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# The Beige Book

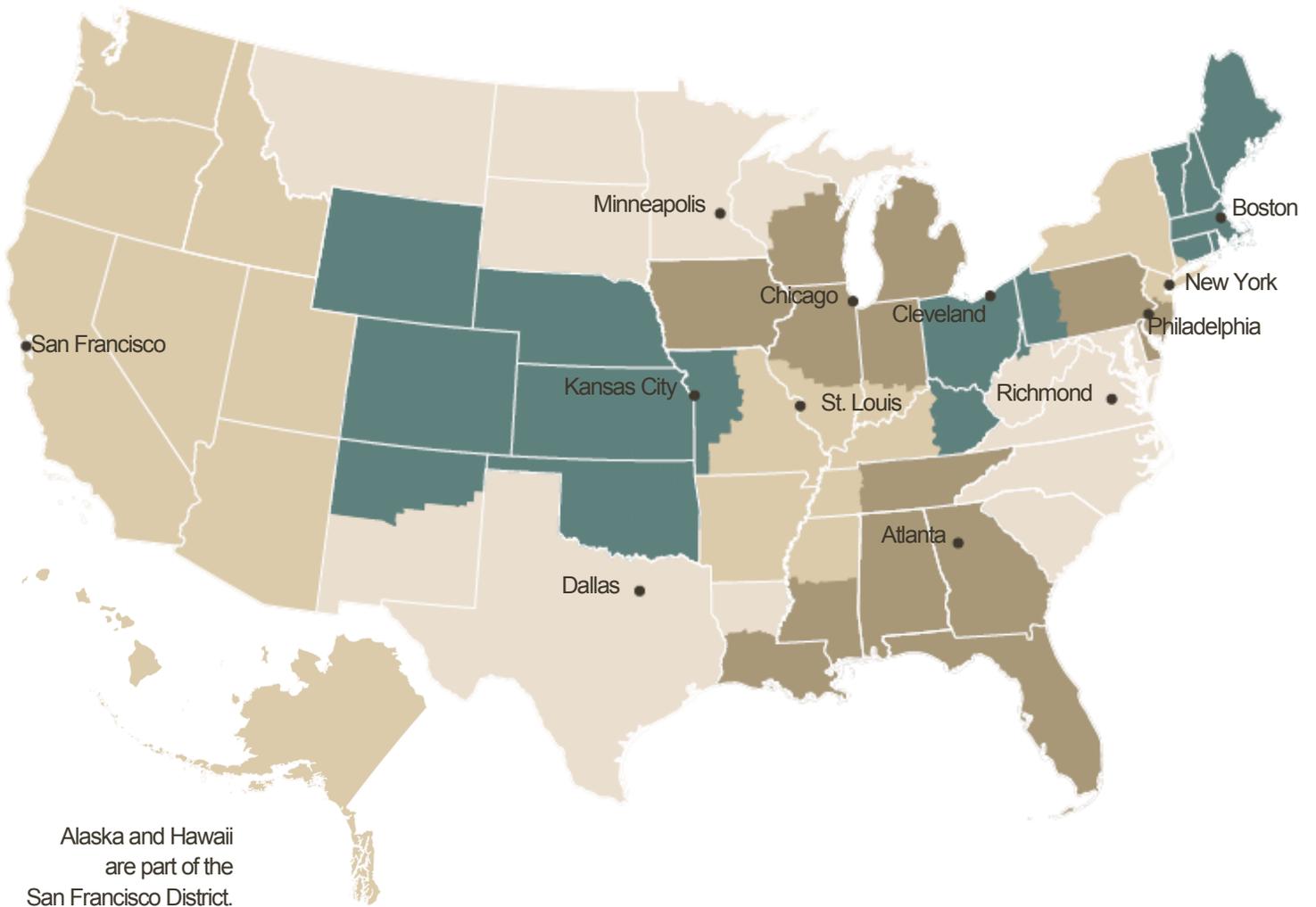
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Summary of Commentary on Current Economic Conditions

By Federal Reserve District

April 2017

## Federal Reserve Districts



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.

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## **What is The Beige Book?**

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

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

## **How is the information collected?**

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

## **How is the information used?**

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

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This report was prepared at the Federal Reserve Bank of Richmond based on information collected on or before April 10, 2017. This document summarizes comments received from contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.

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# National Summary

The Beige Book ■ April 2017

## Overall Economic Activity

Economic activity increased in each of the twelve Federal Reserve Districts between mid-February and the end of March, with the pace of expansion equally split between modest and moderate. In addition, the pickup was evident to varying degrees across economic sectors. Manufacturing continued to expand at a modest to moderate pace, although growth in freight shipments slowed slightly. Consumer spending varied as reports of stronger light vehicle sales were accompanied by somewhat softer readings in non-auto retail spending. Tourism and travel activity generally picked up. On balance, reports suggested that residential construction growth accelerated somewhat even as growth in home sales slowed, in part due to a lack of inventory. Nonresidential construction remained strong, but became more mixed in some regions; leasing activity generally improved at a more modest pace. More than half of the reports suggested that loan volumes increased, while only one said they were down modestly. Non-financial services generally continued to expand steadily. Energy-related businesses noted improved conditions while agricultural conditions varied.

## Employment and Wages

Employment expanded across the nation and increases ranged from modest to moderate during this period. Labor markets remained tight, and employers in most Districts had more difficulty filling low-skilled positions, although labor demand was stronger for higher skilled workers. Modest wage increases broadened, and reports noted bigger increases for workers with skills that are in short supply. A larger number of firms mentioned higher turnover rates and more difficulty retaining workers. A couple of Districts reported that worker shortages and increased labor costs were restraining growth in some sectors, including manufacturing, transportation, and construction. Businesses generally expected labor demand to increase moderately in the next six months, and looked for modest wage growth.

## Prices

On balance, prices rose modestly since the previous report. Input prices generally increased at a modest rate and outpaced gains in selling prices, which rose only slightly. Price increases were noted for some building materials, such as lumber and concrete, whereas metal prices remained fairly stable. Retail prices rose moderately, on the whole. Energy prices were flat to slightly lower. Reports on agriculture prices varied, with increases in cotton, peanuts, chickens, and hogs, and declines for corn and wheat. Home prices generally moved slightly higher. Businesses mostly expected mild to moderate price growth to persist in the next several months.

## Highlights by Federal Reserve District

### Boston

Overall activity expanded and most business contacts reported modest to moderate increases in revenues. Firms continued to cite difficulty filling selected positions and planned small wage increases, if any. Prices were said to be stable or up slightly. Respondents said their outlook remained positive.

### New York

Economic activity has expanded modestly. Labor markets remained tight and wages continued to grow moderately. Input cost pressures have remained fairly widespread, while selling prices have continued to increase at a modest pace. Housing markets have improved somewhat except at the high end, while commercial real estate markets have been steady to slacker.

### Philadelphia

Overall, economic activity continued to rise modestly in the Third District with continued moderate growth among manufacturers and homebuilders. However, activity was essentially flat in several other sectors, including consumer spending. Many contacts remained cautiously optimistic. In general, employment, wages, and prices continued to rise at a modest pace.

### Cleveland

The economy expanded at a moderate pace, as improved consumer and business expectations have boosted activity levels and hiring for some businesses. Conditions in manufacturing improved, but some manufacturers remain notably cautious. Housing market conditions have cooled slightly but remain above year-ago levels. Pressures from input prices continued to rise.

### Richmond

Economic activity increased at a slightly faster, but still modest pace. Warmer weather brought out more tourists, and manufacturing continued to rebound amidst stronger new orders, including from overseas. However, tighter margins cut into manufacturers' capital spending plans. Labor demand strengthened, but skills shortages constrained output in some industries, notably homebuilding. Wages and prices rose at a slightly faster pace.

### Atlanta

Economic activity increased modestly. The labor market remained tight with firms noting increased use of training programs. Wage pressures were reported for high demand positions. Retail sales were soft. Manufacturers noted a solid increase in new orders and production. Drought and cold weather impacted agriculture conditions.

### Chicago

Growth continued at a moderate pace. Employment, wages, and manufacturing production grew at moderate rates, while prices, business spending, and construction and real estate activity increased modestly. Consumer spending was flat, financial conditions were little changed, and lower crop prices put further stress on the agricultural sector.

### St. Louis

Economic activity has continued to increase at a modest pace. Reports from retail contacts suggest a modest uptick in consumer spending after a slow start to the year. District activity in natural resource extraction also improved modestly from the previous report. February District coal production was 10 percent higher than one year ago.

### Minneapolis

Ninth District economic activity increased modestly during the reporting period. The heavy construction, manufacturing, energy, and mining sectors saw growth, while commercial real estate activity was steady at strong levels. Consumer spending was down, and a wave of retail closures continued across the District, affecting both large and small stores.

### Kansas City

Economic activity in the Tenth District increased moderately. Manufacturing activity expanded at a strong pace, and energy activity continued to rebound following several years of decline. Consumer spending rose modestly with the exception of autos which fell moderately. Agricultural conditions remained generally weak with some improvement in cattle and soybean markets. Employment was modestly higher, and prices rose slightly.

### Dallas

Economic activity grew moderately in the Eleventh District. Retail sales growth accelerated slightly, and the nonfinancial services sector continued to expand. The energy sector picked up notably, and a rebound was seen in fabricated metals manufacturing—a segment with strong ties to oil and gas. Employment continued to rise, and prices generally increased, except in retail. Overall outlooks generally improved.

### San Francisco

Economic activity in the Twelfth District continued to expand at a moderate pace. The labor market continued to tighten. Activity in the retail sector improved moderately, and sales of business services remained strong. Conditions in the agriculture sector expanded modestly, while activity in the manufacturing sector was stable. Contacts reported strong activity in the housing market and moderate growth in overall lending activity.



## Summary of Economic Activity

Business activity continued to expand in the First District in recent months, with the year-over-year pace of increase said to be modest to moderate. Most responding retailers and all contacted manufacturers and software and information technology services firms reported increases in revenue from a year earlier when contacted in early April. Commercial real estate markets were somewhat mixed in the region. Residential real estate markets across the region saw price increases and sales declines in February compared with a year earlier, which contacts attributed to low inventories. Across sectors, hiring was reportedly modest as were wage increases, while many respondents cited difficulty filling a range of positions. Retailers and manufacturers said some selling prices were up modestly. Most responding firms cited a positive outlook amid some ongoing policy uncertainty.

### Employment and Wages

Labor markets in the First District continued to tighten somewhat. Many employers sought to add modestly to head counts (although one manufacturer laid off about 4 percent of staff over the last year), while wage increases were modest. Some smaller retailers noted increasing labor costs, in part driven by increases in state minimum wages being implemented over a multi-year period. Restaurant contacts, particularly in heavy tourism regions, expressed concern about possible labor shortages this summer, exacerbated by an expected slowdown in granting H-2B visas. Half of contacted manufacturers were hiring, though none in large numbers; several firms said it was hard to find workers. One respondent said that during a recent six-month attempt to add to staff for a new product, two-thirds of applicants for assembly line jobs were screened out before hiring via math tests and drug tests; of 400 workers hired, only 180 worked out. All software and IT services respondents said they expect to grant wage increases in the low single digits and plan net increases in headcount between zero and 3 percent through the end of the year. They reported that high-skill positions such as engineers and data scientists were increasingly hard to fill, and covering attrition remained a challenge in both technical and unskilled areas; for example, one contact noted difficulty covering very high attrition in a Maine call center.

### Prices

Business contacts reported modest price increases, if any. Retailers said prices remained steady or were up by only small amounts. Restaurant respondents said their ability to raise menu prices to offset higher labor costs was limited by declines in grocery store prices. Pricing reports from manufacturers were mixed: six of ten contacts said that input prices had not changed; the others generally cited idiosyncratic factors causing price increases. Most manufacturers reported increases in the price of the goods they sell but such increases were not large.

### Retail and Tourism

Retail contacts consulted for this round reported that comparable-store sales between mid-February and the end of March ranged from slightly down to mid-single digit increases from a year earlier. Some brick and mortar stores have seen a drop in customer traffic, but this was balanced by increases in the average sale amount. The outlook for 2017 is generally optimistic.

A contact in the restaurant industry reported that Q1 sales, when tallied, should be up 1 percent to 2 percent over last year, helped by the relatively mild winter. Respondents said expected visa reductions and limited ability to raise prices augmented uncertainty about the outlook, acting as a check on their plans for expansion.

### **Manufacturing and Related Services**

All ten contacted manufacturers said sales were higher in recent periods versus the comparable period a year ago. Reports ranged from growth that was slow and below expectations for a data and publishing firm to “tremendous growth” for a packaging firm. The latter firm said that increased e-commerce was driving increases in demand for boxes for mailing. Otherwise, firms reported sales growth that was in line with expectations.

Most contacts reported that capital expenditures were confined to maintenance of existing equipment. Two exceptions were a chemical manufacturer looking for a site for a new plant, having exhausted the avenues of acquisition and more intensive use of existing facilities they used during the great recession, and a manufacturer of jet engines which continued to invest large amounts in a new product line.

Several contacts expressed concerns about policy uncertainty. A manufacturer of test equipment which exports a significant portion of its production worried about trade deals. Firms said that a Border Adjustment Tax would have mixed effects but hoped for some resolution.

### **Software and Information Technology Services**

Firms experienced revenue growth in the range of 1 percent to 20 percent year-over-year, and even the 1-percent-growth firm saw “incredible” new orders in the first quarter. While health care and health services are generally strong in New England, multiple contacts indicated that business sentiment turned positive lately, bolstering firms that serve more cyclical industries, such as manufacturing and industrial IT.

All contacts were optimistic. One contact expressed concern that continued legislative struggles could put a damper on business confidence in the future, and another noted that hostile immigration policy could further tighten labor markets for skilled and unskilled labor.

### **Commercial Real Estate**

Reports on commercial real estate activity in the First District were mixed. Contacts in Boston and Hartford reported a modest softening of commercial leasing activity in recent weeks, while activity was reportedly stable in Portland and somewhat stronger in Providence. In Connecticut the weaker activity extended to both the industrial and office sectors. In Boston reports of slower demand pertained to the urban office sector, which still enjoyed a single-digit vacancy rate. Investor demand for prime Boston properties remained strong but price appreciation slowed further.

Office construction activity continued to be restrained across the District. Apartment construction activity remained significant but the pace of new deliveries slowed and the pipeline of planned projects contracted somewhat amid evidence of slowing rent growth. Respondents noted that borrowing rates for commercial property loans were flat despite recent increases in short-term rates. Most contacts expect further improvements in their respective commercial real estate markets moving forward, but likely at a slower pace. A Hartford contact was somewhat less optimistic, citing drags on growth related to severe fiscal strain in his state, while a Providence contact was more upbeat, based on signs that business confidence in Rhode Island had improved recently.

### **Residential Real Estate**

Residential real estate markets in the First District continued to struggle with a shortage of inventory. All six First District states as well as the Greater Boston area reported large declines in inventory for both single-family homes and condos from February 2016 to February 2017. Closed sales also declined in every state and Boston for single-family homes. Results for condos were mixed, with closed sales increasing in New Hampshire and Vermont but decreasing elsewhere. Respondents ubiquitously reported strong buyer demand. A contact in Boston said: “Sales could have been much stronger had the inventory been up. Unfortunately, we’ve noticed that potential sellers have become more reluctant to list their homes because they are apprehensive that they may not be able to find another home themselves.”

Given the robust demand and low inventory, contacts were not surprised that prices generally rose year-over-year. For single family homes, median sales price rose in each state except Connecticut. For condos, prices rose in all reporting regions. A New Hampshire contact said the low inventory situation and rising prices were “particularly hard on first-time buyers struggling to get into the market.” In general, contacts saw no remedy for ongoing declines in inventories. Most were confident, though, that buyer demand would stay strong, even in the face of increasing interest rates. ■

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



## Summary of Economic Activity

Economic activity in the Second District has expanded modestly since the last report, with labor markets remaining tight. Input price pressures have remained fairly widespread, while selling prices have continued to rise modestly. Manufacturers noted a deceleration in business activity, following brisk growth in the first two months of the year, while service-sector contacts have generally continued to report steady to modestly expanding activity. Consumer spending has been mixed in recent weeks, even as consumer confidence climbed to a multi-year high. Housing markets were mixed but, on balance, somewhat stronger since the last report, although the high end has remained relatively weak. As for commercial real estate, office markets were steady to somewhat slacker, while the industrial market continued to strengthen. New construction activity has been sluggish—both on the commercial and residential side. Banks reported that loan demand strengthened, while delinquency rates were mostly steady.

### Employment and Wages

The labor market has remained fairly tight. Contacts at employment agencies continued to report tight job market conditions and fairly brisk labor demand—particularly for engineers and other tech workers. One New York City agency characterized hiring as steady at a moderate level, while two others—one in the city and one upstate—noted a pickup in hiring. However, one noted a pullback in hiring in the health insurance industry.

Manufacturers indicated that they have ramped up hiring in recent weeks, and businesses in education & health services reported that they have continued to add jobs, on net. Employment was reported to be steady to up slightly in other service industries. In contrast, contacts in the leisure & hospitality industry reported declining employment. Looking ahead, however, businesses in all industries indicated that they expect employment to rise, on balance.

Contacts across all service industries reported moderate wage growth and expected this to continue in the months ahead. Employment agency contacts in New York City noted some pickup in wages for new job openings, while a major agency in upstate New York indicated that wages have held steady.

### Prices

Business contacts reported continued moderate growth in input costs but only modest increases in selling prices. Manufacturers, retailers and businesses in the leisure & hospitality industry anticipated moderate increases in selling prices in the months ahead, while those in other industries said they expect to keep their prices fairly steady. Broadway theaters reported that ticket prices, which had increased by more than the seasonal norm in the first two months of the year, have returned to more normal levels.

### Consumer Spending

Retailers reported that sales were steady to up moderately. Retailers in upstate New York reported that sales picked up in March, after a flat February. A major retail chain noted that same-store sales were down slightly from a year earlier in March but still somewhat ahead of expectations. Sales in New York City were on par with the region overall, with little adverse effect from the mid-March snowstorm. Inventories were generally said to be at desired levels. Retail contacts have grown somewhat more optimistic about the near-term sales outlook.

Auto dealers in upstate New York reported that sales of new and used vehicles have continued to be strong in both February and March. Inventories of new vehicles have remained a bit high for certain makes and models,

but are generally at satisfactory levels. Retail and wholesale credit conditions were reported to be in good shape, though one contact notes tightening for sub-prime loans.

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

### **Manufacturing and Distribution**

Manufacturers reported that growth in business activity has receded from the brisk pace seen in early 2017. Businesses in the wholesale trade and transportation industries reported steady to moderately growing activity. Businesses in manufacturing and wholesale trade remained widely optimistic about the outlook, while those in transportation & warehousing have become less upbeat.

### **Services**

Business in most service industries reported little change in general business activity since the last report, though contacts in education & health services reported steady, moderate growth. Looking ahead, businesses were generally optimistic about the outlook—particularly those in the information and professional & business services sectors. However, businesses in the leisure & hospitality industry were considerably less upbeat about the outlook.

Tourism has been mixed in New York City. Both hotels and Broadway theaters have seen a bit of a pickup since the last report. However, the outlook for international visitors has weakened noticeably: one industry expert has observed an increase in cancellations (conferences, meetings, school trips, etc), a drop in airline ticketing and a marked decrease in inquiries from abroad. At least some of this slack is expected to be picked up by an increase in domestic visitors.

### **Real Estate and Construction**

Housing markets across the District have been mixed but, on balance a bit stronger since the last report, with ongoing slack at the high end of the market. New York City's rental market has been steady to somewhat weaker. Landlord concessions have grown more prevalent in an effort to keep rents and vacancy rates steady. Effective rents (factoring in these concessions) have continued to decline—particularly on larger units and particularly in Manhattan. Elsewhere, rents continued to rise in northern New Jersey but were mostly flat across upstate New York.

New York City's co-op and condo resale market has improved somewhat. Sales volume increased, while prices were mixed—rising in Brooklyn and Queens but

slipping in Manhattan. Inventories have risen somewhat in Manhattan but remain low; properties have been taking longer to sell, and bidding wars have become less common. In Long Island, Westchester and Fairfield counties, home sales activity was increasingly robust, while prices were steady to up only modestly. In upstate New York, the market has continued to strengthen, with exceptionally low resale inventories boosting prices and bidding wars.

Commercial real estate markets were steady to somewhat slacker in the first quarter. Office availability rates rose modestly across downstate New York and northern New Jersey but were steady in upstate New York. Asking rents, on the other hand, edged down in upstate New York but were steady to up slightly elsewhere. In New York City, office rents were flat but still up roughly 10 percent from a year earlier. In contrast, the market for industrial space has shown continued strength. Industrial vacancy rates continued to decline in northern New Jersey but leveled off elsewhere; however, asking rents continued to rise briskly and were up roughly 10 percent from a year earlier across the District. The market for retail space has softened noticeably with vacancy rates rising and asking rents flat to down modestly.

Finally, both residential and commercial construction were generally sluggish—likely adversely affected by wintry weather in March.

### **Banking and Finance**

Small to medium sized regional banks reported stronger demand across all loan categories—especially residential mortgages. However, banks also indicated that refinancing activity decreased. Bankers reported that credit standards were unchanged. Contacts noted wider spreads of loan rates over cost of funds across the board, as well as an increase in the average deposit rate. Finally, bankers reported an increase in delinquency rates for C&I loans, but no change in delinquencies across other loan categories. ■

For more information about District economic conditions visit: [www.newyorkfed.org/data-and-statistics/regional-data-center/index.html](http://www.newyorkfed.org/data-and-statistics/regional-data-center/index.html)



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## Summary of Economic Activity

Aggregate business activity in the Third District continued at a modest pace during the current Beige Book reporting period. Manufacturing, nonfinancial services, and homebuilding continued at a moderate pace of growth. Five sectors — nonauto consumer spending, auto sales, lending, and nonresidential construction and leasing — were essentially flat, similar to the prior period. Existing home sales grew slightly after declining last period. According to most contacts, employment, wages, and prices continued to grow at a modest pace. Overall, firms continued to expect moderate growth over the next six months.

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### Employment and Wages

Employment has continued at a modest pace of growth since the prior report. A higher percentage of manufacturing firms reported increases in employment this period than during the prior period. Manufacturers also continued to note increases in the number of average hours worked. Employment indicators from nonmanufacturing firms also improved, as contacts reported overall increases in full-time and part-time staff as well as work-week hours.

On balance, wage pressures continued to be modest, although contacts reported tightening labor markets. A majority of manufacturers reported labor shortages and skills mismatches, but less than half indicated increasing wages as a result. A Pennsylvania staffing firm continued to see strong demand for staffing services from companies across various sectors and noted a stronger pickup in wages than usual. Wage pressures remained modest for nonmanufacturers, though a slightly lower percentage of nonmanufacturing contacts reported wage increases this period than during the prior period.

### Prices

On balance, price levels continued to rise modestly. More than two-thirds of firms' contacts reported no change at all in prices paid and prices received. Of the

remaining firms, more reported increases than decreases with the exception of prices received by nonmanufacturing firms, which decreased slightly, on net. Homebuilders noted large increases in lumber and millwork costs and continued pressures for labor costs. Overall, the sales prices of existing homes rose slightly, although this varied across markets and price categories.

### Manufacturing

Reports from manufacturers continued to suggest overall moderate growth. Higher percentages of firms reported increases in both new orders and shipments this period compared with the prior period.

Overall, gains in activity were indicated by most major sectors, including the makers of lumber products, paper products, chemicals, primary and fabricated metal products, industrial machinery, and electronic products.

Roughly two-thirds of the manufacturing contacts were optimistic that orders, shipments, and general activity would grow over the next six months, up slightly from the prior Beige Book period. Firms also expressed broader optimism for future employment and capital expenditures.

## Consumer Spending

Nonauto retail sales were little changed on balance during the period, according to several analysts. One area chain reported a good month followed by a tough one that was largely impacted by the March snowstorm. However, the contact has started to express slight concern of a general slowdown in consumer spending beyond the weather impacts, as sales continued to underperform expectations. A mall operator noted pronounced weakness for winter apparel and also reported mixed sales over the Beige Book period — modestly up one month then down the next — with only a few retailers showing positive trends. Restaurant and food sales at malls were also down slightly.

Auto dealers reported year-over-year sales were flat to slightly down this period, after increasing slightly during the last Beige Book period. Pennsylvania dealers reported fairly steady activity, slightly up but similar to last year. Sales in New Jersey declined relative to last year's levels. Although contacts in New Jersey expressed uncertainty about keeping pace with the historic highs of the past two years, they expressed optimism that 2017 would still be a strong year. Dealers also continued to face high inventory and difficulty sustaining profitability and margins.

Tourism contacts generally indicated a continuation of modest growth. Philadelphia area hotels continued to report strong demand. A contact in the Poconos reported that while February had been a weaker month because of the mild weather, the late-season snowstorm in March led to a significant pickup in snow-related activities and boosted overall first-quarter performance. A Delaware contact noted that traffic counts and spending were up at Delaware beaches. In Atlantic City, casino revenues flattened this period after posting year-over-year gains in the prior period.

## Nonfinancial Services

Third District service-sector firms continued to report moderate growth in general activity, overall, although the pace slowed somewhat from the prior period. Responses suggested little change in the pace of new orders but a slowing in the pace of sales. Expectations about future growth, which had tempered during the prior Beige Book period, changed little, and contacts remain optimistic.

## Financial Services

Third District financial firms have reported little change in overall loan volumes excluding credit cards since the last Beige Book, similar to the prior period. Commercial real estate loan volumes grew notably, and volumes of residential mortgages grew slightly. Home equity loans posted modest decreases, and auto loans and commercial and industrial loans decreased slightly. Separately, a seasonal decline in credit card volumes that began in the prior period continued in this period, with a rate of decline similar to the change observed over the same period last year.

Most contacts continued to report competitive loan pricing and no signs of inflation. In general, banking contacts continued to express cautious optimism for slow, steady growth.

## Real Estate and Construction

Homebuilders continued to report moderate increases in traffic, contract signings, and construction backlogs. A South Jersey builder noted a continuation of the longest run of steady sales (since November) in over 10 years, while a Pennsylvania builder started to see more first-time homebuyers compared with last year. Some contacts wondered if recent interest rate increases helped get potential buyers off the fence.

Brokers in most major Third District housing markets reported a slight increase in existing home sales, following a modest decline last period. Contacts continued to report low levels of inventory.

Nonresidential real estate contacts covering much of the Third District continued to report little change overall to the relatively high levels of construction and leasing activity. Contractors noted a slight seasonal lull in construction activity, but they expect a pickup later in the year from large projects in the pipeline. ■

For more information about District economic conditions visit:  
[philadelphiafed.org/research-and-data/regional-economy](http://philadelphiafed.org/research-and-data/regional-economy)



## Summary of Economic Activity

Economic activity grew moderately on balance across the Fourth District since our last report. Labor markets continued to strengthen, with moderate to strong wage gains. Upward pressure on prices paid by producers increased; selling prices rose, though at a slower pace. Consumer spending was stable; Internet and mobile transactions continued to offset declines at brick and mortar establishments. New motor vehicle sales strengthened. The outlook by manufacturers noticeably improved as factory output picked up. Nonfinancial services firms experienced moderate revenue growth overall. Freight volume expanded over the period, especially for steel, coal, and consumer products. The housing market cooled slightly, but unit sales remain above year-ago levels, and selling prices are higher. Commercial builders are experiencing stronger than usual inquiries and growing backlogs. Lending pipelines were satisfactory.

### Employment and Wages

District payrolls continued to expand at a steady, albeit slow, pace. Increases were prevalent in the financial services, construction, and manufacturing industries. Brick-and-mortar retail was the only industry to report an overall staffing decline. Here, several contacts announced job cuts because of store downsizing or closures. Staffing firms noted that their clients expect that both the pace of hiring will pick up as the year progresses and the number of openings for permanent jobs will rise. One staffing firm reported that billable hours for the first quarter were 20 percent higher compared to the historic average. Workforce development officials told us that while the number of entry-level jobs is rising, finding candidates with the required core skills is difficult. Job churning has become an issue confronting many hiring managers. Wage increases during 2017 are expected to average about 3 percent, with significantly higher increases needed to retain high-skilled employees.

### Prices

Upward pressure on prices paid by producers increased over the period. Manufacturers attributed increases to the partial recovery in steel and other primary materials prices. A homebuilder said that his industry is feeling pent-up pricing pressure from materials suppliers. He

also cited pressures on capacity utilization in the materials manufacturing industry. Oil and gas field materials prices moved higher because of the expansion in upstream activity. The steepest increases were for steel and sand. Even though producer selling prices are rising, they have not kept pace with the upsurge in input costs. A few contacts noted that productivity increases have helped soften margin contraction. Manufacturers, homebuilders, and general building contractors experienced little pushback when attempting to raise their selling prices. Concerns were raised about rising apparel and motor vehicle prices if a border-adjustment tax were enacted.

### Consumer Spending

Consumer spending remains stable. Growth in the number of transactions completed over the Internet or via mobile devices offset declines in brick-and-mortar transactions. Traditional retailers reported that mall traffic continues to weaken and that there is less impulse buying. One chain said that the apparel segment has been on a downswing as consumers' disposable income is being allocated for other priorities. Another chain cited the unusually warm weather as a factor for the decline in purchases of cold-weather merchandise. Retailers noted that they have little room to raise shelf prices. As a result

of these circumstances, brick-and-mortar retailers are cutting back on inventories and capital spending. Year-to-date unit sales through February of new motor vehicles increased more than 5 percent when compared to those of the year-earlier period. The share of light truck transactions continues to trend higher.

### **Industrial Production**

Manufacturing sentiment has noticeably improved during the past couple of months, though a few large manufacturers cautioned that the new found optimism may be unwarranted. Reasons for the optimism include slowly improving global economic conditions, a partial recovery in commodity prices, and expectations for tax and regulatory reform on the part of the new administration. Activity for suppliers to aerospace, automotive, construction, and Internet-retailing end markets remains elevated. Factors tempering output growth include the strong dollar and trade policy uncertainty. Year-to-date production through February at District auto assembly plants fell about 2 percent when compared to that of the same time period during 2016. Reports indicated that a growing number of manufacturers are expanding capital budgets. Additional monies are being allocated primarily for new equipment and long-stalled maintenance projects.

A small rise in oil and gas drilling is spurring additional investment in midstream and pipeline projects. Drillers are being motivated by a slow upward trend in wellhead prices and a need to perform on their leases. With the new presidential administration, oil and gas producers are hopeful for a less restrictive permitting process.

### **Real Estate and Construction**

Year-to-date unit sales through February of new and existing single-family homes increased 1.6 percent compared to those of a year earlier. The average sales price rose more than 6 percent. Homebuilders reported that rising interest rates and rising list prices are motivating potential buyers to move off the fence. The impact of these factors on demand for new home construction may not be known for months owing to the significant time lags in the new home buying process. Year-to-date estimates of single family construction starts were much higher in Ohio compared to a year earlier. Strongest demand was found in the first-time and move-up price point categories. Sales of high-end homes continued to slow.

Nonresidential contractors reported rising optimism across their markets. The number of inquiries was described as strong for early on in the year, and backlogs are strengthening. Strongest demand was for public infrastructure projects, commercial buildings, and ware-

housing and distribution facilities. Contractors noted that demand for retail-related work has diminished significantly. There is optimism about the impact that national infrastructure legislation would have on the construction industry. However, if an infrastructure bill were passed, the impact would not be felt until 2018 at the earliest.

### **Financial Services**

Bankers generally remain satisfied with their credit portfolios. Although customer confidence is higher, that confidence has not yet translated into additional commercial or retail lending. Bank customers seemingly are waiting for more definitive proposals on tax and regulatory reform from the new administration before moving ahead with projects. On the commercial side, strongest demand is for CRE loans and M&A financing. Two large-bank contacts reported that manufacturers are increasingly turning to non bank sources for capital project financing. Several bankers noted a seasonal decline in consumer lending overall, especially for credit cards. A drop in auto loans was attributed to increased competition from OEM captives and credit tightening for sub-prime applicants. A rise in interest rates and low existing-home inventory were cited as factors for a decline in mortgage borrowing.

### **Nonfinancial Services**

Professional and business services firms reported moderate levels of activity on balance over the period. Strongest demand was seen by bioscience, IT, logistics, and management consulting firms. An IT executive reported that year-to-date results have been unusually positive so far. A management consultant said that his firm has recently seen a broad-based rise in demand. Factors contributing to increased demand are a stronger economy and a need for assistance in navigating emerging uncertainties such as changes in health-care laws.

Freight volume expanded over the period on balance, and this expansion was attributed to improving economic conditions and lean inventories. Increases were seen primarily in shipments of steel, coal, and lower-value consumer products. A few carriers reported that they were able to push through rate increases. ■



## Summary of Economic Activity

The Fifth District economy expanded at a slightly faster, albeit still modest, pace than during the previous Beige Book reporting period. Manufacturing activity increased amidst reports of stronger shipments and new orders, but tighter margins reportedly cut into capital spending plans. Port volumes remained very robust and increased modestly further despite some weather disruptions, while reports on other freight were mixed. Retail sales rose at a modest pace while tourism activity was boosted by the early arrival of warm weather. Realtors reported an increase in the number of new residential listings, but quick sales left inventories unchanged at lower-than-desired levels. Nonresidential leasing activity advanced modestly while commercial construction was mostly steady. Financial services activity strengthened modestly while nonfinancial services revenues rose slightly. Reports on natural resources were mixed. Labor demand remained firm and reports of modest wage increases broadened. Price increases were up modestly, on balance.

### Employment and Wages

Labor demand strengthened moderately in recent weeks, and wage gains were more widespread. Contacts generally suggested that wage increases remained modest, although some firms noted sharper increases for high-skill workers who are in short supply. Employment agencies reported an increase in the number of employed workers seeking different jobs, higher turnover rates, and more wage pressures. A Virginia recruiter said that he was encouraging clients to increase pay rates and make quicker hiring decisions when they find the right worker. Persistent shortages of skilled construction workers adversely affected a larger number of builders, and led one South Carolinian to get out of the business after 25 years in it.

### Prices

Recent reports indicated a modest rise in prices. Manufacturers' input prices increased moderately and slightly outpaced finished goods price growth, according to our most recent surveys. Specifically, prices rose for corrugated metal, plastic, and lumber. Meanwhile, services prices continued to edge up while retail prices grew robustly. House prices rose marginally on average; however, some contacts reported stronger price growth in areas with low inventories and a scarcity of buildable lots. Crop prices varied, with increases noted for peanuts and cotton while dairy and grain prices trended slightly lower. Energy prices were stable, on balance, with a

slight decrease noted for Northern Appalachian coal.

### Manufacturing

Manufacturing activity increased as more firms reported higher new orders and shipments. Manufacturers of electrical equipment, semiconductors, computer products, autos, and fabricated steel noted stronger business conditions in recent weeks. Expectations for the next six months were positive, and small domestic manufacturers were particularly optimistic. Despite that optimism, contacts suggested that persistent labor shortages had pushed labor costs up beyond what could be recovered through price increases, with the resulting squeeze on margins leading to cutbacks in planned capital spending.

### Ports and Transportation

Shipments through District ports were robust, on balance, and increased at a modest pace despite some disruptions resulting from adverse weather events. Moreover, one official suggested that the typical January/February slowdown did not occur this year as activity remained elevated after the peak holiday season. Strong import volumes persisted, and a few contacts noted that exports had picked up. One executive said that machinery exports increased recently following a considerable period of weakness.

Reports on truck transportation were mixed. One person, whose company delivers directly to end users, reported

a slight acceleration in first quarter shipments from healthy fourth quarter levels. In contrast, a nationwide freight hauler described shipments as “ho-hum” and noted that recent improvements in manufacturing indicators were not yet translating into increased truck freight.

### **Retail, Travel, and Tourism**

Retail sales continued to expand at a modest pace since the last report. Hardware and gardening stores saw brisker sales as homeowners took advantage of mild temperatures. A sporting goods store manager reported stagnant sales though he was optimistic about sales in the coming weeks. A furniture retailer said that customers are building, renovating, and moving again, which contributed to an increased pace of sales in the first quarter. A large auto dealer reported sales trending up in March for both new and used cars.

Tourist activity picked up beyond normal seasonal trends due to unusually warm weather. In the Outer Banks, spending on home furnishings and restaurants increased as vacation home owners returned to under-take remodeling projects. In western North Carolina, hotels saw strong corporate bookings and leisure activity at normal levels. Convention and tourist activity was at seasonal levels in the nation’s capital.

### **Real Estate and Construction**

Residential real estate sales increased moderately since the previous report. Realtors reported increased buyer traffic driven by the early spring weather. Inventories remained low; however most realtors contacted said that more homes came on the market, but those homes sold quickly resulting in unchanged inventory levels. Residential builders reported that home starts and closings were moderate and had increased somewhat.

On balance, commercial real estate leasing rose moderately. Industrial and retail leasing and sales activity remained very active throughout the District. Rental rates varied across sub-market and property types, although most contacts reported rent increases in the tighter retail and office markets. Brokers noted an increase in tenant improvement allowances, while free rent incentives diminished. Commercial construction generally remained steady at modest levels, and multifamily construction continued at moderate levels. A broker in Charlotte, North Carolina reported an increase in Class A office space with new construction hitting the market.

### **Banking and Finance**

In general, financial services activity strengthened moderately in recent weeks. Residential mortgage demand picked up slightly in the District, with the majority of new activity coming from the purchase side as refinance

lending demand softened somewhat. A South Carolina lender noted particular strength in mortgage demand coming from new homes. Commercial real estate loan demand generally strengthened, but varied throughout the District. Non-mortgage business lending rose marginally while auto lending remained fairly robust. Deposit growth was mostly stable, but one lender in West Virginia noted a slight decline. Interest rates were unchanged on balance; however, one lender said that pressure to raise loan rates was building. Credit quality was generally cited to be good and improving slightly. Similarly, credit standards remained constant even as competition among banks remained high.

### **Non-Financial Services**

Our most recent survey suggested that services firms saw a slight increase in revenues. In general, services related to home building, remodeling, and landscaping reported the most robust activity. Accounting services firms also noted stronger demand as the income tax filing season was well underway. Meanwhile, a marketing firm indicated that increased business to new clients more than offset a slight decline in demand from some existing clients. A legal services contact in West Virginia said that business was picking up, particularly from clients in the construction, health care, manufacturing, and mining industries.

### **Agriculture and Natural Resources**

Energy reports varied in recent weeks. Coal production was flat to marginally lower as prices were slightly down. At the same time, natural gas production rose slightly and the number of active rigs increased. Agriculture conditions were also mixed. Poultry and farming operations picked up in Virginia and West Virginia. In South Carolina, planting season was underway, having been somewhat delayed by cold weather. Also, a late winter freeze significantly damaged the state’s peach crop. Investment in new farm equipment slowed slightly. ■

For more information about District economic conditions visit:  
[www.richmondfed.org/research/regional\\_economy](http://www.richmondfed.org/research/regional_economy)



## Summary of Economic Activity

Sixth District business contacts indicated that economic conditions improved modestly from the previous report. The majority of contacts remain optimistic in their outlook for growth over the next three to six months. The labor market remained tight and wage growth remained stable. Firms characterized non-labor input costs as steady. Retail sales softened since the previous report while automotive dealers remarked that sales of light trucks and large vehicles had improved. Hospitality contacts noted solid domestic activity. Residential real estate builders and brokers indicated that home sales were flat to slightly up. New home construction increased since the previous report. Demand for commercial real estate continued to improve and construction increased from the year-ago level across most of the District. Manufacturers cited solid increases in new orders and production. Drought and cold weather caused agricultural conditions to weaken.

### Employment and Wages

Firms continued to struggle to find, hire, and hold onto quality workers, particularly in skilled technical jobs, but also in sales, finance, information technology, and compliance positions. Clerical and other entry-level jobs were also reported as increasingly difficult to fill. Leisure and hospitality contacts shared that they are exploring automation options for housekeeping and food preparation services. Partnerships expanded with workforce development organizations and educational institutions to develop custom training programs as a means to build larger pipelines of talent. Additionally, firms continued to increase investment in internal training programs in order to develop otherwise unqualified workers. In spite of these efforts, a number of contacts continued to express that the inability to find labor was restraining growth. Manufacturing, construction, and professional services firms reported strong additions to employee headcount levels. Reports of turnover increased since the previous report, particularly for entry level positions. Businesses continued to actively ramp up efforts to reduce turnover by offering bonuses, increasing flexible time policies, absorbing more healthcare costs, and offering other benefits.

Wage growth remained in the 2 to 3 percent range for most job categories, with the exception of stronger wage pressures for specialized positions in high demand.

### Prices

Non-labor input costs were stable and businesses reported pricing power was still constrained. According to the Atlanta Fed's Business Inflation Expectations survey, year-over-year unit costs were up 1.7 percent in March. Survey respondents indicated that they expect unit costs to rise 2.1 percent over the next twelve months.

### Consumer Spending and Tourism

Most District retail contacts reported that sales levels were softer since the last report. They reported that the delay in federal income tax refunds weighed down retail spending in February. However, merchants expect a boost to sales in March following tax disbursements at the end of February. Auto dealers noted sales of light trucks and large vehicles increased in February compared to a year ago.

On balance, reports from tourism and hospitality contacts across the District were cautiously optimistic. Contacts in Georgia, Louisiana, and Tennessee reported strong tourism activity since the last report; while some areas of Florida reported a slight decrease in the number of international visitors during the same time period. With the exception of South Florida, hotel occupancy and revenue per available room were up year-over-year. The outlook among most contacts for the second quarter of the year remains upbeat.

## Construction and Real Estate

Reports from residential real estate contacts in the District continued to point to slow but steady growth in February. Most builders noted that construction activity was up from the year-ago level. Builders and brokers indicated that home sales were flat to slightly up relative to one year earlier. The majority of builder and broker contacts noted that buyer traffic was equal to or higher than the previous year's level. Residential contacts reported that inventory levels were similar to or down relative to the year-ago level. Builders and brokers noted modest gains in home prices. Home sales expectations improved in February, with most brokers and builders anticipating sales to increase slightly over the next three months relative to the year-earlier level. Most builders expect construction activity to hold steady at the current pace or increase slightly over the next three months.

Most commercial real estate contacts noted improvements in demand that continued to result in rent growth and increased absorption, but cautioned that the rate of improvement varies by metropolitan area, submarket, and property type. Many commercial contractors indicated that the pace of nonresidential construction activity had increased from one year ago, with many reporting backlogs greater than one year. Reports from District contacts on the pace of multifamily construction continued to be mixed, with roughly half indicating that the pace increased from the year-earlier level and the rest suggesting that the pace leveled off or slowed. Looking forward, the majority of District commercial real estate contacts expect the pace of nonresidential and multifamily construction activity to increase slightly over the next quarter.

## Manufacturing

District manufacturing contacts reported a solid increase in overall business activity compared to the previous report. New orders and production levels rose notably and finished inventory levels were higher. Purchasing managers also indicated that supply delivery times were longer. The outlook for future production continued to be optimistic, as nearly two-thirds of firms expect higher production levels over the next six months.

## Transportation

District transportation contacts continued to report varying levels of activity since the previous report. Railroad contacts cited a slight uptick in total rail traffic, as large increases in shipments of crushed stone, sand and gravel, waste and nonferrous scrap metal, were mostly offset by declines in petroleum and petroleum products, and metallic ore loads. Ports cited robust growth in cargo overall, led by significant increases in tonnage of con-

tainerized and break bulk cargo. A majority of contacts anticipate activity to remain the same over the next three to six months.

## Banking and Finance

Credit remained readily available for most qualified borrowers, although some small businesses continued to experience difficulty obtaining credit. For larger businesses, private equity sources remained a competitive alternative to bank financing. Regulatory capital requirements constrained commercial and construction lending at some banks. Some bank contacts reported increased pricing pressure on deposits.

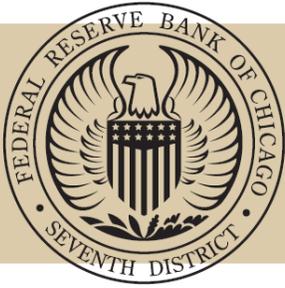
## Energy

Reports from energy contacts noted that crude oil inventories remained at historically high levels due to weak demand, oversupply, and continued production. Utility industry contacts noted continued investments in renewable energy. Contacts cited robust construction on gas liquefaction plants in southwest Louisiana, however, skilled labor shortages were also noted. Operational liquefied natural gas plants experienced steady export activity.

## Agriculture

Agriculture conditions across the District softened. By late-March, drought conditions expanded in the District with drought ratings ranging from dry to extreme. During the same time period, parts of the District also experienced a cold snap that damaged some fruit and vegetable crops. There were limited reports of poultry that tested positive for avian flu in Alabama, Georgia, and Tennessee with stop movement orders, surveillance, quarantine, and depopulation employed as containment methods. The March forecast for Florida oranges was down from February and last season. Some citrus contacts indicated that they are looking for alternative crops in light of the chronic problems caused by citrus greening. Contacts continued to report farm consolidations. On a year-over-year basis, prices paid to farmers in January were up for cotton and soybeans, but down for corn, rice, beef, broilers and eggs. ■

For more information about District economic conditions visit: [www.frbatlanta.org/economy-matters/regional-economics](http://www.frbatlanta.org/economy-matters/regional-economics)



## Summary of Economic Activity

Growth in economic activity in the Seventh District continued at a moderate pace in late February and March, and contacts expected activity to continue rising at a moderate pace over the next six to twelve months. Employment, wages, and manufacturing production grew at moderate rates, while prices, business spending, and construction and real estate activity increased modestly. Consumer spending was flat, financial conditions were little changed, and lower crop prices put further stress on the agricultural sector.

### Employment and Wages

Employment growth continued at a moderate rate over the reporting period, and contacts expected it to continue to rise at a moderate rate over the next six to twelve months. The labor market remained tight. Contacts indicated that they were experiencing increased difficulty filling low-skilled positions, though higher-skilled workers were still in highest demand. Some contacts reported a greater willingness to accept less-qualified applicants. Staffing firms again reported little change in billable hours and ongoing difficulty filling orders at the wages employers were willing to pay. One staffing firm indicated that they were no longer taking orders from clients in any industry offering wages of less than \$11 per hour. Wage growth continued at a moderate pace. High-skilled occupations were more likely to be given wage increases, though there were more reports of increases for production workers as well. A number of contacts reported a rise in healthcare costs.

### Prices

Prices again rose modestly overall in late February and March. Retail prices increased slightly, though one contact noted that higher freight costs have not yet been passed on to consumers. Metals prices were little changed overall.

### Consumer Spending

Consumer spending was flat in late February and March, though contacts expected the pace of sales to pick up in the second quarter of 2017. Contacts noted that above-average temperatures benefitted sales of home improvement items and building materials at the expense of their seasonal businesses. E-commerce activity continued to grow strongly. Our District contacts reported a slightly higher sales pace of new light vehicles despite less generous incentives, with the sales mix continuing to shift toward light trucks. Used vehicle sales also increased.

### Business Spending

Growth in business spending slowed to a modest pace in late February and March. Most retailers indicated that inventories were at comfortable levels, though light vehicle inventories were slightly high. Manufacturing inventories were also at desired levels overall, with the exception of stocks at steel service centers, which continued to be low. Growth in capital expenditures slowed to a modest pace, but contacts expected moderate growth over the next six to twelve months. Outlays were primarily for replacing industrial and IT equipment, though there was an increase in the number of firms reporting spending on structures.

### Construction and Real Estate

Construction and real estate activity increased modestly over the reporting period. Residential construction rose moderately in recent weeks, and homebuilders also noted that inquiries were up compared with this time last year. Activity was the strongest in the single-family segment. Home sales increased slightly overall. Demand varied by price range, with strong increases for homes under \$250,000, modest gains in the \$250,000 to \$500,000 price range, and a modest decline in demand for homes over \$500,000. Demand for nonresidential construction increased slightly, with growth concentrated in the retail, industrial, and office sectors. The pace of commercial real estate activity increased only a little overall, and the gains were limited to the for-lease segment. That said, a number of contacts reported signs of slowing activity, particularly in the retail segment. Commercial rents, availability of sublease space, and commercial vacancy rates were little changed.

### Manufacturing

Manufacturing production again grew at a moderate pace in late February and March. Growth was widespread and conditions in some long-struggling sectors improved again. Demand for steel increased to a moderate pace and was stronger than expected. Growth was led by demand from the energy sector and steel service centers, which were in the process of replenishing low inventories. Specialty metals manufacturers also reported higher sales to the energy sector, though contacts noted that efficiency gains in the sector over the last couple of years have resulted in a notable decline in sales volume per barrel of oil produced. Demand for heavy trucks increased moderately. Manufacturers of construction materials continued to report slow increases in shipments, in line with the modest pace of improvement in construction. Activity in the auto and aerospace sectors was unchanged, but remained at high levels.

### Banking and Finance

Financial conditions were little changed on balance over the reporting period. Market participants reported that equity prices are high and that volatility remains low. Business loan demand increased slightly, with growth concentrated in the small business segment. Loan standards were about the same and asset quality remained high. Consumer loan demand increased slightly. Auto loan demand picked up some, but quality deteriorated slightly. Contacts also reported an increase in credit card spending and that the pace of residential mortgage originations was unchanged.

### Agriculture

Lower crop prices put further stress on the agricultural sector. Prices of corn, soybean, and wheat all fell during the reporting period. With profit margins looking to be higher for soybeans than for corn, demand for soybean seeds was high. Recent rains delayed the start of corn planting in portions of the District. Additional delays could hurt yields, and, because soybeans are planted later in the season, could further shift the crop mix toward soybeans. Expectations of low incomes for 2017 led to lower farmland values and cash rents for cropland compared with last year. However, land values for higher quality ground and recreational tracts were steady on balance. Milk and hog prices were lower, while egg and cattle prices moved up. Expectations of falling milk prices and rising feed costs led more dairy operations to lock in margins. ■

For more information about District economic conditions visit:  
[www.chicagofed.org/cfsbc](http://www.chicagofed.org/cfsbc)



## Summary of Economic Activity

Reports from contacts suggest that economic activity in the District has continued to increase at a modest pace since our previous report. Overall employment growth was modest, while wage growth remains moderate. Overall inflationary pressures remained modest. Reports on consumer spending suggest moderate growth since our previous report, with a moderate uptick in auto sales toward the end of the first quarter. Real estate activity was little changed, while District banks reported moderate growth in loan demand. Overall activity in agriculture and natural resources remains weak because of low commodity prices; however, conditions remain generally unchanged since the previous report.

### Employment and Wages

Anecdotal evidence suggests modest employment growth since the previous report. Several industries continue to report shortages of available workers. Construction contacts in Memphis and Little Rock reported shortages of workers, and manufacturing contacts reported difficulties in hiring and retaining experienced employees. Contacts in transportation and manufacturing reported that growth has been restrained because of difficulties hiring experienced workers.

Contacts reported moderate wage growth since the previous report. A manufacturing contact in Louisville noted upward pressure on wages in the region, with employers expecting to moderately increase wages. Anecdotal evidence suggests that tightness in the labor market has resulted in some employers increasing wages to attract employees.

### Prices

Price pressures in the District remained modest. Business contacts did not report changes in overall prices charged to customers. Low commodity prices continue to put pressure on sectors dependent on the agricultural sector. The most-expensive used farm equipment is selling at deep discounts at auctions, while equipment prices have remained stable or increased slightly for the less-expensive equipment. Contacts in Memphis and Little Rock reported feed prices have declined, given the lower price of corn. Since the previous report, prices for

coal and rice have remained about the same, while prices for corn, soybeans, sorghum, and wheat have declined slightly.

Across the District, home prices continued to increase moderately, with contacts in all areas reporting low inventory. Contacts in Memphis and Louisville reported rents were modestly higher for Class A commercial properties, particularly in some major markets. Price pressures from construction materials were mixed. Contacts in Little Rock reported solid wood prices increased modestly, while prices for pine saw timber, chips, and pulpwood remained flat or decreased slightly since the mild winter allowed for an increase in supply.

### Consumer Spending

Reports from general retailers, auto dealers, and hoteliers indicate consumer spending growth has been moderate since our previous report. Retail sales growth was particularly strong in the Memphis area; accordingly, the majority of households in west Tennessee continue to hold an optimistic outlook for their financial situation for 2017. Furthermore, the northwest Arkansas region reported record sales tax revenue figures for March. Hospitality contacts in St. Louis and Louisville reported a modest to moderate decline in occupancy rates. Reports from auto dealers indicate that sales picked up after a relatively slow January. Furthermore, multiple dealers in the Memphis area noted a shift in demand toward used vehicles.

## **Manufacturing**

Manufacturing activity has increased modestly since our previous report. Manufacturing activity in March was stronger than one month earlier in both Arkansas and Missouri, although the pace of increase slowed slightly in Missouri. Many companies reported capital expenditure and facility expansion plans in the District, including firms that manufacture medical devices, clothing, and chemical products. However, a number of firms announced plans to close facilities, including manufacturers of machinery, food products, and primary metals.

## **Nonfinancial Services**

Reports of plans in the District's service sector have been mixed since the previous report. In particular, several firms that provide transportation, warehousing, and information services reported plans to build new facilities or expand employment. Two trucking contacts reported business is good enough to justify new equipment and increased hiring. Reports from the professional business services sector were mixed. Some existing employers laid off workers but new companies opening in the District were hiring and building facilities. Reports from the healthcare sector were mostly negative; layoffs were announced in Louisville and Memphis; however, healthcare facility expansions were announced in Little Rock.

## **Real Estate and Construction**

Residential real estate activity has decreased slightly since our previous report. Home sales declined in most major metro areas. Local contacts continued to report a shortage of inventory relative to strong current demand. Concerns about rising mortgage rates were mixed, as some contacts indicated that higher rates have had no significant effect on the market.

Residential construction activity has improved modestly since the previous report. February construction starts were generally flat while permit activity increased moderately. Some local builders reported that speculative homes were selling before completion, indicating that construction has continued to lag behind demand.

Commercial real estate activity has been flat since the previous report. Local contacts indicated that demand has remained steady for most property types. Contacts noted some concerns that St. Louis office vacancy rates will rise in the near future due to new construction combined with expiring leases of vacant properties.

Commercial construction activity was mixed. Non-residential construction started to dip in February. However, recent reports from local contacts were generally positive, with most seeing either a continuation of

strong construction activity or an increase in the number of projects undertaken. Contacts expect this trend to continue through the year. New projects for various property types were announced or broke ground, including several new hotels, multifamily structures, speculative industrial parks, and mixed-use projects.

## **Banking and Finance**

Banking and credit conditions in the District have strengthened at a moderate rate since the previous report, with some signs of accelerating growth in lending. Real estate loan volumes increased at a moderate pace over the period with the rate of growth continuing to tick upward. However, contacts report that high volume lenders are shrinking market areas for multifamily properties due to softening demand. Meanwhile, commercial and industrial lending among District banks rose at a moderate to robust rate and markedly outpaced the nation in terms of growth. Loans to individuals and households continue to expand at a robust rate and continue to account for an increasingly larger share of outstanding loan portfolios.

## **Agriculture and Natural Resources**

Agricultural conditions were unchanged from the previous report and the same time last year. In March, farmers planned to plant about 20 percent more cotton than last year, but 20 percent less rice. These movements correspond to a continued increase in cotton fiber prices and a continued decline in rice prices. With corn and soybean prices remaining low, farmers planned to reduce corn acreage by 5 percent and increase soybean acreage by roughly the same percentage. This planned switch in the District's two largest crops was largely driven by the fact that soybeans, with much lower per-acre costs, require much smaller operating loans.

Natural resource extraction conditions improved modestly from the previous report. District seasonally adjusted coal production grew 4 percent from January to February and was 10 percent higher than one year ago. ■

For more information about District economic conditions, visit: [www.research.stlouisfed.org/regecon/](http://www.research.stlouisfed.org/regecon/)



## Summary of Economic Activity

The Ninth District economy grew modestly overall since the last report. Employment grew moderately, wage pressures picked up, and price pressures were modest overall. Activity increased in construction, manufacturing, energy, and mining, while commercial real estate activity was flat at strong levels. Tourism activity was mixed, while consumer spending and residential real estate were down, and agriculture remained weak.

### Employment and Wages

Employment grew moderately since the last report, checked by tight labor conditions. From February to mid-March, initial unemployment claims were 14 percent lower relative to a comparable period a year earlier, dropping in every state except South Dakota. Continuing claims were also lower overall. A Minnesota staffing firm contact said job orders for seasonal workers in landscape and construction started rising due to the relatively warmer weather. Firms catering to tourists in the Black Hills region reported difficulty finding labor, especially seasonal immigrant labor they have traditionally used. A Montana source said many firms are hiring, “but there’s not enough workforce for all of the openings.” The oil-producing region of North Dakota saw an increase in hiring, according to a state contact. Employer booths at recent job fairs there were sold out and had double the job openings of the previous year, including one company looking to hire 200 to 300 certified drivers. There were some notable job losses, including 55 at a Minnesota construction firm and 100 at a South Dakota senior care organization, along with those affected by numerous retail closures across the District. But overall, said one source, “the good news certainly seems to be outweighing the bad news right now.” A survey of employers in District states found that their second-quarter hiring outlook was solidly positive and more optimistic than a similar, first-quarter survey.

Wage pressures were moderate to strong since the last report. A staffing firm in Minneapolis-St. Paul reported

that wages have increased by more than 3 percent from a year ago; reports from staffing firms in Montana and Wisconsin suggested even larger increases. A contact at a South Dakota human resources firm said more companies were asking for competitive wage analysis and, as a result, compensation increases were “above normal.” A manufacturing consultant said clients were predicting “more aggressive” wage increases than in past years. While wages in the Bakken oil region remained below their peak, housing allowances and daily stipends have come back after being eliminated during the oil downturn, according to a source there.

### Prices

Price pressures were modest overall since the last report. A survey of commercial contractors indicated acceleration in the price of building materials. A contact at an electric utility reported that a proliferation of wind energy developments put downward pressure on electric rates. Most prices received by farmers decreased in February from a year earlier, with the exception of soybeans, milk, chickens, and hogs.

### Consumer Spending

Consumer spending was down modestly since the last report. A national department store chain closed 20 stores across states in the Ninth District. In Grand Forks, N.D., alone, three mall-based department stores closed—in one case, the closure was due to bankruptcy. These and other retail store closures, referred to as a “mall quake” by one industry expert in Minnesota,

reflected the larger national trend of sales gravitating away from brick-and-mortar stores to online sales. A national food distributor based in Minneapolis-St. Paul saw a 5 percent decline in sales in the most recent quarter, and the third straight quarterly decline. In contrast, craft breweries in Montana saw record revenue increases in sales since the last report and were characterized as an “economic engine” for the state. Several new grocery stores opened in Minneapolis-St. Paul as a new national chain has moved into vacant retail locations.

### **Tourism**

Tourism conditions were mixed since the previous report due to the range of weather conditions across the District. Bountiful snowfalls in the mountains of Montana extended the ski season for most resorts. However, states bordering the Great Lakes experienced unseasonably warm weather in February and early March, shortening the winter tourism season by a month. Small-town ice festivals and Nordic ski races in many northern state communities lost weeks of anticipated revenues. Hotel occupancy rates in Wisconsin have slowed since the last report, according to state officials, while in Minnesota, lodging revenue exceeded 6 percent annual growth for the fourth consecutive year.

### **Construction and Real Estate**

Construction activity was up modestly since the last report. New construction projects out for bid over the most recent six-week period (through late-March) increased more than 10 percent over a similar period a year earlier, according to an industry tracker. A second industry database showed strong January-February growth in heavy and other nonbuilding construction sectors. “We’re anticipating quite a bit of business this year,” said a construction material supplier in South Dakota. However, commercial construction permitting was lower in most District metros compared with the same period a year earlier. Residential construction was mixed. Many metros have seen fewer units permitted in the first quarter compared with a year earlier, but Minneapolis-St. Paul saw a strong increase in both single- and multifamily units.

Commercial real estate was flat, but remained solid by most measures. Office vacancy rates in Minneapolis-St. Paul have ticked higher after significant new office development. There were reports of more preleasing before new projects move into the construction phase. A Minneapolis-St. Paul source noted that retail vacancies had crept up to 6 percent, but that “is still considered very low. Prime retail areas are very tight and have high rents.” Despite significant new construction in

recent years, office and industrial vacancy rates in Sioux Falls, S.D., remained low, while apartment vacancies have risen thanks to an influx of new units. Residential real estate was lower overall. Some Montana regions saw growth in home sales, but sales elsewhere in the District were lower, the result of low inventories, according to numerous sources, which were leading to quicker sales and higher prices. In Rapid City, S.D., said one source, sellers “can expect to get full market value.”

### **Services**

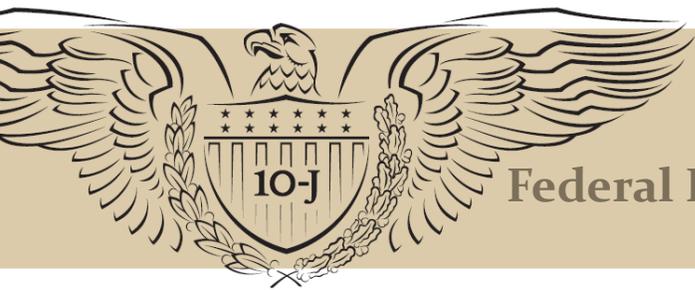
Professional services activity was up modestly. Information technology and software firms in Sioux Falls indicated continued growth in sales since the last report. Accounting firms across the Ninth District reported a normal, seasonal uptick in activity given the tax season. Several law firms in the Minneapolis-St. Paul region experienced modest growth since the last report, and one law firm is appealing to startup companies by providing cut-rate legal advice to compete with online legal tools. A public relations firm in Minnesota reported “steady work,” as did an architectural firm in Fargo, N.D.

### **Manufacturing**

District manufacturing activity increased moderately since the last report. An index of manufacturing conditions produced by Creighton University indicated increased activity in March compared with a month earlier in Minnesota and the Dakotas. A medical device maker announced an expansion at a Minnesota facility. A Michigan firm noted that recent orders were “almost double” expectations. Several contacts across the District reported increased capital expenditures by manufacturers.

### **Agriculture, Energy, and Natural Resources**

District agricultural conditions remained weak since the previous report. Most of the District remained drought-free heading into planting season. Activity in the energy and mining sectors increased modestly since the last report. District oil and gas drilling as of late March increased from low levels a month earlier. Some contacts in the oil-producing region of the District expected an increase in activity in April. A copper mine and a gold mine were slated for opening later this year in Michigan’s Upper Peninsula. ■



## Summary of Economic Activity

Economic activity in the Tenth District increased moderately in late February and March, and most sectors expected continued growth in future months. Manufacturing activity expanded at a strong pace, and real estate firms reported a modest rise in sales. Consumer spending activity rose at a modest pace, and District energy activity continued to increase moderately. Professional and high-tech firms reported moderate sales increases, and bankers reported steady-to-increased loan demand, stable deposit levels, and unchanged loan quality. Transportation activity declined modestly from the previous survey period, and agricultural credit conditions remained weak, with subdued farm income and continued low commodity prices. Employment and employee hours increased modestly, and wages rose modestly. In most sectors, input and selling prices were up slightly over the previous survey period.

### Employment and Wages

Employment and employee hours increased modestly in late February and March, and expectations were for a continued increase in the months ahead. Contacts in the manufacturing, energy, retail trade, wholesale trade, professional and high-tech services, education, health services, and tourism and hotels sectors reported an increase in employment levels since the previous survey period, while contacts in the auto, transportation, and restaurant sectors noted a decline. All respondents expected a rise in employment in the coming months. Average employee hours rose modestly in the manufacturing, energy, and service sectors, and additional gains were expected moving forward. Respondents noted a shortage of commercial drivers, skilled technicians, and service workers.

Contacts in most sectors reported modest wage growth, and expectations in the coming months were for moderate wage growth.

### Prices

In most sectors, input and selling prices were up slightly compared to the previous survey period. In the retail sector, input prices rose moderately and selling prices edged higher. Both input and selling prices were expected to grow moderately in the coming months in the retail sector. Respondents in the restaurant industry

reported modestly higher prices for both input and selling prices. Transportation input prices were up slightly, while selling prices increased modestly after falling in the prior survey period. Prices in the construction sector rose moderately, with additional moderate increases expected moving forward. Manufacturers reported slight growth in finished goods prices, while raw material costs continued to edge higher. Manufacturers expected a slight increase in both finished goods and raw material prices over the next few months.

### Consumer Spending

Consumer spending activity rose modestly in late February and March, while expectations for future growth expanded markedly. Retail sales increased over the previous survey period, and remained modestly above year-ago levels. Several retailers noted an increase in sales for outdoor and sale items, while luxury products sold poorly. Contacts anticipated sales to rise rapidly in the next few months, and inventory levels were expected to increase. Auto sales continued to fall at a moderate pace, and remained below year-ago levels. However, dealer contacts anticipated a strong pickup in sales for the months ahead. Auto inventories fell slightly but were expected to remain stable in coming months. Restaurant sales edged down modestly and were well below year-ago levels. Contacts expected activity to pick up slightly heading forward. District tourism activity increased mark-

edly in late February and March and was well above year-ago levels. Tourism contacts expected strong activity heading into the spring months.

### **Manufacturing and Other Business Activity**

Manufacturing activity expanded at a strong pace, and most other business contacts reported increased sales. Manufacturers reported a rapid expansion in production, particularly for metals, electronics, and aircraft products. Shipments, new orders, and order backlog all increased over the previous survey, and activity was modestly higher than a year ago. Manufacturers' capital spending plans expanded moderately, and firms' expectations for future activity were at their highest levels in over twenty years.

Outside of manufacturing, professional, high-tech, and wholesale trade firms reported moderate sales increases, while transportation contacts indicated a modest decrease in activity. Wholesale trade firms expected a strong increase in future sales, while professional, high-tech, and transportation contacts anticipated a more moderate sales improvement. Capital spending plans were favorable among most firms.

### **Real Estate and Construction**

Overall District real estate activity expanded modestly in late February and March, and further gains were expected moving forward. Residential home sales rose moderately since the previous survey period, but were slightly below year-ago levels. Residential home inventories were strongly below year-ago levels. Moving forward, contacts projected a solid increase in residential sales due to seasonal factors. Home prices continued to increase strongly, and sales of low- and medium-priced homes outpaced sales of higher-priced homes. Residential construction activity expanded modestly since the previous survey, as construction supply sales, housing starts, and traffic of potential buyers rose. Activity across the commercial real estate sector activity continued to rise at a modest pace as vacancy rates declined and absorption, completions, construction underway, sales and prices increased. A moderate expansion in the commercial real estate sector was expected in the coming months.

### **Banking**

Bankers were evenly split between increasing and steady overall loan demand in late February and March. Regarding specific types of loans, a majority of respondents indicated a steady demand for commercial and industrial, commercial real estate, residential real estate, agricultural and consumer installment loans. Most bankers indicated loan quality was unchanged compared to a

year ago. In addition, most respondents expected loan quality to remain essentially the same over the next six months. Credit standards remained largely unchanged in most major loan categories, though almost a third of banks indicated lending standards tightened for agricultural loans. Finally, a majority of respondents reported stable deposit levels.

### **Energy**

District energy activity continued to expand moderately, while expectations eased somewhat but remained solid. The number of active oil and gas drilling rigs grew moderately, mainly in Oklahoma and New Mexico. Contacts reported slight increases in oilfield service costs for completions since last year, and some expected further increases through the summer. Most respondents expected oil and gas prices to stay near current levels in the coming months. For natural gas, the large supply in the Marcellus formation was the main factor keeping price expectations low. Some oil and gas firms also reported having concerns about labor shortages affecting the near-term growth in activity.

### **Agriculture**

Farm income remained subdued in the Tenth District as most agricultural commodity prices stayed low. In the crop sector, corn and wheat prices declined moderately in March and were less than a year ago. Profit margins were expected to remain weak for corn and wheat producers, although some input costs were expected to moderate from last year. Soybean prices also decreased in March but were slightly higher than a year ago. With soybean prices somewhat more favorable, producers were expected to plant more soybeans this year and less corn and wheat. In the livestock sector, cattle prices increased slightly in March and hog prices remained higher than a year ago. Slightly higher prices and lower input costs improved profit margins modestly for both hog and cattle producers since the last reporting period.

For more information about District economic conditions visit:  
[www.KansasCityFed.org/Research/RegionalEconomy](http://www.KansasCityFed.org/Research/RegionalEconomy)



## Summary of Economic Activity

Economic activity in the Eleventh District expanded moderately over the past six weeks, with a slight acceleration from the prior reporting period. Manufacturing output strengthened further, and activity among nonfinancial services firms increased. Retail sales rose at a somewhat faster clip, including a pickup in auto sales. Home sales rose during the reporting period, although apartment demand slowed slightly. Loan demand strengthened and the energy and agricultural sectors improved. Employment and wages increased moderately, as did prices. Outlooks generally improved, with most contacts expecting 2017 to be stronger than 2016.

### Employment and Wages

Overall employment rose moderately over the reporting period. Manufacturers have added to payrolls so far this year, in contrast with most of 2015 and 2016 when factory contacts noted employment declines on net. Hiring in the services sector continued, including slight job gains among retailers in March. In the energy sector, hiring among oilfield services firms picked up notably in the first quarter, while some exploration and production firms continued to note layoffs. Several contacts speculated that employment in the energy sector will not increase proportionately with increases in drilling activity because of improved production technology and efficiencies. Labor market tightness has appeared throughout the oil and gas supply chain, with several contacts specifically mentioning shortages of truck drivers, and nearly all sectors reported upward wage pressures. Some labor shortages were also noted by manufacturers and certain services contacts, including hospitality. Overall, upward wage pressures were similar to the last reporting period.

### Prices

Prices generally increased over the reporting period. An exception was in retail where slight declines were seen, partly due to price cuts for new automobiles. Upward price pressures in manufacturing eased slightly, retreating to more normal levels after a few hot months.

Construction contacts noted higher prices for lumber, concrete, plumbing and framing. Oilfield services firms increased prices over the past six weeks, with further increases expected as demand picks up.

### Manufacturing

Expansion in the manufacturing sector picked up pace somewhat over the past six weeks. Output growth remained slightly stronger for durable goods than nondurables, with a rebound seen in fabricated metals manufacturing. Exports remained a source of weakness for firms that sell internationally. Overall, outlooks stayed positive. A few manufacturing contacts noted considerable policy uncertainty, especially regarding any changes that would impact trade with Mexico.

Refinery utilization along the gulf coast was healthy. Large inventories of product and expectations for softer demand growth continue to put downward pressure on expectations for refinery margins. Chemical producers reported healthy domestic demand for a wide range of products and remain optimistic for strong margins this year. Comments on international chemical demand were mixed, but generally positive.

**Retail Sales**

Retail sales continued to rise during the reporting period, at a slightly faster pace than the prior period. Auto sales increased, although a contact noted that demand in Houston was weak. Other retail firms also noted slower sales in Houston relative to other Texas metros. Contacts again mentioned that the depreciation of the peso was harming overall retail sales along the border. Overall, outlooks among retailers remained fairly neutral, a deterioration from the optimism noted in the prior reporting period.

**Nonfinancial Services**

Demand for nonfinancial services generally continued to increase over the past six weeks, at roughly the same pace as seen in the prior reporting period. Professional and technical services firms noted particularly strong revenue gains, and leisure and hospitality contacts cited increased revenues in March after losses earlier this year. Transportation services firms also noted revenue gains, with rail contacts noting a strong increase in crushed stone, which is used for frac sand. Airlines said demand was stable over the past six weeks and up from a year ago, led by a stronger domestic market. Staffing services firms saw a pickup in demand, relative to the six weeks prior as well as the same time last year. Demand for placements remained particularly strong in Dallas, especially in relation to Houston, where contacts noted energy firms' recoveries stalled a bit recently with depressed oil prices. Overall, most services firms noted improved outlooks.

**Construction and Real Estate**

Home sales rose during the reporting period. Contacts noted the spring selling season was generally off to a good start, with year-to-date sales close to plan for several builders. However, buyers were price sensitive, and incentives were being offered in some markets, squeezing builders' margins. Housing affordability continued to be a concern. Outlooks were positive, and overall sentiment in Houston was better than this time last year.

Apartment leasing activity slowed and occupancy fell in the first quarter. Annual rent growth was solid in Dallas–Fort Worth but moderated in Austin. Rents were flat to down in Houston. Contacts generally expect slower rent growth this year.

Demand for office space was healthy in Dallas–Fort Worth, and office construction continued to be elevated there. In Houston, office demand was mostly weak and office construction tapered.

**Financial Services**

Loan demand increased over the past six weeks. Total loan volumes expanded, with lenders noting higher balances on commercial and industrial loans, as well as real estate (both commercial and residential) loans. However, contacts reported decreased volumes of consumer loans. Contacts indicated improved loan performance and tightened lending standards. More than half of lenders noted an increase in loan pricing over the past six weeks. Contacts also noted an increase in interest rates paid on deposits and rising deposit volumes. Outlooks were predominantly optimistic, with expectations for stronger loan demand and business activity six months from now.

**Energy**

Demand for oilfield services improved substantially in the district over the past six weeks. Oil and gas activity surged, with firms noting a pickup in the Eagle Ford Shale as well as the Permian Basin. Several contacts mentioned that the accelerating pace may not be sustainable, expecting rig count growth to moderate mid-year. Outlooks overall for 2017 were more positive than in the prior reporting period, especially among oilfield services firms, but most contacts noted concern over expected volatility.

**Agriculture**

Moisture levels remained favorable across the district, with ample rainfall received over the reporting period. The winter wheat crop was in good shape, and row crop planting continued. Cotton acreage is expected to be up sharply in 2017, driven by expectations of higher cotton prices this year. Grain prices remained weak and trended down over the past six weeks. The cattle industry benefitted from strong pasture conditions and rising cattle prices. ■

For more information about District economic conditions visit:  
[www.dallasfed.org/research/texas](http://www.dallasfed.org/research/texas)



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## Summary of Economic Activity

Economic activity in the Twelfth District continued to expand at a moderate pace during the reporting period of mid-February through March. The labor market continued to tighten, wage pressures picked up further, and inflation increased modestly. Sales of retail goods improved moderately, and growth in the consumer and business services sectors remained strong. Manufacturing activity changed little on balance, and conditions in the agriculture sector improved modestly. Contacts reported continued strong activity in residential real estate markets, while conditions in the commercial sector slowed to a modest pace in some regions. Lending activity grew at a moderate pace.

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### Employment and Wages

The labor market continued to tighten, and wage pressures picked up further. Contacts reported record-high demand, as well as wage increases, for engineers with experience in cloud computing. Contacts also noted that technology and non-technology sectors are increasingly competing for workers with the same advanced skills. In the financial services sector, wages for unskilled entry-level positions increased markedly. Labor shortages in the construction industry persisted, driving up wages for skilled workers. Demand for labor in the agriculture industry continued to outpace supply, putting upward pressure on wages. One contact noted that growers continue to automate production where possible. Contacts in the pharmaceutical manufacturing industry reported relocating workers and operations to lower-cost locales outside of the District.

### Prices

Overall, inflation increased modestly over the reporting period. Prices for construction materials continued to climb as construction activity remained strong. Increasing wage costs pushed up hotel rates and prices for associated services such as parking and food and beverage services. Shipping costs increased moderately. Contacts in the retail food and beverage industry reported that increases in labor costs were passed through to consumers. Prices of agricultural commodities picked up

modestly. Branded pharmaceutical price increases remained subdued, while strong competition held down prices for generic drugs. Improved economies of scale reduced cloud computing costs, while prices for high-end smartphones and tablets continued to trend downward. Wholesale food retailers reported slight year-over-year deflation.

### Retail Trade and Services

Activity in the retail sector improved moderately over the reporting period. Overall, retail sales experienced steady growth, but consumer preferences continued to shift from buying in-store to using e-commerce. Vehicle sales rebounded strongly from a weak start to the year, and dealers reported low inventories of used vehicles. Sales of retail beverage products were stable, although an unusually wet winter in the West somewhat slowed foot traffic at many vendors. Optimism among grocery retailers boosted capital expenditures on store improvements and new location openings.

Activity in the consumer and business services sector remained strong. Shipping volumes continued to expand at a solid pace, and contacts noted that volume growth was particularly strong for lower-priced e-commerce goods. Demand for business IT services strengthened, driven by increased investments in cloud services, mobility, and big data solutions in the financial services, manufacturing, and health-care sectors. Contacts in the

hospitality industry reported that overall sales improved, but mentioned that hotel stays were lower than expected due to changes in immigration policy and increased scrutiny of foreign arrivals. Demand for restaurant services remained sluggish, but the industry remains hopeful that the recent slump in sales is transitory and expects sales to increase in the coming months as the weather improves and consumers receive tax refunds.

### **Manufacturing**

Manufacturing activity was mixed across sectors but largely flat on balance over the reporting period. Conditions in the semiconductor industry were healthy, and consolidation in the industry picked up significantly. Orders for new commercial aircraft were up over the same period last year, while shipments remained stable. On balance, exports of manufactured goods continued to be held back by the strong dollar. However, demand for domestic steel picked. Overall, contacts reported that capacity utilization in the manufacturing sector remained below long-run averages.

### **Agriculture and Resource-Related Industries**

Activity in the agriculture sector grew modestly over the reporting period. Increased water availability in the West boosted yields for some crops. A greater-than-anticipated snow cover in parts of the West spurred ranchers to increase herds' food allowances, boosting the demand for hay. Oil production remained stable in Alaska, but relatively low oil prices have slowed investment substantially. The strong dollar held back exports for some agricultural products. On balance, growers anticipate that rising global economic activity will yield additional demand for domestic exports this year.

### **Real Estate and Construction**

Conditions in real estate markets remained stable, and activity remained strong in most of the District. Demand for residential real estate remained robust in most parts of the District. Overall, contacts reported that construction activity was slowed only by a lack of available land, labor, and materials. Sales of new and existing homes were robust, and inventories remained low, with one contact in Seattle reporting that new property listings remained on the market for only a couple of days. A few contacts outside of major metropolitan areas reported that recent increases in mortgage rates had caused demand to slow modestly, although it remained strong. House prices and rents continued to increase, particularly in cities, where some contacts noted that both rose at a faster pace than wages. In some regions, activity in the commercial real estate sector slowed to a modest pace. In Alaska, residential and commercial construction activity declined, as commercial investment stalled and overall economic activity remained sluggish.

### **Financial Institutions**

Lending activity grew at a moderate pace over the reporting period. Loan demand continued to expand at a moderate pace, and contacts reported that competition on pricing and fees remained high. Deposits expanded moderately and were sufficient to finance lending activities. On balance, credit quality remained strong, but one contact pointed to some loosening of underwriting standards. Commercial banks' net interest margins improved modestly with recent increases in broad market rates. One contact in the Pacific Northwest reported that the continued growth of credit unions threatened smaller community banks in their region. ■



