufacturing contacts continued to expect growth over the next six months. The percentage of firms expecting future increases for general activity rose, while it held mostly steady for future increases in capital expenditures and employment.

Consumer Spending

Nonauto retail contacts reported little change in sales, on balance, similar to the prior Beige Book period. An outlet's operator reported modest, but slowing, sales growth in August and September, with strength in shoes and jeans as well as housewares and furniture. Convenience store contacts indicated a slight pickup in traffic and
spending in September, which they attributed more to favorable weather than to a shift in the sales trend.

Auto dealers throughout the region reported modest increases in year-over-year sales this period, an improvement from the modest declines during the prior period. New Jersey dealers indicated that the pickup in sales was driven by incentives and wondered how manufacturers would alter incentives around a spike in demand following the recent hurricanes. Although sales remained generally in line with the high levels seen in 2016, dealers continued to face difficulty sustaining profitability.

Tourism contacts generally indicated a continuation of modest growth. Strong gains were reported from the Poconos and shore locations in Delaware and New Jersey. A New Jersey banking contact indicated that activity remained strong through the end of September, and the shore market had its best year in quite some time. Atlantic City’s casino revenues were flat in August relative to the previous year, propped up by Internet gaming. A Philadelphia analyst noted stronger-than-expected hotel demand but year-over-year decreases in room rates because of fewer citywide conventions this year compared with last year.

Nonfinancial Services
Service-sector firms continued to report modest growth in general activity since the prior Beige Book period, and new orders and sales strengthened further, on balance. One large service-sector firm noted continued improvement in the payment performance of its customers. Expectations about future growth remained elevated, with nearly 60 percent of the firms anticipating increased activity.

Financial Services
Financial firms reported modest growth of overall loan volumes (excluding credit cards) — similar to the prior Beige Book period. Loan volumes grew modestly in most categories, including auto loans and other consumer loans, while commercial real estate loans grew slightly. Commercial and industrial loan volumes improved over the period, posting modest growth following declines over the prior Beige Book period. Credit card volumes — which are highly seasonal — continued to grow at a modest rate over the Beige Book period but outpaced growth in the comparable year-ago period. In general, banking contacts tended to describe economic growth as slow and steady.

Real Estate and Construction
Homebuilders generally reported little change during the current period, similar to the previous period. The current period covered weeks that are typically slow for traffic and contract signings; some builders reported no real pickup at the end of September following the expected slow period.

Brokers in most major Third District housing markets continued to report modest growth of existing home sales, but no increase of inventories. One broker noted general slowing in pending sales and does not expect the supply of homes to significantly increase for some time.

Nonresidential real estate contacts continued to report slight growth in construction and leasing activity. Contractors reported that despite a slight softening over the summer, overall, labor hours have picked up in September, suggesting more new construction activity. This year has been the second most active year in the past five years (behind 2016), and contacts expect activity to keep up in 2018.
Summary of Economic Activity

Economic activity in the Fourth District expanded at a moderate pace since our last report. Labor markets expanded broadly, with employers looking for low- and high-skilled workers. Wage pressures were felt primarily in the construction and nonfinancial services industries. Upward pressure on prices paid increased across industry sectors; however, producers and service providers found it challenging to raise selling prices. Consumer spending at retail establishments was little changed, while new motor vehicle sales strengthened. Manufacturing output grew at a modest pace overall, but production at District motor vehicle assembly plants trended lower. Nonfinancial services and freight transport firms saw moderate gains in activity. Year-to-date residential real estate sales stayed above year-ago levels. Base prices for new homes rose. Activity in the commercial real estate market remained elevated.

Employment and Wages

The past two months saw a boost in hiring across all reporting industries, with the strongest activity seen in construction, banking, and nonfinancial services. Many of our contacts reported creating new jobs during the current cycle, and a majority said that they have replaced departed workers. Greatest demand was for high-skilled workers, such as engineers and those in the building trades, and for low-skilled workers. Demand for the latter group was attributed to difficulties in retaining employees. A building contractor reported that his firm recently hired 15 newly graduated engineers and has openings for 10 additional entry-level engineers, but the firm has difficulty attracting qualified candidates. A chamber of commerce executive said that in order to avoid employee turnover, firms are incentivizing workers with bonuses and higher wages. This strategy has resulted in narrowing the wage gap between low- and middle-wage workers, drawing criticism from middle-wage workers. Competitive market conditions were cited as the primary factor for increasing wages, particularly in the construction and nonfinancial services sectors.

Prices

Upward pressure on prices paid increased moderately across industry sectors since our last report. The share of contacts who cited rising input prices is at its highest level since early in the second quarter and was most widespread in the manufacturing and construction sectors. Several manufacturers reported rising prices for ferrous metals, increases which they attributed in part to domestic trade policies. For the most part, these higher input prices were passed through to the end user. Prices for natural and synthetic fabrics used in apparel manufacturing remain at a relatively low level. Selling prices rose slightly overall during the current cycle, and the share of companies increasing prices for their products or services was lower than in the first half of 2017. Several manufacturers and service providers reported that close scrutiny by customers’ procurement officers combined with global competition is making it difficult for them to raise their selling prices.

Consumer Spending

Retailers reported little change in consumer spending during the period. Department store chains are seemingly performing better than their specialty counterparts.
One department store chain cited increased demand, which was qualified by citing an increase in traffic. A fast food chain reported much better results because of the introduction of new products and technology. An apparel retailer believes the removal of the border-adjustment tax proposal from the federal tax reform debate has eliminated an element of uncertainty and risk to the retail industry. Year-to-date unit sales through August of new motor vehicles rose almost 3 percent compared to those of a year ago. Auto dealers were concerned about above-normal new-vehicle inventory, which they attributed to an imbalance in supply and demand.

Manufacturing
Activity in the manufacturing sector picked up from that of the previous reporting period; however, the overall pace of growth was modest. Several of our contacts cited confidence in the economy on the part of customers as the primary contributor to a rise in new orders. Other factors cited as contributing to the expansion in output include a strong housing market and strengthening in the oil and gas and primary materials industries. A few contacts reported an increase in orders for capital goods. Demand for consumer packaged products remained below projections. Year-to-date production through August at District auto assembly plants declined about 18 percent when compared to that of the same period a year earlier. Much of the decline can be attributed to retooling for three next-generation vehicles. The pickup in spending for structures and product development that began in the second quarter has weakened. However, contacts reported increased spending on IT equipment and services. Many manufacturers remain bullish in their outlook for the economy.

Real Estate and Construction
Year-to-date unit sales through August of new and existing single-family homes increased almost 2 percent compared to those of a year earlier. The average sales price rose 5 percent. Demand for new homes is stable across price points. Upward pressure on base prices is increasing because of rising development costs and rising prices for labor and materials. Builders are concerned that rising base prices may force some first-time buyers out of the market. Year-to-date estimates of single-family construction starts thru August are about 10 percent higher compared to those of a year earlier.

Nonresidential construction activity remains at elevated levels. Property development was broad based except for retail, for which demand continued to be weak. Backlogs were relatively stable, although three contacts described their backlogs as very strong and higher than projected. That said, contacts reported a downturn in inquiries beginning in the third quarter. One general contractor observed that companies that do site work are seeking jobs. As site preparation is the first phase of a project, this situation is a leading indicator of a potential slowdown in construction activity. Another builder said that in his industry things just sometimes calm down unexpectedly for no particular reason. Office vacancy rates remain stable, and asking rents are slowly rising. A strong increase was reported in selling prices for office properties during the first half of 2017 compared to those of a year ago, while selling prices of industrial properties were stable. Apartment rental increases were moderate.

Banking
On balance, business lending grew slightly over the period. Community bankers were more upbeat in their assessment of credit markets than were their counterparts at large banks. A few large bankers reported that loan demand is softening because of political uncertainty, with customers taking a wait-and-see approach. Consumer lending was largely stable. Fixed-rate purchase mortgages were in high demand, while credit card lending has softened, a situation one banker attributed to seasonal factors. Bankers reported improving loan quality. Loan application standards were little changed other than some easing in auto lending.

Nonfinancial Services
Freight volume generally increased beyond what can be accounted for by seasonal factors. Two carriers described intermodal as very strong. Other contacts reported increased volume because of a surge in e-commerce and an expansion in the oil and gas industry. There is concern about the industry’s facing capacity constraints by year’s end because of electronic logging device requirements and rebuilding from recent hurricanes. Professional and business services firms reported moderate gains in activity during the period. Strongest demand was seen by management consulting and IT services firms. A majority of our contacts reported that their customers are bullish on the economy and as a result are willing to invest more in technology.
Summary of Economic Activity
The Fifth District economy grew at a moderate pace since our previous report, with some respondents attributing increased activity to the recent hurricanes. Manufacturing firms continued to report moderate growth in new orders and shipments. Ports and trucking companies saw robust growth in cargo movements, which was partially due to ships being rerouted to district ports from areas affected by hurricanes. Retail sales picked up slightly, overall, including those for building materials to support hurricane relief efforts. Tourism and travel activity remained strong. Commercial leasing rose modestly, on balance. Loan demand picked up moderately in recent weeks, driven by commercial activity. Services firms generally indicated moderate revenue growth. Labor demand strengthened moderately and wage pressures broadened. Prices rose at a moderate pace. Supply chain disruptions drove some input prices higher.

Employment and Wages
Labor demand continued to strengthen moderately in recent weeks and labor markets remained tight. Although employment agencies reported a slight increase in new job openings, that increase was lower than expected going into the fall recruiting season. They continue to anticipate an increase in openings in coming months. Wage increases remained modest, but more contacts noted increased wage pressures. Executives reported difficulty finding qualified machinists and machine operators, engineers, construction workers and contractors, executive assistants, mechanics, and nurses. Trucking companies continued to struggle finding drivers, despite an increase in drivers’ wages across the industry.

Prices
On balance, prices grew at a moderate pace since our previous report. According to our most recent surveys, manufacturing input prices increased moderately and continued to grow at a faster pace than final goods prices. Manufacturers said that supply chain disruptions from the recent hurricanes drove some raw materials prices higher, particularly for resins, lumber, and petroleum-based products. Services firms indicated that price growth decelerated slightly in recent weeks but remained at a modest level, overall. Agriculture commodity prices increased modestly for poultry, eggs, wheat, and sugar in recent weeks and were expected to rise further as a result of the recent hurricanes. A food manufacturer also expressed concerns about future price increases for plastic wrap. Prices continued to rise for transportation services, construction materials, and health insurance premiums. Coal and natural gas prices rose moderately.

Manufacturing
On balance, manufacturing firms reported moderate growth in new orders and shipments in recent weeks. Medical equipment producers and furniture manufacturers noted a recent pickup in new orders, while metal manufacturers continued to see improved business conditions. Additionally, a packaging manufacturer reported increased shipments with the opening of its new fulfillment center. Contacts generally experienced slightly longer vendor lead times. Expectations remained optimistic for the next six months, as producers anticipated increases in new orders and shipments.

Ports and Transportation
District ports continued to see robust growth in shipment volumes in recent months and expected the strength to persist in coming months. In August, one District port reported its largest volume ever and another reported its
second-largest on record. Ports continued to see stronger growth in imports than in exports. District ports reported seeing increased traffic as incoming ships were rerouted from hurricane-affected areas. Trucking companies also reported strong business conditions, easily loading trucks to capacity. Firms noted that a portion of the recent uptick was a result of the recent hurricanes, as trucks brought relief shipments to affected areas.

Retail, Travel, and Tourism
Retail sales rose slightly, overall, since our previous report. Hardware and construction material providers saw an increase in demand resulting from the hurricane, which led to higher prices of hardware and lumber. An auto dealer in North Carolina reported a slight increase in sales and customer traffic but noted uncertainties about how the hurricanes would affect the used vehicle market. Meanwhile, a sporting goods company in West Virginia said that sales continued to slow as some manufacturers opted to sell directly to customers.

The Fifth District saw strong tourism in recent months. A West Virginia resort experienced bookings 12 percent to 15 percent above expectation. A Virginia outdoor adventure center credited strong business to early fall weather and visiting school groups. Coastal North Carolina witnessed tourism above the seasonal norm, and some businesses claimed it was the best season they have ever had. Some hotels reported an influx of people due to Hurricane Irma evacuations, but believed tourism might be depressed in the near future as hurricane victims might be less likely to travel later this year.

Real Estate and Construction
Residential real estate reports were more mixed compared to the previous report. Agents in Charlotte, Durham, and Washington D.C. reported modest sales growth, but elsewhere most brokers noted a modest decline in home sales as inventory remained low, particularly in the $200,000 to $400,000 price range. Home prices continued to rise modestly. Average days on the market were unchanged since the previous report, most contacts stated that homes were on the market for about 60 days. New home sales improved modestly in recent weeks. A broker said that new home communities in more desirable locations continued to have steady sales, while most builders were keeping standing inventory low.

Commercial real estate leasing rose modestly in recent weeks, as brokers reported more demand in urban locations. Vacancy rates were unchanged from the previous report, with most contacts noting steady, low rates across markets. Rental rates were stable to increasing modestly. Commercial construction accounts were mixed. Office and warehouse construction increased in Raleigh and Charlotte, North Carolina and Charleston, South Carolina, while in Washington, D.C., retail development slowed somewhat. Multifamily construction continued at a steady pace in large urban markets but was limited elsewhere.

Banking and Finance
Overall, loan demand rose moderately in recent weeks. Reports on residential mortgage demand varied by location but was generally described as stable to increasing modestly. On the commercial side, real estate loan demand strengthened moderately, with a notable uptick reported in the greater Raleigh, North Carolina area. Business lending improved slightly, on balance. Deposits grew moderately as bankers reported growth in both CDs and checking accounts. Short term interest rates were reported as unchanged to up slightly. Competition among banks remained aggressive with some reports of extended term durations and non-recourse loans being offered, which led to concerns about softening credit standards. Credit quality remained stable at strong levels. Late payments and delinquency rates trended lower.

Non-Financial Services
Services firms indicated moderate revenue growth, according to our most recent surveys, and remained optimistic for demand to improve further over the next six months. The strongest reports came from construction related services, including civil engineering, home repair, maintenance, and contractor services. Telecommunications services, amusement facilities, and performing arts studios also indicated a pickup in business in recent weeks. A marketing firm in Virginia reported an extension to an existing contract but a lot of competition for new business. Health care service providers were less upbeat and one hospital system administrator expressed concerns over rising insurance costs.

Agriculture and Natural Resources
Coal production was little changed in recent weeks while natural gas production rose slightly. On the whole, agriculture conditions were unchanged as the growing season progressed; however, some farms in South Carolina were flooded by Hurricane Irma. A hardwood producer reported a moderate rise in export demand in the flooring market while cabinetry demand softened somewhat.

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

Aside from hurricane effects, Sixth District business contacts described economic conditions as improving at a modest pace from mid-August through September. The outlook among firms remained optimistic with the majority of contacts expecting growth to be slightly above current levels for the remainder of the year. Most firms continued to cite labor market tightness, but with few reports of wage pressures. Overall input cost pressures were muted. Most merchants cited steady sales growth since the previous reporting period; however, automobile dealers continued to note softening sales. Hospitality, energy, and agriculture contacts reported that activity was greatly affected by Hurricane Irma. Residential real estate contacts suggested that home sales and prices were slightly ahead of last year’s levels. Manufacturers indicated that new orders and production increased. Bankers noted that credit continued to be available.

Employment and Wages

District business contacts reported that job growth was steady since the previous report, though challenges filling construction, information technology, finance, transportation, and nursing positions persisted. Energy sector contacts experienced ongoing difficulties filling skilled craft positions. Firms continued to develop and utilize internal and external training programs to help produce qualified workers. Commercial and residential construction industry contacts further indicated that labor shortages were restraining growth. Businesses continued to engage in partnerships with the educational and workforce development community to fill specific industry or individual firms’ skill gaps. Broadly, businesses continued to use non-wage mechanisms to attract and retain workers. While it is early to gauge the impact of Hurricanes Harvey and Irma on southeastern labor markets, some contacts expect the hospitality, retail, and construction industries to be the most impacted, particularly in Florida and Louisiana.

Wage growth remained steady, with the exception of continued wage pressures for some high-skilled positions and increased reports of rising wages in the construction industry. Business plans for future compensation, on balance, continued to be reported as modest for the coming year.

Prices

Firms reported that overall input costs were mostly flat. Although there were reports of limited pricing power, most businesses have been able to pass along commodity input cost increases. The Atlanta Fed’s Business Inflation Expectations survey showed year-over-year unit costs were up 1.7 percent in September. Survey respondents also remarked that they expect unit costs to rise 1.9 percent over the next twelve months. Early reports from Florida construction contacts indicated that costs, which were already rising, were expected to increase significantly due to hurricane rebuilding efforts.

Consumer Spending and Tourism

Overall, retail sales growth was unchanged since the last report, although contacts in Florida reported an increase in retail sales of building materials in preparation for and following Hurricane Irma. Auto dealers continued to report a slow-down in momentum of auto sales compared to a year ago, though some expect sales to increase from replacement activity due to the hurricanes.

Tourism in Florida was heavily impacted by Hurricane Irma, although it is too soon to gauge the full extent of the impact. Hotels and restaurants remained closed due to power outages and downed trees for up to three weeks on the west coast of Florida while the remainder of the state was functional within a week. Reports from
the Florida Keys indicated that some major hotels and resorts may take up to six months to rebuild. Georgia and Louisiana experienced an uptick in visitors displaced from Florida. In spite of hurricane related set backs, contacts from the tourism and hospitality sector remain optimistic for the remainder of the year.

Construction and Real Estate
Reports from residential real estate contacts in August signaled modest growth prior to Hurricane Irma’s landfall. Builders said construction activity was slightly up from the year-ago level. Many brokers and builders indicated home sales were up slightly relative to the year-ago level. The majority of contacts noted that buyer traffic was flat to slightly down and inventory levels were down from the year-ago level. Both builders and brokers continued to report gains in home prices. Many builders expect home sales to be flat over the next three months relative to the same period last year, while the majority of brokers anticipate slightly higher sales. Most builders expect that construction activity will match or marginally surpass the current pace over the next three months.

Many commercial real estate contacts reported improvements in demand that resulted in rent growth, but cautioned that the rate of improvement varied by metropolitan area, submarket, and property type. The majority of commercial contractors indicated that the pace of non-residential construction activity had increased from one year ago; most reported healthy backlogs. Several reports noted that the pace of multifamily construction matched or exceeded the year-ago level. Commercial construction contacts’ expectations for the pace of non-residential construction were mixed, while their outlook for the pace of multifamily construction leveled off. Florida contacts suggested that construction activity will increase significantly due to hurricane rebuilding efforts.

Manufacturing
Manufacturing contacts indicated that the pace of overall activity increased since the last report. Purchasing managers noted a rise in new orders and production levels, as well as an increase in the pace of hiring. Supplier delivery times were reported as getting longer and finished inventory levels increased somewhat. The overall outlook was relatively unchanged from the previous report, with close to half of firms surveyed expecting higher production over the next six months.

Transportation
Transportation firms reported varying levels of activity since the previous report. Ports experienced continued growth in container trade and roll-on/roll-off cargo. Railroads reported that total rail traffic was down compared with the same period last year as shipments of grain, farm products, petroleum and petroleum products, and non-metallic minerals saw double-digit declines. Intermodal traffic, however, was up moderately. Trucking contacts cited considerable increases in freight volume month-over-month. While Hurricane Irma caused temporary disruptions for Florida transportation contacts, most reported a return to normalcy within a week after the storm.

Banking and Finance
Credit remained readily available for most qualified borrowers, although some small and minority-owned businesses experienced difficulty obtaining credit. Liquidity was plentiful, but competition restrained lending at some banks. Auto dealer contacts described a slowdown in auto lending due to slowing sales and rising interest rates. Credit remained widely available to businesses seeking operating and expansion capital.

Energy
Contacts indicated that inventories decreased as a result of Hurricanes Harvey and Irma. Retail demand continued to put pressure on supply to affected areas, particularly those without pipeline access. Refineries resumed production a few days after the hurricane hit. Utility companies restored power within two weeks to areas affected with the exception of significantly wind damaged locations in the Keys. Overall, contacts reported that utilities continued to experience a decline in residential and industrial sales and commercial sales remained flat.

Agriculture
Agriculture conditions across the District were mixed. Although damage assessments are still being made, Irma’s heavy rains and high winds resulted in significant damage to Florida’s agriculture industry as well as crop damage in parts of Georgia and Alabama. Tennessee’s corn harvest closely tracked the five-year average. The District’s cotton harvest and the soybean harvests in Mississippi and Tennessee were mostly on par with five year averages. Both the Louisiana and Mississippi rice harvests were ahead of their five-year averages. On a year-over-year basis, prices paid to farmers in August were up for corn, broilers, and eggs but were down for cotton, rice, soybeans, and beef.

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 continued at a modest rate in late August and September, and contacts expected growth to continue at that pace over the next 6 to 12 months. Employment, business spending, and manufacturing increased modestly, while consumer spending increased slightly. Construction and real estate activity was little changed, as were financial sector conditions. Wages and prices rose modestly. Contacts expected the District’s corn and soybean harvests to be close to trend, but smaller than last year’s record.

Employment and Wages

Employment growth continued at a modest rate over the reporting period, and contacts expected it to continue at that pace over the next 6 to 12 months. Contacts continued to indicate that the labor market was tight and reported difficulty filling positions at all skill levels. A contact in the construction industry indicated that increased demand in the southern US related to hurricanes Harvey and Irma had forced them to rework their production schedule due to a lack of workers. Across all industries, hiring was primarily focused on professional and technical, sales, and production workers, with a notable increase in the number of contacts looking to hire production workers. That said, a staffing firm that primarily supplies manufacturers with production workers reported little change in billable hours. Wage growth remained modest overall. Contacts most often cited wage increases for professional and technical, sales, and production workers, but there were also reports that growing demand for transportation services was pushing up wages for truckers.

Prices

Prices again rose modestly overall in late August and September. Retail prices were little changed for most categories, though there continued to be reports of rising prices for older used cars. A number of contacts again reported increases in costs for raw materials and employee benefits. Transportation costs were also higher, and one contact attributed some of the increase to elevated demand related to hurricanes Harvey and Irma.

Consumer Spending

Consumer spending increased slightly over the reporting period. Non-auto retail sales were mixed, with growth in the personal services, food and beverage, and discount segments balanced by declines at mainstream brick and mortar stores. Retailers indicated that they expected sales during the upcoming holiday season to be slightly higher than last year. Light vehicle sales strengthened somewhat, and the vehicle mix continued to shift from cars to light trucks. The pace of used vehicle sales slowed a bit.

Business Spending

Growth in business spending remained at modest pace in late August and September. In general, retail inventories were at desired levels, though stocks remained high for cars and low for light trucks, particularly crossovers. Manufacturing inventories were at comfortable levels overall, though steel service center inventories were lower than historical norms. Growth in capital spending remained at a modest rate, and contacts expected growth to continue at that pace for the next 6 to 12
months. Outlays were primarily for replacing industrial and IT equipment and for renovating structures, though there was an increase in the number of contacts reporting spending for expansion. Demand for residential, commercial, and industrial electricity was flat.

**Construction and Real Estate**

Construction and real estate activity was little changed over the reporting period. Residential construction increased slightly, as greater demand for starter homes led more builders to enter the market. There were reports that in some areas newly built starter homes were receiving multiple offers and closing well above the original asking price because of limited availability. Overall, home sales edged lower as tight inventories constrained sales in the low-end segment and weak demand hurt sales in the high-end segment. Home prices were up slightly overall, but growth varied by price level: prices increased noticeably for homes under $250,000, modestly for homes between $250,000 and $500,000, and were down slightly for homes over $500,000. Nonresidential construction edged lower across most market segments. Commercial real estate activity remained strong, and edged up further. Commercial rents increased slightly, vacancy rates moved lower, and the availability of sublease space changed little.

**Manufacturing**

Growth in manufacturing production generally continued at a modest pace in late August and September. Growth did pick up for some industries: Improved international conditions led to solid gains for heavy machinery producers; hurricanes Harvey and Irma boosted sales of construction materials and RVs (FEMA trailers are modified RVs); and heavy truck manufacturers and producers of packing materials reported strong increases in demand. Contacts in most other industries reported little change in conditions. Activity in the auto sector was flat. Demand for steel continued to grow slowly, though producers expected that improved international demand and tight inventories at service centers would soon lead to more orders. Specialty metals manufacturers reported modest increases overall, and highlighted improved demand from the aerospace and defense sectors.

**Banking and Finance**

Financial conditions were little changed on balance over the reporting period. Market participants noted that equity prices remained high and volatility remained low. Business loan demand increased slightly, with growth coming primarily from higher capital equipment and real estate spending by the manufacturing and construction sectors. Contacts again indicated that robust competition was creating pressure to lower rates and loosen terms.

Consumer loan demand increased slightly. Demand for both home and auto loans picked up and quality remained good. That said, an auto dealer indicated that credit continued to tighten for buyers of new cars with low credit scores.

**Agriculture**

Contacts expected both the corn and soybean harvests to be close to trend but smaller than last year’s record. On balance, crop conditions worsened in late August and September as drought conditions spread in the District. In addition, suboptimal weather conditions earlier in the year meant crops were less mature than normal and that the harvest started later than usual. Corn prices moved down (but were still higher than a year ago), while soybean prices were little changed (and slightly lower than a year ago). With the exception of eggs, livestock and dairy prices were down as supplies stayed plentiful. New hog processing plants in Iowa and Michigan were ramping up more slowly than planned because labor was in short supply. Prospects for agriculture incomes declined overall during the reporting period.
Summary of Economic Activity

Reports from contacts suggest economic conditions have continued to improve at a modest pace since our previous report. Labor markets remain tight, with positions remaining unfilled; employment was little changed. Contacts report moderate growth in wages, while broader price pressures remain modest. Reports on consumer spending improved since our previous report, although reports from auto dealers remain mixed. The District continues to see relatively stronger growth in both the manufacturing and banking sectors, although growth in both sectors has decelerated somewhat since the beginning of the year.

Employment and Wages

Anecdotal evidence suggests little change in employment since the previous report. Contacts continued to report difficulties finding experienced or qualified employees. A construction contact in Little Rock noted that high levels of real estate activity have created a shortage of skilled workers, and a transportation contact reported that the shortage of truck drivers worsened. Several contacts reported that potential employees’ lack of transportation to and from work has posed a challenge to hiring.

Contacts have reported moderate growth in wages since the previous report. A contact in Little Rock reported increasing compensation as part of an effort to retain staff, while another contact reported moderate increases for both hourly and salaried employees throughout the area.

Prices

Price pressures have increased modestly since the previous report. Residential real estate prices continued to rise moderately throughout most of the District. Non-residential real estate price pressures were mixed: A contact in Little Rock reported a decrease in industrial rents, while a contact in Memphis reported an increase. Construction costs declined slightly. Steel prices fell slightly, and a contact in Little Rock reported that wood product prices continued to decrease modestly. Due to low water levels, barge rates along the Mississippi and Illinois rivers increased significantly.

Energy prices increased moderately since the previous report. In Illinois and Kentucky, coal prices rose modestly. In Arkansas, Mississippi, and Tennessee, Hurricane Harvey caused relatively strong increases in gasoline prices compared with national prices. Cotton, rice, soybean, and wheat prices increased moderately, while sorghum prices were flat and corn prices decreased modestly.

Consumer Spending

Reports from general retailers, auto dealers, and hoteliers indicate consumer spending has grown modestly since our previous report. Although August’s real sales tax collections decreased in Arkansas and Kentucky relative to a year ago, they increased in Missouri and Tennessee. Consumer confidence increased substantially in West Tennessee, as households indicated their willingness to spend more in the next few months relative to a year ago. Reports from auto dealers were mixed; although some dealers in the Memphis area indicated strong sales, dealers in Little Rock noted slower foot traffic and are less optimistic that 2017 sales will
Hospitality contacts in Missouri and Tennessee indicated that business activity has increased and exceeded expectations since our previous report.

**Manufacturing**
Manufacturing activity has increased moderately since our previous report. Manufacturing production, inventories, and employment growth were all stronger than one month earlier in both Arkansas and Missouri. However, new manufacturing orders grew at a slower rate in both states.

Contacts in several industries across the District reported increased sales, including industrial pipe manufacturing and plastic manufacturing. However, a contact in the plastic product manufacturing industry noted a drop in requests for quotes from new customers. A contact in the wood product manufacturing industry reported that production has outpaced demand.

**Nonfinancial Services**
The nonfinancial services sector has expanded at a modest pace since the previous report. Firms that provide transportation and logistics services are reporting plans to increase employment and renovate existing structures. Demand for commercial trucking from firms headquartered in the District is up from Hurricane Harvey relief efforts and expected to remain elevated during rebuilding efforts. Several firms that provide professional business and information services are reporting plans to expand and increase employment. Reports from healthcare firms remain mixed. Employers continue to streamline operations in an uncertain environment, with one major employer shifting jobs from low-profit to high-profit areas.

**Real Estate and Construction**
There was little change in residential real estate activity since the previous report. Seasonally adjusted home sales for August ticked up slightly relative to the previous month across the District’s four major MSAs, and year-to-date sales remained in line with those from a year ago. Local real estate contacts continued to report that significant shortages in inventory have hindered sales, particularly for median-priced housing.

Residential construction activity improved slightly. August permit activity within District MSAs increased modestly relative to the previous month. Local contacts reported that lot scarcity and a shortage of labor continue to limit new construction.

Commercial real estate activity was unchanged from the previous report. Contacts largely indicated that demand remained steady for most property types. A central Arkansas banker reported strong demand for commercial real estate loans.

Commercial construction activity was mixed. August nonresidential construction starts dropped slightly within the District relative to the previous month, and multifamily permits were below levels from a year ago. However, local contacts generally reported a robust level of new multifamily construction underway or being planned, and several Memphis contractors continued to report optimism regarding future projects.

**Banking and Finance**
Lending activity in the Eighth District improved modestly. According to a survey of 84 small and mid-sized District banks, outstanding loan volumes grew by 8 percent relative to year-ago levels. Loan growth in the District has been gradually slowing since the start of 2017, but it continues to exceed the national rate. Commercial and industrial loan growth has stabilized at 9 percent after decelerating through the first half of 2017. Meanwhile, consumer and commercial real estate lending grew the fastest among all loan categories, rising by 11 and 10 percent, respectively.

**Agriculture and Natural Resources**
District agriculture conditions improved modestly from the previous reporting period. Reports from farmers indicated that they have been impressed by their harvest numbers so far. Production and yield forecasts improved from August to September for corn, cotton, and soybeans. For rice expected yields ticked up from August to September, while expected production ticked down after downward revisions to rice acreage estimates. Relative to 2016, District cotton and soybean production levels were projected to be higher, while those for corn and rice were projected to be lower.

Natural resource extraction declined slightly from July to August, with seasonally adjusted coal production declining 3 percent. However, August production was 10 percent above the level from one year ago.

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

The Ninth District economy grew modestly since the last report. Employment fell since the last report, but hiring demand remained strong, held back by tight labor markets. Wage pressures were moderate, while price pressures were modest overall. The District economy showed growth in services, manufacturing, commercial real estate, residential construction, and energy. Consumer spending saw only slight growth, and commercial construction was flat; agriculture improved, but remained weak overall, and residential real estate slowed.

Employment and Wages

Employment fell since the last report, but hiring demand remained strong, held back by tight labor markets. Seasonally adjusted August employment levels fell across the District, continuing an up-and-down pattern in recent months. However, a staffing contact in southeastern Minnesota said hiring “is still robust. I have no issue getting clients. If I had 100 people, I could put them all to work.” A Minnesota labor contact said worker demand in hospitality was “stronger than usual going into the winter season” for both union and nonunion businesses. A large Minnesota entertainment and hospitality firm said it had 150 job openings on a steady basis at two locations. A Montana source said booth registrations at recent career fairs were up 7 percent, “indicating more employers are looking to hire.” Two September business conditions indexes showed strong hiring sentiment in Minnesota and North Dakota, but some softness in South Dakota. In Montana, the number of job seekers visiting state workforce centers in September fell compared with August figures, while the number of open job positions grew. A September survey of South Dakota retailers by the Minneapolis Fed found that more than half were hiring, but most often to fill turnover. Contacts in hospitality and construction also noted an increase in overtime for workers.

Wages rose moderately since the last report, with some mixed signals, but overall showing signs of strengthening. A staffing contact said one client has raised starting wages three times since June. A South Dakota construction contact estimated wage increases of 3 percent to 5 percent over last year and expected similar increases in the coming year. A Minnesota labor union source in the services industry reported increases of 3 percent “in most of our units.” In a survey by the Minneapolis Fed, 40 percent of South Dakota retailers reported wages rising between 1 percent and 3 percent over the past year, but with equal percentages above and below those levels. Said a Minnesota workforce contact, “I get very mixed signals. I hear that wages are going up, but when I press, I still see a lot of wage increases in the 2 percent to 3 percent range.”

Prices

Price pressures remained modest since the last report. After spiking in late August, retail fuel prices in District states decreased over the following month, but remained slightly higher than the previous reporting period. A survey of Minneapolis-St. Paul home builders indicated increased price expectations for building materials and land. Prices received by farmers for corn, wheat, hay, milk, hogs, and eggs increased in August compared with a year earlier; prices for soybeans, cattle, chickens, and turkeys decreased.
Consumer Spending
Consumer spending rose slightly overall since the last report. Automotive sales were reportedly solid, and a Minnesota dealer announced a major expansion of dealerships in Minneapolis-St. Paul and nearby Wisconsin markets. Despite recent closures, especially among legacy retailers, new retail stores continued to open. Tourism also saw growth. Among the 14 national parks in District states with significant summer attendance, total August visitors were up 8 percent over a year earlier, to more than 3 million—the third consecutive month of a visitor increase of at least 5 percent. August hotel demand in Minnesota increased by 1 percent from a year earlier, with Rochester and Minneapolis-St. Paul growing by 4 percent and 2 percent, respectively.

However, there were some signs of softness. A September survey of North Dakota and South Dakota retailers by the Minneapolis Fed showed generally softer sales over the previous two months compared with the same period a year earlier. Gross sales were softer this summer in Wisconsin and South Dakota compared with last year, and the total August handle at South Dakota casinos fell by about 3 percent.

Services
Activity in the professional services industry increased moderately since the last report. A biotech firm broke ground on a large research facility in Minnesota. A consultant noted a growing backlog of work related to merger and acquisition activity in the second half of the year. Freight rail contacts reported that shipments had grown slightly but consistently during this year. August shipments from Great Lakes ports increased from a year earlier; iron ore shipments increased 10 percent.

Construction and Real Estate
Commercial construction was flat since the last report. An industry database of construction spending showed no growth over the latter half of summer compared with a year earlier. Industry tracking of new construction projects showed lower levels over the most recent six-week period (end of September) compared with a year earlier. A South Dakota contact said construction there was “a little slower” compared with last year, especially outside of metro areas. Limited figures on commercial construction permits in September showed activity was higher in Sioux Falls, S.D., but considerably lower in Billings, Mont. August permit figures were mixed. Residential construction was up modestly overall.

Limited September data on residential construction showed activity was higher in Minneapolis-St. Paul and Billings compared with a year ago, but slightly lower in Sioux Falls. August permitting was generally flat to lower across the District compared with a year ago, with the notable exception of Minneapolis-St. Paul.

Commercial real estate grew modestly since the last report. In Minneapolis-St. Paul, office vacancies have risen slightly, while retail vacancies fell slightly after rising in previous quarters. Most metros continue to see multifamily development in light of low vacancy rates. Minneapolis-St. Paul maintained one of the tightest vacancy rates in the nation despite 5,000 units coming online in the past 12 months. Residential real estate slowed, with closed sales lower across the District. Thanks to low inventories, median prices were universally higher, including a 14 percent year-over-year increase in Bozeman, Mont. A contact there said real estate agents “are not seeing any slowdown in buying. They feel it’s only a matter of time before the markets slow, simply because of the lack of available inventory.

Manufacturing
District manufacturing activity increased moderately since the last report. An index of manufacturing conditions produced by Creighton University indicated increased activity in September compared with a month earlier in Minnesota and North Dakota; the index for South Dakota indicated a slight decrease in activity. Several firms noted an increase in demand for equipment related to oil and gas extraction. A lubrication equipment producer reported an increase in orders from the military. A producer of hydraulic cylinders said sales were up over last year and current orders were solid.

Agriculture, Energy, and Natural Resources
District agricultural conditions improved slightly since the previous report, but remained weak overall. Though drought conditions eased, large areas of Montana and the Dakotas remained exceptionally dry, and much of the damage to crops had already been done. Early indications were that the wheat harvest might be better than expected in these areas, but still well below average. Areas not affected by drought were generally expecting good yields, but saw harvests delayed by rains. Activity in the energy and mining sectors increased slightly since the last report. District oil and gas exploration as of late-September was roughly unchanged from a month earlier. Output at District iron ore mines was up substantially from a year earlier.
Summary of Economic Activity

Economic activity in the Tenth District continued to increase at a modest pace in September, and contacts in most sectors expected gains in the coming months. Retail, restaurant, and tourism activity picked up since the last survey, but auto sales fell modestly. The manufacturing sector continued to increase moderately, and capital spending plans were positive. Contacts in the transportation and wholesale trade sectors noted a strong increase in sales, while professional and high-tech firms reported a modest rise in overall activity. Residential real estate activity was mostly flat, with steady home sales and construction activity. The Tenth District’s commercial real estate sector continued to expand modestly. Banking respondents reported steady overall loan demand, unchanged loan quality and credit standards, and stable deposit levels. Growth in energy activity in the Tenth District eased since the last survey period, and abundant supply in the natural gas sector continued to weigh on prices and profitability. The agricultural sector continued to soften in the District since the last survey.

Employment and Wages

District employment and employee hours continued to rise at a slight pace in September, and contacts expected additional improvement in the months ahead. Respondents in the manufacturing, energy, wholesale trade, professional services, real estate, health services and restaurant sectors noted an increase in both employment and employee hours compared to the previous survey period, while respondents in the retail trade, auto sales, and tourism and hospitality sectors noted a decrease. Expectations for employment remained positive in all sectors except the auto sales and tourism sectors. The majority of respondents noted it was difficult to find qualified workers, and several contacts noted a shortage of commercial drivers, salespeople, and services workers.

Wages rose modestly in most sectors, and moderate wage growth was anticipated in the coming months.

Prices

Input prices rose modestly in most sectors compared to the previous survey period, while selling prices were either flat or slightly higher. In the retail sector, both input and selling prices increased slightly, but at a slower pace than in the prior survey. Restaurant contacts reported modest rises in input prices and steady selling prices, and expectations were for steady selling prices moving forward. Transportation input prices were up strongly, and transportation selling prices edged up. Prices in the construction sector rose moderately, with continued moderate increases anticipated in the coming months. Manufacturers reported modest rises in prices for finished goods, while raw material costs continued to edge higher. Manufacturers expected moderate growth in both finished goods and raw material prices in the next few months.

Consumer Spending

Overall consumer spending activity was mixed as retail sales, restaurant sales, and tourism activity increased, while auto sales fell further. Consumer spending was expected to increase slightly in the months ahead. Retail sales improved modestly in September and were similar to year-ago levels. Several retailers noted an increase in sales for upholstery and furniture items, while luxury products sold poorly. Contacts in the retail sector anticipated sales to rise moderately in the next few months, and inventory levels were expected to increase slightly. Auto sales continued to fall at a moderate pace and were below year-ago levels. Dealer contacts anticipated a further modest slowdown in sales moving forward, and auto inventories were expected to rise slightly. Restaurant sales increased slightly since the last survey, and
were well above year-ago levels. District tourism activity increased slightly, but remained lower than a year ago. Tourism contacts expected activity to improve further this fall.

Manufacturing and Other Business Activity
Manufacturing activity continued to expand at a moderate pace in September, and the majority of other business contacts reported moderate sales increases. Manufacturers reported sustained moderate growth in production and shipments, particularly for chemicals, plastics, and machinery products. New orders and order backlogs grew at a modest pace, and activity was considerably higher than a year ago. Manufacturers’ capital spending plans remained favorable, and firms were increasingly optimistic about future activity.

Outside of manufacturing, transportation and wholesale trade firms reported strong sales increases, while professional and high tech firms noted a more modest rise in activity. All firms expected sales to rise considerably in the next six months. Professional, high-tech, and wholesale trade firms reported strong capital spending plans, while transportation firms anticipated a slight decrease in capital expenditures heading forward.

Real Estate and Construction
District real estate activity continued to rise at a slight pace as residential real estate conditions were flat and commercial real estate activity expanded modestly. Residential home sales were steady since the previous survey, and were moderately above year-ago levels. Sales of low- and medium-priced homes continued to outpace sales of higher-priced homes. Residential home prices increased modestly, while residential inventories decreased. Residential construction activity was flat, with no change in sales of construction supplies, new home starts, and traffic of potential home buyers. Activity in the commercial real estate sector continued to expand at a modest pace, as absorption, completions, construction underway, sales, and prices rose, while vacancy rates declined. Commercial real estate activity was expected to continue to increase at a modest pace in the coming months.

Banking
Bankers reported steady overall loan demand since the previous survey, with a majority of respondents indicating stable demand for commercial and industrial, commercial real estate, residential real estate and consumer installment loans. Most bankers reported that loan quality was unchanged compared to a year ago, and expected loan quality to remain essentially the same over the next six months. Credit standards also remained largely unchanged in all major loan categories. Finally, a majority of respondents reported stable deposit levels.

Energy
Growth in Tenth District energy activity eased since the last survey period, while expectations for future activity remained solid. The number of active oil and gas drilling rigs was little changed across the District, and contacts expected them to stay near current levels in the coming months. Respondents projected a modest increase in future oil prices and hence higher profits over the next six months. The abundant supply of natural gas was expected to keep weighing on prices and profitability in that sector. Firms surveyed expected Hurricane Harvey to have low to medium impacts on the oil and gas industry. Contacts, on average, estimated the effects on offshore production, trade, and refineries to last five, six and nine weeks, respectively, from the start of Harvey.

Agriculture
The District farm economy continued to soften, but showed some signs of stabilization since the previous reporting period. Farm income in the District was lower than a year ago, but some agricultural commodity prices rebounded slightly. Soybean prices increased modestly from the previous reporting period, and yield expectations remained strong. Wheat prices remained flat, but were higher than a year ago. Corn prices declined slightly amid strong production expectations, but District contacts expected strong crop yields to offset some weakness in prices. Cattle and hog prices declined slightly from the previous reporting period, but also remained higher than a year ago. Farmland values declined modestly in some regions, but generally remained steady in areas with strong crop production.
Summary of Economic Activity

The Eleventh District economy continued to expand at a moderate pace over the past six weeks, and most contacts do not expect significant long-term disruption due to Hurricane Harvey. Manufacturing output strengthened, and activity in nonfinancial services increased. Retail sales growth continued to accelerate, with a surge in auto sales to replace vehicles damaged by the hurricane. Homes sales weakened during the reporting period and prices were flat. Growth in the financial services and energy sectors continued but at a slower pace, and crop conditions remained mostly favorable. Employment, wages and prices increased, particularly in manufacturing. Outlooks remained positive overall.

Employment and Wages

Overall employment rose, and upward wage pressure persisted. Hiring picked up in manufacturing, continued at about the same modest pace in services, and abated slightly in the energy sector. Reports of labor shortages persisted, spanning most industries. Some manufacturers said the difficulty finding workers was impeding their growth, and some services firms said it was driving up overtime costs. More than a quarter of firms expect that the impact of Hurricane Harvey will make finding and hiring workers more difficult over the next six months. In construction, builders were concerned that once post-hurricane repair and rebuilding work begins, there likely will be skilled-worker shortages and increases in labor costs. Other contacts noted that they also pull from a labor pool that is likely to be in higher demand in the aftermath of the storm.

Prices

Selling prices increased at the same or faster pace over the past six weeks, and contacts noted upward pressure on input costs. Prices and costs rose at a faster clip in the manufacturing and energy sectors, while upward pressure was largely unchanged on the services side. New home prices were mostly flat, but there is continued pushback from buyers on pricing at the higher end.

Some builders were offering discounts and/or incentives to entice buyers, particularly on inventory homes. Gasoline and diesel prices rose over the reporting period, as did oil prices.

Manufacturing

Robust expansion in the manufacturing sector continued, despite some disruption among Texas Gulf Coast producers in the wake of Hurricane Harvey. Output growth picked up further for durable goods in September, led by increases in computer and electronic product manufacturing. Fabricated metals production rebounded, and output among energy-related firms overall continued to exhibit strength. Meanwhile, nondurable goods production slowed. A majority of chemical producers noted production held steady or declined over the reporting period, with a number of executives saying Hurricane Harvey had a negative impact on logistics like transportation and availability of raw materials. Refinery capacity hampered by the storm was ramping back up quickly, with little damage to infrastructure. While it may take some time for supply chains to recover, the storm’s impact on the refining and petrochemical industry are projected to be transitory. For Texas manufacturing overall, outlooks were positive and more optimistic than during the prior reporting period.
Retail Sales
Retail sales growth continued to accelerate despite Hurricane Harvey, according to firms surveyed three weeks after the storm. Nearly two-thirds of stores along the Texas Gulf Coast said they were negatively impacted by the hurricane, and on average those stores were shut down for about four days and experienced a reduction in revenue for about 10 days. Auto sales surged, partly due to increased demand for replacement vehicles after the storm. An auto dealer in Houston said sales were incredibly strong, noting that several hundred thousand vehicles had been flooded, and another dealer expects elevated demand to last about six months. For the broader retail sector in Houston, rebuilding efforts were fueling a rise in retail sales and demand for warehouses in the area from building supply companies. Outlooks for business in general were quite positive, an improvement from the mixed outlooks during the prior reporting period.

Nonfinancial Services
Demand for nonfinancial services continued to expand moderately over the past six weeks. There were some reports of Hurricane Harvey disrupting business, with those contacts noting the impact lasted one to two weeks on average. About a third of firms expect a net negative impact on revenues over the next six months from the storm, while nearly half expect no change on net and the balance anticipate an increase. Some staffing services contacts have seen a rise in demand for accounting and data entry positions related to the hurricane damages, as well as for call center employees and insurance adjusters. Staffing contacts generally think business activity will return to normal (pre-hurricane) by year’s end, and an oil and gas staffing firm noted that “things are close to normal again” in Houston already.

Strength in the nonfinancial services sector was led by professional and technical services, with firms generally noting stronger revenue gains over the past six weeks, as well as transportation services. The healthcare industry remained rather weak, with contacts saying they were continuing to struggle with lower demand and rising costs. Leisure and hospitality also exhibited weakness over the past six weeks, particularly along the Gulf Coast and Mexican border.

Construction and Real Estate
Overall, home sales weakened during the reporting period. However, contacts in Austin and Dallas–Fort Worth (DFW) noted continued strength in sales of low- to mid-priced homes. In Houston, storm damage to single-family homes was reported to be much more extensive compared with other property types. Contacts expect new home starts and closings in Houston to be behind schedule for the remainder of the year.

Apartment demand was generally disappointing in the third quarter, following a solid second quarter. Rent growth slowed and was below average in some large metros. In Houston, however, apartment leasing activity picked up, occupancy rose and rent concessions have diminished following Hurricane Harvey. The office market was generally characterized as solid in DFW and San Antonio, but still weak in Houston.

Financial Services
Loan demand continued to increase over the past six weeks, albeit at a more sluggish pace than during the prior period. Growth was led by commercial real estate loans, where volumes continued to rise at a moderate pace. Volume growth abated for commercial and industrial loans as well as for residential real estate loans, and consumer loan volumes declined slightly. Credit standards and terms tightened. Core deposit volumes grew again and net interest margins continued to increase. Outlooks in the financial sector remained optimistic.

Energy
Energy activity continued to expand, but at a slightly slower clip in the third quarter. Drilling activity in the Eagle Ford Shale and offshore has resumed normal operations after the hurricane. Overall growth in oil and gas production continued, but oilfield services firms noted weaker demand growth. Drilling activity is expected to decline slightly by the end of 2017, and demand for oilfield services is softening outside of the Permian Basin. However, six-month outlooks for 2018 were more optimistic relative to the last reporting period, and uncertainty has moderated.

Agriculture
Crop conditions remained favorable, although Hurricane Harvey hampered agriculture in the Coastal Plains. The extent of the impact is not yet known, but some livestock were lost and a small portion of the Texas cotton crop was damaged. Some rice and soybeans were also affected, but likely minimally. Overall, grain production was strong, with particularly robust yields in Northeast Texas. There is good moisture for planting winter wheat, but while wheat prices are higher than a year ago they are still generally below breakeven levels. Agricultural producers remain concerned about low crop prices, NAFTA negotiations, and the configuration of the next farm bill.
Summary of Economic Activity

Economic activity in the Twelfth District continued to expand at a moderate pace during the reporting period of mid-August through September. Overall price inflation was flat and remained low, while upward wage pressures strengthened somewhat, and labor market conditions tightened further. Sales of retail goods picked up, and growth in consumer and business services remained strong. Conditions in the manufacturing sector improved, while activity in the agriculture sector was flat. Contacts reported continued strong activity in residential real estate markets, and conditions in the commercial real estate sector remained solid. Lending activity grew at a moderate pace.

Employment and Wages

Conditions in the labor market tightened further. Wage gains increased in a few sectors. Increased competition for warehouse employees in the retail industry boosted wages. One contact at a major logistics and delivery company noted rising demand for manual labor, with these jobs increasingly being filled by workers wanting to supplement their income with additional part-time hours. Continued elevated demand for skilled IT professionals in the technology, financial services, and health-care industries supported strong wage growth. Shortages of health-care workers in Eastern Washington worsened. Labor shortages and increased unit labor costs in the agriculture sector fueled investments in automated technology. In the retail grocery industry, the continued shift of consumer preferences towards online purchases further reduced labor demand.

Prices

Overall, price inflation was flat and remained low during the reporting period. Stronger demand for manufactured steel products boosted price growth relative to the same period last year. In the restaurant industry, contacts reported that rising input costs pushed up final sales prices. Elevated inventory levels pushed down prices for some agricultural commodities. Economies of scale continued to put downward pressure on prices of cloud computing and data storage services.

Retail Trade and Services

Retail sales picked up over the reporting period. Continued improvement in economic conditions and favorable weather nudged up sales of beverage products. Sales in the retail grocery industry were unchanged from their solid pace in the previous period. Contacts in the industry reported that online sales continued to more than offset declines at traditional brick-and-mortar outlets. One lender with a large national presence in the retail sector noted that same store sales at small merchants rebounded after slight declines following recent hurricanes. Growth in demand for legacy computing products slowed slightly to a moderate pace. Contacts expect these markets to experience a more modest growth environment in the future.

Activity in consumer and business services generally grew at a strong pace. Accelerating investments in cloud computing and data analytics in the technology and financial services industries boosted sales at large technology companies. Additionally, demand for cybersecurity services is expected to be a major source of growth for the technology industry over the medium-term. Boosted by e-commerce sales, transport volumes expanded at a robust pace. Contacts noted that improving economic conditions fueled demand for high-end shipping services in particular. Demand for entertainment services was strong, and one contact reported that technological gains and favorable tax conditions spurred investment. De-
mand in the hospitality industry slowed slightly from its strong pace over the summer, and contacts expect hotel stays to soften a bit more over the remainder of the year. Restaurant sales declined in the late summer, due in part to less foot traffic at large retail centers.

**Manufacturing**
On balance, conditions in the manufacturing sector continued to improve. Production of semiconductors reached a 10-year high, driven primarily by demand for memory chips. Electricity usage by manufacturers in Eastern Washington picked up further. Deliveries of commercial aircraft dipped slightly, but new orders were up notably over the same period last year. Contacts expect strong overall demand for steel over the next few months as construction efforts in other parts of the country ramp up following recent hurricanes. Demand for manufactured steel products slowed from its moderate pace in the first half of the year as orders from automobile manufacturers waned somewhat.

**Agriculture and Resource-Related Industries**
Activity in the agriculture sector was flat. Harvest yields of grains and potatoes were down slightly due to a wet spring, but overall quality was up. Demand for pork products dipped slightly, and profitability in the industry remained challenging. Reduced input prices boosted profitability in the feedlot industry. Contacts noted that foreign demand for some agricultural goods remained solid, and they did not expect exchange rate movements to slow exports. In the energy generation sector, capacity increases continued to outpace demand growth, a trend that contacts expect to persist as more states adopt renewable energy generation targets.

**Real Estate and Construction**
Real estate market activity continued to grow at a strong pace. Residential construction activity remained robust throughout the District. However, disruptions from recent hurricanes exacerbated existing shortages of materials, somewhat slowing activity. Contacts in the Pacific Northwest reported construction delays of up to two months due to shortages of available land, labor, and materials. Strong demand for housing and continued low inventory levels pushed up prices further. Contacts in some metropolitan areas noted that the lack of affordable housing slowed growth of existing home sales to a moderate pace. On balance, commercial construction activity continued to expand at a moderate pace. In Eastern Washington, permits for commercial construction were up over the same period last year. Contacts in Southern California reported that construction of hotel and retail spaces were at an all-time high. Contacts noted that interest rate increases have not substantially slowed demand for residential or commercial real estate.

**Financial Institutions**
Lending activity continued to expand at a moderate pace over the reporting period. Overall loan demand remained moderate. One contact noted that demand from small- and medium-sized businesses slowed to a modest pace. Deposit growth inched up slightly. One contact in the Mountain West observed a slight uptick in deposit rates, indicating an increased demand for liquidity from lenders. Overall credit quality remained strong. However, one contact noted a decline in credit quality in the agriculture industry, as continuing price declines hampered profitability.