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

May 2019
The System serves commonwealths and territories as follows: the New York Bank serves the Commonwealth of Puerto Rico and the U.S. Virgin Islands; the San Francisco Bank serves American Samoa, Guam, and the Commonwealth of the Northern Mariana Islands.
What is The Beige Book?
The Beige Book is a Federal Reserve System publication about current economic conditions across the 12 Federal Reserve Districts. It characterizes regional economic conditions and prospects based on a variety of mostly qualitative information, gathered directly from District sources.

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

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

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

Overall Economic Activity
Economic activity expanded at a modest pace overall from April through mid-May, a slight improvement over the previous period. Almost all Districts reported some growth, and a few saw moderate gains in activity. Manufacturing reports were generally positive, but some Districts noted signs of slowing activity and a more uncertain outlook among contacts. Residential construction and real estate both showed overall growth, but both sectors saw wide variation in sentiment across Districts. Reports on consumer spending were generally positive but tempered. Tourism activity was stronger, especially in the Southeast, but vehicle sales were lower, according to reporting Districts. Loan demand was mixed but indicated growth. Agricultural conditions remained weak overall, but a few Districts reported some improvements. The outlook for the coming months was solidly positive but modest, with little variation among reporting Districts.

Employment and Wages
Employment continued to increase nationwide, with most Districts reporting modest or moderate job growth and others reporting slight growth, an assessment similar to the previous reporting period. Solid hiring demand was noted for retail, business services, technical, manufacturing, and construction jobs and by staffing agencies in general. However, stronger employment growth continued to be constrained by tight labor markets, with Districts citing shortages of both high- and low-skill workers. Competition for workers reportedly applied some wage pressures across a wide range of occupations and induced improvements in benefits to attract more workers and to improve retention of existing employees, according to several Districts. However, overall wage pressures remained relatively subdued given low unemployment rates; a majority of Districts reported modest or moderate wage growth.

Prices
Overall prices continued to increase at a modest pace in most Districts since the previous report. While several Districts noted faster growth in input prices than in final selling prices, firms generally reported input cost increases in the modest-to-moderate range. Contacts in several Districts reported higher freight prices. Reports from manufacturers on input prices were mixed, with some Districts citing an easing in steel and other metals prices, while contacts in others noted that raw materials prices remained elevated. Construction materials prices, including those for lumber, also eased in several Districts. Retailers generally reported flat to slightly increased selling prices. Despite increases for certain agricultural commodities, prices remained low relative to historical levels.

Highlights by Federal Reserve District

Boston
Economic activity expanded at a modest-to-moderate pace in most sectors, although a majority of manufacturers saw declines. Several staffing firms suggested that a shift in the balance of requests from direct hires toward longer contracts for temps indicated an increase in uncertainty among their clients. Most business contacts remained at least guardedly optimistic about the outlook.

New York
Regional economic activity expanded at a moderate pace in the latest reporting period. Despite persistently tight labor markets, wage growth was subdued, as was inflation generally. Consumer spending and tourism grew modestly. There was a notable expansion in new commercial construction and a modest firming in the office market. Housing markets also firmed somewhat. Banks reported a fairly broad-based pickup in loan demand.
Philadelphia
On balance, business activity accelerated further to a modest pace of growth during the current Beige Book period following slight growth in the prior period. Trade uncertainty has delayed business investment, and tight labor markets have constrained expansion and spurred wage hikes. Still, inflation remained modest, and the firms remained positive about the six-month outlook.

Cleveland
Economic activity grew modestly overall. Service-focused industries grew the fastest, both in terms of demand and in terms of employment. Nonauto consumer spending increased. Manufacturing declined slightly. Employment rose modestly. Wages increased moderately overall and grew faster in white-collar than blue-collar industries. Price inflation decelerated.

Richmond
On balance, the regional economy grew modestly in recent weeks. Manufacturers saw a decline in shipments and new orders, while trucking firms said that business was below normal. Meanwhile, ports saw strong import volumes, tourism remained high, and real estate sales and leasing picked up modestly. Labor markets tightened, and difficulty finding workers constrained growth for some retail and nonfinancial services firms.

Atlanta
Economic activity grew at a modest pace. The labor market continued to be described as tight. On balance, wages held steady but rose for select positions. Retail sales were largely unchanged since the previous report. The pace of home sales picked up. Manufacturers noted increases in new orders and production. Bankers noted stable activity.

Chicago
Economic activity increased slightly on balance. Employment increased modestly; consumer spending, business spending, and construction and real estate increased slightly; and manufacturing was little changed. Wages and prices rose modestly, and lending picked up slightly. Farmers continued to be challenged by poor weather and low crop prices.

St. Louis
Economic conditions were generally unchanged from the previous report. Contacts in most sectors reported slightly positive to no growth. However, contacts in banking, real estate, and agriculture noted slight to moderate declines. Overall, contacts’ economic outlook for the remainder of the year remains slightly optimistic.

Minneapolis
Ninth District economic activity grew slightly, with several sectors seeing mixed or flat growth, including commercial construction and real estate. Labor demand remained healthy, but signs of softness were apparent. Residential construction and real estate remained soft, but manufacturers were upbeat about near-term expectations. A wet spring has threatened the planting season for already-struggling agricultural producers.

Kansas City
Economic activity continued to expand at a slight pace in April and early May. Home sales increased strongly, and consumer spending rose slightly, driven by moderate gains in the retail sector. In addition, manufacturing, wholesale trade, transportation, and professional and high-tech activity rose modestly. However, energy activity fell slightly, and agricultural credit conditions and farm income weakened.

Dallas
Economic activity expanded moderately, although there were scattered signs of a deceleration in growth in early May. Home sales rose, and loan volumes continued to increase. Hiring continued at a moderate pace, and wage pressures remained elevated. Outlooks were generally less positive than during the prior reporting period, with tariff and trade negotiations driving up uncertainty.

San Francisco
Economic activity in the Twelfth District continued to expand at a moderate pace. Labor market conditions remained tight, and price inflation was unchanged on balance. Sales of retail goods increased modestly, and activity in the consumer and business services sectors increased moderately. Conditions in the agriculture and manufacturing sectors improved modestly. Activity in residential real estate markets expanded moderately, and commercial activity was steady. Lending activity increased slightly.
Summary of Economic Activity
Most First District business contacts said that activity continued to expand at a modest to moderate pace in recent weeks; by contrast, more than half of responding manufacturers cited sales declines from a year earlier. Commercial real estate markets were mostly steady in the region, with the Boston and Portland areas generally stronger than Providence and Hartford. Most residential real estate markets in the region experienced increases in sales and prices of both single-family homes and condominiums. Labor markets remained tight, but hiring difficulties were not said to be constraining operations (except for staffing firms). Prices were reportedly mostly steady. Consumer-facing sectors contacts cited a positive outlook and staffing firms were “guardedly optimistic,” while most manufacturers downgraded their outlooks.

Employment and Wages
Contacted First District firms cited little hiring and continued upward pressure on wages. Retailers reported that while the labor market remained tight, especially for technical jobs, they were able to fill open positions. Most manufacturing contacts reported small changes in hiring. Respondents in the staffing industry mentioned low unemployment rates, local labor force demography, and limited applicant supply as “challenging” factors; within the limited applicant pool, they noted many underqualified applicants. Regarding wages, staffing contacts said that clients accepted higher bill rates to see qualified candidates who demanded higher pay rates.

Prices
Respondents reported minimal price pressure. Retailers indicated prices were generally steady, notwithstanding price declines for dairy products and eggs and price increases for pork and some consumer product categories. Branded pharmaceutical prices reportedly continued to rise, but at a more modest pace than the double-digit increases noted in previous years; this moderation was attributed to political attention being paid to drug prices. Manufacturing contacts cited tariffs as their main pricing issue, indicating that they were generally able to push price increases to customers. One reported that they added a surcharge to cover the tariff on goods from China, which customers accepted; once they found an alternative supplier, they removed the surcharge.

Retail and Tourism
Most First District retail contacts reported year-over-year comparable-store sales increases ranging from low- to mid-single-digit percentages; one retailer recorded a double-digit sales increase. Customer traffic was up, whether gauged by in-store traffic or online sales, and consumer sentiment remained strong. Two retailers noted that the delayed onset of warmer weather through much of April and May depressed sales of summer items like clothing and outdoor furnishings. Despite expressing some concern about higher tariffs, responding retailers did not expect much impact on their businesses. The outlook for the rest of 2019 is positive, though one contact noted that retailers have been forced to cut delivery fees and be very attentive to customer service to grow sales in a very competitive retail landscape.

A travel industry contact reported that domestic flights to Boston through March were up 1 percent from a year earlier, while international traffic was up 6.2 percent. Boston is expected to set a new record for the number of cruise-ship passengers in 2019. New hotel rooms continued to be added in the city. This respondent said the outlook for Boston tourism is very strong for the peak summer and fall travel seasons.

Manufacturing and Related Services
Reports from manufacturing contacts continued to be mixed. Of the nine contacted firms, five reported lower sales, one reported no change and only three reported...
higher sales versus the same period a year ago. Three negatives mentioned most often were China, tariffs, and the semiconductor cycle; the three are related but distinct issues according to contacts. For example, Chinese cellphone manufacturers are big consumers of semiconductors so trade actions against them (as with Huawei, for example) are a big negative for semiconductor-related firms. At the same time, semiconductor firms cited a flat period in the industry's business cycle. Another area of weakness is autos; a firm supplying capital equipment to the auto industry said investment was depressed because uncertainty about trade policy has delayed new model launches. Two contacts supplying Boeing said that the problems with the 737 MAX did not have a material effect on their business.

Responding manufacturers reported no revisions to capital expenditure plans. Among other things, contacts said they still needed to invest in automation. Although most contacts were still positive about the near term, many had negatively revised their outlooks.

**Staffing Services**

Two of five responding First District staffing firms struggled to find year-over-year revenue growth in the first quarter, with others reporting performance similar to 2018’s first quarter; all reported revenues higher than in the fourth quarter. Demand from clients remained steady across industries, but the tight labor market constrained placements. Many firms cited transparency and educating clients about labor force composition as business strategies to avoid pushback and maintain profits.

Several respondents reported an increase in the length of temporary contracts and less demand for direct hires; they conjecture these changes reflect their clients’ uncertain expectations stemming from the threat of a trade war with China. Most contacts noted that their outlook on the economy was guardedly optimistic.

**Commercial Real Estate**

Contacts reported only slight changes in commercial real estate market conditions in recent weeks. Leasing demand for industrial space remained very strong throughout much of the First District, except that Connecticut continued to see weaker demand for large-scale industrial and warehouse space compared with 6 to 12 months ago. Office leasing demand showed continued strength in the Boston and Portland areas but remained a bit soft in the Providence area and quite slow in greater Hartford. Accordingly, office rents faced further upward pressure in Boston and Portland and were flat elsewhere. A Portland contact noted that average rents for both office and industrial space increased roughly 10 percent from one year ago.

Construction activity held steady throughout the District—again with more robust activity in Portland and Boston than elsewhere. Contacts across the District noted that construction was restrained by high and rising costs, which were attributed to tariffs on steel and other materials and high labor costs due to the tight labor market. Investment sales demand was reportedly stable and the lending environment for commercial real estate remained favorable to borrowers.

The outlook was mixed across locations, in line with the strength of current conditions. Contacts across the District felt that rising construction costs presented a significant risk to activity moving forward, as did ongoing disputes over tariffs.

**Residential Real Estate**

Residential real estate markets in the First District displayed robust activity in recent weeks. For single family homes, sales increased over the year in Massachusetts, Boston, Maine, and Rhode Island, but decreased in New Hampshire. (Most areas reported year-over-year changes from April 2018 to April 2019, while Greater Boston reported statistics through March; no data were available for Vermont and Connecticut.) Single-family inventories decreased in all areas but Rhode Island. For condominiums, sales rose in all reporting areas except Rhode Island. Condo inventories decreased in Boston and New Hampshire, and increased moderately in Rhode Island, Maine, and Massachusetts. Of particular note, the number of condos for sale in Massachusetts increased for the fourth straight month, which was only the fourth time in the last three years.

Median sales prices increased or held flat in all reporting areas for both condos and single family homes, indicating that the seller’s market environment persisted. According to the Rhode Island representative, “Homes are going under contract at a hectic pace and prices, though slowing a bit, are still on the rise.” In general, residential contacts had a positive outlook, citing high demand and a favorable interest rate environment as reasons.

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

Economic growth in the Second District picked up to a moderate pace in the latest reporting period. The labor market has remained very tight, while wage growth has been largely subdued. Both input prices and selling prices have continued to increase at a modest pace. Manufacturing activity grew at an increasingly brisk pace, as did activity in some service sectors; however, growth in the distribution industries slowed somewhat. Consumer spending and tourism expanded modestly. Housing markets firmed somewhat, as the rental market continued to improve and the sales market picked up modestly. Commercial real estate markets have also firmed slightly, on balance, and new office construction has expanded noticeably. Finally, banks reported a broad-based increase in loan demand.

Employment and Wages

The labor market has remained very tight across the District, as employment agencies report persistent difficulties finding workers—particularly those with IT skills. Businesses continued to characterize employment as flat to up slightly. Firms in wholesale trade, transportation, real estate & construction, and leisure & hospitality reported increased staffing levels. In contrast, businesses contacts in the retail trade, professional & business services, information, and leisure & hospitality sectors noted little change in employment. A New York City employment agency reported particularly brisk demand for human resource workers.

Despite persistently tight labor markets, wage growth has been fairly subdued, though highly skilled workers have seen larger hikes. Large IT firms have reportedly been luring top employees from smaller tech firms by offering generous benefits and salary hikes. A number of businesses in New York State have noted ongoing challenges from the recent minimum wage increase; some reported that they are investing more in automation.

Prices

Businesses reported that both input prices and selling prices rose at about the same modest pace as in the last report. Input cost pressures tended to be most widespread in the wholesale & retail trade, transportation, and education & health sectors. The most widespread rises in selling prices were reported from the leisure & hospitality, wholesale & retail trade, and real estate & construction sectors.

Retailers generally indicated that selling prices have been flat. One major chain reports that it has raised prices on some merchandise (such as furniture and leather goods) in order to pass along cost increases due to tariffs. Prices for Broadway theatre admissions edged up in April but declined in May, running 8-9 percent lower than a year earlier.

Consumer Spending

Retail sales have remained essentially flat in the latest reporting period. A major retail chain noted that sales in the region were slightly below plan and little changed from a year earlier, with a decline in store sales offset by growth in digital sales. Retailers in upstate New York indicated modest growth in retail sales, with shopper traffic buoyed by unseasonably cold and wet weather. Inventories were generally said to be at or around desired levels, though some overhang was reported for warm-weather merchandise.

New vehicle sales rebounded modestly from sluggish levels and were roughly on par with comparable 2018 levels, according to dealers in upstate New York. New vehicle inventories remained elevated. Sales of used
vehicles were reported to be steady to somewhat stronger in recent weeks. Dealers indicated that consumer credit has remained widely available, though the cost of holding inventory has increased as floor plan rates have moved up.

Consumer confidence in the Middle Atlantic states (NY, NJ, PA) fell in both March and April, reaching its lowest level in more than a year, based on the Conference Board’s monthly survey.

Manufacturing and Distribution
The manufacturing and distribution sectors have been mixed. Manufacturers reported a significant pickup in activity in recent weeks, while transportation firms noted a pause in activity. Wholesale distributors reported steady, moderate growth.

Looking ahead, wholesale distributors have remained fairly optimistic, and contacts in the manufacturing and transportation industries expressed renewed optimism about the near-term outlook. Some businesses expressed ongoing concern about trade uncertainty, tariffs, and the increase in New York State’s minimum wage.

Services
Service-sector businesses overall reported some improvement in the latest reporting period. Contacts in the information and finance sectors noted a pickup in activity, while those in business & professional services reported steady, moderate growth. However, contacts in the education & health service sector indicated that activity was flat.

Leisure & hospitality firms reported a pickup in business in April and early May. Broadway theaters reported that attendance has been steady to somewhat higher in recent weeks, running modestly above a year earlier. However, revenues weakened in the first half of May, running more than 5 percent below comparable 2018 levels.

Real Estate and Construction
Housing markets across the District have picked up somewhat since the last report. Homes sales in upstate New York have picked up further, and low inventories of unsold homes have continued to boost prices. In New York City, the inventory of unsold homes has continued to climb, though prices appear to have stabilized. The volume of transactions remains subdued and down noticeably from a year earlier. There continues to be concern about the federal tax changes, which diminish the tax-deductibility of homeowner expenses, and thus some of the tax advantage of owning versus renting.

Residential rents across the District have continued to rise since the last report and are up from a year earlier. In New York City, rents have continued to rise at a modest pace, as rental vacancy rates remain exceptionally low. Landlord concessions, though still somewhat prevalent, have receded further.

Commercial real estate markets have firmed slightly since the last report. Office availability rates have edged up in New York City and Long Island but have fallen noticeably across the rest of the District. Asking rents have been steady across downstate New York but have risen modestly in upstate New York and northern New Jersey. The market for retail space has remained soft, particularly in and around New York City. Industrial markets, in contrast, have remained fairly robust across most of the District.

New multi-family construction starts have been subdued, though a sizable volume of residential construction has remained in progress in and around New York City. However, there has been a significant pickup in new office construction in New York City, as well as its northern suburbs, and there has continued to be a good deal of office construction in progress throughout the metro area, including northern New Jersey.

Banking and Finance
Small to medium sized banks across the District reported widespread increases in loan demand across all categories. Bankers reported no change in refinancing activity. Credit standards were reported to be lower for consumer loans but unchanged for all other categories. Banks reported unchanged loan spreads across all categories and widespread increases in the average deposit rate. Finally, reports on delinquency rates were mixed, declining for consumer loans but rising on commercial mortgages.

Summary of Economic Activity

On balance, aggregate Third District business activity strengthened further to a modest pace of growth during the current Beige Book period. Growth was characterized as slight in the prior period. Growth of manufacturing, nonauto retail sales, and tourism picked up to a modest pace, while homebuilding held steady and auto sales appeared to have fallen slightly. Contacts noted that tariffs continued to prompt concerns, induce uncertainty, and delay business investment. The labor market tightened further and continued to constrain employment growth and spur moderate wage increases. Overall, price pressures remained modest. The firms’ outlook for growth over the next six months remained positive and edged higher overall, with more than half of all firms anticipating increases in general activity and less than a third expecting no change.

Employment and Wages

Employment growth continued at a modest pace during the current Beige Book period. About one-fourth of all firms reported an increase in staff. This was a bit higher than last period for manufacturers, but lower than the previous period for nonmanufacturing firms. On balance, average work hours appeared to be flat to down across firms.

Most staffing firms noted that orders were flat to down through the first quarter and into the second. Some firms were beginning to see a pickup as the second quarter progressed. One firm suggested that uncertainty had prompted firms to delay hiring. Several firms, however, noted that finding workers remains difficult as the labor market continues to tighten and that this has continued to constrain their ability to expand.

Wage growth continued at a moderate pace, with reports of wage and benefit cost increases clustered around 3 percent. However, some firms noted that wage pressures had eased recently and that turnover rates had improved. The share of nonmanufacturing contacts who reported increases in wage and benefit costs edged back down to near 40 percent.

Prices

Price increases remained modest for most firms. The share of firms reporting increases ranged from one-fifth to one-third, while well over half of all firms reported no change in prices. The share of manufacturing firms reporting increases in prices paid rose but edged lower for prices received; these trends were reversed among nonmanufacturers. Most banking contacts continued to note few signs of inflation.

Looking ahead six months, the percentage of manufacturing firms that expect to pay higher prices for inputs edged down below 50 percent, while the share of firms expecting to receive higher prices for their own goods rose above 40 percent.

Manufacturing

On balance, manufacturers resumed modest growth in activity after noting a slight increase in the prior period. Shipments and unfilled orders are running a bit above long-term nonrecession averages; however, new orders are at typical levels.

The makers of lumber products, chemicals, fabricated metal products, and industrial machinery tended to note gains in new orders and shipments, while primary metal producers reported little change.
Tariffs remained a key concern for many manufacturers. Contacts noted that much of the impact from the initial 10 percent tariffs was absorbed along the supply chain before reaching the consumer. However, they expect much more of the impact from the 25 percent tariffs to be passed through to the consumer.

Manufacturers’ expectations of activity and of new orders over the next six months have changed little since last period and have generally remained below long-term nonrecession averages. Expectations for future shipments did rise somewhat, as did expectations of future employment and planned capital spending. The latter two indicators were above their historical nonrecession averages.

**Consumer Spending**

Contacts for malls and convenience stores reported modest growth of nonauto retail sales – a faster pace than the prior period. After some store brands closed in the first quarter, the surviving mall stores may have garnered higher sales. Convenience stores noted no signs of slowing and cited ongoing activity from early morning construction workers.

Auto sales remained at high levels, with signs of slight slowing. In Pennsylvania, dealers continued to report strong year-over-year growth through April, beating expectations and national trends, although April sales may have fallen off the pace set in the first quarter. Looking back to 2018, sales had been strong in the first quarter and then fell in April, so current comparisons are tougher than first quarter comparisons. In New Jersey, early estimates by dealers indicated a modest decline in year-over-year sales for April and May.

Tourism activity picked up to a modest pace of growth in the early spring with “blockbuster” growth noted in the Greater Philadelphia market. Bookings for the summer were described positively (ahead of the Memorial Day weekend), and more Canadians are showing up at the Jersey Shore. Concerns were expressed that consumers were digging deeper into their discretionary income to fund their travel and that uncertainty may be dampening business travel.

**Nonfinancial Services**

On balance, activity at service-sector firms continued at a modest pace of growth, although the percentage of firms reporting increases in current revenues and in new orders slipped somewhat. Numerous firms commented on the uncertainty of business conditions stemming primarily from tariffs and other political issues. Yet, one large firm noted no substantive signs of a downturn, and the percentage of firms expecting growth over the next six months rose to nearly two-thirds.

**Financial Services**

Financial firms reported a continuation of moderate growth in overall loan volumes (excluding credit cards) on a year-over-year basis and a continuation of modest growth in credit card lending.

During the current period (reported without seasonal adjustments), volumes appeared to grow robustly in home mortgages and auto lending. Loans grew slightly for commercial and industrial lending. Commercial real estate loans, home equity lines, and other consumer loans (not elsewhere classified) were flat to down slightly.

Banking contacts continued to note looser lending standards and aggressive pricing but few problems with credit quality. Contacts in and out of the banking sector have noted that firms are now taking longer to pay (but without becoming delinquent); some suggest this may represent the relative value of money now that deposit interest rates are higher. Bankers and their customers continued to be bullish for the remainder of 2019.

**Real Estate and Construction**

Homebuilders noted no change in contract signings for early spring on a year-over-year basis after growing slightly last period. However, better weather this spring has been good for construction activity, and one builder noted that spec houses had sold well.

Existing home sales continued to decline moderately across most local markets. The spring sales season brought no relief to the falling inventory of new listings.

On balance, commercial real estate construction and leasing activity continued to edge back from relatively high levels, but contacts describe markets as healthy with room to grow for the remainder of 2019. Office and industrial markets were characterized with positive net absorption, stable vacancy rates, rent growth, and incremental new construction.

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

The Fourth District’s economy grew modestly with some improvement to business demand. Professional and business services was the fastest-growing sector during the period as increased confidence motivated clients to spend on new projects. Financial services reported growth, especially for construction and real estate lending. Nonauto consumer spending accelerated, but auto purchases declined modestly. Homebuilders and real estate agents saw slightly increased housing demand, partially because of the spring selling season. Manufacturing activity in the District declined slightly because of slowing global demand. Employment grew modestly, driven by the service sector. Wages rose moderately overall, but they rose faster for white-collar industries than blue-collar industries. Prices decelerated to a modest pace. Manufacturers cited an easing of materials costs pressures, retailers absorbed cost increases, and competition held down professional and business services prices.

Employment and Wages

District employment increased modestly, with much of the gains concentrated in services. Professional and business services and banks added workers at a healthy clip thanks to growing demand. A couple of contacts in these sectors noted that automation had reduced the need for workers in some functions but that they had increased hiring for more analytical roles. A few retailers added workers to keep up with increased demand. Nonresidential builders increased staffing levels because of good weather and strong demand, while homebuilders reduced staffing levels slightly. Changes to manufacturers’ staffing levels were mixed. One industrial equipment manufacturer remarked that the firm was more cautious in hiring in order to prepare for future business conditions. Transportation employment declined slightly as companies looked to reduce costs. Several contacts in various industries reported that their growth was hamstrung by lack of workers. One steel producer noted that staff levels fell because they could not find replacements.

Wages rose moderately as employers encountered tight job markets. Although wages rose in all industries, they rose faster in white-collar industries than in blue-collar industries. Professional and business services firms reported difficulty finding qualified workers and found that competitors were luring away workers by offering higher salaries. One technology contact reported that he had given raises to employees who had been with the firm less than a year in an effort to retain them. Bankers reported wage increases across job levels, but especially for tellers, in order to compete with recent wage increases from retailers. General merchandise, food and hospitality, and auto retailers all reported raising wages because of competition for workers. Wages in the freight sector rose modestly—one freight contact characterized it as an “upward drift.” Construction firms held wages steady, for the most part. A few manufacturers raised wages for retention, citing tight labor markets, but fewer raised wages than had in the prior two periods.

Prices

Selling prices rose modestly overall, a deceleration of prices relative to growth rates during the last several periods. Manufacturers reported final selling prices were mostly unchanged because materials costs, especially for steel and other metals, fell during the period. This is a notable change from circumstances during the last several periods when manufacturers consistently raised prices to cover materials cost increases. Retailers reported strong input cost pressures stemming from higher
freight costs, marketing costs, tariffs, and, for auto retailers, new-vehicle costs. A few retailers raised prices to cover these cost increases, but many elected instead to absorb the cost increases. A few nonresidential builders reported that strong backlogs enabled them to increase their margins. Home price increases were inconsistent across the District; contacts in markets that were experiencing stronger population growth reported stronger price appreciation. Trucking contacts reported somewhat smaller price increases relative to those in previous periods, with the decrease in pricing power concentrated in the long-haul segment. Strong competitive pressures kept prices for professional and business services flat.

Consumer Spending
Overall, activity in the retail sector accelerated through the period. Nonauto retailers cited seasonality, promotions, and the continuation of trends in growth as the primary drivers of the modest growth in the period. The majority of nonauto retail contacts believe these trends will continue into the next quarter. By contrast, auto retailers saw a modest decline in activity. One auto retailer reported that sales were down in the last two months because the payments on new cars have been increasing as a result of higher interest rates. Auto contacts reported that they expect new-vehicle sales to be flat or even to decline in the near future.

Manufacturing
Manufacturing activity declined slightly. Contacts attributed slowing demand to weakness in global markets, especially in demand for light vehicles and related parts. Many contacts are concerned that the increased tariffs on goods traded with China will further exacerbate softening manufacturing activity in China, leading to less demand for American products from Chinese manufacturers. Others noted that weakness has also emerged in some European markets. Some contacts reported that they are holding off on capital expenditures in the short term. Despite uncertainty about trade negotiations and slowing global growth, backlogs remain stable, and manufacturers were relatively upbeat. Many noted that there is usually an uptick in activity during the summer months.

Real Estate and Construction
Demand for nonresidential real estate and construction was steady during the period, while residential demand increased slightly. Nonresidential builders are busy, with strong and increasing backlogs. One builder mentioned that extensions and expansions of existing contracts are contributing to rising backlogs. Nonresidential builders acquired new projects at a pace in line with that of the prior period, and they commented that demand in this period was strongest from industrial and healthcare customers. Homebuilders noted improved demand because of the spring selling season and because of urgency spurred by the possibility of higher interest rates in the future. Homebuilders started more homes in this period than in last period. Real estate agents reported slightly improved sales and unchanged housing inventory.

Financial Services
Banking conditions improved modestly. Many contacts reported an increase in commercial construction and real estate lending. Residential mortgage demand picked up seasonally, though several contacts noted that growth in mortgage demand is constrained by lack of housing inventory. Competition for core deposits remained stiff, particularly for lower-rate deposits. Bankers dismissed potential concerns about a slight rise in delinquency rates, noting that these remain low by historical standards and that consumer and commercial financial positions remain strong.

Professional and Business Services
Professional and business services firms reported strong growth in the period. Expanding markets, new products, consumer confidence, and a favorable competitive landscape were among the variety of factors reported as contributing to this growth. However, one legal firm reported that tariffs had resulted in decreased deal flow. Overall, expected conditions are favorable in the sector because increased budgets from clients and consumers and strong project pipelines will continue to drive growth.

Freight
Reports from the freight sector were mixed. Some contacts reported that demand was strong in the beginning of the period, citing seasonal improvements, while others reported demand had decreased over the same timeframe. Firms that reported a decrease in activity indicated various reasons, such as that meat loads had been soft because of Lent, light-vehicle shipping had weakened, and coal shipments were down. One contact who saw a decline in demand, especially for long-distance trucking, said he was unsure whether this is a real decline in demand or just a temporary deceleration because of pull-ahead effects of tariffs in prior periods. Freight contacts expect demand to remain relatively flat for the remainder of the current quarter.

For more information about District economic conditions visit: www.clevelandfed.org/region/
Summary of Economic Activity

Overall, the Fifth District economy grew at a modest pace since our previous Beige Book report. Manufacturers reported a slight decline in shipments and new orders. Trucking firms also reported a slowdown in recent weeks with volumes falling below normal levels and below expectations. Meanwhile, port activity remained strong, particularly for imports from Europe and Southeast Asia; however, port contacts expressed concerns about potential impacts from the latest round of tariff increases. Tourism remained strong across the Fifth District; however, in some cases, labor shortages led to cutbacks. Retailers gave mixed accounts with some mention of excess inventory and paying higher prices for tariffed products. Reports from nonfinancial services firms were also mixed. Health care and construction-related firms saw healthy growth, but some professional and legal services saw slower growth due to more cautious business spending and labor constraints. Home sales and mortgage lending grew modestly, overall, as did commercial real estate leasing. Bankers generally indicated modest loan demand, moderate deposit growth, and strong credit quality. Labor markets remained tight and wages rose modestly, overall. Prices continued to grow at a moderate rate.

Employment and Wages

Labor demand continued to strengthen moderately in recent weeks, while supply remained tight across industry sectors. Employment agencies noted a slight increase in job openings while staffing firms reported increased demand for entry-level positions and a pickup in permanent and executive search services. Businesses reported difficulty filling positions for accounting and finance professionals, administrative staff, IT professionals, engineers, health care professionals, electricians, and construction workers. Wage increases remained modest across sectors, but staffing firms reported increased wage pressures.

Prices

Fifth District manufacturing and services firms generally indicated that input price growth continued to outpace growth in prices received, but both remained moderate, overall. Several firms attributed recent input cost increases to labor and raw materials as freight and energy prices were flat to slightly lower. Some manufacturers noted that prices leveled off but remained high for steel, aluminum, and resin. Meanwhile, a food manufacturer noted an uptick in prices for commodities, such as sugar, poultry, and pork.

Manufacturing

Fifth District manufacturers reported slightly slowing growth since our last report, as shipments and orders fell. A Maryland manufacturer reported cutting staff because of slowing business and high expenses. Manufacturing contacts continued to express concerns about the effects of trade policy. Meanwhile, some contacts attributed the fall in new orders to retailers wanting to reduce inventories. However, an elevator manufacturer reported strong business, with a backlog extending into 2020, and was able to charge higher prices.

Ports and Transportation

Ports in the Fifth District saw strong activity since our last report. Growth of imports continued to outpace that of exports, but exports remained solid. One port noted particularly strong growth in imports from Europe and Southeast Asia. Consumer goods, especially automobiles, remained strong on both the import and export sides. A port executive attributed an increase in both imports and exports of machinery, construction, and farm equipment to positive economic sentiment. However, some port contacts expressed concern about uncertainty surrounding the potential effects of the latest round of tariff increases.
Fifth District trucking softened slightly in recent weeks, with business below normal seasonally and also below expectations. Firms reported fairly steady rates but the drop in volumes shipped led to lower revenue. Several companies also saw demand and prices fall in the spot market. Several trucking firms reported reducing the amount they had planned to spend on equipment because of uncertainty and slower business.

Retail, Travel, and Tourism
Fifth District tourism remained strong since our last report. Hotels generally reported growth in occupancy, room rates, and advance bookings for both business and leisure travel. The District of Columbia saw an increase in both visitation and visitor spending in recent weeks. Meanwhile, in Charleston, South Carolina, demand for hotel rooms increased, but rates remained low, as many of the bookings came from corporate accounts with predetermined rates. A few hospitality contacts said that labor shortages led to cutting back on services. Additionally, several restaurants in Charleston, SC, closed because they couldn’t find enough staff. Moreover, one restaurant moved to counter service and disposable utensils in order to remain open with a smaller staff.

Retailers reported mixed conditions in recent weeks. Clothing retailers reported that a build-up of inventory from trying to get ahead of tariffs was preventing them from placing new, seasonally appropriate orders. Other retailers continued to struggle with high prices of products resulting from tariffs. However, a Virginia auto dealer saw higher sales and increased profit margins as manufacturers strengthened sales incentives. A kitchen supply retailer reported high inventories but strong sales, and a hardware store attributed strong sales to good weather.

Real Estate and Construction
Home sales increased modestly in recent weeks and were reportedly higher than last year. District Realtors reported that single-family inventories remained low, new listings continued to sell quickly, and buyer traffic was steady. Home prices rose modestly, while days on the market were generally unchanged at low levels. Meanwhile, new residential construction and sales continued at a modest pace while speculative construction was limited.

Commercial real estate leasing rose modestly, overall. District brokers continued to report strong industrial leasing activity; however, reports on office and retail leasing were mixed. Vacancy rates remained low across most markets. Rental rates were stable for retail and office space, while rates increased modestly for industrial space. Commercial sales rose slightly, while commercial construction increased modestly in most regions, with healthcare, warehouses, and data centers representing the majority of new projects. Multi-family leasing and construction remained healthy in most markets.

Banking and Finance
Since our previous Beige Book, loan demand grew modestly. Business loan demand increased slightly while automotive lending was reportedly flat. Meanwhile, bankers said that consumer demand was stable. In the District on the whole, residential mortgage demand grew at a modest pace. Deposits rose moderately, on balance, in recent weeks. Credit quality remained strong while credit standards were generally unchanged.

Nonfinancial Services
Since our previous Beige Book, reports from nonfinancial services firms were mixed. Services related to construction, such as engineering and architecture, saw increased demand and a growing backlog of work. Also, health care providers reported higher volumes and increased access due to employment growth. However, some professional and legal services firms reported a slowdown in activity, due to more cautious business spending and difficulties finding workers. Meanwhile, corporate giving to nonprofits fell.

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

Sixth District business contacts reported that economic activity continued at a modest pace from April through mid-May. The outlook among contacts remains optimistic as most firms expect modest growth to continue over the next three to six months. District firms continued to report labor market tightness. Although overall wage growth remained moderate, pressure was noted among low-skill, trucking, construction, technology, and medical positions. Most nonlabor input cost pressures remained subdued. On balance, District merchants reported steady sales levels since the previous report. The tourism sector continued to experience solid activity. According to residential real estate contacts, home sales were up and prices were flat compared with a year ago. Commercial real estate contacts indicated leasing and sales activity continued to advance across most parts of the District. Manufacturing purchasing managers cited increases in new orders and production. Banking conditions remained steady.

Employment and Wages
Similar to the previous report, many District firms added to headcounts; however, a number of business contacts expressed that labor market tightness was slowing the pace of hiring and constraining growth. Employers continued to invest in training programs to upskill new and existing employees. Some contacts added that funding for training and skills development was impacting starting salary budgets. Firms also continued to push for productivity and efficiency enhancements, typically through automation and technology investment, in an effort to reduce the need to add workers or augment the lack of available talent. Further, some business contacts reported adjusting employment standards, e.g., implementing remedial training and relaxing attendance policies, in order to attract and retain workers.

Annual wage increases, on average, remained between 3-4 percent, though many contacts expressed that labor costs were accelerating when full compensation costs, including healthcare, bonuses, and other incentives, were factored in. Wage pressures remained most acute among low-skill, trucking, construction, technology, and medical positions. As a way to avoid the higher cost of hiring new talent, some firms noted directing more wage dollars towards retention efforts.

Prices
Overall, reports from District firms remained consistent with the previous report, with some contacts indicating costs were increasing. While some businesses noted pricing power, there were some accounts of firms considering alternative approaches to maintain margins and offset increases. The Atlanta Fed’s Business Inflation Expectations survey showed that year-over-year unit costs were up 1.8 percent in May. Survey respondents indicated that they expect unit costs to rise 2.0 percent over the next twelve months.

Consumer Spending and Tourism
Retail sales levels were unchanged from the previous report; however, online sales continued to grow at a faster pace than brick-and-mortar sales. The sentiment among District retailers and automotive dealers was mixed with those affected by tariffs expressing concern over trade policy uncertainty.

Sentiment among travel and hospitality contacts was unchanged from the previous reporting period. Contacts in Georgia, Florida, and Louisiana noted that demand for hotel rooms, flights, and attractions was on par with expectations for the second quarter. The outlook remains positive for the summer season.

Construction and Real Estate
Healthy economic fundamentals and declining mortgage interest rates continued to fuel optimism among District
housing contacts. Although still below 2018 levels, firms indicated that the pace of home sales accelerated during the 2019 spring selling season. Meanwhile, the level of existing home inventory contracted and home price appreciation remained flat. Moving forward, as inventory levels continue to decline and construction costs for new homes edge higher, contacts indicated that home prices may experience increased upward pressure, making housing affordability a concern for many markets.

Commercial real estate (CRE) leasing and sales activity remained generally steady across most District markets and property sectors during the reporting period. Overall, most sectors experienced positive dynamics as rents continued to grow and vacancies trended downward at a modest pace. Business contacts reported strength in the multifamily, industrial, and office sectors. Outside of retail, the rate of new CRE construction remained at or above the long-term average.

Manufacturing
District manufacturing contacts reported a moderate rise in overall business activity since the last reporting period. Most firms indicated that new orders and production levels increased, while also reporting a modest decline in finished inventory levels. Contacts suggested that supply delivery times were essentially unchanged since the previous report. Expectations for future production levels fell slightly from the previous report, with just under half of contacts expecting higher production levels over the next six months.

Transportation
Reports from District transportation contacts were little changed since the previous report. Ports noted further strength in shipments of containers, and some reported continued investments in capacity expansion and canal deepening projects in anticipation of future growth. Railroads saw significant declines in overall traffic from year-earlier levels; year-to-date volumes were also down. Trucking companies indicated that freight activity improved from a soft first quarter, but was still down from a year ago. Regarding trade policy uncertainty, some transportation contacts developed contingency plans to reduce capital expenditures and headcount to offset tariff-related revenue shortfalls. Expectations at District ports are for the pulling forward of freight ahead of the tariffs followed by a drop off in activity in the second half of the year.

Banking and Finance
Improved earnings and solid loan performance kept conditions at financial institutions steady since the previous report. Contacts reported increased competition for deposits continued to put pressure on net interest mar-

Energy
Crude oil production and investment maintained an upward trend, though lack of adequate infrastructure to transport product to Gulf Coast refineries remained a challenge. Contacts reported significant investment in pipeline infrastructure projects. Firms also continued to sanction crude oil storage expansion projects. Investment in liquefied natural gas (LNG) units continued to pick up. Chemical manufacturing contacts shared that production volumes picked up after a slow start to the year. Renewable energy contacts indicated that construction of solar farms in Georgia were near completion and power wind farms in Florida were recently announced. Utilities contacts reported that while residential and commercial activity declined slightly over the reporting period, industrial activity was up among new and existing customers. District energy contacts remain optimistic about near-term activity.

Agriculture
Agricultural conditions across the District were mixed. Recent reports indicated much of the District was drought-free although parts of Alabama, Georgia, and the Florida panhandle experienced abnormally dry to moderate drought conditions. Conversely, recent heavy rains interfered with fieldwork in Louisiana and Mississippi where both soybean and rice planting were behind the five-year averages. Alabama, Georgia, and Tennessee were ahead of the five-year average in cotton planting, while Alabama, Florida, and Georgia were ahead of their five-year planting averages in peanuts. Several contacts reported that the combination of low commodity prices and some rising input costs were resulting in compressed margins. The May Florida orange forecast was down from the prior month’s forecast, but continued to be higher than last season’s production. On a year-over-year basis, prices paid to farmers in March were up for corn, cotton, and beef but down for rice, soybeans, broilers, and eggs.

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

Economic activity in the Seventh District increased slightly on balance in April and early May, though contacts expected growth to pick up to a modest pace over the next 12 months. Employment increased modestly; consumer spending, business spending, and construction and real estate increased slightly; and manufacturing was little changed. Wages and prices rose modestly, and lending picked up slightly. Farmers continued to be challenged by poor weather and low crop prices.

Employment and Wages

Employment increased modestly over the reporting period and contacts expected a similar-sized increase over the next 12 months. Hiring continued to be focused on professional and technical, sales, and production workers, though there was a noticeable decline in the number of contacts hiring 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. Some contacts in the construction industry indicated they are increasingly hesitant to provide quotes for projects because of difficulty finding workers. A staffing firm reported little change in billable hours, though there was a decline in demand from the auto industry. Wage growth remained modest overall. Contacts were most likely to report wage increases for professional and technical, administrative, and production workers. There was a noticeable decline in the number of firms reporting wage increases for management occupations. Many firms reported increased benefits costs.

Prices

Prices rose modestly in April and early May, though contacts expected prices to rise at a moderate rate over the next 12 months. Retail prices increased slightly. Producer prices rose modestly, reflecting in part the pass-through of higher labor, materials, and freight costs. Numerous contacts expressed concerns about the impact on input costs of higher tariffs on Chinese imports.

Consumer Spending

Consumer spending increased slightly over the reporting period. Nonauto retail sales increased modestly, with strength in the lawn and garden and restaurant segments offset by weakness in the furniture segment. One contact noted that spending growth continues to be strongest for discount retail, recreational, and entertainment establishments. Travel and tourism contacts in the Detroit area reported a slight increase in activity. Overall, light vehicle sales were flat, with lower new vehicle sales offset by higher volumes in the used vehicle market. Contacts reported that some automakers had reduced incentives for new vehicles, particularly for leasing. Many dealers said that 2019 year-to-date sales of new vehicles were lower than expected.

Business Spending

Business spending increased slightly in April and early May. Retail inventories were generally at comfortable levels, though some contacts reported elevated inventories due to lower-than-expected seasonal sales. There also were some reports of inventory building in anticipation of increased tariffs on Chinese imports. Manufacturing inventories were at comfortable levels overall, though
one auto industry supplier indicated that stocks were elevated because some customers had delayed taking delivery of their orders. Capital spending moved up only a little, though contacts expected a larger pickup in spending over the next 12 months. Outlays were primarily for replacing industrial and IT equipment and for renovating structures. Demand for transportation services was flat, but remained at a strong level.

Construction and Real Estate
Construction and real estate activity increased slightly over the reporting period, and contacts characterized the market with terms such as “plowing ahead” or “solid.” Residential construction contacts reported a moderate increase in building, led by entry-level homes and mixed-use developments. Home sales edged up, as increased activity in the low- and moderately-priced segments outweighed decreased sales of high-priced homes. Prices and rents increased slightly. Nonresidential construction edged higher, with growth in the office sector offset by declines in the industrial sector. Contacts reported that high labor and materials costs were holding back growth. Commercial real estate activity also edged up. One contact in Chicago noted increased demand for large industrial buildings. Rents, vacancies, and the availability of sublease space were little changed.

Manufacturing
Manufacturing production was little changed in April and early May. Demand for steel was flat, with little change across major sectors. Demand for heavy trucks was flat, though activity continued at a strong level. Auto production was unchanged as well, but also remained at a solid level. Specialty metals manufacturers reported little change in demand, as a pickup in demand from the aerospace and defense sectors was offset by less demand from the auto industry. Order books for heavy machinery manufacturers decreased slightly, with reports of lower demand from the agriculture sector. Manufacturers of building materials reported little change in demand overall, though a contact in Iowa reported a decline due to weather-related delays in construction projects.

Banking and Finance
Lending picked up slightly over the reporting period, while there was little change in credit quality. Business loan demand rose slightly, with growth reported in the medical, professional services, and real estate sectors. Loan quality and standards were little changed. Consumer loan demand increased slightly, primarily because of increased mortgage refinance volumes, which contacts attributed to lower interest rates. Consumer loan quality and standard were little changed. Financial market participants noted increased volatility and generally attributed it to investor concerns about the outcome of international trade negotiations.

Agriculture
Wet weather and low prices continued to be challenges for farmers in April and early May. There were reports of planting delays throughout the District because fields were too wet. Contacts indicated that it would soon be too late to plant corn in some areas and that switching to soybeans, while possible, would be costly due to wasted fertilizer and the low price of soybeans. Contacts also noted that the poor field conditions were adding to some farmers’ financial distress. In other market segments, hog and dairy prices were up, while cattle prices were down. Hay prices moved higher as the slow development of pastures this spring meant livestock required supplemental feeding. Contacts believed that the removal of Mexican and Canadian tariffs on US livestock would boost exports.

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

Economic conditions have been unchanged since our previous report. Firms continue to report that difficulties finding employees is the main constraint on growth. Wages continue to increase moderately, with relatively stronger growth for low-wage and entry-level positions. Overall inflation pressures continue to weaken, consistent with firms’ prior expectations. Most firms see some ability to raise prices over the next few months. Overall, the outlook among contacts remained slightly optimistic, but notably weaker than the same time last year. On net, a slightly greater share of contacts expect conditions during the remainder of 2019 to be better or somewhat better than the same period in 2018.

Employment and Wages

Employment has grown slightly since our previous reporting period. On net, 10 percent of contacts reported that employment was higher or slightly higher than a year ago. Reports of labor market tightness persisted across several industries, including, but not limited to, transportation, construction, and healthcare. Furthermore, multiple manufacturing contacts reported that the shortage of qualified workers has worsened, and a contact in St. Louis reported that many employees left the firm before completing their first week in their new job. However, several contacts in Louisville reported employment gains in skilled trades, in part due to successes in recruiting recent high-school graduates.

Wages have increased moderately since our previous report. On net, 36 percent of contacts reported that wages were higher or slightly higher than a year ago. Firms reported that increased competition for workers continued to put upward pressure on wages. In St. Louis, contacts reported that larger firms were offering higher pay to attract workers, particularly for entry-level positions, but that small businesses were struggling to raise wages at the same rate.

Prices

Prices have increased slightly since our previous report, although overall inflation pressures have continued to soften. On net, 34 percent of contacts reported higher input prices, and 16 percent reported higher prices charged to consumers. However, the share of contacts reporting higher labor and non-labor costs declined for the second consecutive quarter. Similarly, the share reporting higher prices charged to consumers declined for the third consecutive quarter.

The softening inflation pressures seemed to be expected: Among those respondents responsible for setting prices, most noted that their price changes over the past three to six months met expectations. On net, the ability of business contacts to increase consumer prices was unchanged over the past three to six months: 57 percent felt that they would have some ability to increase prices over the next three months.

Consumer Spending

Reports from general retailers, auto dealers, and hoteliers indicate consumer activity has slightly increased since our previous report. April real sales tax collections increased in Kentucky and Missouri but decreased in Arkansas relative to a year ago. March real sales tax collections slightly increased in Tennessee relative to a year ago. Auto dealer contacts generally reported flat sales; however, multiple dealers have seen new vehicle sales decline, citing higher lending rates. March Arkansas tourism sales tax revenue was flat year over year.
Manufacturing
Manufacturing activity has been mixed since our previous report. Several firms across a variety of industries reported new capital expenditure and facility expansion plans, while several manufacturers announced plans to close. Contacts in the corrugated packaging industry reported slow growth attributed to the current trade dispute with China. In a recent survey, contacts reported weakening manufacturing conditions: On net, a slight majority of contacts reported that production and capacity utilization were lower in the second quarter relative to one year ago, while new orders remained at the same level. This follows a trend from our previous reports of weaker activity but is the first reported decline. However, contacts are slightly optimistic about the next quarter, with net majorities expecting growth increases in production, orders, and capacity utilization. Other survey-based manufacturing indexes indicate that activity in Arkansas and Missouri continued to expand from March to April. New orders and production also increased in both states.

Nonfinancial Services
Activity in the nonfinancial services sector has improved slightly since our previous report. On net, 19 percent of survey respondents reported higher sales since the same time last year, and 28 percent expect this growth to continue into the third quarter. However, over half of contacts noted that sales midway through the second quarter have fallen short of expectations. Transportation contacts generally reported a pessimistic outlook, noting the adverse effects that weather has had on business. Traffic volume across major waterways, highways, and airports has been generally unchanged since our previous report. However, flooding of the Mississippi River has negatively affected barge traffic. Airport passenger volumes were higher in both St. Louis and northwest Arkansas relative to a year ago.

Real Estate and Construction
Residential real estate sales have declined modestly since our previous report. Seasonally adjusted home sales decreased modestly across the four largest MSAs in the District. On net, around 7 percent of survey respondents reported a decrease in demand for single-family homes relative to a year ago, and most noted that second-quarter sales have fallen short of expectations. Contacts continued to report inventory shortages, although inventories have increased slightly.

Residential construction activity declined slightly. There was a slight decline in April permit activity across most of the District’s MSAs. On net, respondents reported no change in activity relative to the same time last year but expect a slight increase in the next quarter.

Commercial real estate activity was mixed. Survey respondents reported a slight decrease in year-over-year demand for retail property space and a slight increase in demand for industrial and distribution property space. They expect these trends to continue into the next quarter. Contacts in Little Rock noted that demand for multifamily properties remains strong.

Commercial construction activity improved slightly. Contacts reported a healthy level of construction activity, propped up by a few large projects. However, their outlook has weakened somewhat, as they expect the average size of new projects to decline over the next twelve months. Local contacts continued to report labor shortages.

Banking and Finance
Banking conditions in the District have weakened slightly since our previous report. Demand for mortgages slightly increased relative to one year ago, while commercial and industrial loans remained constant, and demand for auto loans slightly decreased. Bankers expect a slight increase in overall loan demand in the third quarter. Credit standards were generally unchanged compared with year-ago levels but continued to tighten for commercial and industrial loans. Overall delinquencies rose on a year-over-year basis but are expected to remain unchanged in the third quarter.

Agriculture and Natural Resources
Agriculture conditions declined moderately from our previous report and have significantly worsened relative to the same time last year. The number of acres planted experienced significant declines compared with previous years, which contacts have attributed to significant flooding along the Mississippi River. As of mid-May, the percentages of planned acreage planted for corn and soybeans were around 50 percent lower than this time last year and about 30 percent lower for rice and cotton. Contacts have continued to report concerns over depressed crop prices and the effects of renewed trade tensions with China.

Natural resource extraction conditions have improved modestly since our previous report. Seasonally adjusted coal production increased 15 percent from March to April. However, April production was down 18 percent from a year ago.

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

The Ninth District economy grew slightly overall since the last report. Employment grew modestly, while wage pressures rose moderately and price pressures were modest. The District economy saw growth in consumer spending and manufacturing. Commercial construction and real estate were mixed, while energy and mining were flat. Residential construction and real estate both fell, and agriculture remained weak.

Employment and Wages

Employment grew modestly since the last report, hampered by tight labor, with some modest signs of softness. In general, hiring demand remained healthy. Most staffing firms across the District reported somewhat higher job orders in April and early May compared with last year. An ad hoc survey of large Minnesota employers found that half were hiring to increase total employee head count. A similar survey of human resources professionals in Montana found that three in four firms were hiring, though a larger share was doing so to replace turnover rather than add personnel. April job openings in North Dakota and Minnesota were 6 percent higher and 3 percent higher, respectively, compared with a year ago. Minnesota also recently reported a record number of job vacancies. But tight labor was widely blamed for subduing stronger employment gains. A Minnesota staffing contact said, “We keep stirring the [labor pool] pot, and there’s nothing left in it that wants to work.” Every District state saw initial unemployment claims fall over the most recent six-week period (ending in early May) compared with the same period a year ago. Some softness was evident. April job openings in Montana, South Dakota, and Michigan’s Upper Peninsula were all down 7 percent or more compared with a year earlier. Minnesota has added only 700 net jobs over the first four months of the year, and its unemployment rate has risen by one-tenth of a percentage point for four consecutive months.

Wage pressures rose moderately. A sizable majority of Minnesota and Montana firms responding to the aforementioned ad hoc polls said wages rose less than 3 percent over the past year, and wage expectations for the coming 12 months were slightly lower. However, a number of contacts noted significantly faster wage growth. North Dakota and Minnesota staffing firms said wages were up more than 7 percent over a year ago, though a western Wisconsin staffing contact said wage increases had “been a little cold recently.” A Minnesota manufacturer increased hourly wages for welders from $18 to $22 to better compete for labor. A Minnesota health care firm saw 6 percent wage growth, with support staff receiving larger increases for retention.

Prices

Price pressures remained modest overall since the last report. Retailers responding to a survey reported that increases in final prices remained subdued overall; however, wholesale prices saw modestly higher rates of increase. The majority of respondents to a separate survey of large firms reported increases in nonlabor input costs of 3 percent or less over the past year. Contacts in manufacturing continued to note substantial increases in metals prices. Retail fuel prices in District states in late May were generally flat relative to the previous reporting period. Prices received by farmers in March increased from a year earlier for corn, wheat, hay, milk, cattle, and turkeys; prices for soybeans, eggs, chickens, and hogs...
Consumer Spending

Consumer spending rose moderately since the last report. Gross sales in Wisconsin increased by almost 6 percent in April compared with a year earlier and by 5 percent in South Dakota. Sales of new vehicles in the western portion of the District were down slightly in April, but sales of used vehicles were notably higher. Industry data showed that first-quarter sales of camping, travel, and other recreational vehicles were down across the District compared with the previous year, as were sales of all-terrain and other powersport vehicles. However, a Montana banker noted that retailers of boats and other recreation-type vehicles were increasing their inventories, "anticipating strong spring and summer sales."

Tourism was reportedly slowed by a cool spring. However, a survey of Minnesota tourism businesses, released in mid-May, found that 36 percent of respondents expected their summer occupancy to rise compared with last year—twice the rate of those who expected declines. Hotel occupancy rates and revenue per average room in Minnesota were both higher in April compared with a year earlier. Lodging and accommodation tax collections in Montana were also higher over the same period.

Construction and Real Estate

Commercial construction was mixed since the last report. Contractors across the District generally reported strong project backlogs heading into summer. Construction also began on the $2 billion Southwest light rail line in Minneapolis-St. Paul. However, industry data showed that the value of total construction starts in April was down across the District compared with a year earlier. Commercial permitting in April was also lower in most of the District’s larger markets, with the exception of Minneapolis-St. Paul. Tight labor may be playing a role in overall activity, as numerous construction contacts said they had turned down work due to the inability of finding necessary workers. Residential construction fell. Compared with a year earlier, April single-family permits were higher in Billings, Mont., and Rochester, Minn., but flat or lower in a majority of District locations.

Commercial real estate was mixed since the last report, as vacancy rates were rising slightly, due in some cases to new capacity coming online. In Minneapolis-St. Paul, a significant amount of new industrial space has seen strong leasing but also increased vacancy rates. Office space in the region has seen a similar increase in vacancies, and rental rates have declined slightly, according to sources. Retail vacancy rates also have ticked higher from the closure of numerous big-box and junior-box stores in Minneapolis-St. Paul. Residential real estate was lower. While a few regional markets saw higher April home sales compared with a year earlier, sales fell in most locations—including by 15 percent or more in Fargo, N.D., Sioux Falls, S.D., and Bozeman, Mont. Low inventories of homes for sale were a major reason for slower sales, according to sources. A Montana contact said, "The truth is we have lots of buyers with nothing to sell them."

Manufacturing

District manufacturing activity increased moderately. A survey of Minnesota manufacturers released in May indicated strong expectations for 2019, with a solid majority expecting increased revenue and one-third planning to increase capital expenditures. An index of manufacturing conditions indicated increased activity in April compared with a month earlier in Minnesota and South Dakota, while activity in North Dakota was nearly flat. In contrast, several producers of capital equipment reported a decrease in orders recently. Contacts who produce inputs for residential construction also noted reduced demand.

Agriculture, Energy, and Natural Resources

District agricultural conditions weakened heading into the growing season. Heavy spring rains significantly delayed crop planting across the District, with contacts expressing concerns that some farmers might not be able to get a crop in the ground at all this year. Respondents to the Minneapolis Fed’s first-quarter (April) survey of agricultural credit conditions indicated that farm income and capital spending decreased relative to a year earlier, with further declines expected for the coming three months. Activity in the energy and mining sectors was flat overall. Oil and gas drilling as of mid-May was down slightly since the last report. A gold mine in Montana announced it will shut down. District iron ore mines were operating at near capacity, though production for the year was down slightly due to harsh winter weather.
Summary of Economic Activity

Tenth District economic activity continued to expand slightly in April and early May, and contacts generally expected the pace of growth to accelerate moving forward. Consumer spending rose slightly as sales increased in the restaurant, retail, and tourism sectors. Manufacturing, wholesale trade, transportation, and professional and high-tech activity expanded modestly, and capital spending was projected to rise further in the months ahead. Residential real estate sales expanded at a strong pace since the previous survey period, and commercial real estate activity increased slightly. Energy activity across the District fell slightly, but expectations for future activity remained positive. District agricultural credit conditions and farm income weakened further, but farmland values remained relatively stable. Bankers reported a slight increase in loan demand and a modest improvement in loan quality. Employment and employee hours rose slightly across most sectors, and additional gains were expected in the months ahead. Wages continued to rise at a modest pace since the previous survey period. Input and selling prices continued to rise, with retail contacts reporting the largest gains.

Employment and Wages

Overall District employment and employee hours rose slightly since the previous survey period, and gains were broad-based across sectors. Contacts in the retail trade, wholesale trade, transportation, professional and high-tech services, real estate, tourism and hotels, and restaurant sectors reported steady-to-increasing levels of employment, while respondents in the auto sales and health services sectors noted a decline. All reporting sectors noted steady-to-rising employee hours, with the exception of health services. Additional gains were expected in both employment and employee hours moving into the summer months.

A majority of contacts continued to report labor shortages for low- and medium-skill workers, including sales representatives, truck drivers, construction workers, and hourly retail and restaurant positions. A few respondents also noted shortages in high-skill occupations such as physicians, pilots, accountants, and IT professionals.

Wage growth continued to rise modestly since the previous survey period, and wages were expected to increase at a faster pace moving forward.

Prices

District contacts noted modestly higher input prices and slightly higher selling prices. Retail sector contacts continued to note strong growth in input prices and moderately higher selling prices since both the previous survey period and one year ago. Input and selling prices in the retail sector were projected to continue to rise at their current rate of growth. Respondents in the transportation sector reported moderately higher input prices, while selling prices rose modestly. Input and selling prices in the restaurant sector rose slightly but were strongly above year-ago levels. Construction supply contacts reported modestly lower prices but expected prices to increase in the months ahead. Manufacturers noted slightly higher prices for finished products and raw materials, but expected stronger gains moving forward.

Consumer Spending

Consumer spending rose slightly compared to the previous survey period, and contacts expected the pace of sales growth to increase this summer. Despite nearly half of retail contacts noting negative impacts from recent severe weather conditions, growth in retail sales picked up compared to the previous survey and was at a moderate pace. Auto contacts reported a moderate drop in sales, although expectations remained positive. Auto contacts noted SUVs and trucks sold well, while sedans sold poorly. Restaurant sales rose slightly compared to the previous survey period and were strongly above year-ago levels. Tourism and hotel sales grew slightly compared to the previous survey period, but sales were slightly below year-ago levels. Respondents in the res-
Restaurant, tourism and hotel sectors projected slight growth in the coming months.

**Manufacturing and Other Business Activity**
Manufacturing activity continued to expand modestly, and business contacts in the wholesale trade, transportation, and professional and high-tech sectors reported modestly higher sales. Factory production rose at both durable and nondurable goods plants, with stronger growth in food, plastics, and metal manufacturing. Production, shipments, and new orders in the manufacturing sector were mostly flat, but increases were expected in the coming months. In addition, manufacturing contacts anticipated modest increases in capital spending in the next few months.

Outside of manufacturing, firms in the transportation, wholesale trade, and professional and high-tech services sectors experienced modestly higher sales compared to the previous survey and year-ago levels. Contacts in the professional, high-tech and transportation sectors expected sales to continue to expand modestly, while wholesale trade sector contacts anticipated strong sales growth in the months ahead.

**Real Estate and Construction**
District real estate activity grew at a modest pace in April and early May, and additional gains were expected in the months ahead. Residential home sales experienced solid gains compared to the previous survey period driven by positive seasonal factors, but sales were strongly below year-ago levels. Residential real estate contacts noted that sales of low- and medium-priced homes continued to outpace sales of higher-priced homes. Residential selling prices and inventories rose moderately, and respondents projected steady prices and moderately higher inventories in the months ahead. Residential construction activity continued to rise at a modest pace since the previous survey period as traffic of potential buyers, housing starts, and construction supply sales rose. Contacts expected additional gains in residential construction activity in the coming months. Commercial real estate activity increased slightly as absorption, completions, construction underway, sales, and prices rose. Respondents in the commercial real estate sector projected a slight acceleration in activity moving forward.

**Banking**
Bankers reported a slight increase in overall loan demand since the previous survey period. Respondents indicated increases in the demand for commercial real estate, residential real estate, commercial and industrial, and consumer installment loans, while demand for agricultural loans fell. Bankers indicated a modest improvement in loan quality compared to a year ago and expected a slight improvement over the next six months. Credit standards remained largely unchanged in all major loan categories, and bankers reported steady deposit levels.

**Energy**
Energy activity in the District edged slightly lower compared with the previous survey period, but expectations for future activity remained solid. While oil prices inched down recently, they remained higher than the average price needed to be profitable for most District firms. The number of active oil and gas rigs continued to decrease, including a drop in active oil rigs in New Mexico, Oklahoma, and Wyoming since the last survey period. Production of oil and gas remained at high levels across the District, and the level of natural gas stocks rose. District firms expected oil and gas production to expand further in 2019.

**Agriculture**
Farm income and agricultural credit conditions weakened slightly in the Tenth District. Specifically, regional contacts indicated that farm income decreased modestly and farm loan repayment rates slowed slightly since the last survey period. Conditions deteriorated more in Missouri and Nebraska, where contacts reported a moderately faster decline in income and slower rate of loan repayment. District contacts also commented that low commodity prices continued to strain working capital, and recent severe flooding and blizzards may have significantly impacted some borrowers. Cattle, soybean and wheat prices decreased slightly over the period, while corn prices increased moderately and hog prices increased significantly, which could improve revenues for some producers moving forward. Alongside weaknesses in farm finances, interest rates on farm loans increased modestly throughout the District, but farmland values in the region remained relatively stable.

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

Moderate expansion continued in the Eleventh District economy, although there were scattered signs of deceleration later in the reporting period. Growth in the manufacturing, nonfinancial services, and retail sectors was solid in April but softened in early May. Home sales rose and loan volumes continued to increase, led by growth in residential real estate lending. Ample soil moisture boosted prospects in the agricultural sector, though prices for several commodity declined. Drilling activity weakened. Employment rose moderately, despite being constrained by a tight labor market. Wage growth remained elevated, while price growth was mixed. Outlooks were generally less positive than during the prior reporting period, with tariff and trade negotiations driving up uncertainty.

Employment and Wages

Employment expanded moderately during the reporting period. However, energy contacts voiced little interest in growing headcounts this year. Contacts continued to report difficulty finding workers, particularly for mid-skill positions. The shortage of truck drivers continued, and the construction labor market remained tight. Wage pressures generally remained elevated.

Prices

Input price pressures remained moderate in the service sector but continued to ease in manufacturing after peaking last year in the wake of tariff announcements. An auto dealer said higher interest rates versus last year have dramatically increased the cost of carrying inventory, and transportation services firms noted rising fuel costs. Multiple contacts mentioned the long delays at the Mexico border were adding to transportation costs. Homebuilders said material costs were mostly stable, and energy contacts said drilling and fracking costs declined slightly. A couple of contacts—in manufacturing and the service sector—noted that the latest tariffs on Chinese imports will raise their costs more. Selling price growth was moderate, and reports were mixed regarding firms’ ability to raise prices in step with cost increases.

Manufacturing

Expansion in the manufacturing sector continued at a moderate pace in April, with growth led by durable goods. Machinery manufacturing in particular posted notable strength after some weakness earlier this year. While output growth in nondurables eased slightly, chemical manufacturing remained a bright spot with accelerating production. Gulf Coast refinery operating rates remained healthy in April as gasoline margins improved and the summer outlook firmed.

Retail Sales

Retail sales picked up notably in April but declined in early May. Contacts reported strength in construction-related segments but weakness in autos and along the Mexico border. Outlooks worsened and uncertainty increased. Retailers cite tariffs and the resulting impact on pricing as a key concern going forward.

Nonfinancial Services

Growth in nonfinancial services activity continued at a moderate pace in April but slowed somewhat in May. Several contacts said the recent weakness was due to tariffs, and a few mentioned sluggish activity in the oil and gas sector dampening their business. In transporta-
tion services, the Texas ports posted gains in cargo traffic over the reporting period, and small parcel as well as air cargo volumes increased. One contact mentioned the negative impact that ride sharing was having on car rental companies and mass transit activity. Staffing services companies continued to report year-over-year demand increases, with strength broad based across geographies and industries.

Service-sector outlooks were less optimistic, with numerous mentions of uncertainty surrounding trade policy. Specifically, several contacts indicated a downshift in demand growth if there is not a resolution to the trade dispute with China, although a few were optimistic that an agreement would be reached and benefit the U.S. long term.

**Construction and Real Estate**
Sales of new and existing homes rose during the reporting period. Contacts noted higher foot traffic in April, and a few added that new-home contract cancellations were down relative to yearend 2018. Spring rains delayed lot development and single-family construction in some areas. Finished vacant home inventories edged up. Outlooks were optimistic with builders generally on plan for 2019, although some contacts expressed concern about margin compression and trade policy uncertainty.

Apartments market conditions were mostly positive. Rent growth remained robust in Austin and modest in Dallas. Rents were flat in Houston, but contacts expect growth to firm up in the near term. Industrial demand and construction remained vibrant, and investor interest in commercial real estate continued to be solid.

**Financial Services**
Loan volumes increased over the past six weeks, at a pace similar to what was seen in the previous reporting period. Growth was led by residential real estate lending, with a third of banking contacts noting an increase in volumes. Growth was also seen in commercial real estate lending, while volumes of consumer and commercial and industrial loans were relatively flat over the reporting period. Loan pricing continued to increase, while net interest margins continued to decline. Credit standards and terms were unchanged from six weeks ago. Banking contacts remained optimistic, expecting future loan demand to continue to increase.

**Energy**
Drilling activity in the Eleventh District continued to erode as firms reined in spending and orders for new equipment. However, contacts continued to note that activity will increase once new pipeline construction is completed. As a result of declines in exploration and capital expenditures in the energy sector, oilfield services firms and capital goods suppliers have experienced a slowdown and were not planning expansion until demand increases.

**Agriculture**
Wet weather over the reporting period allowed moisture conditions to remain adequate or even in surplus across most of the district. While causing late plantings in some areas, overall, the rain impact was positive as it boosted growing conditions. The wheat crop was in great shape, though prices remained weak. Pasture conditions remained favorable for livestock grazing. Contacts expect a big cotton crop this year, but prices have moved lower than the cost of production for many producers. Trade discussions have put a strain on agricultural markets in general, and raised concern from agricultural industry leaders.

Several agricultural producers in southern New Mexico expressed concern over the lack of labor force growth and the strain that immigration restrictions have imposed on their current workforce. They also mentioned that the recent authorization of hemp production provides an opportunity as an alternative to pecan production, as the pecan industry has been negatively impacted by tariffs.

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

Economic activity in the Twelfth District continued to expand at a moderate pace during the reporting period of April through mid-May. Conditions in the labor market remained tight, hiring activity remained generally stable, and wage growth was moderate. Price inflation remained unchanged on balance. Sales of retail goods increased modestly, while activity in consumer and business services increased moderately. Conditions in the manufacturing sector improved modestly. Conditions in agriculture also improved modestly. Contacts reported that residential real estate market activity expanded moderately, and commercial activity was steady. Lending activity increased slightly.

Employment and Wages

Conditions in the labor market remained tight, with persistent worker shortages reported across various skill levels and industries. Hiring activity remained generally stable over the reporting period. Contacts continued to report elevated competition for workers, difficulty in filling vacancies including entry-level positions, and a shrinking pool of qualified applicants. Many contacts across the District noted that hiring and retaining information technology professionals has been particularly challenging. Contacts in the food services and banking sectors reported an increase in hiring connected to the opening of new locations. Contacts in other sectors, including electronics, manufacturing, utilities, public agencies, and nonprofit organizations, noted that hiring remained generally flat. A quick service restaurant chain in the Pacific Northwest noted that employment levels remained unchanged. A contact in Hawaii reported that following recent increased numbers of lawyers and technological alternatives, hiring in the legal practices sector has softened.

Wage growth continued to rise moderately over the reporting period. Across the District, upward compensation pressures persisted due to brisk competition for workers and higher minimum wages in California and soon in Oregon. Contacts particularly noted increasing entry-level wages for both low- and high-skilled workers. A few contacts also reported offering more comprehensive benefit packages in order to attract and retain workers.

Prices

Price inflation remained unchanged on balance. Most contacts across the District, particularly in the finance and technology sectors, reported steady price increases. Some contacts in the transportation and food services sectors reported price increases beyond those implemented earlier in the year. The ability to pass increased labor costs and tariffs to final consumers varied across different sectors, and in some instances even within the same sector. A contact in the California utility sector observed that some price inflation resulted from wildfire-related costs. Contacts in the agriculture sector noted that export prices continued to be subdued. A few contacts in the construction sector mentioned that prices for lumber and other wood products were considerably lower relative to the previous year.

Retail Trade and Services

Sales of retail goods increased modestly. Contacts across the District reported higher retail sales over the reporting period relative to earlier in the year. Contacts reported that most growth has taken place within the online retail market, leading some larger retailers to close certain brick-and-mortar locations across the District. Contacts in the electronics and automotive sectors described sales growth as steady. A large animal prod-
uct retailer in Arizona mentioned that consumer spending is becoming more polarized, with items at the high and low ends of the price spectrum seeing the largest sales growth.

Activity in the consumer and business services sectors increased moderately. Demand for shipping and logistics services saw strong growth across several product lines, including warehousing services. Food service providers in the Northwest reported strong demand because of the strong regional economy. Contacts in Hawaii noted that the tourism sector remains robust. Contacts in the health care and insurance sectors reported steady demand, while a contact in the passenger air transportation sector noted that demand softened somewhat.

**Manufacturing**

Conditions in the manufacturing sector improved modestly. Contacts in the metal manufacturing sector reported that raw materials were readily available and that capacity utilization remains elevated relative to historical averages. One steelmaker in the Pacific Northwest reported strong domestic demand backed by order backlogs and reduced competition from abroad, though another noted a tick down in all new orders. On the export side, demand for finished metals was somewhat softer. A contact in Northern California reported that demand for semiconductors and smart phones fell modestly due to increased competition from abroad, which in turn led to excess inventory accumulation.

**Agriculture and Resource-Related Industries**

Conditions in the agriculture sector improved modestly. Many contacts reported stable demand and adequate supply throughout the District, with inventories and planted acreage remaining at healthy levels. Domestic demand for agricultural products remained steady, although a contact in the peach and apricot markets reported increased competition from producers in states outside the District. Concerning export demand, contacts noted that continued trade policy tensions affected some products more intensely than others. Contacts in California and the Mountain West mentioned that demand from abroad has declined for grain, potatoes, walnuts, and cattle markets. Contacts in the swine market reported that the outbreak of a particular strand of swine fever in foreign markets has constrained global supply and increased demand for domestically produced pork products, putting upward pressure on prices. One contact in Central California continued to express concern over higher-than-expected rainfall and its potential effects on the output of crops that are nearing harvest season, such as cherries. In the utilities sector, activity remained mostly unchanged, with one contact in Southern California reporting flat sales growth.

**Real Estate and Construction**

Residential real estate markets expanded moderately. Contacts noted that declines in mortgage rates spurred demand for both single-family and multifamily housing. Contacts in Idaho and California noted that demand for entry-level homes rose briskly, inventories remained low, and prices appreciated notably. Most contacts reported robust construction activity over the reporting period. A few contacts in Southern California mentioned that homebuilding activity in the area was steady at a low rate, with builders initiating projects only after completed sales.

In the commercial real estate market, contacts reported steady activity. Across the District, contacts generally noted that demand for commercial space remained at healthy levels but softened somewhat relative to earlier in the year. Contacts noted that nonresidential construction activity was buoyed by the industrial real estate sector; demand for physical retail and office space has cooled.

**Financial Institutions**

Lending activity picked up slightly over the reporting period. Contacts in Central California, the Pacific Northwest, and Idaho continued to report strong loan demand and credit availability. Elsewhere in the District, contacts reported a slowdown in lending activity. Contacts at community banks highlighted that competition between lenders remained elevated. Most contacts reported that loan quality remained generally high, though a contact in Southern California and another in Oregon observed a modest deterioration in underwriting standards.