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

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

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

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

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

This report was prepared at the Federal Reserve Bank of Atlanta based on information collected on or before August 23, 2019. This document summarizes comments received from contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.
Overall Economic Activity
On balance, reports from Federal Reserve Districts suggested that the economy expanded at a modest pace through the end of August. Although concerns regarding tariffs and trade policy uncertainty continued, the majority of businesses remained optimistic about the near-term outlook. Reports on consumer spending were mixed, although auto sales for most Districts grew at a modest pace. Tourism activity since the previous report remained solid in most reporting Districts. On balance, transportation activity softened, which some reporting Districts attributed to slowing global demand and heightened trade tensions. Home sales remained constrained in the majority of Districts due primarily to low inventory levels, and new home construction activity remained flat. Commercial real estate construction and sales activity were steady, while the pace of leasing increased slightly over the prior period. Overall manufacturing activity was down slightly from the previous report. Among reporting Districts, agricultural conditions remained weak as a result of unfavorable weather conditions, low commodity prices, and trade-related uncertainties. Lending volumes grew modestly across several Districts. Reports on activity in the nonfinancial services sector were positive, with reporting Districts noting similar or improved activity from the last report.

Employment and Wages
Overall, Districts indicated that employment grew at a modest pace, on par with the previous reporting period. While employment growth varied by industry, some Districts noted manufacturing employment was flat to down. Firms and staffing agencies universally cited tightness across various labor market segments and skill levels, which continued to constrain growth in overall business activity. On balance, Districts reported that the pace of wage growth remained modest to moderate, similar to the previous reporting period. Districts continued to report strong upward pressure on pay for entry-level and low-skill workers, as well as for technology, construction, and some professional services positions. In addition to wage increases, some Districts noted other efforts—such as enhanced benefits offerings, work arrangement flexibility, and signing bonuses—to attract and retain employees.

Prices
On net, Districts indicated modest price increases since the last report. Retailers and manufacturers in some Districts reported slight increases in input costs. Although firms in some Districts noted an ability to pass along price increases, manufacturers relayed limited ability to raise prices. District reports on the impact of tariffs on pricing were mixed, with some Districts anticipating that the effects would not be felt for a few months.

Highlights by Federal Reserve District

**Boston**
Economic activity expanded at a modest pace since the last Beige Book report, although some manufacturers saw declines while tourism and the staffing sector reported strength. Commercial real estate markets strengthened on balance. Residential real estate inventories were down and contacts noted bidding wars.

**New York**
Regional economic growth continued at a modest pace. Job creation was sluggish, but labor markets remained tight and wage growth picked up a bit. Prices continued to rise modestly. Manufacturing activity picked up slightly. Residential rental markets firmed. Banks reported a rebound in loan demand, but the financial sector overall showed signs of softening.

**Philadelphia**
On balance, business activity continued at a modest pace of growth during the current Beige Book period.
Contacts continued to report difficulty in finding qualified labor, and wage increases remained moderate. Still, inflation remained modest. Firms remained positive about the six-month outlook, although some expressed more caution given uncertainty.

Cleveland
On balance, economic activity was steady over the period. Consumer spending picked up, while manufacturing and freight activity slowed down. Employment remained stable overall, while wages rose moderately across the board. Prices were little changed, with contacts citing as contributing factors a lack of materials cost inflation, intense competition, and softening demand.

Richmond
The Fifth District economy continued to grow at a modest rate. Manufacturers and trucking companies saw some declines in shipments. Ports, tourism, and nonfinancial service firms generally indicated increasing activity. Residential and commercial real estate markets were stable to improving modestly. Labor markets remained tight, wages rose modestly, and prices increased at a moderate rate.

Atlanta
Economic activity moderated slightly over the reporting period. Labor market tightness persisted. Wage growth remained steady and input costs rose slightly. Retail sales and tourism activity were mixed. Real estate sales and construction were down from a year ago. Manufacturing activity softened. Banking conditions remained steady.

Chicago
Economic activity increased slightly. Consumer spending increased modestly; employment and business spending increased slightly; and manufacturing and construction and real estate were little changed. Wages and prices rose slightly. Financial conditions were little changed on balance. Farm income prospects improved some, but remained poor for most agriculture sectors.

St. Louis
Economic conditions were unchanged from our previous report. Construction activity ticked up. Barge traffic continued to improve, but air cargo traffic decreased slightly from a year ago. Farming conditions remain strained by low commodity prices and residual effects from flooding in the spring. Overall, contacts’ economic outlook for the remainder of the year turned slightly pessimistic.

Minneapolis
Ninth District activity was steady overall. Labor demand remained healthy but employment was flat, as labor availability continued to constrain hiring. Manufacturing grew slightly, but contacts pointed to some signs of softening. Agricultural conditions remained weak due to poor weather during planting, while commercial construction grew strongly as firms caught up with a backlog caused by the slow start to the season.

Kansas City
District economic activity edged up in July and early August. Consumer spending increased modestly, with gains in retail, auto, restaurant and tourism sales. Real estate activity also expanded, but residential construction activity slowed. Manufacturing activity declined slightly, while activity held steady in the energy sector. The agricultural sector remained weak, with low prices and trade uncertainty weighing on farm income.

Dallas
Economic activity continued to expand moderately. Retail sales were flat and drilling activity dipped, but output growth strengthened in manufacturing. Selling price increases were modest, as most firms were limited in their ability to pass through higher costs. Hiring continued at a steady pace. Outlooks were mixed, with tariffs, trade tensions, stock market volatility, and slowing global growth driving up uncertainty.

San Francisco
Economic activity in the Twelfth District continued to expand at a moderate pace. The labor market remained tight and wage growth was moderate. Price inflation was largely stable. Sales of retail goods increased notably, as did activity in the consumer and business services sectors. The manufacturing and agricultural sectors slowed somewhat. Activity in residential and commercial real estate markets expanded moderately, and lending grew further.
Summary of Economic Activity

Most First District business contacts reported modest revenue growth in the second quarter and into the summer months, but some retailers, hotels, and manufacturers cited stronger sales growth and a couple of manufacturers said revenue was down from a year earlier. Tariffs and general trade uncertainty continued to be mentioned as risk factors. Staffing firms were more upbeat than three months ago, reporting improvements in the pace of revenue growth. Commercial real estate markets also improved somewhat, with Boston continuing to be the strongest area. Residential real estate market activity moderated during the summer months. While some firms mentioned raising wages somewhat to attract and keep employees, most said the labor market was steady. Outlooks ranged from guardedly optimistic to generally positive.

Employment and Wages

Labor markets were reportedly not much changed from the last report. One fast-growing retailer reported a successful on-campus recruiting push, filling technical and other jobs and raising wages to do so. Another retailer continued to cite little difficulty hiring sales people. Manufacturing respondents, with one exception, reported no major revisions to their hiring plans. The exception was a semiconductor-related firm facing sales declines, who said they would probably start layoffs within six to eight weeks. Staffing firms said the number of job requests overall remained strong for both temporary and permanent openings. Most staffing contacts reported stable bill and pay rates, but two firms increased both rates by low single-digit percentages.

Prices

Contacts said very little about prices. Retailers noted no price concerns. Tariffs continued to be a minor but persistent pricing issue for manufacturers; firms generally tried to pass price increases on to buyers and reported success most of the time. Aside from tariffs, manufacturers reported no unusual pricing pressure.

Retail and Tourism

First District retail respondents this round reported comparable-store sales increases ranging from flat to up by mid-single-digit percentages or higher year-over-year. Some contacts said results exceeded their expectations, while others cited July sales a little slower than anticipated. One explanation was a slowdown in getting products from non-Chinese Asian manufacturers, as the ports in these countries were said to be not yet able to handle the increased shipping demand. The retail outlook for the rest of the year is largely positive.

An automotive industry contact in Connecticut reported that sales through June were up slightly from the first quarter. Dealers were selling more used cars than new models, with consumer credit readily available for financing either new or used vehicles. The contact argued that imposing additional tariffs on China would have a disproportionately adverse effect on U.S. autos.

A travel industry contact reported that Boston hotel room demand increased 3.2 percent in June over last year, and that the average room rate was 4.2 percent higher. Boston hoteliers said they were happy with the summer tourism season to date, as strong business and leisure travel kept room demand high. Year-to-date through June, average room revenue for Boston hotels was up 6.9 percent, compared with the national average of 3.3 percent. These mid-year results and anecdotal reports through mid-August lead the tourism industry to expect 2019 revenues to be up solidly over 2018.

Manufacturing and Related Services

Reports from manufacturing contacts continued to be mixed. Three of the nine firms contacted this round are in the semiconductor industry; two reported sales declines versus the same period a year earlier, including...
one with a 20 percent drop. Several contacts in other industries reported that growth, while still positive, was slower than in earlier periods. A manufacturer of electrical equipment attributed some of its slowdown to lower energy prices reducing demand from energy extraction firms. An aerospace firm which supplies parts to Boeing’s 737 MAX aircraft indicated that the aircraft’s well-publicized problems had not translated into lower sales yet. A manufacturer of dairy products said demand for their products was the strongest in a long time.

No contacts reported significant revisions to capital expenditure plans. One respondent in the electrical equipment business said that the tariffs had led them to invest more in automating factories in the U.S. as opposed to moving them to Mexico.

Outside of the semiconductor industry, the outlook remained generally positive for most contacts. Many continued to mention trade tensions as an issue.

**Staffing Services**

New England staffing firms reported positive revenue trends for the second quarter of 2019. All firms cited improved growth rates compared to the previous quarter, with rates as high as 20 percent quarter-over-quarter. Two mentioned that their business results were among the top five performing firms in their respective region. On the other hand, scarce labor supply continues to be the most challenging issue among staffing businesses. Several respondents noted difficulty in matching the skill sets job seekers possessed with those desired by employers. Consequently, companies wanting to hire have been accepting less qualified workers and offering higher pay rates. Staffing firms mentioned aggressive use of online recruiting job boards and offering competitive rates and benefits to candidates. With unemployment low and labor supply limited, staffing respondents cited a guardedly optimistic outlook.

**Commercial Real Estate**

Commercial real estate activity in the First District strengthened somewhat overall, but differences in performance across geographic submarkets persisted. The Boston area saw robust leasing demand in both the office and industrial sectors. Class A office rents in prime Boston locations increased substantially in the past six months, and the office vacancy rate, at roughly 8 percent, was said by one contact to be at an all-time low. Industrial rents in Boston climbed 6 percent to 10 percent over the year as e-commerce users competed fiercely for scarce warehouse space. Construction activity held steady in the Boston area; in recent months, the share of office construction has risen relative to apartments.

In the Providence area, industrial leasing activity remained robust, exceeding expectations, and two-year rent growth in that market was estimated at 33 percent. Office leasing in Providence softened and office asking rents were stable despite a vacancy uptick; a contact expects effective rents to soften moving forward. In greater Hartford, leasing activity for both office and industrial space was described as very slow but stable.

Investment sales were slow across the District. Contacts expect sales to resume in the fall, with the potential for increased demand following declines in long-term Treasury yields and increasingly favorable borrowing conditions. Concerning the outlook, contacts see no risks of overbuilding or overleverage in commercial property in the District. In Boston, the lack of profitability of high-tech firms occupying large blocks of space was cited as a risk factor. Otherwise, respondents expect stable activity.

**Residential Real Estate**

Activity in residential real estate markets in the First District moderated in June or July following strong sales results in May. (Rhode Island, New Hampshire, and Maine reported year-over-year changes from July 2018 to July 2019, while Massachusetts, Vermont, and Greater Boston reported statistics through June. Connecticut statistics were unavailable.) For single family homes, closed sales decreased moderately from a year earlier in Massachusetts, Boston, and New Hampshire, and increased in Rhode Island and Maine. Median sales prices rose and inventory declined in all reporting areas. In particular, Rhode Island, Massachusetts, and New Hampshire experienced double-digit inventory drops over the year. For condos, closed sales were down and prices were up in all areas except Maine. Condo inventories improved in Maine, Massachusetts, and Boston, and decreased sharply in New Hampshire and Rhode Island. In Vermont, closed sales and inventory dropped for single family homes and condos combined.

Contacts expressed a positive near-term outlook, citing persistent high demand and low interest rates as reasons. However, contacts voiced affordability concerns as intense bidding and multiple offers still prevail.

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

The Second District economy continued to expand at a modest pace in the latest reporting period. The labor market remained very tight, as employment levels were flat, and wage growth picked up slightly. Input price pressures have remained subdued, while selling prices have been flat to up moderately. Manufacturing activity was steady to slightly higher, while trade and distribution activity was mixed. However, most service sectors saw steady to modestly growing activity. Consumer spending was up modestly, largely reflecting a pickup in auto sales. Tourism has picked up noticeably. Housing markets have been mixed, though the residential rental market has firmed throughout the District. Commercial real estate markets have been steady to softer, and new commercial construction has tapered off somewhat. Finally, banks reported a rebound in loan demand, though the financial sector overall showed signs of softening.

Employment and Wages

The labor market has remained very tight across the District. Contacts have continued to report trouble finding qualified workers in a wide variety of roles, including engineers, teachers, construction workers, truck drivers, and retail clerks. An employment agency noted that one factor holding back hiring has been a wide gap between job candidates’ salary demands and employers’ offers.

Businesses in most industries continued to report little or no net hiring. Contacts in the manufacturing, transportation, information, finance, and professional & business services sectors reported flat to slightly declining staffing levels, while businesses in education & health, real estate, and leisure & hospitality reported modest increases in headcounts. The one industry noting fairly brisk net hiring has been wholesale trade. Looking ahead to the next six months, though, businesses in manufacturing and most service sectors still plan on adding to staff.

While businesses generally report that wage growth has remained moderate, there have been scattered signs of a pickup. A large New York City employment agency notes somewhat more upward pressure on salaries, and a finance sector contact in upstate New York notes that they recently upped pay scales for entry-level workers in response to the tight labor market.

Prices

Overall, businesses indicated that both input costs and selling prices continued to rise at a modest pace, though there have been some divergent trends across industries. Manufacturers report that their input prices have continued to rise at a modest pace but that their selling prices have flattened out. Looking ahead, an increasingly large share of manufacturers said that they expect their input costs to rise faster than the prices they receive. Contacts in the service sector, on the other hand, reported ongoing growth in their selling prices—particularly in the transportation and education & health industries—along with continued moderate growth in input prices.

Retailers generally indicated that selling prices have been mostly flat to down slightly, reflecting somewhat steeper discounting. Contacts in both auto sales and retail indicated that trade tensions have not yet had a noticeable effect on prices. In contrast, a major retail chain noted that they had raised prices on furniture and other big-ticket items, but that they were likely to reverse those hikes, as consumers were not responding well.

Consumer Spending

Retail sales remained steady in recent weeks and flat to up slightly from a year earlier. A major retailer noted some slowing in sales in early August (partly reflecting
tariff-driven price hikes), but the advent of back-to-school season has mitigated that decline. An upstate New York mall reported continued modest growth in sales activity and shopper traffic. In general, inventories were said to be near desired levels, helped by increased discounting over the summer.

Sales of both new and used vehicles picked up noticeably, according to dealers in upstate New York. Still, inventories of new vehicles remained above desired levels. Dealers indicated that service departments have remained busy and characterized consumer credit conditions as being in good shape.

**Manufacturing and Distribution**

The manufacturing and distribution sectors have improved somewhat since the last report. Manufacturers reported that overall activity and new orders have been steady to slightly higher in the latest reporting period, after a pullback during the late spring. Wholesale distributors reported that growth rebounded to a fairly brisk pace. However, transportation firms noted a moderate drop-off in activity in recent weeks.

While manufacturers remain fairly positive about the near-term outlook, wholesale distributors and especially transportation firms have become noticeably less optimistic. Contacts in these sectors, as well as in manufacturing, have expressed ongoing concern about tariffs and trade tensions and about uncertainty going forward.

**Services**

Service-sector businesses reported that activity has been mixed but, on balance, a bit stronger since the last report. Contacts in leisure & hospitality noted a substantial pickup in business. An authority on New York City’s tourism industry reported that visitations picked up and were strong in August but that visitors were spending less, on average. Broadway theaters reported that attendance slipped somewhat in July and early August and was down modestly from a year ago. Hotel occupancy rates were solid, though average room rates were down due to more people staying at budget hotels.

Other service industries have not been as robust. Businesses engaged in professional & business services and education & health reported modest growth in activity, while finance and real estate firms generally reported flat activity. Contacts in the information sector reported some pullback in activity. Service firms, in general, were fairly optimistic about the near-term outlook, except for those in the finance sector.

**Real Estate and Construction**

Housing markets across the District have firmed somewhat since the last report, with the rental market strengthening but the sales market mixed. The market for existing homes in upstate New York has continued to strengthen, as persistently low inventories of unsold homes has continued to boost prices and contributed to bidding wars. In New York City, by contrast, the inventory of unsold co-ops and condos has hovered at a 7-year high, though not excessively high by historical standards. Apartment sales prices have drifted down, and transactions activity has retreated from brisk second-quarter levels. Housing markets in the areas surrounding New York City have been mixed.

Residential rents have accelerated somewhat across the District and are now up 3-6 percent from a year earlier. Rental vacancy rates have declined further, particularly in New York City, and landlord concessions have continued to recede from the high levels of recent years.

Commercial real estate markets across the District have been steady to softer since the last report. Office rents have been mostly flat, while availability rates have been steady to slightly higher. Industrial markets have been mixed, as rents have continued to rise moderately, while availability rates have edged up further. The market for retail space has been particularly soft, with availability rates climbing to multi-year highs and rents declining modestly.

New multi-family construction starts have tapered off a bit, but ongoing construction has remained fairly brisk across the New York City area. New office construction has been steady, while new industrial construction has slowed somewhat. There has been quite extensive new hotel development in New York City’s outer boroughs.

**Banking and Finance**

Bankers reported higher demand for consumer loans, residential mortgages, and commercial mortgages, all of which had declined in the previous reporting period. Refinancing activity rose. Credit standards for consumer loans, residential mortgages, and C&I loans were unchanged, but tightening standards were reported for commercial mortgages. Bankers reported narrowing loan spreads across all categories. Finally, delinquency rates were reported to be stable across all categories.

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

On balance, aggregate Third District business activity continued at a modest pace of growth during the current Beige Book period. Manufacturing accelerated to a moderate pace of growth, and nonmanufacturing, nonauto retail sales, and tourism continued at a modest pace of growth. Sales for new autos as well as commercial real estate construction and leasing continued to decline slightly. Homebuilding softened somewhat, and existing home sales declined further. Wage increases remained moderate, as the labor market remained tight. Overall, price pressures remained modest. The firms’ outlook for growth over the next six months remained positive, with about half of all firms anticipating increases in general activity and less than one-fifth expecting decreases. However, contacts noted a slightly more cautious outlook given trade and market uncertainty.

Employment and Wages

Employment growth continued at a modest pace during the current Beige Book period. More than one-fourth of all firms reported increases in staff, similar to the previous period, however, the share of manufacturers reporting decreases rose. Average work hours were little changed across firms over the period.

Contacts continued to report that tight labor market conditions were constraining growth, as many noted difficulty in finding qualified workers for needed positions in various sectors. Staffing firms reported continued struggles in finding qualified candidates, with one firm describing the labor pool in its area as “nearly nonexistent.”

Wage growth continued at a moderate pace, with contacts reporting wage increases ranging from above 3 percent to above 5 percent on a year-over-year basis. The share of nonmanufacturing contacts who reported increases in wage and benefit costs edged down below 45 percent; only 1 percent reported decreases. Several contacts reported no change or a leveling-off in wages from the prior period.

Prices

The firms reported overall modest increases for both input prices and prices received for their own goods and services. The share of nonmanufacturing firms reporting increases in prices rose, while the share of manufacturing firms reporting increases held mostly steady. Roughly two-thirds to three-quarters of firms reported no change in prices over the period. Most banking contacts continued to note no signs of inflation.

Looking ahead six months, manufacturers continued to anticipate higher prices for inputs and for their own goods, on balance. The percentage of manufacturing firms that expect to pay higher prices for inputs rose to above 45 percent, and the share expecting to receive higher prices for their own goods increased to almost 35 percent.

Manufacturing

On balance, manufacturers reported moderate growth in activity – a pickup from the slight pace of growth during the prior period. Indexes for shipments and unfilled orders remained above long-term nonrecession averages, and the new orders index improved to an above-average level as well.

The makers of lumber products, chemicals, and fabricated metal products noted gains in new orders and shipments since the prior period. The primary metal and industrial machinery producers reported little change,
and the makers of electronic products noted declines. These trends were somewhat weaker this year compared with the same period one year ago for most of the sectors.

Manufacturers’ expectations of activity over the next six months improved somewhat. Expectations of shipments and of new orders were above long-term nonrecession averages, with the latter rising above average over the period. Expectations of future employment and planned capital spending also remained above average but were little changed. Some firms reported that uncertainty continued to hamper their investment decisions.

**Consumer Spending**

Contacts for malls and convenience stores continued to report modest growth in nonauto retail sales, on balance. Some mall store operators reported modest increases in year-over-year sales and foot traffic. Convenience store contacts continued to report strong sales.

Sales of new autos continued to show signs of slowing but remained near high levels. Pennsylvania dealers reported moderate year-over-year growth through July for both new and used cars and noted recent weakness in new car sales. In New Jersey, early estimates by dealers indicated modest declines in year-over-year sales for July and August, following weak sales in June. One contact cited weakening consumer confidence and rising new car prices as contributing factors.

Tourism activity continued to grow at a modest pace. One contact noted that the Jersey shore season has been fine, with high occupancy, and that restaurants and other retail are performing well. Casino revenues in Atlantic City were up modestly. Occupancy rates recovered in the Poconos for the summer season following softness earlier in the year. Hotel demand in the Greater Philadelphia market was generally in line with the prior period but slowed somewhat, partly owing to shorter booking windows for business travel.

**Nonfinancial Services**

On balance, activity at service-sector firms continued at a modest pace of growth. The percentage of firms reporting increases in current revenues rose, although the percentage reporting increases in new orders fell. Roughly one-half of firms expect growth over the next six months, unchanged over the period. One large firm noted that it had a modestly more conservative outlook and that it was cutting back on capital spending a bit because of recent uncertainty.

**Financial Services**

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

During the current period (reported without seasonal adjustments), volumes appeared to grow robustly in home mortgages and auto lending. Commercial and industrial loans grew moderately, as did other consumer loans (not elsewhere classified). Home equity lines declined modestly.

Banking contacts continued to note increased uncertainty, but while some contacts reported that businesses were hanging on the sidelines or hitting pause, other contacts have not seen customers holding off on making investments. Contacts generally remained optimistic for the remainder of 2019, although somewhat less so than in the prior period.

**Real Estate and Construction**

Homebuilders reported a modest decrease in contract signings in the current period, down from the prior period. Contacts noted some strength in southern New Jersey housing markets across most price ranges but a slowing in traffic and sales at all price points in central Pennsylvania.

Existing home sales declined moderately on a year-over-year basis – a larger decline than in the prior period – across most local markets. Low inventories continued to limit sales in all markets. A large Philadelphia broker noted a slight boost in refinancing activity following the FOMC’s rate cut.

On balance, commercial real estate construction and leasing activity continued to pull back from relatively high levels. Contacts noted that fundamentals in larger markets seemed sound. Office and industrial markets were characterized by relatively even to positive net absorption, stable vacancy rates, and incremental rent growth.

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

Economic activity in the District was steady on balance. Retailers reported modestly improving sales over the period. Real estate agents also saw increased home sales, including a pickup in the first-time-buyers segment. Bankers reported firm consumer lending as lower interest rates drove mortgage and auto loans, but they reported softening commercial loans. Manufacturers saw weaker demand because uncertainty led their customers to delay capital expenditures. In addition, factory inventories were elevated as sales fell more than anticipated. Freight volumes decreased. Overall District employment remained relatively steady, with little change in most sectors. Wages rose moderately across industry sectors and occupational categories. Prices were little changed in general in the District. However, many contacts expected input costs to rise in the near future, in part because of anticipated new tariffs.

Employment and Wages

Total employment was steady in the District, although reports on hiring varied by industry. Professional and business services firms continued to hire to keep up with strong demand. A few construction contractors added professional or field staff, but the majority did not. One contractor commented, “experienced staff can handle the expected volume.” Most freight haulers did not expand their payrolls although turnover remained high. Retailers generally held headcounts steady outside of typical seasonal variations. Meanwhile, factories tried to align their labor needs with slower sales. Generally, manufacturers did not lay off workers, but several implemented other labor-reducing measures such as fewer shifts, reduced overtime, fewer temporary employees, and shrinkage by attrition.

Overall wage growth increased slightly to a moderate pace in recent weeks, with modest to moderate growth in most sectors. Retailers, bankers, and staffing agencies reported strong upward pressure on entry-level wages. One staffing executive commented that many clients were raising entry-level wages, and that it is “very strange to see a client offering the [state] minimum wage.” Stiff competition for skilled workers led to higher wages in manufacturing, construction, and professional and business services. A manufacturer said that wages were still rising because “despite demand shortfalls, the employment market remains tight.” A nonresidential contractor paid midyear bonuses to his workers, a move atypical for the firm. In contrast, freight haulers saw slower wage growth because weaker demand reduced firms’ ability to raise wages.

Prices

Prices were little changed on net, though there were small changes in a few sectors. Several manufacturers cut their selling prices because of downward pressure from weakening global demand. First, weakening demand contributed to falling commodities prices to which many manufacturers’ contracts were indexed. Second, it led to stiff competition for contracts among global manufacturers. Freight haulers indicated that excess shipping capacity eroded their pricing power. Most retailers held prices steady. Professional and business services firms reported no pricing power because of slower demand growth and strong competition in the sector. A few nonresidential contractors were able to raise prices (and margins) because of persistently strong demand, but residential contractors felt buyers’ concerns about affordability meant they were unable to raise prices. Contacts
across sectors expected input costs to rise in the future, largely because they anticipated more tariffs.

**Consumer Spending**

Reports indicated that retail spending increased modestly in recent weeks. Food retailers said that a typical increase in demand for seasonal products and the start of the back-to-school selling season boosted sales. By contrast, apparel retailers indicated activity was relatively flat in recent weeks, although some were optimistic that sales would increase in the near future. Auto dealers reported solid sales in July, with one noting that “lease returns and incentives have bolstered sales.”

**Manufacturing**

Manufacturing activity declined modestly as demand continued to soften across end markets. Several contacts reported that both they and their customers had delayed capital spending as trade tensions and related uncertainty clouded their outlooks. Additionally, respondents noted that weakening demand abroad pushed down prices and intensified competition with foreign manufacturers who were looking for new markets in which to sell their products. Capacity utilization declined, but some manufacturers indicated that this was a return to normal following more than a year of hectic activity. Several contacts reported that inventory levels were elevated because demand fell more sharply than anticipated. Looking forward, reports were mixed: some manufacturers believed that orders would improve in the fourth quarter and beyond, while others expected demand to weaken further.

**Real Estate and Construction**

Overall, construction and real estate activity was steady. On the nonresidential side, builders continued to report stable and strong demand. New projects came from multiple sectors. Backlogs remained strong. One nonresidential contractor described current conditions as “smooth sailing.” Nonresidential builders were confident that demand would remain stable and strong through 2019 and into 2020.

On the residential side, homebuilders noted slightly weaker demand, but real estate agents reported stronger sales volume. Some homebuilders indicated that the slowdown may have been because of homebuyers’ less optimistic views of the broader economy. By contrast, realtors said that sales volume increased because of a typical seasonal pickup and lower mortgage interest rates. They also reported that homeownership rates were rising as mortgage interest rates, stronger household formation, and rising rents spurred demand among first-time buyers.

**Financial Services**

Bankers reported that loan demand declined slightly. In general, demand from commercial clients softened. Consumer lending held firm, as lower interest rates bolstered demand for mortgages and auto loans. Bankers would like to decrease deposit rates to offset declining lending rates, but many reported that competition for deposits remained too intense to reduce these rates. Overall, core deposits increased on balance.

**Professional and Business Services**

Activity in professional and business services remained solid, but growth softened since the previous report. Consulting firms reported strong activity and generally indicated that their smaller, local clients had a solid pipeline of projects. By contrast, technology firms suggested that activity was flat or down slightly. One technology contact reported softening demand from clients in Asia, and another noted an overall reduction in the volume of large-scale deals.

**Freight**

Freight volumes softened further since the previous report. One freight executive summarized the sector by saying, “freight volumes are down in most channels. It is not clear how much of this is related to the surge of last year wearing off and how much is associated with current demand.” Another contact suggested that heightened trade tensions with China have dampened domestic freight demand. Several freight haulers said that shipments will increase ahead of the upcoming holiday season, although some expected fourth-quarter levels to be lower than in the prior year.

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

The Fifth District economy grew at a modest rate since our previous report. Manufacturers experienced a decline in shipments and new orders, and continued to cite trade-related impacts on demand and raw materials costs. Trucking companies also reported a modest decline in shipping volumes. Ports, on the other hand, saw robust activity stemming from strong import volumes. Agriculture contacts gave mixed reports, largely due to differing weather conditions across the region. Meanwhile, demand for nonfinancial services remained moderate. Several firms indicated that they were holding back on new investment due to uncertainties with trade, the federal budget, and the availability of labor. Tourism increased modestly. Auto sales were reportedly up and some hardware stores saw strong growth while other retailers experienced slower sales and less buyer traffic. Residential real estate sales and new home construction increased modestly, on balance. Commercial real estate contacts reported some increased leasing activity, low vacancy rates, and stable to modestly increasing rental rates. Bankers generally indicated modestly increasing deposits and loan demand. Labor markets remained tight and wage increases were modest. Prices continued to rise at a moderate rate.

Employment and Wages

The demand for labor remained strong in recent weeks. Staffing agents reported a high level of job postings; however, finding qualified applicants continued to be difficult across job categories and experience levels. One staffing agency said that they had turned down some clients because they believed the wages that were offered would not be high enough to attract quality workers. Looking ahead to the fall recruiting season, staffing firms expect demand to increase across the board and expect the usual seasonal uptick for temporary workers. Wage increases remained modest.

Prices

Price growth remained moderate for most finished goods and services since our previous report. Manufacturers generally indicated moderate growth in prices paid, which narrowly outpaced growth in selling prices. Several firms continued to note that tariffs were a driving factor behind some higher raw material prices, but lower prices were reported for lumber, steel, copper, and trucking. In addition, some retaliatory tariffs by China reportedly drove down selling prices for U.S. scrap metal and paper. Service sector firms also reported moderate price growth in both prices paid and prices received.

Manufacturing

Manufacturers in the Fifth District experienced sluggish demand since our last report. Both shipments and new orders declined, and many firms reported weaker local business conditions. Several contacts cited tariff-related effects on their businesses, including lower demand and higher raw materials costs that they could not pass through to customers. A Virginia manufacturer delayed purchasing new equipment because of fear that business conditions would deteriorate in the coming months. However, a South Carolina appliance manufacturer reported strong sales and revenue growth and invested in expansion projects.

Ports and Transportation

Fifth District ports saw strong growth in recent weeks that met or exceeded expectations. Growth of imports was particularly robust, as import volumes remained above export volumes. One port continued on a strong capital investment plan because of good conditions, but another delayed investments in order to see how business would change in the coming months. A Fifth District airport saw a slowdown in international cargo traffic. Executives also expressed concerns about future trade conditions and impending fuel price increases.
On balance, Fifth District trucking companies reported a modest decline in shipping volumes in recent weeks. Several firms attributed the drop in volumes to tariff-related reductions of shipments and they expressed concerns that these reductions would continue in coming months. One contact stated that the softer demand put downward pressure on shipping prices. Another said that they reduced staff and capital expenditures as a result. In contrast, a Virginia firm reported an uptick in volumes across a wide range of products and customers.

Retail, Travel, and Tourism
Tourism in the Fifth District was moderate in recent weeks. Hotels in Greenville and Charleston, South Carolina, saw strong demand. In addition, an executive at a Virginia resort reported strong demand but nevertheless had to close some pools due to a labor shortage, which was expected to be persistent. Conversely, tourism in Asheville, North Carolina, and in Baltimore was reportedly down, and an amusement park in North Carolina attributed soft business to rainy weather.

Fifth District retailers reported mixed business conditions since our last report. A Virginia auto dealer reported growth in sales of both new and used cars. A high end clothing store, however, reduced inventory after several weak months. Also, a shoe store reported a drop in both sales and customer traffic. Hardware stores around the District gave conflicting reports on demand, with some seeing strong growth and others seeing a drop in business. Several retailers reported increased costs resulting from tariffs, which they were partially able to pass on to consumers.

Real Estate and Construction
Residential real estate sales increased modestly, overall. Brokers reported steady levels of buyer traffic in recent weeks. Existing home sales remained below year-ago levels, in part due to low inventory levels. Meanwhile, agents reported steady rental demand for single-family homes. Home prices rose modestly, on balance, while days on the market were generally unchanged at low levels. New home construction and sales increased modestly while speculative construction remained low and was mostly for higher priced homes.

Commercial real estate brokers reported a moderate rise in industrial leasing across the District. Office leasing was mostly unchanged in recent weeks, with the exceptions of Charlotte, NC, and Washington, D.C., which experienced strong activity. Retail leasing was reported to be flat to down slightly. Vacancy rates remained low in most markets and rental rates were stable to increasing modestly in all sub-markets. On the commercial sales side, brokers reported modest increases in prices and sales. Industrial construction increased modestly across the District, while multifamily construction and leasing remained steady.

Banking and Finance
Overall, loan demand rose modestly in recent weeks. Residential mortgage demand was generally described as stable to increasing modestly. Additionally, a few lenders noted an increase in residential refinance loans. On the commercial side, real estate loan demand strengthened modestly. Business loan demand improved slightly and automotive lending was reportedly flat compared to the previous report. Deposits grew modestly and credit quality remained stable at strong levels.

Nonfinancial Services
Since our previous Beige Book report, demand for nonfinancial services remained moderate, overall. Professional and health services firms generally reported steady to increasing demand. A few contacts, however, reported that turnover and labor shortages were driving up recruiting costs and in some cases constraining growth. Educational institutions also indicated steady demand, and a university president saw significant investment in computer science related programs in Northern Virginia. On balance, services firms indicated modest business investment. A few firms said they were holding back or being cautious due to uncertainties around trade, the federal budget, and the availability of labor.

Agriculture
Weather effects varied across the district. For example, a farmer in Maryland saw improvement this year due to more favorable weather conditions and remarked that other farmers in their area, except for dairy, seemed to being doing well. In contrast, a farmer in South Carolina said that the heat and lack of rain were hurting crops. In general, trade issues and low commodity prices were hurting farmers, including by lessening their ability to repay loans and by reducing their desire to purchase new equipment.

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

Sixth District business contacts indicated that economic activity softened slightly during the reporting period. Many firms noted persistent challenges with filling positions. Annual wage increases remained between 3-4 percent, on average, and businesses across the District continued to report increased nonlabor input costs. Tourism activity during the summer season was mixed. Retail sales levels remained steady since the last report, and vehicle sales increased. Residential real estate sales and construction remained below year-ago levels, and home prices appreciated modestly. Commercial real estate contacts reported that leasing and sales activity remained steady throughout the District. Manufacturers noted a decrease in overall business activity since the previous report. Conditions at financial institutions were stable, although consumer loan growth continued to decline.

Employment and Wages
Reports of challenges finding, hiring, and retaining workers persisted for various labor market segments. Several business contacts continued to share that their inability to secure labor was holding back growth, encouraging investments in automation, and pushing a few firms to acquire competitors as a means of gaining labor resources. Employers continued to collaborate with workforce development organizations and schools to enhance curricula at vocational centers and to create pipelines of potential employees. A number of contacts expressed that hiring and retention costs, primarily those associated with training programs, were rising. Employers continued to report that while they had increased wages to attract and retain workers, efforts to improve employee benefits offerings, enhance work arrangement flexibility, eliminate some drug testing, and reduce experience requirements remained prominent attraction and retention tools.

Annual wage increases, on average, remained between 3-4 percent, though several employers noted that, in some cases, overall compensation was accelerating at a fast clip as healthcare costs were rising. Wage growth was concentrated in technology, healthcare, construction, and lower-skilled hourly positions. Business contacts continued to report that demographic shifts from older experienced workers to younger inexperienced workers were compressing salary budgets.

Prices
Businesses across the District continued to report modest increases in nonlabor input costs. Firms affected by tariffs were typically successful in passing along increases and noted some success in holding on to margins. The Atlanta Fed’s Business Inflation Expectations survey showed year-over-year unit costs were up 1.9 percent in August. Survey respondents indicated they expect unit costs to rise 2.0 percent over the next twelve months.

Consumer Spending and Tourism
While retail sales levels remained steady since the last report, District retailers noted heightened uncertainty among consumers due to the geo-political environment; they also expressed concerns about whether this uncertainty will impact consumer confidence and spending behavior during the upcoming holiday season. New vehicles sales levels increased month-over-month in July with light trucks and SUV units driving the increase; sales of used vehicles also rose.

District tourism activity was mixed, and hospitality contacts reported an uptick in uncertainty since the last report. On balance, the summer season was softer than expected with a year-over-year decline in hotel occupancy and average daily rates in Louisiana and Florida. Contacts in Alabama and Georgia reported strong leisure travel and business conference bookings.
Construction and Real Estate
Although a healthy labor market and declining mortgage rates sustained housing demand throughout the District, sales remained below year-ago levels in several markets. Supply constraints, particularly in more affordable price segments, remained a primary impediment to stronger sales. Additionally, new home construction remained down from year-ago levels. Although very few markets experienced a decline in home values, the rate of home price appreciation continued to moderate in most markets as the pace of home sales slowed. Moderate price pressure coupled with declining mortgage rates helped increase housing affordability.

District commercial real estate contacts reported leasing and sales activity remained stable since the previous report. Overall, rents continued to grow and vacancy trended downward at a modest pace. However, some contacts noted slowing rent growth and greater concessions in the multifamily, retail, and office segments. Despite increasing costs, contacts reported strong construction activity. Robust multifamily construction continued to dominate specific metro submarkets leading to increased concerns of possible oversupply in a few areas. Industry participants noted continuing strength in the industrial sector. Contacts reported that capital for most projects was readily available via banks and non-bank entities.

Banking and Finance
Conditions at financial institutions were stable. Total loan growth was steady although consumer loan growth continued to decline. Competition for deposits continued to put pressure on net interest margins along with lower loan yields. Nonperforming assets remained near historic lows.

Energy
Investment in pipeline infrastructure to transport liquefied natural gas (LNG) and crude oil to Gulf Coast refineries remained elevated, as firms endeavored to alleviate product bottlenecks. Companies continued to pursue development of LNG and crude export facilities along the Atlantic and Gulf Coasts. In anticipation of Hurricane Barry, offshore producers evacuated hundreds of drilling platforms in the Gulf of Mexico, causing oil and gas production to fall temporarily. A number of contacts reaffirmed that while construction on industrial megaprojects, largely chemicals manufacturing and oil and gas refining expansion, slowed in 2019, planned investment along the Gulf Coast picked up during this reporting period. Utilities contacts confirmed the acceleration in industrial activity, observed via natural gas and petrochemical utilities segments. Utilities contacts also shared that activity in renewables increased in recent months, particularly solar energy facility installations across Florida, with many projected to be up and running in the 2020 to 2021 timeframe.

Agriculture
Agricultural conditions across the District were mixed. Recent reports indicated much of the District was drought-free although parts of Alabama, Georgia, the Florida panhandle, and Tennessee experienced abnormally dry to moderate drought conditions. Some producers in Louisiana reported crop damage due to Hurricane Barry. Average farm real estate values in the District rose year-over-year with the exception of Georgia, where values declined. On a year-over-year basis, prices paid to farmers in June were up for corn and beef but down for cotton, 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 overall in July and early August, and contacts expected growth to continue at a similar pace over the next 12 months. Consumer spending increased modestly; employment and business spending increased slightly; and manufacturing and construction and real estate were little changed. Wages and prices rose slightly. Financial conditions were little changed on balance. Farm income prospects improved some, but remained poor for most agriculture sectors.

Employment and Wages

Employment increased slightly 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, with a noticeable increase 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 it was difficult to fill positions at all skill levels. A staffing firm reported little change in billable hours. Wages increased slightly overall. Contacts were most likely to report wage increases for professional and technical, administrative, and production workers. Many firms reported rising benefits costs.

Prices

Prices rose slightly in July and early August, though contacts expected prices to rise a bit faster over the next 12 months. Retail prices increased slightly. One contact said that the effect on retail prices of the scheduled new tariffs on Chinese imports wouldn’t be felt until early 2020. In contrast, another contact reported that some retailers had already started implementing incremental price increases to avoid a single, noticeable increase when the tariffs came into effect. Producer prices rose slightly, with contacts reporting falling freight costs and slower increases in labor and materials costs.

Consumer Spending

Consumer spending increased at a modest pace over the reporting period. Nonauto retail sales were up modestly, with gains in the apparel and general merchandise sectors but declines in the furniture and building materials sectors. Contacts noted that malls and department stores continued to struggle. Back-to-school sales were meeting expectations, with reports of particularly good results for discount stores and big box supercenters. Sales of new and used light vehicles increased modestly.

Business Spending

Business spending increased slightly in July and early August. Retail inventories were generally at comfortable levels. One contact reported that a few apparel and big box retailers had ordered aggressively for the holiday shopping season but that most retailers were placing orders that were more conservative. Manufacturing inventories were somewhat elevated overall. Capital spending moved up slightly, and contacts expected that pace to continue over the next 12 months. Outlays were primarily for replacing industrial and IT equipment. There was a noticeable decline in the number of contacts reporting spending for renovating structures. Contacts continued to note that elevated uncertainty about the future state of the economy and international trade policy...
was holding back investment and spurring efforts to diversify supply chains. Demand for transportation services declined moderately. Commercial and industrial energy demand increased slightly, led by increases in manufacturing utilization.

**Construction and Real Estate**
Construction and real estate activity was little changed over the reporting period. Residential construction was flat, with increases in the multifamily sector offset by decreases in luxury single-family building. Residential real estate activity decreased modestly as tight inventories for starter homes continued to hold back sales. Contacts continued to report that it was unprofitable to build starter homes because of high costs. Contacts indicated that the effect of lower mortgage rates on home buying was weaker than usual. Nonresidential construction increased slightly, and one contact reported that bidding activity remained high. Like residential builders, nonresidential builders also noted that high costs were slowing the rate of construction. Commercial real estate activity was unchanged, with steady activity across most sectors. Rents ticked up, while vacancies and the availability of sublease space were flat.

**Manufacturing**
Manufacturing production was little changed in July and early August, though contacts were generally satisfied with the level of activity. Steel demand increased slightly. Demand for heavy machinery declined some, though one contact expected orders to increase during the second half of the year, particularly from the mining industry. Specialty metals manufacturers reported a slight decline in orders, as decreased demand from the auto and heavy equipment industries was only partially offset by increased demand from the defense and aerospace industries. Orders for heavy trucks increased, though contacts expected demand to slow through the second half of the year. Manufacturers of construction materials reported a modest increase in shipments. Auto production was flat.

**Banking and Finance**
Financial conditions were little changed on balance over the reporting period. Financial market participants attributed lower equity and higher bond prices to greater uncertainty about the future state of the economy. Business loan demand rose modestly, with reports of increased equipment purchases and M&A activity but lower commercial real estate activity. Loan quality remained solid across most sectors. Contacts said that lending standards were little changed, but noted that strong competition was creating pressure to loosen them. Consumer loan demand increased slightly, with little change in loan quality or standards. There were reports of a small increase in mortgage refinancing due to lower interest rates.

**Agriculture**
Farm income prospects improved some, but remained poor for most agriculture sectors. Expectations for corn and soybean output improved some but were still much lower compared to a year ago, and the condition of crops was highly variable. Crop development was as much as a month behind normal because the wet spring delayed planting. Prices for corn and soybeans declined. Egg and dairy prices moved higher, while hog and cattle prices moved lower. Contacts noted that another round of payments from the Market Facilitation Program, along with other government programs, were helping to make up for low farm incomes.

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

Economic conditions have been mixed but generally unchanged since our previous report. Labor market conditions remained tight as firms continued to note difficulties finding qualified workers. While nonlabor input costs increased moderately, contacts reported only a slight uptick in prices charged to consumers. Construction activity improved slightly; however, some developers reported delaying projects due to economic uncertainty. In transportation, barge activity continued to improve, while airport cargo traffic declined. Farming conditions remained strained. Across all industries, the outlook among contacts turned slightly pessimistic. On net, a slightly greater share of contacts expect conditions during the remainder of 2019 to be worse or somewhat worse than the same period in 2018.

Employment and Wages

Employment has grown slightly since our previous report. On net, 12 percent of survey respondents reported that employment was higher than a year ago. Labor market tightness has persisted throughout the District, including in transportation, healthcare, and manufacturing. Firms reported increasing benefits, loosening hiring requirements, and more aggressively marketing themselves to attract workers.

Wages have grown moderately since our previous report. On net, 40 percent of contacts reported that wages were higher than a year ago; one contact in Little Rock reported that new graduates applying to jobs at an engineering firm were expecting $10,000 to $15,000 more than their offered starting salary. Numerous firms saw rising wages as a consequence of the tight labor market, with several businesses—due to their size, location, or budget—especially struggling to keep up with wage gains and attract potential employees.

Prices

Prices have increased slightly since our previous report. On net, 13 percent of contacts reported that prices charged to consumers increased in the current quarter relative to the same time last year. This is the fourth consecutive quarter in which the share reporting higher selling prices has declined. Despite the reported softness in prices charged to consumers, input costs continued to increase at a moderate rate. On net, 32 percent of contacts reported higher nonlabor costs.

Business contacts continued to note the effects of tariffs and the current trade negotiations with China on price pressures, although the magnitude and direction of these effects vary greatly by product. Agricultural commodity prices generally remained depressed relative to the same time last year and have fallen since our previous report. On the other hand, several contacts noted moderate increases in the prices of steel, construction materials, and automobiles.

Consumer Spending

Reports from general retailers and auto dealers indicate consumer activity has been mixed since our previous report. July real sales tax collections increased in Missouri, Tennessee, and Kentucky, but decreased in Arkansas relative to a year ago. Most general retailers and auto dealers reported that sales have increased since the same time last year, in line with expectations. However, District auto dealers noted seeing customers purchase more used and low-end vehicles, and their outlook for the rest of 2019 has turned pessimistic. Many cited concerns about higher new vehicle prices, elevated interest rates, and trade uncertainty.
Manufacturing

Manufacturing activity has been mixed since our previous report. A majority of contacts reported declines in production, new orders, and capacity utilization relative to one year ago. Respondents have noted slowdowns in the growth of manufacturing activity over the past few quarterly surveys, but this is the first time that they have reported declines for all three of these measures since 2016. Multiple contacts reported that tariffs and general uncertainty with regard to the ongoing trade negotiations with China contributed to declines in activity. On net, most contacts expect manufacturing conditions to stay at a similar level next quarter. However, several local manufacturing firms across a variety of industries, including automotive and food manufacturing, recently announced plans to expand operations. Likewise, other survey-based indexes indicate that activity in Arkansas and Missouri increased at a modest pace from one month earlier, with new orders and production increasing in both states.

Nonfinancial Services

Activity in the services sector has been mixed since our previous report. The number of posted vacancies for nonfinancial services occupations increased from June to July in St. Louis but decreased in Louisville and Memphis. Transportation activity was mixed. Cargo traffic at District airports decreased slightly year over year, which some contacts attributed to a general slowdown in global trade. However, passenger traffic remained above year-ago levels. Barge traffic continued to improve from the holdup of business caused by the severe flooding in the spring, and contacts expect a rebound of activity through the rest of the year.

Real Estate and Construction

Residential real estate activity has been stable since our previous report. Seasonally adjusted home sales increased modestly across the four largest MSAs in the District. Conversely, a slight majority of contacts reported weaker demand for single-family homes relative to a year ago, and nearly 40 percent noted that third-quarter sales have fallen short of expectations. Contacts continued to report inventory shortages, particularly for lower-end homes.

Residential construction activity increased slightly. There was a slight increase in June permit activity across the four largest MSAs in the District. On net, 14 percent of respondents reported higher construction activity relative to the same time last year, and 7 percent expect continued growth in the next quarter.

Commercial real estate activity has improved slightly since our previous report. Survey respondents reported a slight increase in year-over-year demand for office and industrial space and a modest decrease in demand for retail space. Demand for multifamily properties was unchanged.

Commercial construction activity improved slightly. Survey respondents reported healthy demand for construction of industrial property types and stated that several projects are lined up for the next few months. However, there are some reports of developers deferring future projects due to recent economic uncertainty. Local contacts continued to report labor shortages.

Banking and Finance

Overall loan demand in the District has weakened slightly since our previous report. Demand for mortgages slightly increased relative to one year ago, while demand for auto loans and commercial and industrial loans fell modestly. Bankers expect little to no change to overall loan demand in the fourth quarter. Credit standards tightened slightly compared with year-ago levels. Delinquencies fell slightly on a year-over-year basis and are expected to continue declining into the fourth quarter.

Agriculture and Natural Resources

District agriculture conditions were down modestly from the previous reporting period. Compared with mid-July, the percentages of cotton and rice rated fair or better declined modestly, while those for corn and soybeans declined slightly. Relative to the previous year, the percentage of all four crops rated fair or better declined moderately. District contacts indicated that farming conditions remained strained due to low commodity prices and lingering effects from the unusually wet weather and flooding in the spring. New government assistance to farmers is expected to provide some short-term alleviation.

Natural resource extraction conditions rose slightly from June to July, with seasonally adjusted coal production increasing 1.8 percent. Additionally, July production was 0.8 percent above that of a year ago.

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

Ninth District economic activity was stable since the previous report. Employment was flat, while wage pressures were moderate and price pressures remained modest overall. The District economy saw growth in construction, real estate, and manufacturing. Consumer spending was flat while tourism activity was mixed. Energy activity decreased while agricultural conditions remained weak.

Employment and Wages

Employment was flat since the last report, with some continuing signs of softness. Hiring demand remained healthy, according to recent ad hoc polls of employers in Minnesota and Montana. A Montana insurance contact said that renewals for workers’ compensation policies showed that firms widely expected higher employment levels over the coming year. July job postings were 7 and 5 percent higher, respectively, in North and South Dakota compared with a year earlier. Job postings rose slightly in Montana, but fell slightly for Minnesota and Michigan’s Upper Peninsula. Labor availability continued to constrain hiring, and turnover remained problematic for many firms. A northern Wisconsin contact said, “It’s hard to find a business that is not looking for more employees,” and a few employers said they will have to close or move if workers cannot be found. There were some notable signs of softness, however. July employment fell slightly in most District states (and overall) compared with June levels. Initial unemployment insurance claims saw a 10 percent uptick over the most recent six-week period (ending in early August) compared with a year earlier; continuing claims also rose slightly. Staffing contacts reported that recent job orders were mixed, with declines seen in Minnesota and Wisconsin offices. But most staffing contacts predicted strong third-quarter orders in part because businesses would soon be losing many student workers once school began.

Wage pressures varied, but were moderate overall. Two-thirds of large Minnesota employers responding to an ad hoc poll said that wages grew by less than 3 percent over the last 12 months, and wage expectations for the coming 12 months were even more modest. However, in Montana, a slight majority of poll respondents said wages grew by more than 3 percent, including nearly one in five that saw increases of more than 5 percent. But expectations for future wage increases were slightly lower. Staffing contacts cited a wide range of wage increases for available jobs; a Minnesota contact noted that average wages for jobs across more than a dozen offices in the District rose by less than 2 percent over the last 12 months. However, two other staffing contacts reported wage increases of 8 percent or more.

Prices

Price pressures remained modest overall since the previous reporting period. A majority of respondents to a survey of Montana businesses reported having increased prices charged to customers by less than 2 percent over the past year, and a larger proportion expected to increase prices in the same range over the coming year. Input price pressures were slightly greater, according to respondents. Contacts in the construction sector continued to report brisk input price increases. Retail fuel prices in District states as of mid-August were modestly lower relative to the previous reporting period. Prices received by farmers in June increased from a year earlier for corn, hay, cattle, hogs, milk, and turkeys,
Consumer Spending
Consumer spending was flat overall since the last report. Gross sales in South Dakota and Wisconsin in July were flat year-over-year; in Wisconsin, that represented a modest rebound from slower June sales. Sales tax collections in North Dakota in July rose by about 15 percent compared with a year earlier. Vehicle sales in the western part of the District were higher in July, and a dealer contact said he expected August and September sales to be good. But recreational and powersport vehicle sales across the District have been lower, according to industry sources.

Tourism offered a mixed bag. Hotel occupancy in July saw a moderate bump over last year in Minnesota and Montana. A Montana lodging contact said it has been a “normal” tourism season overall, but added that “for the first time in a while, we needed to discount room rates to fill rooms.” A Minnesota resort contact said bookings were about 2 percent higher this season compared with last year, and guest spending was higher. However, visitation to six of the eight largest national parks in the District was down in July and year-to-date, with several seeing double-digit declines. Attendance at state fairs was higher this year in Montana but lower in North Dakota. Traffic to the annual Sturgis Motorcycle Rally in South Dakota was down modestly compared with last year. Contacts also noted that labor constraints have meant shorter operating hours for some businesses.

Construction and Real Estate
Commercial construction grew strongly since the last report. The value of construction starts across the District saw a healthy rise in July compared with a year earlier, continuing an uptick seen in June. A construction project database indicated that the number of new and active projects in the District through early August was slightly higher than or on par with last year. A contact in northern Wisconsin noted strong activity in the Duluth-Superior region, particularly in healthcare and energy. A Minnesota banker expected “continued strong demand” for new hotel and multi-family construction lending. Another contact in the state said, “All I hear is that [construction companies] are incredibly busy. There’s so much work out there.” Contacts said some of the increase in activity was due to persistent spring rains and flooding, which pushed more work into summer months. Minneapolis-St. Paul saw a healthy increase in single-family permits in July compared with a year earlier, but other large District cities saw mixed permitting activity.

Commercial real estate grew modestly. In Minneapolis-St. Paul, industrial property continued to see healthy demand, falling vacancy rates, and strong new development. Office vacancy rates rose overall, but asking rents have risen in some submarkets due to strong demand from the tech sector. Retail vacancies were stable overall despite continued pressure on traditional retailers. However, average lease rates and property sales were lower, and new construction hit a multi-year low. In Sioux Falls, S.D., office and retail vacancy rates have risen, while the industrial vacancy rate was stable at very low levels. Residential real estate grew moderately. Closed home sales for July grew in most markets compared with a year earlier, helped by lower mortgage rates. Great Falls, Mont., and Grand Forks, N.D., saw particularly strong July sales, while statewide sales in Minnesota rose 4 percent.

Manufacturing
District manufacturing activity grew slightly, with some signs of softening. An index of manufacturing conditions indicated increased activity in July compared with a month earlier in Minnesota and the Dakotas. A medical-device producer announced a large expansion at a Minnesota facility. Two pet food manufacturers announced new plants in Minnesota. Several industry contacts reported a tight supply of workers as the main constraint on growth. However, other contacts noted some signs of softening, particularly in international demand. A producer of capital equipment noted slowing in the pace of new orders and a decline in order backlog.

Agriculture, Energy, and Natural Resources
District agricultural conditions remained weak. Recent estimates lowered the planted acreage and expected production for corn, soybean, and spring wheat in District states compared with last year, due in part to heavy rains and flooding. Respondents to the Minneapolis Fed’s second-quarter (July) 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. However, some contacts expressed optimism about a recent rally in commodity prices. District oil and gas exploration activity as of mid-August was down relative to the previous report. District iron ore mines continued to operate at near-capacity; a Minnesota facility finished a $100 million equipment upgrade that would allow it to produce higher-grade ore.
Summary of Economic Activity

Tenth District economic activity edged up in July and early August, led by increases in consumer spending, wholesale trade and professional and high-tech services. Consumer spending rose modestly, including gains in retail, auto, restaurant and tourism sales. Manufacturing activity fell slightly, and a majority of contacts expected their businesses to be negatively affected by the latest round of U.S. tariffs on China. District real estate activity rose, but the pace of growth in the residential real estate and construction sectors softened. Energy activity held steady, but expectations for future activity eased. District agricultural conditions remained weak, and commodity prices fell with higher-than-anticipated production estimates and ongoing trade disputes. Loan demand increased modestly and loan quality improved, while deposits fell slightly. Employment, but contacts in several sectors noted a slowdown in job gains as labor shortages persisted. Wages were mixed across sectors, and a majority of respondents expected the pace of wage growth to remain the same or accelerate in 2020. Input prices rose slightly, while selling prices continued to hold steady.

Employment and Wages

District employment rose, and employee hours held steady since the previous survey period. Compared to a year ago, contacts reported that employment gains were strongest in the real estate, health services and retail trade sectors. However, the pace of job gains had slowed in several sectors including manufacturing, energy, transportation, tourism and auto sales in recent months. Looking ahead, contacts expected employment to increase slightly and employee hours to remain flat in the next few months.

A majority of contacts continued to report labor shortages across all skill levels. Specifically, contacts noted shortages for hourly retail and food-services positions, truck drivers, auto technicians, physicians, pilots and IT personnel. Wages were mixed across industries as services sector wages increased modestly since the previous survey period, while manufacturing wages held steady. A majority of respondents expected wage gains in 2020 to equal or exceed those in 2019.

Prices

Input prices rose slightly in July and early August, while selling prices continued to hold steady. However, both input and selling prices were moderately higher than a year ago, and contacts expected modest gains moving forward. In the retail sector, selling and input prices rose modestly, and moderate increases were anticipated in the months ahead. Respondents in the restaurant sector noted modestly higher input prices and flat selling prices, with both prices strongly above year-ago levels. Manufacturing and transportation contacts reported steady input prices and selling prices since the previous survey period and expected modest growth in the months ahead. Unlike other sectors who all reported higher prices than a year ago, selling prices in the construction supply sector were modestly lower than both the previous survey period and year-ago levels.

Consumer Spending

Consumer spending increased modestly compared to the previous survey period and year-ago levels, and contacts expected slight gains in the coming autumn months. Retail sales continued to rise moderately in July and early August, and contacts anticipated sales to increase modestly moving forward. Auto sales improved, rising slightly higher than the previous survey period after declining earlier this summer. Auto contacts also expected moderately stronger sales in the months ahead. Trucks and SUVs sold well, while sedans sold poorly. Restaurant and tourism sales grew modestly compared to the previous survey period and were above year-ago levels. However, both sectors anticipated modest declines in the coming months.
Federal Reserve Bank of Kansas City

Manufacturing and Other Business Activity
Manufacturing activity declined slightly in July and early August, but activity remained slightly above year-ago levels. Factory production and shipments edged down compared to the previous survey period at both durable and non-durable goods plants, while new orders declined slightly. Manufacturers anticipated modest increases in production, shipments and new orders in the coming months. Capital spending was modestly above year-ago levels, and slight increases were expected in the months ahead. However, a majority of respondents expected the most recent round of U.S. tariffs on Chinese goods to negatively affect their businesses.

Outside of manufacturing, other business contacts reported mixed sales since the previous survey period. Firms in the transportation sector experienced modestly lower sales, while sales increased strongly in the wholesale trade sector and slightly in the professional and high-tech services sector. In the coming months, contacts in the professional, high-tech and wholesale trade sectors expected sales to expand moderately and transportation sector contacts anticipated modest increases.

Real Estate and Construction
District real estate activity continued to expand, but at a slower pace than the last survey period as growth in the residential real estate sector moderated. Residential home sales and inventories rose, but sales were below year-ago levels. Inventories were expected to continue to increase slightly, while sales were expected to decrease in the months ahead. Residential real estate contacts noted that sales of low- and medium-priced homes continued to outpace sales of higher-priced homes. Home prices continued to fall modestly since the previous survey period, but remained higher than a year ago. Residential construction activity edged down and was similar to year-ago levels. Commercial real estate activity continued to expand at a modest pace as absorption, completions, construction underway, sales and prices rose, while vacancy rates fell. Respondents in the commercial real estate sector projected similar growth in the months ahead.

Banking
Bankers reported a modest increase in overall loan demand, with somewhat mixed reports across categories. Respondents indicated a strong increase in the demand for residential real estate loans and a modest increase in demand for consumer installment loans. Demand for commercial real estate loans held steady, while demand for commercial and industrial loans and agricultural loans declined. Bankers indicated a modest improvement in loan quality compared to a year ago and expected a slight improvement in loan quality over the next six months. Credit standards remained largely unchanged in all major loan categories, and deposit levels decreased slightly.

Energy
Overall District energy activity held steady compared with the previous survey period, but expectations for future activity continued to ease somewhat. The number of active oil and gas rigs continued to edge down, primarily driven by a drop in Oklahoma rigs, while drilling in Colorado and Wyoming moved higher since the last survey period. District oil production levels continued to expand in recent months and remained above levels from a year ago. Natural gas production also remained at high levels. Oil prices inched down while natural gas prices continued to decline. Regional firms expected less drilling and business activity in the next six months.

Agriculture
The Tenth District farm economy remained weak, and commodity prices declined in response to supply expectations and trade uncertainty. Regional contacts reported weak farm income in the most recent survey period, but expected slower deterioration in the coming months. Less pessimistic expectations in the second quarter were supported by increases in crop prices earlier in the year. However, sharp declines in crop and livestock prices in August weighed on farm revenues. Hog and soybean prices declined moderately alongside ongoing trade disputes, and cattle prices decreased sharply following a substantial disruption at a major beef processing facility located in the District. Corn and wheat prices also declined sharply following higher-than-anticipated production estimates.

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. Output growth in manufacturing strengthened, and expansion in the service sector was strong in July but eased in August. Home sales rose, and loan volumes expanded albeit at a slower pace. Retail sales were flat and drilling activity continued to decline. Agricultural conditions deteriorated due to hot and dry weather. Employment growth was solid and wage pressures remained elevated. Selling prices rose modestly, as firms’ ability to pass through cost increases remained limited. Outlooks improved slightly in manufacturing but softened in the service, energy, and agricultural sectors, with uncertainty surrounding trade policy, tariffs, stock market volatility, and slowing global growth weighing on business sentiment.

Employment and Wages

Employment expanded at a solid pace. A lack of qualified candidates continued to challenge businesses across sectors and skill levels, but shortages remained most severe for mid-skilled positions. Construction craft labor shortages were reportedly less acute, though food services firms said they were still struggling to find workers. Airlines and energy firms’ headcounts were stable, with hiring limited to certain skill sets. Several firms noted that retention of employees was a challenge as well.

Wage pressures remained elevated. Many respondents said they were struggling to fill positions partly because applicants were looking for higher pay than was offered.

Prices

Input price pressures were moderate in the service and manufacturing sectors, but ticked up in retail. Selling prices dipped in manufacturing and increases were generally modest in services, as firms’ ability to pass through higher costs to customers remained constrained. About 60 percent of firms responding to supplemental questions in the August Texas Business Outlook Surveys said they were able to pass on at least some cost increases, but this share was down from 76 percent in December. Refiners and chemical producers indicated that softening global demand growth and lower oil prices were putting downward pressure on an array of product prices.

Manufacturing

Expansion in the manufacturing sector continued at a moderate pace in July, but reports of August activity showed a sizeable and broad-based pickup in output growth. Fabricated metals and construction-related manufacturing in particular saw notable strength among durables. Demand growth in nondurables was led by food manufacturing. Chemical production growth slowed in part due to softening global demand. Gulf Coast refinery utilization remained healthy on a seasonally adjusted basis.

Outlooks turned positive, though uncertainty remained elevated as trade negotiations and tariffs continued to affect business sentiment.

Retail Sales

Retailers continued to note weak activity, with sales flat over the reporting period. Auto demand, including used car sales, strengthened, but weakness prevailed in some seasonal segments. Outlooks remained pessimistic and highly uncertain, primarily driven by tariffs and trade tensions, though one contact noted interest rate uncertainty as a factor as well.
Nonfinancial Services
Nonfinancial services activity expanded strongly in July but growth eased in August. Expansion during the reporting period was led by growth in professional and technical services. Most staffing services companies continued to experience year-over-year demand increases. A few that noted softness said it was in part due to heightened uncertainty among clients. Activity in the transportation and warehousing sector was mixed, although shipments of select commodities such as steel and petroleum products rose strongly. Airlines cited healthy passenger demand, with strength in domestic business and leisure segments. Revenues also expanded in the accommodation and food services and health services industries, and one contact said that increased wait times and security at the Texas-Mexico border had reduced the number of Mexican nationals visiting San Antonio.

Service-sector outlooks were lackluster, with uncertainty surrounding trade policy, stock market volatility, slowing global growth, and expectations of a looming U.S. recession were a drag on expectations.

Construction and Real Estate
Homes sales rose during the reporting period. Existing-home sales were generally strong in July, particularly in Houston, and new-home sales were characterized as stable to solid as well. However, a few contacts noted that activity was not as robust as expected given low mortgage rates. Lot development and single-family construction was still being affected, particularly in Dallas–Fort Worth, by earlier weather-related delays. Deal flow volumes were down, as builders remained cautious about signing on new lot agreements. A few contacts mentioned that the build-to-rent (single-family rental) market was gaining traction. Outlooks stayed optimistic with builders generally on plan for 2019.

Apartment demand remained steady, supporting occupancy and rent growth in most major metros. Rents were flat in Houston, but contacts expect them to firm up by year end. A contact said that high land and construction costs were making it difficult to pencil new deals.

Reports on the office market indicated leasing was still most active for new class A space. Industrial demand stayed strong and generally in lockstep with the high volume of deliveries. Industrial construction continued to be elevated.

Financial Services
Loan volumes rose at a slower pace compared with the previous reporting period, with growth mixed across categories. Commercial and residential real estate lending expanded at a similar pace, but commercial and industrial loan volumes dipped and consumer loans were flat over the reporting period. Credit standards continued to tighten modestly. The cost of funds ticked up, and net interest margins fell further. Outlooks were less optimistic, as expectations of lower loan demand, trade policy uncertainty, and financial market volatility weighed on sentiment.

Energy
Drilling activity in the Eleventh District slipped further as firms continued to rein in spending and orders for new equipment. However, the number of wells being brought into production increased. International demand for oil field services was a bright spot, with excess capacity being absorbed due to improved foreign offshore drilling and spending. Outlooks were more pessimistic as a result of reduced expectations for global economic growth.

Agriculture
Higher temperatures and a lack of rainfall negatively impacted the agriculture sector over the past six weeks, with drought conditions creeping back in to parts of the district. Dryland grain crops were largely well established before weather conditions deteriorated, so solid yields were expected. Irrigated crops planted later in the growing season were feeling more of the negative impact of the weather. Most agricultural commodity prices moved down over the reporting period, prompting some pessimism among agricultural producers.
Summary of Economic Activity

Economic activity in the Twelfth District continued to expand at a moderate pace during the reporting period of early July through mid-August. The labor market remained tight, characterized by modest employment growth and moderate wage growth. Price inflation was largely stable. Sales of retail goods increased notably, as did activity in consumer and business services. The manufacturing and agricultural sectors slowed somewhat. Both residential and commercial real estate market activity expanded moderately. Lending grew further.

Employment and Wages

The labor market remained tight, and employment growth was modest. Across the District, some contacts reported steady growth in employment, especially in urban areas. Others cited little change in employment, mostly due to continued difficulties in finding qualified workers. Information technology and financial sector positions were especially hard to fill. A contact in the payment-processing sector noted that job openings remained unfilled for longer than they did a year ago. Some employers suggested that shortages of qualified workers were a major factor behind a slowdown in their business expansion plans. A large provider of shipping and logistics services mentioned a restructuring-driven hiring freeze for managerial positions, as well as seasonal layoffs. A provider of agricultural transportation services noted that they were only hiring replacements for departed workers.

Wage growth rose further over the reporting period due to brisk competition for qualified workers across sectors. Apart from Alaska, wages for construction workers increased solidly in the District due to a pickup in building activity. Wages in the financial services and hospitality sectors also continued to increase at a solid pace, although one banker in Oregon suggested that wage increases were more subdued. Hourly rates for delivery drivers at a major shipping and logistics business in California rose modestly. Businesses reported continued positive adjustments to starting wages due to new minimum wage laws and tight competition for entry-level workers. Some employers noted their employees’ preferences for expanded benefits packages over higher wages including signing bonuses, flexible work arrangements, paid time off, and varied health insurance options.

Prices

Price inflation was largely stable on balance. Many businesses reported that brisk competition limited their ability to raise selling prices. Some input costs increased due to higher tariffs, though an appreciation of the dollar helped offset some of the higher import costs. Across the District, higher import costs have raised concerns over narrower profit margins. In some sectors such as lumber and natural gas, selling prices remained subdued. In other sectors, prices picked up somewhat. Wholesalers in California reported little resistance to price increases, and an online payment processor mentioned higher market prices for finished goods. In Seattle, a restaurateur reported upward price pressures from food and beverage vendors. Prices for agricultural goods remained stable overall, with slightly higher prices reported for hay, milk, and grapes. Market prices for beef, poultry, and pork softened as well as those for utilities.

Retail Trade and Services

Sales of non-auto retail goods increased notably. Con-
contacts across the District mentioned that retail conditions remained strong, especially in areas where population and income trends are favorable. In the Mountain West, retailers reported a brisk pickup in sales over the summer despite businesses offering lower discounts when compared to the previous year. In Alaska, retail sales were down statewide. E-commerce outlets continued to highlight robust sales growth both domestically and internationally. Demand for vehicles weakened over the reporting period, attributed to general unease in the customer base regarding the economic outlook.

Activity in the consumer and business services sectors increased notably. Demand for shipping and logistics services rose rapidly, and industry projections remained favorable. A major service provider in the District noted increased investment in information technology for logistics services as well as brisk growth in shipping of health-care products. A transportation service provider noted high demand for train car space. Restaurants in the Pacific Northwest reported strong sales growth, as did hotel operators in the Mountain West. A contact in Hawaii also reported moderate growth in the hospitality sector but mentioned some concerns regarding future tourist inflows.

Manufacturing
Activity in the manufacturing sector slowed somewhat. A chip manufacturer in the Mountain West reported continued worldwide softening of orders. In the Pacific Northwest, wood product manufacturers noted faltering demand. An energy supplier mentioned lower demand for natural gas from various industrial customers ranging from asphalt and concrete producers to paper makers. Production slowed in a large aerospace business in the Pacific Northwest. On the other hand, contacts in the semiconductors and metals-producing sectors reported strong output and a positive outlook.

Agriculture and Resource-Related Industries
Activity slowed somewhat in the agricultural sector. Inclement weather negatively affected both the timing and yield of harvests across different states. Intense storms halved cherry crops and delayed tomato and grain harvests. Unseasonably high temperatures depressed California almond yields, though their impact was somewhat offset by an increase in the number of almond trees in production.

Demand for agricultural products generally softened, both externally and domestically with notable exceptions in nuts and grapes markets. Trade tensions, a strong dollar, and a less optimistic economic outlook were identified as the main factors behind slower overall demand. Producers of beef, poultry, and pork products sought alternative markets after further escalation of trade tensions with China. Fruit and wheat farmers in the Pacific Northwest noted a decline in their export business. Lumber producers reported weakening demand for their products nationally. A contact in Central California observed stable prices but lower demand for farmland. In the utilities sector, electricity sales and excess capacity remained on par with levels earlier in the year.

Real Estate and Construction
Demand for residential real estate grew further. Construction activity and demand for single- and multi-family homes remained elevated throughout the District, aided by low interest rates and strong employment. One notable exception was Alaska where public projects dominated. Supply continued to be somewhat constrained by worker shortages, though one contact in the Mountain West noted increased availability of skilled workers coming from other regions.

On net, selling prices accelerated, and permit issuance picked up. Some local governments in California and Hawaii have started considering bans on vacation home ownership as a possible response to increased affordability concerns. In some areas, time-on-the-market increased and prices plateaued.

Activity in commercial real estate markets expanded moderately. In the Pacific Northwest and the Mountain West, construction activity was strong, vacancy rates were low, and rental rates remained elevated. Commercial permitting in Washington was in line with last year’s numbers, and contacts highlighted that there are many projects in the pipeline in Oregon and California.

Financial Institutions
Lending activity grew further over the reporting period. Contacts across the District noted healthy demand for loans, supported by low interest rates and robust commercial construction activity. Low mortgage rates spurred refinancing activity, though a few lenders expressed concerns over increasing downward pressures on net interest margins. Loan quality and capital levels remained solid, though a contact in California observed some loosening of lending standards. Competition remained tight but was somewhat less brisk for loans relative to deposits in the current reporting period.