The Beige Book
Summary of Commentary on Current Economic Conditions
By Federal Reserve District
August 2018
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.

Alaska and Hawaii are part of the San Francisco District.
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.
**Overall Economic Activity**

Reports from the Federal Reserve Districts suggested that the economy expanded at a moderate pace through the end of August. Dallas reported relatively brisk growth, while Philadelphia, St. Louis, and Kansas City indicated somewhat below average growth. Consumer spending continued to grow at a modest pace since the last report, and tourism activity expanded, to varying degrees, across the nation. Manufacturing activity grew at a moderate rate in most Districts, though St. Louis described business as little changed and Richmond reported a decline in activity. Transportation activity expanded, with a few Districts characterizing growth as robust. Home construction activity was mixed but up modestly, on balance. However, home sales were somewhat softer, on balance—in some cases due to reduced demand, in others due more to low inventories. Commercial real estate construction was also mixed, while both sales and leasing activity expanded modestly. Lending activity grew throughout the nation. Some Districts noted weakness in agricultural conditions. Businesses generally remained optimistic about the near-term outlook, though most Districts noted concern and uncertainty about trade tensions—particularly though not only among manufacturers. A number of Districts noted that such concerns had prompted some businesses to scale back or postpone capital investment.

**Employment and Wages**

Labor markets continued to be characterized as tight throughout the country, with most Districts reporting widespread shortages. While construction workers, truck drivers, engineers, and other high-skill workers remained in short supply, a number of Districts also noted shortages of lower-skill workers at restaurants, retailers, and other types of firms. Employment grew modestly or moderately across most of the nation, though Dallas noted robust job growth, while three Districts reported little change that partly reflected a dearth of applicants. Six of the twelve Districts cited instances in which labor shortages were constraining sales or delaying projects. Wage growth was mostly characterized as modest or moderate, though a number of Districts cited steep wage hikes for construction workers. Some Districts indicated that businesses were increasingly using benefits—such as vacation time, flexible schedules, and bonuses—to attract and retain workers, as well as putting more resources into training.

**Prices**

Prices of final goods and services continued to rise at a modest to moderate pace in most Districts, though there were some signs of a deceleration. All Districts noted fairly widespread input price pressures, particularly for construction materials and freight transportation. Tariffs were reported to be contributing to rising input costs, mainly for manufacturers. Businesses’ input costs have generally been rising more rapidly than selling prices, though there have been increased efforts to pass along cost hikes to customers. A few Districts noted some increase in inflation expectations.

**Highlights by Federal Reserve District**

**Boston**

Firms reported continued expansion of business activity. Retailers, manufacturers, and staffing firms cited year-over-year increases in revenues and sales. Labor markets remained tight amid little net hiring. Contacts reported only modest increases in prices, if any. Outlooks continued to be positive.

**New York**

The regional economy expanded at a moderate pace, and labor markets have remained tight. Input price increases have remained widespread, while firms’ selling prices have decelerated somewhat. Housing markets have softened, on balance, while commercial real estate markets have firmed a bit.
National Summary

Philadelphia
Economic activity continued to expand at a modest pace. With tight labor markets, wages grew moderately despite incremental job growth. On balance, contacts continued to observe modest price increases but expressed growing concern for future inflation. Notably, manufacturing slowed to a modest pace of growth, and nearly two-thirds of the manufacturers reported rising prices paid.

Cleveland
The District economy grew at a moderate pace. Labor markets tightened, and wage pressures were noted broadly. Cost pressures among manufacturers and construction firms continued, especially for metals, construction materials, and transportation. Stronger confidence in the economy boosted demand in nonfinancial services and the retail sector. Construction activity weakened.

Richmond
The regional economy grew moderately in recent weeks. Port and transportation activity remained robust. Business travel and tourism was also strong throughout the Fifth District. Meanwhile, manufacturers gave mixed accounts as some firms were unable to pass along higher input prices. Labor demand strengthened, and employers continued to report difficulties finding qualified workers. Prices grew moderately, overall.

Atlanta
The Sixth District economy expanded at a moderate pace. Labor markets remained tight, and wage pressures increased for some firms. Most nonlabor input costs were stable. Retail sales improved further. On balance, the pace of nonresidential construction was flat compared with year-earlier levels, while residential construction activity was up. Manufacturing activity continued to grow.

Chicago
Growth picked up to a moderate pace. Manufacturing production and employment grew moderately, consumer and business spending increased modestly, and construction and real estate activity was up slightly. Wages and prices rose modestly, and financial conditions improved slightly. Overall crop yields appeared set to forge a new record.

St. Louis
Economic conditions improved slightly. Labor market conditions remained tight, and wage growth was modest. Manufacturers facing higher input prices reported passing those costs along to their customers. Agriculture contacts estimated that the majority of the soybean crop has not yet been priced, leaving farmers exposed to current market conditions.

Minneapolis
Ninth District economic activity expanded moderately. Employment grew strongly, despite continued labor constraints. Hiring demand was robust, and wage growth was moderate to strong. Price pressures increased moderately overall. Manufacturing activity increased, but contacts in manufacturing and agriculture remained concerned about negative impacts from trade restrictions. Summer tourism grew moderately overall.

Kansas City
Economic activity expanded modestly in late July and August, including gains in consumer spending, manufacturing, wholesale trade, transportation, high-tech, and professional services. Manufacturing contacts noted that recent trade developments had led to higher input prices and lower capital spending plans for some firms. Prolonged weaknesses in the agricultural sector were increasingly impacting farm borrower finances.

Dallas
Economic activity expanded at a solid pace. Manufacturing and service sectors sustained a healthy pace of growth, while activity in the housing and energy sectors was flat to down. Retail spending accelerated, as did loan demand. Wages and other input costs rose, but firms’ ability to pass these increases on to customers was limited.

San Francisco
Economic activity in the Twelfth District continued to expand at a moderate pace. Conditions in the labor market tightened further, and price inflation increased moderately. Sales of retail goods picked up moderately, and activity in the consumer and business services sectors edged down slightly. Activity in the manufacturing sector expanded modestly. Activity in residential and commercial real estate markets was solid. Lending activity ticked up modestly.
Summary of Economic Activity

Economic activity in the First District expanded at a moderate pace since the last report. Responding retailers, manufacturers, and staffing firms cited year-over-year increases in sales and revenues in recent weeks. In most reporting areas in the region, residential real estate markets saw increases in both closed sales and prices. Activity in commercial real estate markets was generally steady; contacts noted rising construction costs. Staffing firms as well as respondents in retail and manufacturing cited tight labor markets; wage pressures varied. Prices rose modestly if at all, despite increasing freight costs. Overall, the outlook continued to be positive.

Employment and Wages

Most contacts said labor markets were tight; net hiring remained modest to nil while wage increases were mixed. Retail hiring continued at a modest pace; contacts reported wage pressures varied across the region. The labor shortage for restaurant workers continued to be very troublesome, particularly on the Cape: contacts cited not enough U.S. workers and not enough visas for seasonal foreign workers. Most manufacturing contacts have not increased headcount. They reported that locating engineers and skilled machinists remained difficult, but assembly line and administrative workers were not hard to find. Staffing firms cited increasing labor demand and decreasing labor supply across the board, a combination that continued to present challenges, especially for recruiting skilled workers. Some staffing firms noted increases in bill and pay rates, ranging from low single digits to 10 percent.

Prices

Prices were reported to be unchanged or up slightly. Retail contacts indicated that selling prices remained steady, on average; one prominent retailer noted that food prices were up somewhat, but its overall retail price level was flat because of lower prices in other categories. However, higher fuel prices and a scarcity of truckers continued to drive up freight costs; manufacturers also noted increased trucking costs. Five of nine manufacturing contacts reported that their selling prices had gone up, but increases were small.

Retail and Tourism

Retailers contacted in this round said that year-over-year comparable-store sales ranged from low to mid-single digit increases from a year earlier. Two firms reported overall sales increases in the double digits due to business expansion. Apparel sales were particularly strong, as were sales of electronics and seasonal items. Contacts expressed concern and uncertainty regarding tariffs, particularly for inputs and goods sourced from China, such as cotton, electronics, and furniture. Absent the tariff issue, expectations for sales were positive through the end of 2018.

A contact in the Massachusetts restaurant industry reported that sales were up 4.6 percent in 2018 through June 30, based on meal tax receipts. Restaurant sales in July were up 7.1 percent year-over-year, a robust increase that was partly attributed to hot and humid weather and many rainy weekends; with this weather pattern continuing, sales through the end of August were expected to be strong as well. Menu prices were up about 2.6 percent year-over-year, driven by higher operating costs: wholesale food prices were up, as were costs associated with insurance, labor, and rent. The cost challenges confronting the restaurant industry were reportedly inducing caution about expansion.

Manufacturing and Related Services

All contacted manufacturers reported higher sales than in their last reports. Growth was consistent across geog-
raphic industries. A semiconductor contact said that slowing smartphone expansion led the firm’s growth to slow slightly, although it remains positive. A maker of motion-control equipment said that tariffs on steel and aluminum had led those metal producers to increase capital spending and demand for capital goods. By contrast, First District contacts cited no major revisions to their capital spending plans; they indicated that tax reform made investment somewhat more attractive but did not change the basic calculations.

Most contacts noted the tariff issue but said that, so far, the effects have been small and they did not expect too much damage if they are expanded. A gun manufacturer said that they had locked in steel prices for two years prior to the tariffs. A contact in the motion-control industry said they expected to pass on any tariffs in the form of surcharges or price increases.

Manufacturing respondents’ outlooks remained positive. Most had not revised their outlook recently, but a capital equipment manufacturer said they had raised their investor guidance at the end of July versus February.

Staffing Services
New England staffing firms continued to grow over the summer; nearly all responding firms reported year-over-year revenue growth, ranging from the low single-digits to as much as about 20 percent. Some firms reported spending more to attract and retain talent, including the adoption of new technology and incentive programs. Demand for permanent workers is greater than for temporary workers, but supply issues are even more pronounced for temporary positions, making temp vacancies more difficult to fill. Some contacts stated that because the New England economy is faring better than the rest of the country, labor supply is even more challenging in New England than elsewhere.

While they all expressed concern about labor supply, staffing contacts expressed optimism about upcoming quarters; they expect to finish the year strong.

Commercial Real Estate
Commercial real estate activity held roughly steady on balance in recent months, although rising construction costs and shortages of construction labor were seen as growing constraints. Office and warehouse leasing demand remained strong in Boston and Portland amid low vacancy rates, resulting in positive but slow net absorption and further upward pressure on rents. The Hartford area continued to experience weaker leasing activity than Boston or Portland, although conditions were seen as mostly stable and distribution space enjoyed decent demand.

The financing environment remained favorable for commercial real estate construction and investment in the First District, and recent loan deals were seen as safe in the sense of involving relatively low amounts of leverage. Construction was stable but mixed across areas and sectors; multifamily housing and hospitality continued to lead. Commercial real estate contacts said that construction costs had increased moderately-to-steeply in recent months, and the increases were attributed in part to rising materials costs—stemming partly from tariffs on imported goods—and in part to rising wages for scarce construction labor. The tight construction labor market also contributed to delays in project completions. Contacts maintained a mostly favorable outlook.

Residential Real Estate
Residential real estate markets in Boston and four First District states with available data showed brisk sales activity in the month of July; current data were unavailable for Connecticut and Vermont. For single family homes, closed sales increased in all reporting areas but Rhode Island. For condos, closed sales increased in all reporting areas except Maine. Rhode Island saw some improvements in inventory and supply. The Rhode Island contact noted, “Last month marked the first time in nearly two years that the single-family home inventory climbed above 4,000. All indications are that the market may have reached the point at which supply and demand begin to become more balanced.”

Median sales prices increased in most reporting areas, but not Rhode Island. Contacts expressed concern that a seller’s market environment was distorting house prices. A Massachusetts contact said that some level of price correction would be healthy for the current market, to reduce buyer discouragement and seller concerns about finding a home to buy after they sell. A contact from New Hampshire also commented, “Housing-price-bubble chatter has increased this summer. It is too early to predict a change, but the common markers that caused the last housing cool-down are present.”

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

Economic activity in the Second District expanded at a moderate pace in the latest reporting period. The labor market has continued to be tight, while wage growth has remained steady. Widespread increases in input prices persisted, but there have been signs of a slight deceleration in selling prices. Manufacturing activity continued to grow briskly, while businesses in most service and distribution industries reported more modest growth. Consumer spending was generally steady in recent weeks. Housing markets have softened somewhat, on balance, while commercial real estate markets have firmed slightly. Finally, banks reported continued growth in loan demand and little change in delinquency rates.

Employment and Wages

The labor market has remained tight across the District. Employers continued to note trouble filling senior positions and finding technically skilled workers—particularly IT workers and engineers, as well as truck drivers and construction workers. One retail contact also noted difficulty in finding cashiers and sales associates. Some business contacts in upstate New York have faced challenges attracting skilled and specialized workers to rural areas and even smaller cities. A New York City employment agency noted that the labor market has remained tight, and anticipates brisk hiring to resume after Labor Day, following the usual summer lull.

Hiring activity has been steady overall but mixed by industry. Business contacts in manufacturing, wholesale trade, and finance continued to report fairly brisk hiring activity. In contrast, firms in retail trade, leisure & hospitality, and transportation indicated steady to slightly declining staffing levels, though they plan to add workers in the months ahead. A payroll service firm observed some further slowing in job growth at small businesses.

Businesses in most service industries indicated that wage pressures remain fairly widespread, though they have not intensified. A major New York State employer noted success in using non-wage benefits (e.g., vacation, flexible hours) to attract younger workers. Looking ahead, fewer businesses indicated planned wage increases than had been the case in recent months.

Prices

Businesses continued to report widespread hikes in input prices—particularly in manufacturing, wholesale trade, and education & health. Contacts in almost all sectors anticipated further increases in the months ahead, with a sizable number of contacts indicating that tariffs were driving up costs, particularly in the manufacturing sector.

As for selling prices, however, fewer businesses than in recent months said they were raising their prices—particularly in the wholesale trade sector. One notable exception was in the education & health industry, where contacts noted some acceleration in prices received. Retailers generally indicated that selling prices have remained stable, with one contact noting widespread discounting on remaining summer merchandise. A number of wholesale trade and transportation contacts said they planned to hike prices in the months ahead.

Consumer Spending

Retail sales were mostly steady in July and August. While somewhat more retail contacts indicated declining than increasing sales, a major retail chain noted that sales rose and were above plan in both months, running 2-4 percent ahead of comparable 2017 levels. Sales at New York City stores slowed slightly, but were still up moderately from a year earlier. Retailers in upstate New York reported that sales were mostly soft in July but picked up in August.
Auto dealers in upstate New York reported that new vehicle sales were fairly soft in July, running below year-ago levels, but showed signs of picking up in August. New vehicle inventories remained at or above desired levels. Meanwhile, sales of used vehicles strengthened further. Dealers generally characterized retail and wholesale credit conditions as being in good shape, though one contact reported some pullback toward the lower end of the retail credit market.

Consumer confidence in the Middle Atlantic states (NY, NJ, PA) retreated from a cyclical high, based on the Conference Board’s survey, though the public’s assessment of the job market climbed to new highs.

Manufacturing and Distribution
Manufacturers indicated that activity continued to expand at a brisk pace since the last report. Transportation firms reported modest growth, while wholesale distributors noted a typical seasonal slowdown in growth. Regarding the near-term business outlook, wholesale distributors and manufacturers expressed ongoing optimism, while transportation industry contacts have become less upbeat. A sizable number of contacts in these sectors noted that recent hikes in tariffs have raised their overall input costs, and some have expressed concern about the effects of changes in trade policy on various aspects of their business. One utility firm noted that tariffs on some construction materials may force them to scale back capital investment a bit.

Services
Service-sector firms reported mixed results in the latest reporting period. Businesses in the education & health service sector noted a pickup in activity, whereas contacts in information and professional & business services indicated that activity continued to expand at a subdued pace. Businesses in leisure & hospitality reported a slight dip in activity, though tourism in New York showed continued strength, as both hotels and Broadway theaters reported brisk business. Looking ahead, leisure & hospitality businesses expressed growing optimism about the near-term outlook, and contacts in the service sector generally remained sanguine. Information industry contacts were noticeably less upbeat than in the prior report.

Real Estate and Construction
Housing markets across the District have been mixed but, on balance, softer since the last report. Home sales activity dropped off sharply in New York City—especially in Manhattan. Selling prices have remained mostly flat, though one real estate expert interpreted the drop-off in sales as suggesting a decline in underlying values and partly attributes this to the new federal tax law. In contrast, housing markets in parts of upstate New York have shown continued strength. One contact reported growing interest among homebuyers in neighborhoods of Buffalo and Niagara Falls previously considered less desirable. There was also said to be rising interest in renovating abandoned buildings in Albany, Troy, and Schenectady for both homeownership and mixed-use development. The inventory of unsold homes has remained very low across the District, though it has risen in New York City.

The apartment rental market has been mixed but generally steady. Rents have continued to drift down in Manhattan but have been steady to somewhat higher in Brooklyn and Queens. Vacancy rates have remained very low, as landlord concessions have remained widespread but not risen. Outside New York City, apartment rents have continued to trend up modestly, running 2-3 percent ahead of a year earlier.

Commercial real estate markets have firmed slightly. Office availability rates declined modestly in northern New Jersey, Westchester, and Fairfield counties. Office markets were steady in Manhattan and upstate New York, but slackened modestly in Long Island. The market for industrial space continued to strengthen, particularly in northern New Jersey, where availability rates fell to multi-year lows and rents continued to climb, posting double-digit percentage gains from a year ago.

New multi-family construction starts reportedly slipped in recent weeks. New office construction has picked up slightly but remains subdued, while there has been very little new industrial construction. In all these categories, however, there continues to be a good deal of ongoing construction in progress.

Banking and Finance
Financial services firms reported increasingly robust growth in activity but were somewhat less optimistic regarding the near-term outlook. Small to medium-sized banks reported higher demand for consumer loans and residential mortgages, but flat demand for commercial mortgages and C&I loans. Refinancing activity was reported to be steady. Bankers reported tighter credit standards for C&I loans, lower loan spreads across all categories, and widespread increases in average deposit rates. Delinquency rates fell across all loan categories. Delinquency rates fell across all loan categories. Delinquency rates fell across all loan categories. Delinquency rates fell across all loan categories. Delinquency rates fell 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. Likewise, employment sustained modest growth, but wages continued to grow moderately as the labor market remained tight. While manufacturers reported paying higher prices, other contacts reported no current shift in inflation trends, but many worried that tariffs would trigger future inflation. Nonfinancial services maintained a moderate pace of growth, but manufacturers reported a more modest pace than last period. Most consumer sectors continued at a modest pace. The construction and real estate sectors continued to issue mixed reports with declines in residential real estate sales and nonresidential construction, while contacts from new home construction and nonresidential leasing noted some growth. The growth outlook over the next six months remained positive, with over half of all firms anticipating increases in general activity.

Employment and Wages

Employment continued to grow at a modest pace during the current Beige Book period. Manufacturing and nonmanufacturing firms have reported ongoing net additions to staff since last period; more nonmanufacturers were hiring, but fewer manufacturing firms did so. Average hours worked rose further over the period for both manufacturing firms and nonmanufacturers.

Staffing firms continued to report incremental growth in job orders but ongoing difficulty attracting and retaining employees. One firm noted that temp-to-hire orders had increased, giving clients a three- to four-month trial, while avoiding recruiting and onboarding costs. Recruiting challenges prompted one restaurant – that was staffing up to enter the downtown Philadelphia market – to experiment with a storefront table taking job applications.

On balance, wage growth continued at a moderate pace. Once again, over half of the nonmanufacturing contacts reported increases in wage and benefit costs. Staffing firms reported no dramatic changes in wage trends; even in labor markets with the District’s lowest unemployment rates, wages were said to “continue to inch up.”

Prices

Price increases remained modest for most firms but were stronger for prices faced by manufacturers. Among nonmanufacturing firms, less than one-third reported increases for prices paid and for prices received – somewhat lower than in the prior period. One-third of the manufacturing firms continued to report increases in prices received for their own goods; however, more manufacturers paid higher prices this period, with nearly two-thirds noting increases. Bankers and other contacts cited labor shortages, wage pressures, and tariffs as concerns for spurring inflation, but none reported evidence of current inflation.

Looking ahead one year, firms’ inflationary expectations for prices of their own goods and services have risen slightly from one quarter earlier, on balance; however, for manufacturing firms alone, inflationary expectations fell slightly. The firms reported higher expectations for overall consumer inflation.

Manufacturing

Manufacturing activity slowed to a modest pace of growth – nearer to nonrecession averages than the moderate pace of the prior period. About 35 percent of the firms reported an increase in shipments and new
orders, while over 20 percent of the firms reported decreases.

The makers of lumber products, chemicals, primary metals, and fabricated metal products tended to note gains in new orders and shipments; the makers of electronic machinery and industrial machinery reported mixed results. Nearly two-thirds of the firms that offered general comments noted that price hikes and/or supply disruptions had already occurred or were anticipated because of tariffs and the threat of tariffs. For those firms already impacted, contacts often cited double-digit price increases; some typical responses were that tariffs “have put us out of business” on certain products and “are a cloud on every facet of our business planning.”

On balance, manufacturing contacts continued to expect general activity to increase over the next six months. The percentage of firms expecting future increases edged above 50 percent; however, the percentage of firms expecting decreases also edged upward. The firms’ outlook for future employment and future capital expenditures remained nearly the same, with just under 40 percent expecting increases.

Consumer Spending
Nonauto retailers continued to report modest sales growth in July and August, citing rising consumer demand and stable gas prices. Ongoing price sensitivity by consumers continued to be met by heavy promotional discounting. Retailers noted rising costs for land development and freight but no direct impacts from tariffs.

Auto dealers in New Jersey and Pennsylvania reported year-over-year sales that had essentially matched levels from the summer of 2017. Likewise, year-to-date sales appear to be holding even with 2017’s high levels. Dealers continued to worry about rising interest rates.

Tourism contacts continued to report modest growth overall. One analyst noted that there was a slowdown in travelers from China and that U.S. households have been funding travel from savings — a trend deemed unsustainable. A shore hotelier reported very high traffic but low spending rates at restaurants and shops. Two recent casino (re)openings appear to have lifted all Atlantic City casinos in June; however, July reports suggest the new entrants are primarily extracting market share. Internet and sports gambling has extended the New Jersey market a bit, even as neighboring states begin to compete on the same platforms.

Nonfinancial Services
On balance, service-sector firms continued to report moderate growth in general activity. The percentage of firms reporting increased sales rose over 50 percent, while the percentage reporting increased new orders fell but remained above 40 percent. One firm noted its “best accounts receivable in the last decade.” Expectations of future growth narrowed slightly, but still nearly two-thirds of the firms anticipated increased activity.

Financial Services
Financial firms continued to report modest growth in overall loan volumes (excluding credit cards) — a slightly slower pace than during the same period last year. Volumes grew moderately in mortgages and in other consumer loans (not elsewhere classified) and grew modestly in commercial real estate lending and in auto loans. However, these gains were offset by slight declines in home equity lines and in commercial and industrial lending. Compared with one year earlier, loans grew modestly and in all categories except for home equity lines.

During the current period, credit card lending grew at a modest pace — comparable with the same period last year for this highly seasonal measure. Credit card lending has also grown modestly over the entire year.

Banking contacts noted ongoing challenges from “overly” competitive loan terms and bank deposit rates but generally cited greater business optimism and growing loan demand. The bankers also reported no signs of credit quality deterioration.

Real Estate and Construction
On balance, homebuilders reported slight growth in new contracts but little change in construction activity. Sales of existing homes continued to decline moderately compared with the same period last year. However, as the period progressed, sales began to rise a bit in a few markets, despite ongoing low inventories.

Overall, rents continued to rise in the slowly growing nonresidential real estate market, especially for offices and industrial warehouses. Higher office rents have been driven, in part, by outside investors, then partially offset by concessions, while underlying demand continued to support new construction and rising rates for warehouses. On balance, nonresidential construction activity continued to slowly wane in most markets.

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

Business activity in the Fourth District grew moderately during the survey period. Demand was strong in many sectors, but hiring continued at about the same pace as in the previous survey period. Contacts reported ongoing shortages of qualified workers, and many firms stepped up their training programs to alleviate the shortage. Firms increased wages, bonuses, and incentives to reduce worker turnover, although the increases were in line with recent trends. Upward pressure on input costs was strong, notably for metals, construction materials, and transportation services. Final selling prices increased as manufacturers, builders, and transportation firms raised their prices to cover their increased input costs. Consumer demand, including for autos, was stable to slightly higher. Manufacturing capacity utilization rose to meet strong demand. Freight volumes trended higher. Construction activity weakened as rising prices took some steam out of demand.

Employment and Wages

Staffing levels and wages rose moderately during the reporting period in a similar fashion to rises in recent survey periods. Hiring in professional services quickened thanks to stronger demand for technology services. Construction hiring was strong, as well, with firms’ hiring entry-level, intermediate, and senior-level managers to accommodate the high volume of work. One nonresidential builder reported hiring slightly more-recently graduated engineers than in the year before. Hiring was weakest in banking, as some firms reduced expenses by trimming nonsales or non-customer-facing staff.

Contacts across many sectors often cited a shortage of quality labor as a constraint to hiring. A number of firms are boosting training efforts and considering alternatives to alleviate the shortage. One manufacturer reported trying an onsite training program to transition general laborers into more-skilled positions. A trucking contact reported implementing an apprenticeship program to attract younger workers. Overall wage pressures were in line with the moderate trends seen so far in 2018. A few transportation and manufacturing contacts reported that they were having to give off-cycle wage increases to retain workers. One auto dealer increased incentives and starting pay for midlevel technicians, while a retailer noted the contact’s firm’s new bonus program had helped keep turnover in check. One banker noted raising wages for more experienced professionals because these professionals were more mobile.

Prices

Both input prices and final selling prices continued to rise and anecdotes suggest price pressures were similar to those of the previous two survey periods. Contacts reported strong upward pressure on nonlabor costs, especially for metals and transportation services. Price increases for plywood, lumber, and concrete were also noted. One construction contact remarked that suppliers would guarantee a price for a few days only. There was some concern that the impact of tariffs would soon filter through the supply chain in the form of higher prices of new transportation equipment, including trucks and trailers. Also, one retailer pointed out that the firm was beginning to see an increase in the firm’s costs because of import tariffs.

Final selling prices trended higher. Construction firms aggressively raised their prices to pass along higher materials costs. The majority of transportation contacts
raised their freight rates thanks to strong demand and limited capacity in the sector. More than half of manufacturing contacts raised their prices for a fourth consecutive reporting period. Service-sector industries reported relatively more modest price increases as firms attempted to cover rising worker compensation costs.

**Consumer Spending**
Retail demand improved moderately, continuing a nearly year-long trend, and contacts expected this positive trend to continue in the near term. Clothing retailers and auto dealers were most upbeat about their sales in the current reporting period. Auto dealers indicated that demand was improving thanks to strong consumer confidence, a tighter labor market, and stable financing conditions. They also reported that SUVs and light trucks continued to outsell passenger vehicles. Retailers with broad footprints noted that sales within the Fourth District were roughly in line with national demand. Profit margins were stable, and inventory levels were reported to be in good condition.

**Manufacturing**
Manufacturers reported stronger conditions and attributed the increased demand to a strong overall economy and pro-growth fiscal policy. One steel manufacturer noted that even though July is typically a soft month for new orders, demand remained strong this summer. Most manufacturers reported that capacity utilization had been within a normal range during the last two months, although some firms had increased their capacity utilization because of a backlog of orders. Some manufacturers were concerned about increased lead times due to rising freight costs and a scarcity of specialty metals. There were some reports that automotive manufacturing had slowed slightly, but other end markets such as industrial equipment, agricultural equipment, and construction remained strong.

**Real Estate and Construction**
Demand for new homes fell during the survey period, and homebuilders expected further decreases in the near future. The drop in sales was concentrated in higher-end homes; sales of lower-priced homes were steadier. Although homebuilders were able to pass along higher materials costs to preserve margins, they noted that rising home prices were a factor weighing on sales. Contacts reported stable first-time-homebuyer demand and stable financing conditions, along with an increase in the percentage of homeowners relative to renters.

Nonresidential builders reported that conditions moderated from the high levels seen in recent survey periods. Inquiries were down, especially for government and industrial projects. However, builders did not expect conditions to continue to worsen. Backlogs were still strong, and some builders were trying to expand their workforces to address their backlogs. Rising materials costs, especially of steel, lumber, conduit, and concrete, motivated nonresidential builders to raise their prices. However, while builders successfully passed through these cost increases, they believed the market was too tight to improve their profit margins.

**Financial Services**
Conditions in the financial services sector remained steady. During most of 2018, demand for credit had been strong, and in the current period, contacts mostly reported no change from this trend. Most contacts were optimistic about current economic conditions and expected the pipeline for loans to remain strong. Changes in core deposits were mixed. One contact indicated that wholesale customers continued to draw down balances instead of relying on credit. Another contact indicated that promotional increases in interest rates on deposits—especially certificates of deposit—bolstered deposit growth. Contacts are watching closely as interest rates rise, but they have not reported notable increases in delinquency rates or credit charge-offs.

**Nonfinancial Services**
Nonfinancial services firms reported strong demand thanks to generally favorable economic conditions. Business advisory firms and software developers reported strong activity. Contacts noted that in addition to tax savings and ongoing strong business confidence, their services were in demand because businesses were modernizing their IT infrastructures and attempting to automate their processes. Capital investments held steady. Transportation firms reported continued increases in freight volumes. Railroad contacts attributed some of their volume growth to ongoing capacity constraints in the trucking industry.
Summary of Economic Activity

The Fifth District economy expanded at a moderate rate since our previous Beige Book. Manufacturers gave mixed reports as some saw robust growth while others struggled with higher input prices that they were unable to pass along. District ports continued to report high volumes of imports and exports but expressed some concerns for the near future. Trucking remained strong and demand continued to exceed capacity, leading some firms to turn away business or to look toward increasing fleet size. Business travel and tourism was robust throughout the Fifth District. Meanwhile, retailers reported moderate growth, overall. Residential real estate conditions improved moderately as sales increased and home prices moved higher. Commercial real estate demand strengthened for industrial and retail space while office leasing demand varied by location. Loan demand rose modestly, overall, as short term interest rates ticked up. Demand for nonfinancial services grew moderately. Overall, labor demand strengthened and job openings increased as employers struggled to find qualified workers. Prices grew at a moderate rate, on balance.

Employment and Wages

The demand for labor strengthened moderately in recent weeks, and employment agencies reported growth in new job openings. Meanwhile, employers continued to report tight labor markets and difficulties finding qualified workers. Staffing firms indicated that job openings increased for customer service representatives, administrative assistants, medical professionals, and construction workers. Additionally, firms reported high demand for construction workers, electricians, engineers, pilots, logistics workers, accountants, IT professionals, auditors, financial analysts, marketing/sales managers, plant workers, mechanics, and truckers. Wage increases remained modest, overall.

Prices

On balance, prices grew at a moderate rate since our previous report. According to our latest surveys, manufacturing input prices rose moderately and continued to outpace selling prices. Specifically, rising prices were noted for aluminum, lumber, chemicals, rayon, polyester fiber, paper, and fuel. Conversely, copper prices were reportedly down slightly. Meanwhile, service sector firms indicated that both their prices paid and prices received grew at a moderate rate. Firms across both manufacturing and service sectors saw higher shipping costs. Last-
they expressed concerns, noting that the effects may be delayed since shipments are often planned well in advance. One port also anticipated losing some inland business soon as a result of trucking shortages.

Trucking activity remained strong in recent weeks, and some companies continued to turn away business because they did not have enough trucks or drivers to meet demand. A Virginia executive reported trying to increase his fleet to meet demand, despite rising equipment costs, and believed that his competitive compensation would attract more drivers. In North Carolina, a company reported seeing their lowest-ever operating ratio as they are able to raise prices and be selective about what size shipments to handle.

Retail, Travel, and Tourism
Tourism was robust in recent weeks. Hotels in the District of Columbia were able to increase rates because of strong business. Meanwhile, in North Carolina, healthy tourist activity boosted business for shops and restaurants. In South Carolina, increased business travel is keeping demand for hotels high, but the recent increase in supply kept prices from rising. Resorts in Virginia and West Virginia saw strong business despite setbacks from bad weather. Short-term rentals received a boost from workers on the Atlantic Coastal Pipeline.

District retailers reported moderate business conditions since our last report. A West Virginia sporting-goods retailer saw strong back-to-school business but suppressed profit margins as costs, particularly for shipping, increased. Meanwhile, a Virginia home goods store credited an uptick in business to strong tourism, and a high-end clothing store saw strong customer traffic and sales. Some retailers attributed higher input prices to recent tariffs and were hesitant to make long-term business decisions.

Real Estate and Construction
Residential real estate sales increased modestly, although agents reported a slight decline in buyer traffic. Inventory levels remained low across markets, and brokers stated that the lack of inventory was restricting home sales. However, most agents described the market as healthy and expected activity to remain steady in the coming months. Home prices rose modestly, while days on the market were generally unchanged at low levels. New home construction and sales increased modestly while speculative construction was limited. Builders continued to struggle to meet production timelines due to the lack of available and qualified roofers, framers, and siding crews. A broker in Virginia noted an increase in house flipping and remodels.

Commercial real estate leasing activity rose modestly in recent weeks as brokers reported increased demand in the industrial and retail markets. Office leasing activity was mixed across the District. Brokers in South Carolina, West Virginia, and Virginia reported slower office leasing activity in recent weeks, while agents in North Carolina and the District of Columbia reported modest increases. Vacancy rates decreased slightly in some office markets and were unchanged in the retail and industrial markets. Rental rates for all sub-markets were stable to increasing modestly. On the commercial sales side, brokers reported modest increases in prices and sales. Industrial and retail construction increased modestly, but there were no reports of new office construction projects.

Banking and Finance
Overall, loan demand rose modestly 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 modestly in most locations, and remained particularly strong in the District of Columbia. Business loan demand improved slightly, on balance, and automotive lending was reportedly flat compared to the previous report. On balance, short term interest rates increased slightly in recent weeks as deposits grew modestly and competition among banks remained strong. Credit quality remained stable at strong levels.

Nonfinancial Services
Overall, the demand for nonfinancial services continued to grow at a moderate rate in recent weeks. Firms in engineering, telecommunication, and healthcare services were particularly positive. A hospital reported strong earnings and higher Medicaid reimbursements. Meanwhile, a few professional services firms that rely on government spending reported stronger demand. On the downside, several contacts mentioned that labor constraints were holding back growth.

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

Sixth District business contacts indicated that economic activity expanded at a moderate pace since the previous report. On balance, the outlook among firms for the remainder of the year was positive, despite some uncertainty surrounding trade policy. Firms continued to cite hiring challenges, especially for low-skilled and hourly positions. Some businesses reported growing wage pressure. Rising nonlabor costs for select inputs such as transportation and steel were noted, as was an improved ability to pass through price increases. Retailers reported growth in sales, and automotive dealers indicated sales were up year-over-year. Tourism in the District was described as solid over the late summer months, on balance. Residential builders and brokers indicated modest growth compared with year-ago levels; however, diminished lot and land inventory constrained builders’ ability to meet demand. Commercial real estate contacts reported strong demand. Manufacturers noted increases in new orders and production.

Employment and Wages
Business contacts reported that labor market growth in select regions was being restrained by firms’ inability to recruit staff, particularly among the low-skill/hourly workforce. In response, firms shared plans to move to locations with larger labor pools, to change/reduce personnel standards and requirements, or continue to pursue automation to replace workers.

Contacts continued to report that wage pressure was growing; however, increases greater than 2 to 3 percent remained targeted, rather than broad-based. In response, firms continued to approach compensation creatively (e.g., offer enhanced flexibility, use bonuses and other incentive pay, and offer profit sharing or other forms of temporary compensation that can be discontinued if necessary). Reports from some firms indicated that they were unable to pay the higher wages demanded by experienced job seekers. Instead, they shifted their focus on higher margin business lines or planned to “wait it out” and not to fill the positions.

Prices
Businesses across the District continued to report some increases in nonlabor input costs, specifically relating to transportation and steel, noting slightly more ability to pass along these price increases than in the previous report. Anticipation of rising costs related to tariffs continued to contribute to vendor price increases for commodi-

ties. The Atlanta Fed’s Business Inflation Expectations (BIE) survey showed year-over-year unit costs were up 2.0 percent in August. Survey respondents indicated they expect unit costs to rise 2.1 percent over the next twelve months.

Consumer Spending and Tourism
District retail contacts reported growth in sales volume since the last report. Solid tourism activity was cited as benefiting retailers and heavily influencing sales activity in some markets. Retailers expect continued positive momentum for the remainder of the year. Automobile dealers reported an increase in year-over-year sales volume.

On balance, District tourism and hospitality contacts reported a strong summer season compared to the same time last year. Summer was robust for Florida tourism activity as occupancy and average room rate surpassed expectations. However, August turned in some mixed results as West Coast beaches were negatively impacted by the “red tide” algae bloom. New Orleans reported a decrease in July occupancy while the average daily rate was up, year-over-year. Preliminary August occupancy reports for New Orleans were stronger than expected. The outlook for the fourth quarter is mixed; some markets expect softer tourism activity year-over-year while others expect growth.
Construction and Real Estate
On balance, reports from District residential real estate contacts indicated modest but ongoing growth. Many builders reported that construction activity was up from the year-ago level. The lack of lot and land availability remained a constraint on building activity. Several contacts stated that even if they had the developed land, construction labor market conditions would keep them from being able to meet current levels of housing demand. District builders expect home sales activity to hold steady over the next few months.

Many District commercial real estate contacts noted continued strong demand. The majority of commercial contractors indicated that on balance, the pace of nonresidential construction activity at least matched the year-ago level, with the exception of retail construction, which was characterized as unchanged to down. Most contacts reported a healthy pipeline of activity, with backlogs greater than or equal to the previous year. Many contacts expressed concerns that uncertainty over increasing materials prices was making bidding and fulfilling projects more challenging. The outlook for nonresidential and multifamily construction among commercial contractors across the District remained positive, with the majority anticipating activity to match or exceed the current level.

Manufacturing
Manufacturing contacts reported strong overall business conditions from mid-July through August. Most firms cited increases in new orders and production. Supplier delivery times were said to be getting longer, while finished inventory levels remained elevated. Uncertainty regarding tariffs and trade policy continued to weigh heavily on manufacturers’ sentiment as expectations for future production levels decreased from the previous period. Slightly less than one-third of contacts are expecting higher production over the next six months.

Transportation
District transportation contacts noted increased activity during the reporting period. On a year-over-year basis, railroad traffic was up notably, primarily due to double-digit increases in shipments of grain, petroleum and petroleum products, pulp and paper products, and iron and steel scrap. District ports cited substantial growth in container traffic, breakbulk, and dry bulk freight. Air cargo contacts noted that domestic activity was up due to increased e-commerce shipments; international cargo from Latin America was described as robust, but exports to Europe had softened. Transportation contacts noted no significant disruptions in the movement of freight as a result of changes in trade policy.

Banking and Finance
Earnings continued to improve for financial institutions, driven by a stronger net interest margin. Asset growth continued to slow due to lower demand for credit amid higher interest rates and savings from tax reform. Credit quality remained strong among most financial institutions although underwriting standards loosened for some credit products, particularly residential mortgages. Transaction accounts still comprised the majority of financial institutions’ funding, but borrowings were increasingly funding new loan growth.

Energy
Fuel refining capacity utilization continued at a record pace and crude production remained strong. Exports of petroleum products continued to rise. Contacts noted increasing activity offshore in the Gulf of Mexico, including lease purchases for exploration spots. Utilities power generation projects picked up, particularly involving maintenance on power facilities. Utilities sector contacts continued to cite increases in the share of power generation from natural gas. Some contacts expressed concern that tariffs on steel and aluminum may influence the viability of planned industrial construction and plant expansion projects in Louisiana.

Agriculture
Agriculture conditions across the District continued to be mixed. Drought conditions were little changed from the previous report; most of the District remained drought free although there were reports of abnormally dry conditions in much of Louisiana and in parts of Mississippi and Alabama. August production forecasts indicated year-over-year increases in rice, soybean, and cotton, while peanut production was down. Year-over-year prices paid to farmers in June were up for corn, cotton, rice, soybeans, broilers, and eggs, while beef prices were down. However, since the last report, weekly comparisons indicated lower commodity cash prices for some recently tarifed agriculture exports such as soybeans, and the USDA has announced a financial relief program for affected agriculture producers.

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 picked up to a moderate pace in July and early August, and contacts expected it to continue at that pace over the next 6 to 12 months. Manufacturing production and employment grew moderately, consumer and business spending increased modestly, and construction and real estate activity was up slightly. Wages and prices rose modestly, and financial conditions improved slightly. Overall crop yields in the District appeared set to forge a new record.

Employment and Wages

Employment growth picked up to a moderate pace over the reporting period, though contacts expected gains to slow to a modest rate over the next 6 to 12 months. Hiring was focused on production, sales, and professional and technical workers. As they have for some time, contacts indicated that the labor market was tight and that they had difficulty filling positions at all skill levels. Manufacturers continued to report that they had delayed or turned down projects because of difficulties in finding workers. There were also reports of firms forgoing layoffs to avoid the challenge of finding workers when demand picked up. A staffing firm that primarily supplies manufacturers with production workers reported no change in billable hours. Wage growth remained modest overall, with wage increases most likely to be reported for managerial, professional and technical, and production workers. Most firms reported rising benefits costs.

Prices

Prices rose modestly in July and early August, and contacts expected prices to continue to increase at that rate over the next 6 to 12 months. Retail prices increased slightly overall. Auto dealers noted that the steel and aluminum tariffs had not yet boosted retail prices for light vehicles, but expected them to do so eventually. Producer prices rose moderately, reflecting in part the pass-through of higher labor, materials, energy, and freight costs.

Consumer Spending

Consumer spending increased modestly over the reporting period. Nonauto retail sales rose modestly, with gains in the furniture, appliances, hardware, apparel, and grocery sectors. Contacts in tourism also reported increased activity. New light vehicle sales, however, decreased slightly, while used light vehicle sales increased moderately.

Business Spending

Business spending increased modestly in July and early August. Retail contacts indicated that inventories were generally at comfortable levels, though some auto dealers reported that their inventories were too high. Most manufacturing contacts also said that stocks were at comfortable levels, though some indicated inventories were too low as a result of longer lead times for equipment and materials (particularly steel products). In addition, steel service center inventories remained below historical norms. Capital spending increased modestly, and contacts expected growth to continue at that pace over the next 6 to 12 months. Outlays were primarily for replacing industrial and IT equipment and for renovating structures. Some contacts indicated that they were delaying capital spending decisions until 2019 because of uncertainty over the outcome of international trade negotiations. Demand for energy from commercial and industrial users increased modestly, with the strongest growth coming from data centers and steel producers. Demand
for transportation services increased moderately from an already high level. One contact noted that threats of new tariffs had led to spikes in freight traffic as businesses sought to move goods before the tariffs might take effect.

**Construction and Real Estate**

Construction and real estate activity increased slightly over the reporting period. Residential construction was little changed, with growth in suburban single-family homebuilding offset by declines in other markets. Homebuilders reported that rising labor and materials costs were squeezing margins and leading them to focus on higher-margin higher-end homes in spite of strong demand for starter homes. Home sales were up slightly overall, though a contact in the Detroit area reported slower sales. Contacts across the District indicated that low inventories of starter homes continued to hold back sales. Nonresidential construction edged higher from an already solid level, with contacts highlighting growth in the industrial, health, and education sectors. Commercial real estate activity increased modestly with growth spread across most segments. That said, one contact indicated that he had started seeing deals fall through because of increases in construction costs. Commercial rents increased slightly, vacancy rates edged down, and sublease space edged up.

**Manufacturing**

Manufacturing production increased at a moderate rate in July and early August. Steel output increased moderately as end-user demand remained at a high level and imports declined. Demand for heavy machinery rose moderately, helped by growing demand from the construction and oil and gas sectors. Heavy truck demand continued to grow at a strong pace. Order books for specialty metals manufacturers increased modestly. Manufacturers of construction materials continued to report slow but steady increases in shipments, though there were concerns that the housing market is cooling. Auto production edged down, but remained at a solid level.

**Banking and Finance**

Financial conditions improved slightly over the reporting period. Financial market participants reported little change in securities prices or volatility. Business loan demand increased modestly, with growing demand from both small and middle-market firms. Contacts noted that competition for customers was particularly strong in the small business segment. Loans were primarily for financing real estate, capital equipment, and M&A. Loan quality was little changed on balance. Consumer loan demand increased slightly, led by growth in auto and home loans. Consumer loan quality and lending standards were little changed.

**Agriculture**

Overall crop yields in the District appeared set to forge a new record as the result of widespread good weather. Contacts expected a record harvest for soybeans but not for corn, reflecting the shift in the composition of crops in this year’s plantings. The anticipation of large supplies and uncertainty about trade policy led to lower corn and soybean prices. Wheat prices were higher though, because of tighter world supplies. Specialty crops were generally in good shape. Hog prices were down, as tariffs led to a drop in exports. Dairy farmers continued to struggle as milk prices remained low, while egg producers benefitted from modestly higher prices.

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

Economic conditions have again improved slightly since our previous report. Firms indicated modest increases in employment despite continued difficulties finding workers. Wages and nonlabor costs increased modestly, and contacts reported modest growth in prices charged to consumers. Consumer spending activity improved slightly. Manufacturers reported no change in production but reported declines in capacity utilization and new orders. Residential real estate contacts noted that low inventories continue to limit sales. Construction activity increased modestly as contacts stated concerns over labor shortages and rising prices of building materials. District bankers reported little change in loan demand but expect an uptick in the fourth quarter. Agriculture conditions declined modestly, and local farmers expressed anxieties over low commodity prices. Overall, the outlook among contacts weakened slightly but remained optimistic. On net, 20 percent of contacts expect conditions for the rest of 2018 to be better relative to a year ago.

Employment and Wages

Employment has grown modestly since the previous report. On net, 25 percent of survey respondents indicated that employment was higher than a year ago. Contacts reported shortages of qualified job candidates across a variety of sectors, including construction, transportation, and healthcare. Organizations continued to undertake initiatives that attempt to address the current skills gap, such as firms forming partnerships with local high schools to prepare students for a technical career. Small business contacts highlighted the tight labor market as their main challenge, citing difficulties matching compensation and benefits that larger employers offer.

Wages have increased modestly since the previous report. On net, 40 percent of survey respondents indicated that wages were higher or slightly higher than a year ago, and 39 percent reported increases in labor costs. Contacts in construction and transportation reported that labor shortages have led to wage increases in those industries. Small business wages in St. Louis grew moderately.

Prices

Prices have continued to increase modestly since the previous report. On net, 32 percent of business contacts reported that prices charged to consumers increased relative to a year ago, about the same share as three months prior.

Nonlabor input costs also rose modestly. On net, 33 percent of survey respondents indicated that costs were higher than the same time last year. Multiple manufacturers reported facing elevated input prices linked to steel and aluminum tariffs as well as increased freight costs. Many of these contacts indicated they have passed or intend to pass along these costs to their customers.

Agricultural food prices have shown slight to modest growth across the District since the previous report, yet remained depressed. The price movements of other commodities were mixed. Steel prices have declined slightly since mid-July but remain elevated compared with a year ago. Coal prices were unchanged.

Consumer Spending

Reports from general retailers, auto dealers, and hoteliers indicate that consumer spending has slightly increased since our previous report. Real sales tax collections increased in Missouri, Arkansas, Tennessee, and Kentucky relative to a year ago. Retailers from northeast Arkansas reported year-to-date sales well above 2017 levels, and they expressed a positive outlook for the remainder of the year. Reports from auto dealers were mixed: Some contacts indicated that sales were higher than anticipated while others reported that sales failed to meet expectations. Multiple dealers noted that higher interest rates have posed a challenge to their business. Hospitality contacts in Missouri reported that sales ex-
ceeded expectations, and they continued to express a positive outlook for the coming months.

**Manufacturing**
Manufacturing activity has been mixed since our previous report. District contacts, on net, indicated that new orders and capacity utilization decreased in the third quarter relative to one year ago while production remained unchanged. However, survey-based indexes suggested that Arkansas and Missouri manufacturing activity continued to expand from June to July, and survey respondents expressed an optimistic outlook for the fourth quarter. Several companies reported new capital expenditure and facility expansion plans, including firms that manufacture auto parts, food and beverage products, and medical devices.

**Nonfinancial Services**
Activity in the services sector has improved slightly since the previous report. On net, 37 percent of survey respondents indicated dollar sales in the current quarter increased relative to a year ago, and 32 percent expect next quarter’s sales to be higher as well. The number of posted vacancies for nonfinancial services occupations in July increased moderately across Louisville, Memphis, and St. Louis. Transportation and logistics activity has slightly improved and firms expanded investment within the District. Local contacts continued to report a shortage of truck drivers. A Kentucky rail transporter voiced concerns that tariffs may reduce demand in the upcoming grain season.

**Real Estate and Construction**
Residential real estate activity has increased slightly since the previous report. Seasonally adjusted home sales for July were modestly above prior-month levels across the District’s four largest MSAs. Local contacts indicated that inventory shortages continued to hinder sales, but they expect inventory levels to improve in the fourth quarter.

Residential construction activity improved modestly. June permit activity within District MSAs was slightly higher relative to the previous month, and about 40 percent of survey respondents, on net, indicated that they expected residential construction to increase in the next quarter. Local contacts continued to report constraints caused by a shortage of skilled workers and rising prices of building materials.

Commercial real estate activity has improved modestly since the previous report. Contacts noted increased demand for most property types compared with a year ago. They expect these trends to continue into the final quarter of 2018.

Commercial construction activity improved slightly. Survey respondents indicated healthy demand for most property types. Contacts in Memphis and Little Rock noted that hotel construction activity remained robust.

**Banking and Finance**
Banking conditions in the District have remained stable since the previous report. Loan demand in each major lending category was little changed relative to year-ago levels, but bankers, on net, expect stronger demand in the fourth quarter. While overall delinquencies decreased only slightly on a year-over-year basis, credit card delinquencies declined dramatically. On the other hand, commercial and industrial loan delinquencies are expected to increase slightly next quarter. Lending standards for such loans rose sharply and are expected to continue tightening through the remainder of 2018. A large share of District bankers reported strong gains in banking sector employment, as well as new branch openings and expanded market areas served.

**Agriculture and Natural Resources**
District agriculture conditions have deteriorated since the previous report. Compared with late June, the percentages of corn and soybeans rated fair or better declined moderately, while those for cotton and rice increased modestly. Relative to the previous year, however, the percentage of District rice rated fair or better was modestly higher, while corn and cotton was unchanged. The percent of soybeans rated fair or better was modestly below its August 2017 value. Farmers continued to express concerns over low agricultural commodity prices resulting from the trade dispute between China and the United States. Contacts in Missouri and Indiana indicated that farmers did not lock-in pre-tariff pricing for a majority of their soybean crop, leaving them exposed to current market conditions.

Natural resource extraction conditions rose slightly from June to July, with seasonally adjusted coal production increasing 0.6 percent. July production was 4.1 percent higher than a year ago.

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

Ninth District economic activity expanded moderately since the last report. Employment grew strongly, with robust hiring demand despite continued labor constraints. Wage growth was moderate to strong and price pressures were moderate since the previous report. The District economy showed growth in consumer spending, tourism, services, manufacturing, residential real estate, commercial real estate, mining, and tourism. Commercial and residential construction were mixed, while agriculture remained weak overall.

Employment and Wages

Employment grew strongly since the last report despite continued labor constraints. Hiring demand was robust. The number of July job postings at state workforce centers grew strongly across the District compared with a year earlier, with several states posting low double-digit growth. In Minnesota, the number of July openings in high-tech fields rose from a year earlier. Two separate July surveys reported solid hiring sentiment in the Dakotas and Minnesota. Staffing industry contacts reported growth in clients and total job orders. However, finding labor was much more difficult. Over the most recent six-week period (through mid-August), both initial and continuing unemployment claims fell by about 11 percent across District states. Staffing clients widely reported more unfilled job openings compared with the same period a year earlier. A contact with offices in Minnesota and Wisconsin said that there were “not nearly enough candidates” for available openings. A North Dakota contact said an “overwhelming” majority of staffing clients were optimistic about current business conditions: “Companies are expanding or want to expand. Their challenge is finding enough workers.”

Even major layoffs had an offset. A financial call center in South Dakota announced layoffs of about 450 workers. But a Minnesota call center expected to hire 550 workers thanks to higher demand from travel and health care clients.

Wage growth was moderate to strong since the last report. An ad hoc survey of Minnesota staffing firms found average wage growth of 3 percent to 5 percent, with similar expectations for the coming year. A western Wisconsin contact said lower-paying positions were seeing catch-up wage increases, “while the top (wage) stays in place.” Increasing entry-level wages from $11 to $13 “hasn’t had much of an impact in recruiting, but moving to over $15 has.” A North Dakota contact said wages for entry-level office jobs have risen from $12 to $14 over the past year, while those for entry-level forklift operators have gone from $14 to $16 or more. Due to high vacancies, salaries for high-tech positions in Minneapolis-St. Paul were seeing strong increases.

Prices

Price pressures increased moderately relative to the previous report. Retail food and beverage prices accelerated modestly from a year ago, according to industry sources. Construction costs continued to increase briskly, due both to rising materials prices and high demand for subcontractors. Transportation logistics costs have increased substantially this year, according to contacts. A July survey of purchasing managers indicated elevated inflation expectations. Retail fuel prices as of late August were generally unchanged relative to the previous report. Prices received by farmers for wheat, hay, chickens, and eggs increased in
July compared with a year earlier; prices for corn, soybeans, hogs, cattle, milk, and turkeys decreased.

**Consumer Spending and Tourism**

Consumer spending rose moderately since the last report. Available sales and tax data showed higher summer receipts in Minnesota, South Dakota, and Wisconsin compared with a year earlier. A Minnesota consumer goods retailer reported strong financial results in its most recent quarter, and a Minnesota-based furniture retailer announced a major expansion of stores. The Minnesota lodging industry experienced a 2 percent increase in overall demand over last July. Total airline passenger traffic in Minneapolis-St. Paul in July was flat compared with a year earlier, but was solidly higher at other, smaller airports across the District.

Tourism saw moderate growth across District states. Traffic at the annual Sturgis Motorcycle Rally in August was 8 percent higher than a year earlier. However, July gaming receipts in South Dakota fell slightly. Extremely hot weather reportedly led to an attendance drop at the Montana State Fair, but total revenue was nonetheless strong. The summer music and festival season in Billings and Bozeman (Mont.) were reportedly very strong in terms of attendance and spending. The North Dakota State Fair fell just short of setting an all-time attendance record. Following two months of increased traffic, July traffic across the Mackinac Bridge leading to Michigan’s Upper Peninsula was flat compared with a year earlier.

**Services**

Activity in the professional services industry increased moderately since the last report. An electronics distributor broke ground on a $300 million expansion. Demand for agricultural data analytics has increased this year as farmers seek to economize on input costs, according to a contact. Freight demand was up, particularly in trucking. Great Lakes cargo shipments increased 2.5 percent in July from a year earlier.

**Construction and Real Estate**

Commercial construction was mixed since the last report. Industry data suggested that commercial construction was down steeply in July. However, spending in the heavy construction sector was higher as crews took advantage of dry summer weather. Commercial permitting in July—a signal of future activity—was also higher in many of the District’s larger cities, including Minneapolis; Billings; and Bismarck, N.D. Residential construction was mixed. Limited data on August permitting suggested that activity increased compared with a year earlier, including in Minneapolis-St. Paul. However more extensive July permit data showed mostly flat-to-lower activity across the District. A Montana contact said market-rate apartments were seeing strong growth in larger markets, which was expected to continue into next year. Minneapolis-St. Paul saw a considerable increase in August multi-family units permitted compared with last year, following an equally notable decrease in July.

Commercial real estate saw modest growth since the last report. Office vacancy and lease pricing were stable in Minneapolis-St. Paul. Industrial leasing in the region reportedly slowed compared with last year, due to lack of suitable space; industrial vacancy rates have tightened and space under construction has risen in response. However, closures continued among large retail stores, including two mall anchors in western Wisconsin.

Residential real estate activity rose modestly. Closed sales were higher overall in Montana’s larger cities compared with a year earlier; they also rose modestly in Sioux Falls, S.D. While July sales were flat in Minnesota, those across northern Wisconsin were the strongest in at least a dozen years, and sales also rose in the western area of the state. Low inventories of homes saw some improvement, increasing by 4 percent in both Minneapolis-St. Paul and Sioux Falls.

**Manufacturing**

District manufacturing activity increased moderately. An index of manufacturing conditions indicated increased activity in July compared with a month earlier in Minnesota and the Dakotas. A solar panel producer was preparing to re-open a shuttered plant in Minnesota. An HVAC manufacturer and a producer of radiators for heavy equipment announced expansions at existing facilities. Contacts from across the sector continued to report negative impacts from trade restrictions.

**Agriculture, Energy, and Natural Resources**

The District agricultural sector was weak overall. Growing conditions in much of the District were good this summer, with producers in some areas expecting record yields. However, low commodity prices continued to drag on farm finances and contacts remained concerned about trade conflicts. District oil and gas exploration activity as of late August decreased slightly from the previous report. Coal production in Montana increased from a year earlier. District iron ore mines were operating at capacity, with work underway to bring an idled facility back online; iron ore shipments on the Great Lakes were up 7 percent in July from a year earlier.
Summary of Economic Activity

Economic activity in the Tenth District increased modestly in late July and August, and growth was expected to continue in most sectors. Consumer spending increased slightly since the previous survey period, including gains in retail, auto, restaurant and tourism sales. Manufacturing activity expanded moderately, and respondents in transportation, wholesale trade, professional, and high-tech firms reported higher sales. Residential real estate conditions declined slightly, due in part to seasonal effects and higher interest rates, while commercial real estate activity rose modestly. Energy activity across the District held steady, although oil and gas production continued to rise. Agricultural conditions deteriorated further in the District, leading to stronger demand for farm loans and a slight worsening of loan repayment problems. Growth in employment and employee hours varied across sectors, and the majority of respondents continued to report labor shortages and higher wages. Input prices and selling prices rose in most sectors, and additional price gains were expected in the months ahead.

Employment and Wages

Growth in District employment and employee hours varied across sectors since the previous survey, although most respondents expected gains in the months ahead. Contacts in the retail trade, wholesale trade, transportation, restaurant and manufacturing sectors noted rising employment levels. However, respondents in auto sales, professional services, tourism, and health services reported a decline in both employment and employee hours. Employment and employee hours were expected to increase in the next few months in every sector except tourism.

A majority of respondents reported labor shortages for low- and medium-skill workers, due primarily to a lack of qualified applicants. Contacts specifically noted difficulties filling commercial driving positions and most positions within the retail and food-services sectors. Wages rose modestly in most sectors, and moderate wage growth was expected in the coming months.

Prices

Input and selling prices rose in most sectors in late July and August, and additional increases were anticipated moving forward. Selling prices in the retail sector increased moderately compared to the previous survey period, while input prices rose robustly. Restaurant contacts reported a slight increase in both input and selling prices and anticipated a faster pace of price gains in the months ahead. Input prices in the transportation sector rose moderately, and selling prices edged up. Respondents in the transportation sector projected strong gains in input prices moving forward. After moderate gains earlier this year, prices in the construction sector held steady and remained moderately above year-ago levels. Manufacturers reported a slight increase in prices for both finished products and raw materials since the previous survey, and a large share of District manufacturing contacts reported that trade developments this year had led to higher input prices.

Consumer Spending

Consumer spending grew slightly compared to the previous survey period, with gains in retail, auto, restaurant and tourism sales. Retail sales and inventories edged up in late July and August and remained well above year-ago levels. Retail contacts anticipated overall activity to increase in the months ahead. Auto sales rose modestly compared to the previous survey period, and expectations were for strong growth moving forward. Auto contacts noted used vehicles and new sport utility vehicles sold well, although most other new vehicles sold poorly. Restaurant sales increased modestly compared to both the previous survey period and year-ago levels, and respondents anticipated growth to continue but at a slightly slower pace in the next few months. Tourism
sales expanded at a slight pace but were expected to decrease modestly in the near term. Capital spending plans strengthened within all consumer spending sub-sectors with the exception of tourism.

Manufacturing and Other Business Activity
Manufacturing activity expanded at a moderate pace compared to the previous survey period, and the majority of other business contacts experienced slight-to-moderate sales growth. Factory activity grew moderately at both durable and nondurable plants. The level of production, shipments, and new orders also rose moderately over the survey period and remained higher than a year ago. Although manufacturers’ capital expenditures continued to expand moderately, several contacts reported that recent trade developments had lowered capital spending plans.

Outside of manufacturing, firms in the wholesale trade and transportation sectors noted moderate sales growth, whereas contacts in the professional and high-tech sector reported slight growth. A majority of business contacts anticipated moderate sales gains going forward. Transportation contacts expected a modest increase in capital spending in the coming months, while professional, high-tech, and wholesale trade firms projected moderate growth in capital expenditures.

Real Estate and Construction
District real estate activity was mixed, with residential real estate activity declining slightly and commercial real estate activity rising modestly. Residential home sales fell moderately in late July and August and were similar to year-ago levels. Contacts expected further decreases in residential sales, citing seasonal factors and rising interest rates. Sales of low- and medium-priced homes continued to outpace sales of higher-priced homes, and home prices fell modestly. Residential construction activity rose slightly, and unsold home inventories experienced modest growth. Commercial real estate activity expanded at a modest pace as sales, absorption, completions, construction underway, and prices rose; vacancy rates decreased slightly. Expectations in the commercial real estate sector were for modest gains moving forward.

Banking
Bankers reported a slight increase in overall loan demand in late July and August. Demand rose slightly for commercial and industrial loans and for commercial real estate loans. Respondents indicated a slight decrease for residential real estate and consumer installment loans, while agricultural loans held steady. Loan quality improved modestly compared to a year ago, and respondents expect loan quality to remain steady over the next six months. Credit standards remained largely unchanged in all major loan categories, and bankers reported a modest decrease in deposit levels.

Energy
District energy activity remained steady since the last survey period, and contacts expected gains in the months ahead. The number of active oil rigs was unchanged, while the number of active gas rigs moderated slightly. Oil and gas production continued to expand, and contacts expected solid production increases moving forward. Oil prices were slightly lower than the peak levels reached earlier in the summer, but remained higher than levels in recent years.

Agriculture
Farm income and credit conditions in the Tenth District weakened, and crop prices remained relatively steady following sharp declines in June and early July. The price of corn and soybeans increased modestly in late July, but declined in August to a level similar to the previous reporting period. With agricultural commodity prices generally lower than a year ago, District contacts reported a decrease in farm income in addition to stronger demand for farm loans. Loan repayment problems also worsened slightly throughout the District and were most significant in Nebraska, Colorado, Wyoming and New Mexico. District contacts reported that uncertainty surrounding trade was a primary concern, and the prolonged weaknesses in the agricultural economy were increasingly impacting farm borrower finances. Although interest rates on farm loans continued to increase alongside weakening agricultural credit conditions, farmland values declined only modestly.

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

Solid expansion continued in the Eleventh District economy, although the pace eased slightly compared with the last report. Manufacturing output increased, and loan demand and retail spending accelerated. Broad-based expansion in the service sector continued. Home sales slowed, and drilling activity was flat. The ongoing drought dampened crop and grazing conditions. Employment increased, and widespread labor shortages continued to pressure wages. Price pressures stayed elevated largely due to increases in input costs. Although outlooks remained fairly optimistic, trade-related concerns have heightened uncertainty.

Employment and Wages

Job growth continued to be widespread across sectors. Labor shortages persisted, covering a wide range of industries and skill sets, and several contacts said that a lack of qualified candidates was constraining growth. Poaching of skilled labor in midstream construction was reported, and a staffing firm said they had cancelled retainer contracts with some customers in order to recruit those firms’ employees for active clients.

Wage pressures remained elevated, with more than 60 percent of firms saying they were increasing wages and/or benefits to recruit and retain employees. Upstream energy firms reported significant pressure to raise wages in the Permian Basin despite flattening of the rig count, and midstream and downstream energy companies also cited rising wage pressures, particularly for personnel with less than five years of experience. A transportation services firm was offering up to $15,000 in multi-year sign-on bonuses in some areas. Retailers noted difficulty filling lower-level positions, with several contacts reporting starting wages of $15-$16 per hour to remain competitive. Nearly 60 percent of firms said they were unable to pass higher labor costs to customers through price increases.

Prices

Price pressures remained elevated in part due to tariffs, although they did ease slightly over the reporting period in manufacturing and retail. Price pressures were little changed in the service sector. Firms’ ability to pass on higher costs to customers was limited, although a few did mention plans to raise prices in the near term. Fuel prices were flat over the reporting period. The price of West Texas Intermediate (WTI) crude oil remained in the high $60s; however, prices received by some producers were reportedly $10-$17 lower due to limited pipeline capacity.

Manufacturing

Robust expansion continued in the manufacturing sector. Output growth strengthened for durables, led by a pickup in fabricated metals and in computer and electronic product manufacturing. Machinery production remained solid, while demand for primary metals and transportation equipment manufacturing was flat. Among nondurables, food and chemical production increased. The Gulf Coast refinery utilization rate climbed further to 99.4 percent in mid-August. Relatively low domestic feed costs and expectations of healthy global demand boosted refiners’ and chemical producers’ outlooks. Overall, outlooks among manufacturers remained positive, although tariffs have increased uncertainty in expectations.

Retail Sales

Retail sales accelerated during the reporting period. Online sales remained solid, and seasonal retailers
noted a marked increase in activity. A clothing retailer said sales along the border were trailing other areas. Auto sales strengthened in August following weakness in July. While outlooks stayed positive, concern over tariffs and rising interest rates was noted.

Nonfinancial Services
The nonfinancial services sector expanded broadly, with revenue growth firming up among healthcare, real estate and leasing services, and administrative and support services firms. Staffing services firms said high levels of demand were sustained by broad-based growth across geographies and industries. Activity in the transportation services sector remained markedly strong, with rail traffic solid across nearly all business lines and continued robust growth in container volumes. Courier cargo volumes rose year over year. Airline passenger demand remained stable, and continued strength was expected in most markets. Revenue growth was moderate in the professional and business services and the leisure and hospitality sectors. Expectations regarding future business conditions stayed optimistic, although higher fuel prices, labor shortages, and uncertainty surrounding trade policies remained sources of concern.

Construction and Real Estate
Activity in the housing market softened over the reporting period, with most contacts noting slower-than-expected new-home sales. Existing-home sales were flat but remained near recent highs. Apart from the seasonal slowing, contacts said the recent heat wave, rising interest rates, and lower creditworthiness of entry-level buyers were affecting overall sales. Buyers remained price sensitive, and builders’ noted compressed margins at the higher price points, as well as discounting on speculative inventory homes in some locations. Contacts expressed trepidation about the impact of higher interest rates, rising building costs, and uncertainty surrounding trade and immigration policies on future sales, and some added that they expect starts to flatten out in the near term.

A large number of new apartments continued to suppress rent growth in most major metros. Net absorption of office space moderated in Dallas–Fort Worth and remained weak in Houston in part due to the broader national trend among firms to move out of larger spaces into more efficient, smaller ones.

Financial Services
Loan volumes and demand expanded at a faster pace. Growth remained broad based, with continued strength in commercial and residential real estate lending and a notable pickup in commercial and industrial loan vol-

umes. Consumer loan growth slowed. Loan pricing rose further, albeit at a slower rate. The volume of core deposits expanded, and bankers noted an increase in the cost of funds and continued pressure to raise deposit rates. Contacts remained optimistic, although they cited flattening of the yield curve, tariffs, and regulatory compliance as top concerns.

Energy
Drilling activity in the Eleventh District leveled off as pipeline capacity constraints put downward pressure on prices received by oil and gas operators in the Permian Basin relative to major oil benchmarks like WTI. The smaller independent companies are being hurt by the lower wellhead prices, which are near or below their breakeven levels; however, so far the discounts are not deep enough to shut in production. In contrast, margins have improved for oilfield services firms that were able to increase prices earlier in the year. Outlooks remained positive as additional pipeline capacity is expected to be operational in 2019.

Agriculture
Lack of soil moisture continued to dampen agricultural conditions in Texas, with more than half the state experiencing drought. The corn and soybean crops were generally in fair to good condition, while pastures and the cotton and sorghum crops were mostly in fair to poor condition. Texas crop production this year is expected to be down 27-33 percent from 2017, depending on the crop, according to USDA estimates. There is also concern among the agricultural community about tariffs and trade wars. However, a potential bright spot for Texas agricultural producers is the high probability for an El Nino climate pattern this winter, which could mean cooler and wetter weather for the state. ■

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

Economic activity in the Twelfth District continued to expand at a moderate pace during the reporting period of July through August. Conditions in the labor market tightened further, and wage pressures ticked up. Price inflation increased moderately. Sales of retail goods picked up moderately, while activity in consumer and business services edged down slightly. Activity in the manufacturing sector and conditions in agriculture improved modestly. Contacts reported that residential real estate market activity expanded at a solid pace, and activity in the commercial real estate sector was healthy. Lending activity ticked up modestly.

Employment and Wages

Conditions in the labor market tightened further, with contacts across a variety of sectors reporting labor shortages. A national clothing retailer based in Seattle reported that hiring at warehouse fulfillment centers was constrained by a lack of qualified job candidates. Truck drivers continued to be in short supply. Continued labor shortages in construction contributed to some project delays. A steel manufacturer in Oregon noted that hiring picked up modestly due to an increase in demand. A print media company in Eastern Washington reported minimal net changes in employment, with gains due to business growth offset by reductions due to automation.

Wage growth ticked up broadly, and some businesses increased benefits in response to more labor retention challenges. Contacts across the District noted upward compensation pressures for accountants, software engineers, and information technology professionals. In the Mountain West, small businesses moderately raised starting wages and benefit compensation to better compete with larger national employers. In order to retain employees and attract new hires, a few businesses increasingly offered flexible work arrangements.

Prices

Price inflation increased moderately over the reporting period. On balance, pricing pressures for building materials continued to rise noticeably across the District. Contacts noted a moderate pickup in price growth for metal inputs and for finished steel. A contact in the electric utility industry of Southern California observed a jump in prices for metals used in the construction of electricity infrastructure. An industry contact in Oregon noted that the price of steel continued to increase, due in part to the implementation of tariffs and to unrelated declines in global competition. Higher fuel costs gave a slight boost to shipping and freight costs in various sectors. A few lumber producers in the Pacific Northwest reported a moderate decline in selling prices due to overproduction and a tick down in housing starts.

Retail Trade and Services

Sales of retail goods picked up moderately over the reporting period. Major global retailers based in Oregon and Washington reported that consumer demand for apparel picked up, which reduced reliance on discount pricing to stimulate sales. These businesses also noted that inventory levels were sufficient to meet continued elevated demand. Contacts in the Mountain West reported that small retailers in particular saw a jump in sales, while auto sales in the region ticked down.

Overall, activity in the consumer and business services sectors edged down slightly. A reduction in government reimbursements and an increase in labor and other input
costs put downward pressure on health-care providers’ bottom lines. Activity at transportation businesses continued to be slightly constrained due to shortages of truck drivers. Restaurant sales grew moderately in the Mountain West. In Hawaii, contacts reported that activity in the tourism industry expanded solidly, limited only by recent weather-related disruptions.

Manufacturing
Activity in the manufacturing sector expanded modestly. Capacity utilization at steel producers increased slightly on a year-over-year basis due to solid domestic demand and reduced competition from overseas. A contact in Northern California noted modest sales growth in the semiconductor industry, with inventory and capacity utilization levels consistent with expectations for growth.

Agriculture and Resource-Related Industries
Conditions in the agriculture sector improved modestly, though contacts noted a somewhat weakened outlook due to heightened trade tensions. In the Mountain West and California, crop yields were higher than expected due to better weather. Contacts in the Pacific Northwest reported that lumber production was solid, while demand for lumber for residential construction projects fell slightly. Lumber exporters in the Pacific Northwest noted a modest decline in demand from China after that country announced tariffs on American lumber. Profitability at pork and beef producers fell moderately on a year-over-year basis. With profit margins for many crops at only breakeven levels, agriculture contacts are keenly focused on the potential for prolonged trade-related disruptions.

Real Estate and Construction
Activity in real estate markets expanded at a solid pace. Low inventory levels in the residential market persisted due to labor shortages and rising overall material costs, which constrained otherwise robust construction activity. Contacts across the District noted that the low levels of inventory in tandem with brisk demand for housing resulted in continued upward pressures on home prices and rents. A contact in eastern Oregon observed that new buyers from regions with higher home prices drove a jump in demand. On balance, contacts did not observe a tangible impact on demand from the increase in mortgage rates.

Commercial real estate activity was healthy. In line with the residential market, construction in the commercial market was limited only by labor shortages and rising material costs. In Oregon, leasing demand for retail and warehouse spaces picked up further, due in part to the growing cannabis industry. A contact in Southern California noted that commercial leasing rates jumped, spurring some additional construction starts.

Financial Institutions
Lending activity ticked up modestly over the reporting period. Loan demand increased overall, with consumer loan growth slightly outpacing commercial loan growth. Net interest margins remained solid, despite some recent narrowing due to rising deposit interest rates. Contacts reported strong credit quality and loan performance, though in the Mountain West, lenders remained attentive to decreasing profitability in segments of that region’s agriculture industry.