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# The Beige Book

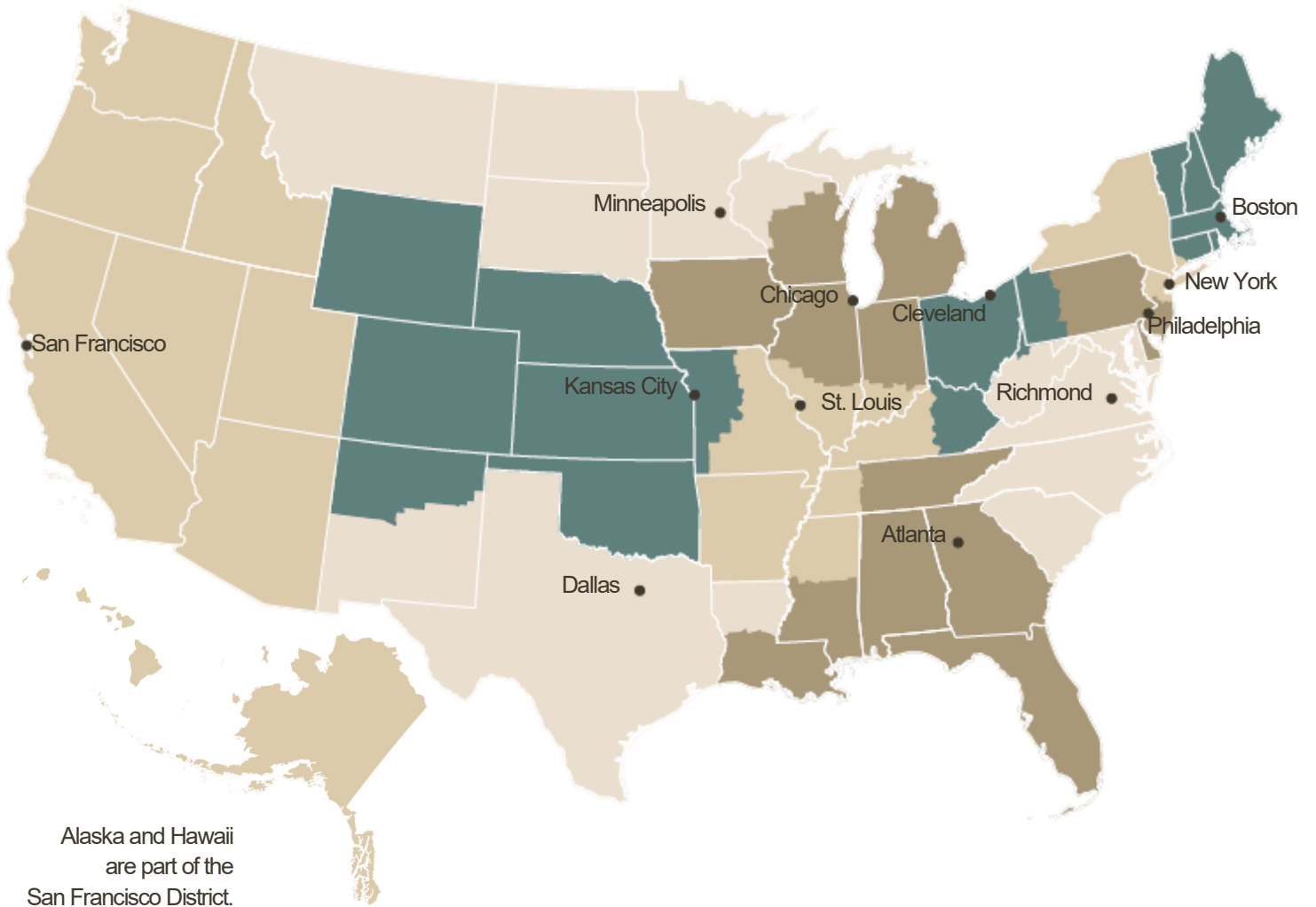
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Summary of Commentary on Current Economic Conditions

By Federal Reserve District

November 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 St. Louis based on information collected on or before November 17, 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 ■ November 2017

## Overall Economic Activity

Economic activity continued to increase at a modest to moderate pace in October and mid-November, according to anecdotal reports from contacts across the 12 Federal Reserve Districts. There was a slight improvement in the outlook among contacts in reporting Districts. Pre-holiday reports of consumer spending on retail and autos were mixed but largely flat; still, the outlook for holiday sales was generally optimistic. Many Districts highlighted growth in the transportation sector, although the New York District reported a slight softening and the San Francisco District noted that Northern California wildfires temporarily reduced shipping volumes. Residential real estate activity remained constrained, with most Districts reporting little growth in sales or construction. By contrast, nonresidential activity was consistent with previous reports of slight growth. Loan demand was steady to moderately stronger. All Districts reported that manufacturing activity expanded during the reporting period, with most describing growth as moderate. Among reporting Districts, manufacturing contacts predominantly expected activity to continue to pick up, although the Philadelphia and St. Louis Districts noted signs of a slowdown.

## Employment and Wages

Employment growth has increased since the previous report, with most Districts characterizing growth as modest to moderate. Reports of tightness in the labor market were widespread. Most Districts reported employers were having difficulties finding qualified workers across various skill levels, and several Districts reported that an inability to find workers with the required skills was a key factor restraining hiring plans. Wage growth was modest or moderate in most Districts. Wage increases were most notable for professional, technical, and production positions that remain difficult to fill. Many Districts reported that employers were raising wages as well as increasing their use of signing bonuses and other nonwage benefits to retain or attract employees.

## Prices

Price pressures have strengthened since the last report. Most Districts reported modest to moderate growth in selling prices and moderate increases in non-labor input costs. In particular, construction-material costs rose in most regions, with many Districts citing increased lumber costs and/or increases in demand for materials due to hurricane rebuilding efforts. Residential real estate prices generally increased as well. There were also reports of increases in costs in the transportation sector. Additionally, several Districts noted input cost increases in manufacturing. In many cases, these increases in transportation and manufacturing were passed through to consumers. Fuel prices also rose, with multiple Districts reporting upward pressure on oil and natural gas prices. However, agricultural price pressures remain mixed.

## Highlights by Federal Reserve District

### Boston

Economic activity continued to expand at a modest to moderate pace according to responding manufacturers, retailers, and staffing services firms. Labor markets remained tight and some employers reported modest wage increases. Price changes, if any, were limited. Respondents' outlooks continued to be positive.

### New York

Economic activity continued to expand moderately, while labor markets have remained tight. Input prices continued to rise moderately, and selling prices rose modestly. Housing markets and commercial real estate markets have been mixed but generally stable.

### Philadelphia

Overall, economic activity continued at a modest pace of growth, in particular for manufacturing, nonfinancial services, and tourism. Residential and nonresidential construction and real estate activity increased slightly, while auto sales and non-auto retail sales declined slightly. On balance, wages and prices continued to grow modestly, while employment resumed a modest pace of growth.

### Cleveland

Business activity increased from that of the previous reporting period, but the overall pace of growth was moderate. Upward pressure increased further on wages, non-labor input costs, and selling prices. Retailers noted a boost in store traffic. Capacity constraints in freight transportation tightened. The first-time home-buyer market may be negatively impacted by rising costs and low inventory.

### Richmond

The regional economy continued to grow at a moderate rate, overall. Manufacturing and transportation activity remained strong. Retailers were optimistic about the upcoming holiday shopping season. Residential home sales rose only modestly due to low inventories. Labor markets tightened further, which drove up wages for some workers. Price growth remained modest, overall.

### Atlanta

Economic conditions modestly improved since the previous report. Tightness in the labor market persisted and wages grew modestly. Non-labor costs remained little changed. Retail sales increased across most of the District. Tourism activity was mostly positive. Home sales were flat to down, and home prices improved slightly. Manufacturers indicated that activity modestly increased. Credit was available.

### Chicago

Economic activity increased slightly. Employment and manufacturing production increased modestly, while consumer spending, business spending, and construction and real estate activity increased slightly. Wages rose modestly and prices rose slightly. Financial conditions were little changed. Crop yields were below last year's records.

### St. Louis

Economic conditions have improved at a modest pace since our previous report. Labor market conditions remain tight, as most firms reported raising starting wages and salaries as a way to attract new workers. The outlook among firms surveyed in mid-November was generally optimistic. Though slightly weaker than the outlook from our mid-August survey, it is a modest improvement from the outlook one year ago.

### Minneapolis

Economic activity in the Ninth District grew modestly. Employment continued to grow, though constrained by tight labor and some isolated softness, including plant closures. Several indicators suggested that conditions in South Dakota were improving. Manufacturing remained upbeat, and commercial and residential real estate saw growth. Agriculture continued to struggle, as strong harvests were not expected to offset low commodity prices.

### Kansas City

Economic activity in the Tenth District increased moderately. Manufacturing and other business services expanded at a strong to moderate pace, and energy activity continued to increase modestly. Consumer spending was mostly flat, with moderate growth expected. Agricultural conditions weakened but at a slower pace, and many respondents noted increased hiring plans.

### Dallas

Economic activity grew moderately, and business had mostly returned to normal after Hurricane Harvey. The manufacturing sector remained a bright spot, and nonfinancial services activity continued to expand. Growth in the energy sector subsided, but there was increased optimism for 2018. Retail sales remained strong and auto sales were still elevated, but the initial post-hurricane surge had begun to recede. Labor shortages persisted, and there were widespread reports of increased wages.

### San Francisco

Economic activity in the Twelfth District continued to expand at a moderate pace. Sales of retail goods grew moderately, and growth in the consumer and business services sectors remained strong. Conditions in the manufacturing sector remained solid. Activity in residential real estate markets remained robust, while conditions in the commercial sector were strong. Lending activity grew at a moderate pace.



## Summary of Economic Activity

Business activity in the First District continued to expand at a modest to moderate pace in recent weeks. With a few exceptions, contacted retailers and manufacturers cited positive growth in sales or revenues. Most responding staffing firms also realized revenue gains, even in the face of limited available labor. Commercial real estate markets were said to be largely unchanged, with growth sectors and levels of activity varying across metro areas in the District. Most residential real estate markets in the region continued to be constrained by low inventories of homes for sale; meanwhile, median sales prices rose in five of the six New England states. Retailers and manufacturers retained positive outlooks about the US economy and customer demand.

### Employment and Wages

Respondents said hiring has generally been modest, partly because of short supplies of labor, and wage increases were becoming somewhat more widespread. A couple of retail contacts expected to offer 2018 merit raises on the order of 2 percent to 3 percent; retailers were hiring only in connection with new store openings. Only two manufacturing contacts reported significant hiring, both in semiconductor-related markets. A maker of testing equipment said that they were hiring mostly outside the United States; another indicated that salaries were rising significantly only for engineers who remain difficult to hire and retain. At staffing firms, bill rates and pay rates have reportedly begun to rise at a faster pace, and clients were offering more generous signing bonuses, paid leave, and other perks to attract talent.

### Prices

Business respondents indicated little change in prices or pricing practices. Retail contacts reported that selling prices mostly remained steady, though some items saw moderate 1 percent to 3 percent increases. None of our manufacturing contacts reported notable pricing strength or weakness.

### Retail

Retailers reported that sales in October through mid-November remained even or grew by mid-single-digit percentages compared to a year earlier. These increases principally came from new store openings or new business ventures, as year-over-year comparable-store sales were characterized by low single-digit decreases or growth of less than 1 percent. A couple of retailers said that weather conditions, both the hurricanes in the southeastern United States and warmer-than-usual fall weather in the Northeast, contributed to these modest comparable-store results. However, they also said the results were indicative of larger shifts in the US retail environment, along with changing demographics: Baby Boomers are now at ages when they spend less on consumer goods like clothing and housewares, while younger adults are more apt to shop online rather than in stores. A competitive retail environment has also taught consumers to wait for sales, such as the discounts offered on Black Friday and pre-Black Friday promotions.

The holiday season is expected to help bolster year-end revenues so that final fiscal year results show positive growth in the low single digits. Despite the challenging US retail environment that is prompting at least one contact to take a more conservative stance in 2018, most respondents said the US economy is strong and



this factor, combined with high employment and healthy labor markets, will encourage consumer spending.

### **Manufacturing and Related Services**

Of the eight firms we contacted this cycle, six reported year-on-year sales growth in the most recent quarter. The two exceptions were a furniture company which suspected that the weakness was largely seasonal and a paper manufacturer which said that sales were flat and that significant marketing was required to avoid declining sales. Three semiconductor-related firms reported strength. One of our contacts in that industry said that demand growth had previously been confined to the auto industry but that in recent months, other parts of their market expanded. A manufacturer of testing equipment said that most of their demand growth came from Europe, especially Germany, and that US growth was slowed by the hurricanes. A manufacturer of veterinary supplies said that people were willing to spend more and more on their pets. Two firms reported upward revisions to their capital spending plans, but both described them as idiosyncratic to the firm.

All the manufacturing respondents were optimistic about 2018. A maker of semiconductor equipment said that the industry may reach the peak of its cycle relatively soon.

### **Staffing Services**

New England staffing firms reported mixed results in year-over-year revenue growth, with the majority of respondents achieving positive growth. All firms remarked heavily on the sparse supply of labor and increased search cost in locating talent while noting that labor demand remains very strong across the board. Health and tech jobs were reportedly particularly difficult to fill. Several also noted that increasing options for job seekers were resulting in more declined job offers and putting pressure on hiring firms to improve their packages for prospective employees. Most are devoting resources to improving their recruitment, both in technological efficiency and increased advertising, looking for new ways to reach potential hires. Contacts expressed some concern over uncertainty in health insurance markets, local minimum wage increases, and potential changes in the federal tax code, and what these would mean for the labor market.

All respondents expected tight labor market conditions to continue into 2018, and most saw a more challenging market for staffing firms with increased competition for the remaining labor supply.

### **Commercial Real Estate**

According to contacts, commercial real estate fundamentals in the First District were mostly flat in recent weeks amid mixed leasing activity. Office leasing activity stayed light in Hartford and Portland and moderate in Providence, while robust activity was seen in downtown Boston. Class A office space has become quite scarce in Providence, resulting in competition among tenants and upward pressure on rents. Buyer demand for warehouse and industrial space remained strong throughout the region, but (except for one large transaction) sales were restrained by lack of inventory. There were signs of an uptick in condominium development activity in greater Boston, along with further moderation in apartment construction. Investment sales demand in Boston held steady or softened slightly, and prices for prime properties held steady. Office construction remained limited in New England, while construction by medical and educational institutions continued to strengthen, and in the Portland area hotel construction increased further. Most contacts expect either steady or improving fundamentals moving forward, but the outlook remained weaker for Hartford than for other major metro areas in the District.

### **Residential Real Estate**

Residential real estate markets in the First District continued to struggle with dwindling inventory and appreciating home prices (September prices constitute the most recent data in five of the seven areas, while New Hampshire and Vermont reported October-to-October changes). Closed sales for single family homes decreased in all areas but Maine and Vermont. For condos, closed sales were down in Massachusetts, Boston, and Connecticut, and up elsewhere.

As usual, many contacts cited upward pressure on prices as an issue resulting from the shortage of inventory. For single family homes, the median sales prices were up in all areas but Connecticut. Condo prices displayed a similar upward trend, except in Boston and Vermont.

Residential contacts expressed concern about the possible impact of the tax reform bill in Congress, which they feared could increase the cost of buying a home and disrupt the housing market. ■

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 continued to grow at a moderate pace in the latest reporting period, and the labor market has been steady and tight. Input prices continued to increase moderately, and selling prices continued to rise modestly. Manufacturers reported that growth slowed to a moderate pace, while businesses engaged in wholesale trade, leisure & hospitality, and professional & business services reported brisk growth. However, contacts in health & education services and transportation noted slight softening in activity. Consumer spending was generally steady since the last report, as was consumer confidence. Housing markets have been mixed, with particular weakness at the high end of both the sales and rental markets. Commercial real estate markets were steady, on balance. New residential development and office construction have slowed, but new industrial development has picked up. Finally, banks reported a pullback in demand for home mortgage loans and ongoing declines in delinquency rates across all loan categories.

### Employment and Wages

The labor market has been steady and tight. Employment agencies generally report that labor market conditions have been little changed. Still, one major New York City agency notes that hiring activity has been busy for this time of year. Businesses have reported ongoing difficulty finding qualified workers, particularly in manufacturing.

Business contacts across most industries indicated that they continue to increase staffing levels modestly. Similarly, hiring plans for the months ahead have remained moderately positive, on net, with particularly strong hiring expected in the finance sector. A contact in upstate New York noted that some retailers plan less seasonal hiring this year.

Overall, contacts indicated that wages have continued to rise modestly. Further, businesses in a broad range of industries said they plan to raise wages in the months ahead—most notably in the leisure & hospitality, education & health, transportation, and trade sectors.

### Prices

Input prices have continued to rise moderately in most industry sectors, with the exception of retail, where contacts reported more significant cost increases.

Selling prices overall continued to rise modestly, though contacts in the leisure & hospitality industries noted stronger price increases. But within that sector, for example, price increases have varied: while hotel room rates have been essentially flat, Broadway theater ticket prices have accelerated and were up more than 15 percent from a year earlier. In general, retail prices have been stable, though some general merchandise stores noted increased discounting. Looking ahead, the only sectors in which businesses planned any noticeable price hikes were in wholesale trade and transportation.

### Consumer Spending

Retail contacts reported that sales have been steady in recent weeks. Retailers in upstate New York indicated that both traffic and sales activity remained steady. Contacts in the New York City area gave a mixed assessment, but overall sales were little changed. Retail businesses were mildly optimistic about the near-term outlook, and inventories were said to be in good shape.

Auto sales have been mixed but, on balance, steady since the last report. Dealers in upstate New York reported that demand for new vehicles remained fairly robust in October but not quite on par with September's brisk levels. However, scattered increases were reported in used vehicle sales. Vehicle inventories were said to be a

bit on the high side but mostly at satisfactory levels. Retail and wholesale credit conditions have remained favorable, according to dealers.

Consumer confidence in the Middle Atlantic states (NY, NJ, PA), held steady at a high level in October.

### **Manufacturing and Distribution**

Manufacturers reported continued growth in business activity in recent weeks, though to a lesser degree than in recent months. Contacts in the wholesale trade sector noted a further acceleration in business, whereas transportation firms reported some pullback in activity. Looking ahead, manufacturers continued to express widespread optimism about the near-term outlook, while wholesale distributors and transportation firms were moderately optimistic.

### **Services**

Service-sector firms noted some pickup in growth. Contacts in leisure & hospitality and professional & business services reported fairly widespread increases in activity, while information industry firms indicated modest improvement. Education & health service providers indicated that activity was flat to slightly lower, on balance. Service sector businesses were generally optimistic about the near-term outlook—particularly those in business & professional services.

New York City hotels reported brisk business, though an expanding supply of hotel rooms, largely in a moderate price range, has held room rates down. Broadway theaters reported that attendance was flat to somewhat lower in October and early November and down from a year earlier. An authority on New York City's tourism industry noted that domestic tourism has been increasingly robust, while tourism from overseas has receded, though by less than had been expected.

### **Real Estate and Construction**

Housing markets across the District have been mixed but, on balance, stable. Real estate contacts in upstate New York report that sales volume has receded somewhat but remains quite strong, while prices have continued to climb, driven by sturdy demand and low inventories. Housing markets across New York State have exhibited a similar pattern, with prices statewide running about 6 percent ahead of a year ago. Northern New Jersey's market, in contrast, has seen sales volume growing but prices generally flat. Similarly, sales of New York City co-ops and condos have picked up, while prices have been mixed but overall flat—rising modestly at the low to middle range of the market but declining at

the high end. One contact noted that some newly-developed high-end properties have recently sold for roughly 25 percent below the initial asking price.

Rental markets have been steady to softer. Rents across New York City have edged down overall, again led by the high end of the market, where landlord concessions have remained steady at high levels. Manhattan's rental vacancy rate, though still quite low, has reportedly risen for three straight months.

Commercial real estate markets have been mixed. Office availability rates have climbed modestly in New York City and Long Island but have remained essentially flat across the rest of New York State, southwestern Connecticut and northern New Jersey. Asking rents have risen in Manhattan and upstate New York but remained flat elsewhere. The market for industrial space has remained fairly strong. In upstate New York, industrial rents have continued to rise at a nearly 10 percent pace, while vacancy rates have declined to multi-year lows. Industrial rents have risen at a more than 5 percent rate in downstate New York and northern New Jersey, while vacancy rates in those areas remain steady near multi-year lows. Retail vacancy rates have continued to rise across New York City.

New multi-family construction has wound down throughout the District, though a good deal of residential space remains under construction. New commercial development has slowed as well. New office development has picked up in Long Island but has largely ground to a halt elsewhere. New industrial development, on the other hand, has picked up in New York City's outer boroughs and in upstate New York and remains at a fairly brisk level in northern New Jersey.

### **Banking and Finance**

Small to medium-sized banks in the District reported lower demand for residential mortgages, higher demand for commercial mortgages and C&I loans, and steady demand for consumer loans. Bankers also reported that refinancing activity decreased, on balance, for all types of loans. Credit standards were reported to be unchanged across all loan categories. Bankers noted lower loan spreads for C&I loans, and unchanged spreads across all other loan categories. Finally, banks reported lower delinquency rates in all 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 of growth during the current Beige Book period. Manufacturing, nonfinancial services, and tourism grew modestly, while new home construction, existing home sales, nonresidential construction, and leasing appeared to grow slightly. Auto sales and nonauto retail sales appeared to decline slightly, after growing and remaining steady, respectively, during the prior period. On balance, employment resumed a modest pace of growth, and wages and prices continued to grow modestly. Overall, firms appear to anticipate continued growth over the next six months, but with a somewhat smaller percentage of firms expecting growth.

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### Employment and Wages

Employment resumed a modest pace of growth during the current Beige Book period following a lull during the prior period. Reports of net additions to staff rose for both manufacturing and nonmanufacturing firms. Average hours worked changed little over the period for manufacturing firms but dipped a bit among nonmanufacturers. Retailers reported little change to their typical hiring plans in preparation for the holidays.

On balance, wage growth held steady at a modest pace, with about 40 percent of nonmanufacturing firms reporting increases. Numerous firms have reported a lack of qualified labor for skilled positions or that they are offering a somewhat higher entry-level wage to attract labor. Staffing firms continued to report difficulties filling job orders and noted that an inordinate amount of their business is refilling positions due to turnovers, including quits by recent placements.

### Prices

On balance, price levels continued to rise modestly. Across all contacts, the percentage of firms reporting increases in prices received for their own goods and services was lower during the current period than the prior period. For prices paid, the percentage of manufac-

turing firms reporting increases changed little, while the percentage of nonmanufacturing firms rose. A majority of contacts indicated no change in prices paid and received.

Retailers and banking contacts continued to report no signs of inflationary pressure, while homebuilders, reported increases for a broadening array of construction materials, including lumber and products containing petroleum. Overall, existing home prices continued to edge up, with some variance across markets and price categories.

Looking ahead one year, firms anticipate a 2.1 percent increase in prices received for their own goods and services — a bit lower than one quarter prior. Firms also reported expectations of about 2.4 percent annual inflation for consumers — also lower than earlier in the fall.

### Manufacturing

On balance, manufacturing activity continued at a modest pace of growth, but signs of a slowdown emerged. The percentage of firms reporting increases in new orders and shipments fell compared with the prior period.

The makers of paper products, chemicals, primary metal products, fabricated metal products, and industrial ma-

chinery continued to note gains in new orders and shipments; firms in the lumber and electronic equipment sectors reported declines in activity.

Generally, manufacturing contacts continued to expect growth over the next six months. The percentage of firms expecting future increases for general activity dipped somewhat but remains above 50 percent. However, the percentage of firms expecting increases held mostly steady regarding future capital expenditures and rose a bit for future employment.

### **Consumer Spending**

On balance, nonauto retail sales may have fallen slightly, essentially little changed from the prior Beige Book period. Mall and outlets operators noted that unseasonably warm weather depressed sales of winter apparel. An outlets operator reported that overall October sales were flat compared with last year. Convenience store contacts reported that business remained soft, as customers chase value and competition expands.

Auto dealers reported slight declines overall in year-over-year sales this period, a retreat from the modest increases during the prior period. Dealers were hopeful for stronger sales at year end, beginning with Black Friday, to boost 2017 totals. Manufacturers continued to provide incentives for dealers to sustain sales.

Tourism contacts generally indicated a continuation of modest growth. A Philadelphia analyst reported that overall travel demand remains stronger than in the prior year period, locally and nationally. In September, Atlantic City's casino revenues resumed a modest rate of growth relative to the prior year and sustained that growth in October. A Delaware shore hotel operator noted some weakening of rooms booked, room rates, and overall levels of spending at area stores and restaurants; however, the prior year had been very strong.

### **Nonfinancial Services**

Service-sector firms have continued to report modest growth in general activity since the prior Beige Book period; however, new orders and sales softened somewhat, as did reports of general activity. Expectations about future growth have lessened somewhat since the prior Beige Book period but remained positive, with about 50 percent of the firms anticipating increased activity.

### **Financial Services**

Financial firms reported modest growth of overall loan volumes (excluding credit cards) — similar to the prior

Beige Book period. Loan volumes grew modestly in most categories, including mortgages, commercial real estate, commercial and industrial loans, and other consumer loans. Growth in auto loan volumes was stronger, while home equity lines were flat over the period. Credit card volumes — which are highly seasonal — changed little over the Beige Book period, which is similar to the same period last year.

Banking contacts tended to describe economic growth as slow and steady. On balance, loan portfolios were described as healthy, with low delinquencies and no significant signs of concern.

### **Real Estate and Construction**

After little change through the summer and early fall, homebuilders generally reported a slight pickup in activity during the current period, particularly in the early weeks of November. In one area where single-family home construction remained weak, a builder noted that demand for remodeling work was strong.

On balance, brokers in Third District housing markets reported that ongoing weak inventory levels have slowed existing home sales to a slight pace of growth in the current period. Vacation home markets are an exception due to a recent resurgence of second home purchases.

Nonresidential real estate contacts continued to report slight growth at high levels in construction activity. Architecture and engineering contacts reported record years, with particularly strong demand for institutional and energy-related projects. Industrial/warehouse markets throughout the Third District are generally characterized by rising rates and ongoing strong demand for new construction. Leasing activity also appeared to grow slightly, although markets vary significantly by sector and geography. ■

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



# Federal Reserve Bank of Cleveland

The Beige Book ■ November 2017

## Summary of Economic Activity

Business activity grew at a moderate pace in the Fourth District since our last report. Labor markets continued to tighten. Challenges in attracting and retaining qualified workers contributed to wage pressures. Supply chain disruptions furthered upward pressure on input costs. Retailers saw a boost in brick-and-mortar traffic, while new motor vehicle sales strengthened. Manufacturing output grew at a modest pace overall, but production at District motor vehicle assembly plants trended lower. Nonfinancial services and freight transport firms saw moderate to strong gains in activity. Homebuilders and realtors expressed concern about the impact of rising home prices on the first-time buyer market. Activity in commercial real estate remained elevated.

### Employment and Wages

A boost in hiring that began in the third quarter continued during the survey period. The strongest activity was found in the construction and nonfinancial services sectors. Retailers reported a seasonal increase in payrolls. The spike in bank hiring late in the third quarter has faded. Staffing changes at banks are now in line with levels seen for most of 2017. A majority of contacts reported they are replacing departed workers and that the share of firms creating new jobs remains high. Attracting and retaining qualified workers, both low- and high-skilled, is a challenge facing many of our contacts across industry sectors. A growing number of firms reported increasing wages more frequently or giving mid-year bonuses as a means of retention. The strongest wage pressures were found in the banking and retail sectors.

### Prices

Upward pressure on input costs remained strong, while the share of contacts who reported they were increasing selling prices was at its highest level since the end of the second quarter. Higher input costs were widespread in the construction, manufacturing, and nonfinancial services sectors. Construction contractors generally attributed higher materials prices to rebuilding efforts resulting

from recent hurricanes and ongoing disputes with Canada over lumber tariffs. Manufacturers cited hurricane-related damage to petrochemical plants as the primary reason for near-term price spikes for a wide-range of petrochemical products. One report indicated that the price of resins has risen 20 percent. Another manufacturer pointed to speculation driving up commodity prices to unsustainably high levels, causing material costs to grow significantly. However, he expects these prices to fall from these high levels. The home building and freight hauling industries reported the highest share of companies raising their selling prices. Several freight haulers reported that FEMA contracted with carriers from across the country to assist in hurricane rebuilding, further limiting freight capacity, which is already tight. The end result is a boost in freight rates and higher labor costs. Once the hurricane damage is overcome, expectations are that freight rates will decline.

### Consumer Spending

Retailers' outlooks were generally more upbeat when compared to their outlooks during recent reporting periods. A few contacts noted that efforts to improve the customers' shopping experiences, including technology upgrades, have resulted in increased store traffic. A specialty apparel chain reported that consumers seemed



a little more confident and that the chain's products are resonating with customers. A furniture retailer said that despite higher expectations set earlier in the year, he is still experiencing revenue growth across his stores ranging from 2 percent to 5 percent. Most contacts are cautiously optimistic heading into the holiday shopping season. Year-to-date unit sales through September of new motor vehicles rose 2 percent compared to those of a year ago. That said, auto dealers reported that they are starting to see a slowing in demand after seven consecutive years of gains. One OEM remarked that the outlook for 2018 and 2019 is uncertain, but early projections call for new vehicle transactions nationally to decline about 2 percent from 2017 levels.

### **Manufacturing**

Little change was seen in the manufacturing sector during the period, with output largely expanding at a modest pace. The strongest levels of activity were reported by suppliers to the aerospace, consumer electronics, motor vehicle, oil and gas, and residential construction industries. An aerospace executive noted that her industry is reporting strong backlogs and order books and more aggressive production schedules. Steel producers and service centers are seeing rising volume. One service center indicated that volume increased 13 percent when compared to year-ago levels. Year-to-date production through September at District auto assembly plants declined about 20 percent when compared to that of the same period a year earlier. The decrease can be attributed to retooling for two next-generation vehicles and to cutbacks in small passenger car production. Manufacturers reported an increase in spending for plant expansions and product development after spending declines in the third quarter. The outlook by our contacts calls for a gradual pickup in the pace of growth in the near term.

### **Real Estate and Construction**

Year-to-date unit sales through September of new and existing single-family homes increased 1 percent compared to those of a year earlier. The average sales price rose 5 percent. Homebuilders are concerned about rising input costs (land, development, materials, and labor) and the negative impact these costs may have on the first-time buyer market. One builder reported that he can no longer build a starter home for less than \$200,000. A realtor noted that although the market is seeing a high number of first-time buyers, the major challenge is a shortage of properties, a limitation which results in multiple-offer situations.

Comments from commercial contractors were mainly unchanged from our last report. Activity remains at elevated levels. Property development was broad based except in retail, for which demand continued to be weak. Backlogs were stable at high levels. The downturn in inquires cited in the third quarter has abated. A moderate increase was reported in selling prices for office and industrial properties during the first nine months of 2017 compared to those of the same period a year ago. During the same time-frame, reports indicated a decline in the number of apartments coming on the market. Apartment rents continued to trend moderately higher.

### **Banking**

Business and consumer lending increased during the period, but both segments reported a modest pace of growth. On the business side, M&A financing and CRE loans are healthy, while the market for C&I loans to manufacturers is soft. Indirect auto lending and purchase mortgages remain relatively strong. When asked about why lending is not growing at a more robust pace, one banker reported that because of government uncertainty, customers are moving back to the sidelines. Another contact said that although the economic environment is positive, it is not yet strong. Some bankers mentioned their uncertainty about how much of their market share is being captured by non-bank lenders, especially for C&I loans. Credit quality was stable at a strong level.

### **Nonfinancial Services**

Freight volume generally increased beyond what can be accounted for by seasonal factors. Rail and trucking firms cited growth in manufacturing output and the energy sector and a need to deliver supplies for hurricane relief as driving stronger demand. There is concern about the industry's facing capacity constraints by year's end because of electronic logging device requirements and rebuilding from recent hurricanes.

Professional and business services firms saw moderate to strong gains in activity during the period. Engineering and architecture firms attributed the gains to clients' rising capital budgets. One architect reported a two-year backlog. An IT firm remarked that clients continue to migrate toward cloud-based solutions versus premise-based solutions as clients struggle to staff their own IT departments. ■



## Summary of Economic Activity

The Fifth District economy grew at a moderate rate since our last Beige Book report. Manufacturers noted a moderate rise in new orders and shipments, and they generally expected strong growth over the next six months. District ports continued to see high volumes, particularly for imports. Trucking firms reported robust growth, in part due to relief shipments being sent to hurricane-affected areas. Retailers were optimistic ahead of the holiday shopping season. Tourism remained robust as mild weather helped boost activity. Residential home sales rose modestly and the inventory of houses for sale remained low. Commercial real estate leasing increased moderately. Residential loan demand was little changed in recent weeks, while commercial, small business, and agriculture lending picked up. Nonfinancial services firms reported moderate revenue growth. The demand for labor increased moderately in recent weeks while wage increases remained modest. Prices continued to grow at a modest pace.

### Employment and Wages

The demand for labor strengthened moderately in recent weeks as employment agencies reported growth in new job openings across all industries and anticipated continued high demand for the rest of the year. Employers continued to report a tight labor market with limited supply of qualified candidates. Executives noted difficulty finding skilled mechanics, electricians, engineers, information technology specialists, hospitality workers, nurses, truck drivers, construction managers, and construction workers. Additionally, retailers had difficulties finding extra seasonal help. Wage increases remained modest, overall, but contacts continued to suggest that wage pressures increased. In particular, wages reportedly rose for airport workers, truck drivers, and for some nonfinancial services workers that were in high demand.

### Prices

Since our previous report, prices continued to grow at a moderate rate. According to our latest surveys, manufacturing input prices rose moderately while final goods prices rose more modestly. There were reports of manufacturers paying higher prices for plastics, lumber, copper, electricity, and freight. Additionally, a paper manufacturer noted a substantial increase in pulp prices. In the service sector, price growth remained modest overall, with some instances of larger price increases. For

example, an IT service provider noted that it was able to raise prices considerably in recent months without losing any customers. Likewise, an elevator servicing firm was raising prices substantially across all lines of business (routine service, repair, and modernization). Food services firms reported modest price increases across many food categories. Both manufacturing and services firms commented on rising health insurance costs.

### Manufacturing

On balance, manufacturing firms reported moderate growth in new orders and shipments in recent weeks. Manufacturers of plastic, rubber, paper, and transportation equipment noted strong growth in new orders. Also, electrical and medical equipment producers saw increased sales. Contacts experienced longer vendor lead times, and some businesses continued to report delayed customer shipments due to Hurricane Irma and Hurricane Harvey. Expectations were more upbeat, as producers anticipated strong increases in new orders and shipments for the next six months.

### Ports and Transportation

District ports reported increases in shipments in recent months, driven mainly by growth in imports. One District port noted that it handled more volume in October than in any month on record. Ports remained optimistic that



shipments would remain high in the near future.

Trucking companies in the District saw robust business growth in recent months. Firms continued to report increased demand and higher prices as relief shipments were sent to hurricane affected areas. A shortage of drivers has persisted in the District, even as firms raised wages, leading some trucking companies to turn away business.

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

Reports on retail sales were somewhat positive in recent weeks. Many District retailers noted moderate growth in sales so far this year and were optimistic heading into the holiday season. A Virginia home decor store reported customer traffic above the seasonal norm and strong sales even as prices rose. On the downside, some small clothing stores saw slightly weaker sales. A South Carolina auto dealer reported robust growth. However, a Virginia auto dealer reported a drop in sales of high-end vehicles.

Tourism has remained robust since our previous report. Hotels across the District reported that bookings were up over last year, and a South Carolina hotel had record revenues in October. A Virginia resort attributed recent increases in bookings and golfing to good weather. Conversely, visits to D.C. museums and monuments fell slightly.

### **Real Estate and Construction**

Residential real estate firms indicated modest growth, overall. District agents reported steady levels of buyer traffic, although home sales rose only modestly due to very limited inventory. Home prices continued to rise modestly. Average days on the market decreased since the previous report, as most contacts stated that homes were on the market for about 45 days. In some markets, brokers said that they have seen more appraisals coming in under contract price due to limited comparable home sales. Although new home sales continued to improve modestly, new home construction remained subdued.

Commercial real estate leasing rose moderately in recent weeks. Contacts reported increased leasing activity for large industrial space and small retail space, while office leasing rose modestly for urban class A space. Vacancy rates remained low across all sub-markets. In particular, brokers said that large industrial and distribution spaces were in high demand, but limited supply. Rental rates increased moderately for retail and industrial spaces, and some executives reported modest increases for urban office space. Commercial construction increased for several types of structures, including indus-

trial, class A office, grocery-anchored shopping centers, and medical projects. Brokers indicated that the number of newly announced multifamily construction projects decreased across the District.

### **Banking and Finance**

On the whole, loan demand increased modestly since our previous report. Residential mortgage demand was generally characterized as stable. A lender in Virginia reported an increase in mortgage loans, but attributed it to more advertising and concessions on closing costs. Meanwhile, a banker in North Carolina said the low inventory of homes for sale was restraining mortgage loan growth. Commercial lending activity rose moderately in recent weeks. A banker in Baltimore saw an increase in commercial real estate lending for multi-family and senior housing facilities. Small business and agriculture lending rose modestly, according to contacts in Virginia and North Carolina. On balance, interest rates and net interest margins increased slightly in recent weeks. Credit quality remained strong while credit standards were generally unchanged.

### **Non-Financial Services**

District services firms reported moderate growth in revenues in recent weeks. The strongest reports came from wholesalers, telecom firms, performing arts centers, vehicle repair services, and utilities. A contact from a Maryland utility company said business was growing week after week. Likewise, a Virginia natural gas utility reported that revenues were growing as temperatures were falling in recent weeks. Business also picked up for legal firms, accounting firms, defense contractors, and IT service providers across the District. ■

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

Reports from Sixth District business contacts described economic conditions as modestly improving since the previous report. Most businesses continue to expect slow and steady growth for the remainder of the year. District firms continued to describe a tight labor market as many faced difficulty finding workers. Wage growth remained modest. On balance, nonlabor input costs were stable. Retail sales, including auto, increased across most of the District. Reports from the hospitality sector were mostly positive. Residential real estate contacts noted that home sales were flat to down, although home prices improved modestly from the previous report. Commercial real estate contacts continued to report that the pace of construction had picked up from a year ago. Manufacturers indicated that activity grew at a modest pace since the previous report. Bankers reported that ample credit was available.

### Employment and Wages

The District, specifically Florida, incurred notable payroll losses in September because of Hurricane Irma. Contacts continued to cite challenges filling highly skilled/specialized and low-skilled/entry-level positions. Several firms noted broadening their geographical search for candidates, and some expanded their physical presence to new locations where they expected more abundant labor supply. In a survey of business contacts, most respondents indicated that they planned to increase employment over the next 12 months as a result of expected sales growth, a need for skills not possessed by current staff, and to mitigate concerns about current staff being overworked. The top factors restraining hiring plans were challenges finding workers with required skills and a desire to keep operating costs low. Amidst these challenges, in an effort to attract workers, most respondents reported that they raised wages, signing bonuses, or total compensation offered.

Contacts continued to report some wage growth, with acceleration in highly skilled/specialized positions or in highly competitive geographic labor markets. Firms continued to use non-wage mechanisms to attract and to retain talent and keep wages down. Business contacts continued to describe efforts to enhance and modernize their corporate culture in order to encourage people to join the firm and to build loyalty among existing employees. Staffing agencies shared that from the job seeker's

perspective, these non-wage mechanisms were increasing in importance as compared with compensation.

### Prices

While the majority of non-labor input cost changes reported were modest, several contacts mentioned a recent uptick in costs, most notably in transportation. Contacts also reported little pricing power. The Atlanta Fed's Business Inflation Expectations survey showed year-over-year unit costs were up 1.7 percent in October. Survey respondents also indicated that they expect unit costs to rise 1.8 percent over the next twelve months.

### Consumer Spending and Tourism

Most District retailers reported that sales levels rose modestly since the last report. The outlook remains optimistic for the upcoming holiday season. Post Hurricane Irma, automobile dealers noted an increase in the momentum of auto sales.

District contacts noted that Florida tourism activity bounced back after Hurricane Irma with the exception of the Florida Keys. Marketing efforts across various cities emphasized that the state was open for tourism. Georgia and Louisiana contacts reported continued growth in business, leisure, and group travel. Year to date, Mississippi casino gaming revenues decreased compared to a year ago. The outlook among most contacts for the first quarter of 2018 remains optimistic.

## Construction and Real Estate

Relative to a year-ago, District brokers and builders indicated home sales were flat to down in September. Most builders reported that buyer traffic was flat to down, while brokers gave mixed reports. Builders cited flat to higher inventory levels, while most brokers noted lower inventories. Most builders and brokers reported that home prices increased in September. Builder reports on construction activity came in mixed. The majority of builders reported labor cost increases from year-ago levels and most said material costs had increased over the same period. Over the next three months, many contacts expect home sales to be flat and construction activity to hold steady or increase slightly. The majority of builders and half of broker respondents indicated that Irma had an impact on their business and that they faced higher material prices, a shortage of materials in some cases, tighter than normal labor markets, less buyer traffic, and activity and sales delays.

Many commercial real estate contacts reported improvements in demand that resulted in rent growth and continued to caution that improvement varied by metropolitan area, submarket, and property type. The majority of contractors indicated that the pace of nonresidential construction activity had increased from one year ago; most reported healthy backlogs. Commercial construction contacts' expectations for the pace of nonresidential construction were mixed, while their outlook for the pace of multifamily construction continued to level off.

## Manufacturing

Manufacturers reported that business activity expanded at a modest pace compared with the previous period. Contacts indicated that production levels decreased, while new orders and finished inventory levels remained relatively flat. Hiring activity increased at a healthy pace and supplier delivery times were reported to be slightly longer than in the previous report. Purchasing managers stated that input prices continued to increase. Contacts' outlooks for future production were relatively unchanged from the previous period, with about half expecting higher production levels over the next six months.

## Transportation

On balance, transportation activity in the District was relatively unchanged since the previous report. Year to date, total rail traffic was down compared with year earlier levels, as shipments of grain, petroleum and petroleum products, and metallic ores declined by double digits. These were only slightly offset by modest increases in movements of pulp and paper products, non-metallic minerals, and coal. Intermodal traffic continued to improve. Port contacts reported sustained growth in con-

tainer trade. Truck freight volumes accelerated further and increased shipments of rebuilding supplies to Texas and Florida contributed to capacity constraints in the aftermath of Hurricanes Harvey and Irma. Logistics contacts reported that they anticipate considerable year-over-year increases in e-commerce shipments during the holiday season.

## Banking and Finance

Credit remained readily available for most qualified borrowers, although some contacts faced challenges obtaining financing for long-term residential developments. Credit tightened somewhat for energy-related industries. Liquidity was plentiful, but some banking contacts reported pressure to increase deposit rates. Some bankers noted increased competition for loans.

## Energy

Overall, energy contacts reported a steady pace of activity. They noted that the new natural gas pipeline capacity that came online was facilitating the demand for export of liquid natural gas. Both crude oil and gasoline inventories continued to decrease; however, levels were higher than the average range. Contacts reported that industrial and commercial utility usage remained flat. Broadly, utility contacts indicated they are preparing for a colder winter than the previous year.

## Agriculture

Agriculture conditions across the District were mixed. Most of the District remained drought free although parts of Alabama, Georgia, Louisiana, and Mississippi were classified as abnormally dry or in moderate drought conditions. Initial assessments of Hurricane Irma's damage to Florida's agriculture industry indicated that citrus growers felt the biggest impact; nursery crops, sugarcane, vegetable and non-citrus fruit, cattle, and dairy also reported losses. Compared to last year, District crop production forecasts were up for soybeans, peanuts, cotton, and sugarcane, and down for rice and pecans. On a year-over-year basis, prices paid to farmers in September were up for corn, rice, oranges, broilers, and eggs and were down for cotton, soybeans, and beef. ■

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

Economic activity in the Seventh District increased slightly in October and early November, but contacts expected growth to accelerate to a moderate pace over the next 6 to 12 months. Employment and manufacturing production increased modestly, while consumer spending, business spending, and construction and real estate activity increased slightly. Wages rose modestly and prices rose slightly. Financial conditions were little changed. Crop yields were below last year's record.

### Employment and Wages

Employment growth continued at a modest pace over the reporting period, and contacts expected it to continue at that rate over the next 6 to 12 months. Contacts continued to indicate that the labor market was tight and reported difficulty filling positions at all skill levels. A manufacturing firm reported turning down business because it was unable to find qualified workers. To address the challenge of finding qualified workers, firms reported that they were raising compensation, increasing advertising for positions, and training less-qualified new hires. Hiring was focused on professional and technical, sales, and production workers. That said, a staffing firm that primarily supplies manufacturers with production workers reported little change in billable hours. Wage growth remained modest overall. Contacts raising wages were more likely to do so for select roles than for all workers. Wage increases were more prevalent for professional and technical, sales, and production workers. There was also a notable increase in the number of firms reporting wage increases for management positions.

### Prices

Overall, prices increased slightly in October and early November. Retail prices were little changed for most categories of spending. A number of contacts again

reported increases in costs for raw materials, particularly construction materials. Most firms reported rising benefits costs.

### Consumer Spending

Consumer spending increased slightly over the reporting period. Non-auto retail sales were up slightly, with gains reported in the furniture, electronics, entertainment, and food and beverage sectors, but declines reported in the apparel sector. A contact noted that Halloween sales were stronger than expected and that this was a positive indicator for the holiday season. New light vehicle sales in the District moved down. One dealer indicated that the decline was concentrated in the high-end segment. Used vehicle sales were little changed.

### Business Spending

Business spending increased slightly in October and early November. Retail and manufacturing contacts indicated that inventories were generally at comfortable levels. Capital spending increased slightly, and contacts expected spending to increase modestly over the next six to twelve months. Outlays were primarily for replacing industrial and IT equipment and for renovating structures, though there was again an increase in the number of contacts reporting spending for capacity expansion.

Demand for residential, commercial, and industrial energy was flat, as a slight increase in the number of commercial hook-ups was offset by improvements in customers' energy efficiency. Demand for transportation services increased moderately.

### **Construction and Real Estate**

Construction and real estate activity increased slightly on balance over the reporting period. Residential construction edged higher. In the low-priced single-family segment, contacts indicated that few large-scale developments were in progress, and that only large developers with good credit were undertaking these projects. Home sales were flat in recent weeks as low inventory levels in the starter home segment continued to constrain sales. There were reports that starter homes were receiving multiple offers and closing well above asking prices. In contrast, sales of high-priced homes lagged. Home prices edged higher overall, but varied by price level: prices increased noticeably for homes under \$250,000, modestly for homes between \$250,000 and \$500,000, and were down slightly for homes over \$500,000. Non-residential construction increased slightly, with growth spread across market segments. Commercial real estate activity also increased slightly and was at a strong level. That said, demand for large brick and mortar retail space continued to fall from an already low point. Commercial rents and vacancy rates edged lower, but the availability of sublease space edged higher.

### **Manufacturing**

Growth in manufacturing production continued at a modest pace in October and early November. Activity in the auto and aerospace sectors picked up slightly. Steel production was little changed but remained at a healthy level. Demand for heavy machinery increased steadily, with growth spread across the construction, mining, and utilities sectors. One contact indicated that exports to Canada were artificially high as stricter regulations on emissions that begin in 2018 pulled sales into late 2017. Order books for specialty metals manufacturers increased modestly, with growth spread across a wide variety of sectors. Manufacturers of construction materials continued to report slow but steady increases in shipments, in line with the pace of improvement in construction.

### **Banking and Finance**

Financial conditions were little changed on balance over the reporting period. Market participants noted that volatility continued to be low. Business loan volume was flat

and loan quality was unchanged. Consumer loan volume was also little changed on balance. Demand for both home and auto loans edged down, with contacts noting an uptick in delinquencies in auto loan payments. An auto dealer reported that credit had tightened noticeably for buyers with credit scores at the lower end of the subprime category. Credit card volume increased slightly and quality was unchanged.

### **Agriculture**

Crop yields in the District were below last year's record. Widespread rains slowed the harvest, but helped areas that had been experiencing drought conditions. With both corn and soybean prices lower than a year ago, farm revenues were expected to be down. Contacts indicated that some crop operations would be unable to cover their expenses, which led to a deterioration in agricultural credit conditions and spurred sales of assets to cover losses. In some cases, higher livestock income helped offset crop losses. Hog and cattle prices moved up during the reporting period, leading to plans for expanded production. Milk prices were lower, but cheese prices stayed high. ■

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





## Summary of Economic Activity

Economic conditions in the District have improved at a modest pace since our previous report. Labor market conditions remain tight as most firms reported raising starting wages and salaries as a way to attract new workers. Reports on consumer spending were somewhat weak, and reports from other nonfinancial service firms were mixed. Manufacturing contacts reported slight growth, and banking conditions improved moderately. The outlook among District firms surveyed in mid-November was generally optimistic. On net, 49 percent of contacts expect District economic conditions in 2018 to be better or somewhat better than 2017. This outlook was slightly weaker than the outlook from the mid-August survey, but it is a modest improvement from the outlook one year ago.

### Employment and Wages

Employment has increased modestly since the previous report. Of the business contacts surveyed in early November, on net, one-third of contacts reported that employment was higher or slightly higher than a year ago. Of those hiring, over half expect to increase their firm's employment over the next year, while 40 percent expect to hire only to replace departing workers. Contacts cited growth of sales, a need for skills not possessed by their current staff, and overworked staff as the top factors for hiring. Contacts cited an inability to find workers with the required skills as a key factor restraining hiring plans, behind only a desire to keep operating costs low.

Contacts have reported moderate wage growth since the previous report, as tightness in the labor market has resulted in upward pressure on wages. On net, 61 percent of contacts reported wages were higher or slightly higher than a year ago, and 68 percent reported increases in labor costs. Nearly 80 percent of those hiring reported raising starting wages or salaries to attract new hires, while about two-thirds reported raising wages or salaries to retain existing employees.

### Prices

Price pressures have continued to increase modestly. Overall, prices charged to consumers increased slightly,

but the pace of growth slowed during the fourth quarter. On net, 15 percent of business contacts reported that prices charged to customers were higher than a year ago. Conversely, growth in non-labor costs was moderate. On net, 45 percent of contacts reported that costs were higher than a year ago.

Multiple contacts in Louisville reported rising construction costs, and a Memphis contact noted a significant increase in lumber prices. In the energy sector, coal prices increased moderately.

### Consumer Spending

Reports from general retailers, auto dealers, and hoteliers indicate consumer spending has slightly declined since our previous report. Although October real sales tax collections increased in Kentucky and Tennessee, they decreased in Missouri and Arkansas. Multiple auto dealers reported a decline in sales, which have failed to meet their expectations during 2017. Memphis and Louisville dealers noted a shift in demand away from used vehicles. Reports from hospitality contacts were mixed.

### Manufacturing

Manufacturing activity has increased slightly since our previous report, although the pace of growth has continued to slow. In a recent survey, contacts reported that production and capacity utilization were unchanged in

the fourth quarter relative to one year ago, while a slight majority on net reported an increase in new orders. The results are down from this time last year, when over half of contacts on net reported increases in production and capacity utilization and over one-fourth reported increases in new orders. Contacts are also less optimistic about the next quarter, with only around 10 percent on net expecting increases in production, capacity utilization, and new orders, compared with over three-fourths expecting increases in all three areas at this time last year. Despite the weaker outlook, several companies reported new capital expenditure and facility expansion plans, including firms that manufacture transportation equipment and food products. In addition, some contacts reported supply disruptions as a result of hurricanes, and other contacts expressed concern about a slowdown in the auto industry.

### **Nonfinancial Services**

Conditions in the service sector weakened from the previous period, but remain positive on net. Reports of fourth-quarter sales were mixed. About one-third of contacts reported higher dollar sales in the current quarter than this time last year; however, one-third reported lower dollar sales. Despite mixed sales reports, about two-thirds of transportation and service contacts reported that sales met or exceeded expectations. Over half of contacts expect sales to be higher in the next quarter than they were last year. Firms that provide information technology services reported plans to expand facilities and hire employees. Reports from the healthcare sector indicate modest growth since the previous period. Healthcare contacts report that heightened uncertainty surrounding policy decisions over the past year has become an operating norm, and some providers are moving forward with small capital expansions.

### **Real Estate and Construction**

Residential real estate activity has remained unchanged since the previous report. Seasonally adjusted home sales for September were flat relative to the previous month across the District's four largest MSAs. Local contacts continued to report that shortages in inventory have hindered sales; on net, about one-quarter of contacts reported that sales have fallen short of expectations halfway through the fourth quarter.

Residential construction activity improved modestly. September permit activity increased moderately relative to the prior month. However, few contacts indicated that construction activity has increased compared with a year ago. Local contacts continued to report that a shortage of labor is preventing homebuilders from meeting demand.

Commercial real estate activity has improved modestly since the previous report. Contacts reported relatively strong demand for most property types, particularly office and industrial. These trends are expected to continue into the first quarter of 2018.

Commercial construction activity remained flat. Several Memphis contractors continued to report optimism regarding future projects. New multifamily construction continued, and contacts indicated that the level of activity has been the same relative to a year ago. New hotel development also continued in the major MSAs. Similar to residential markets, contacts reported labor shortages negatively impacting activity.

### **Banking and Finance**

Banking conditions have improved at a moderate pace since the previous report. Banking contacts reported overall loan demand increased moderately relative to last year; however, the pace of loan growth continues to steadily slow. Demand for auto loans declined for a second straight quarter, though bankers anticipate that auto lending standards could loosen modestly next quarter. Mortgage demand expanded at the fastest rate among major loan categories, while demand for business lending was unchanged relative to year-ago levels. After trending up the past few quarters, delinquencies declined moderately across all loan types. District banks are expanding the geographic market areas they serve as competitive pressures from other lenders continue to increase.

### **Agriculture and Natural Resources**

Agriculture conditions have improved moderately since the previous reporting period, although farmers continue to struggle with low crop prices. Expected yields for corn, cotton, rice, and soybeans were all higher in mid-November than they were in mid-October. The mid-November expectations were also higher than realized levels in 2016. Expected corn yields saw the largest improvement, with November expectations 3 percent above October expectations. Contacts concurred with the projections for all four crops, noting that there will be record yields in a lot of areas.

Natural resource extraction conditions declined slightly from September to October, with seasonally adjusted production declining a half a percent. October production was also down 3 percent from a 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 modestly, with solid hiring demand dampened by tight labor. Wage and price pressures were both moderate. The District economy showed varying growth in consumer spending, services, residential construction, commercial and residential real estate, manufacturing, energy, and mining. But commercial construction dipped slightly, and agriculture remained weak.

### Employment and Wages

Employment grew modestly since the last report. Hiring demand remained solid overall. Two employers in western Wisconsin announced immediate hiring of 100 workers. A regional health system with facilities in multiple District states noted that it had 1,100 regular openings. October online job openings in North Dakota were flat compared with a year earlier, but that was a notable improvement compared with the previous six months. Two separate surveys showed that hiring sentiment in South Dakota turned modestly positive in October after months of negative sentiment, and sentiment in Minnesota and North Dakota remained positive. Labor markets remained tight. District initial unemployment claims in October were 17 percent lower than a year earlier. A southern Minnesota manufacturer had 100 openings and could open two more lines of production “but can’t find workers,” according to a local contact. Figures from Montana Jobs Services showed that active job seekers there were roughly one-third lower in October than a year earlier. A Minnesota staffing contact said current hiring demand was 5 percent higher than last year, but turnover remained high, and “we continue to see fewer candidates.” However, there were notable signs of softness in some regional markets. In Minnesota, a printing plant, a papermaker, and a food processor all announced plant closures, including layoffs of 335, 150, and 200, respectively.

Wages rose moderately overall since the last report, though accounts varied. A Minneapolis-St. Paul staffing contact said his firm was seeing “a ton of wage pressure this year,” with increases of 5 percent to 7 percent. A small ad hoc survey of Minnesota firms found that wages were expected to rise 2 percent to 3 percent in the coming year. A Montana contact said employers “across the board” were raising wages to attract employees. A North Dakota workforce source said wages there were “trickling up.” A rural Wisconsin banker noted that tight labor was pushing up starting wages, but longer-term employees were seeing smaller increases similar to previous years. A northern Minnesota firm said it was freezing wages after a poor quarter.

### Prices

Price pressures were moderate since the last report. Building materials prices have increased steeply in recent months, according to several industry sources, in part due to the impact of post-hurricane rebuilding. Retail fuel prices in District states as of mid-November were slightly higher than the previous reporting period. A recent forecast of home heating costs for the coming winter projected natural gas prices to increase 2 percent over last year, while heating oil costs were expected to rise 10 percent. Prices received by farmers for corn, wheat, hay, milk, hogs, chickens, and eggs increased in September compared with a year earlier; prices for

soybeans, cattle, and turkeys decreased.

### **Consumer Spending and Tourism**

Consumer spending showed modest growth since the last report. Despite the closure of four large discount/department stores across the District, the retail sector in many District metros saw expansion and was experiencing low vacancy rates. Year-over-year gross sales in South Dakota in September and October turned positive after six consecutive months of decline. A November survey found that Minnesota shoppers expected their holiday spending to increase by 3.5 percent over last year.

Hunting dominates fall tourism in much of the District, and reports varied. South Dakota saw a decline in pheasant hunters, thanks largely to low pheasant numbers stemming from severe drought in the state. Deer licenses in North Dakota were up slightly from last year, but down about 2 percent in Minnesota. Hunters in northwestern and south-central parts of Montana were also down from last year, due in part to wildfires. A survey in Montana found that one-quarter of Montana tourism businesses, and 13 percent of outfitters and guides, had to cancel an event due to this year's wildfires.

### **Services**

Activity in the professional services industry increased moderately since the last report. An accounting firm with business across the District reported steady growth recently. A contact in the financial services industry noted an increase in start-up activity, particularly among information technology and biotech firms. However, a web marketing company was cutting staff amid restructuring.

### **Construction and Real Estate**

Commercial construction was down slightly since the last report. A slow September was followed by a flat October across most of the District, according to industry figures on construction spending. Commercial permitting activity in October was mixed among District metros, and a count of new and active construction projects also declined over the most recent six-week period (ending in early November) compared with a year earlier. The construction outlook received a boost in several District states from strong referendum results for school improvements, including \$1.3 billion in capital bonding in Minnesota. Residential construction was up moderately. Permitted single-family units in October rose in a number of metros, while multifamily units saw a notable uptick in

Minneapolis-St. Paul.

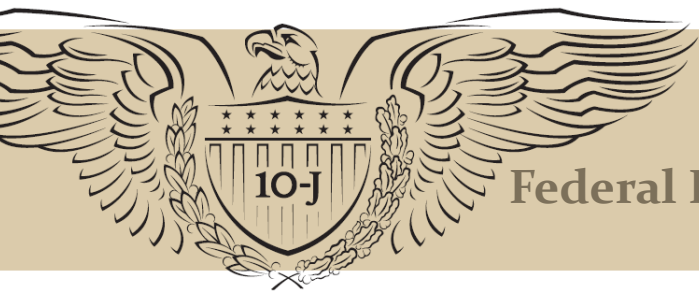
Commercial real estate grew modestly since the last report. In Minneapolis-St. Paul, industrial leasing activity has been strong, pushing vacancy rates below 7 percent. Industrial projects planned or under construction were also described as healthy, though below last year's levels. Office vacancy rates, on the other hand, have seen an uptick this year, and lease concessions have started to appear. Demand for retail space continued, with vacancy rates remaining steady and asking rents rising modestly. Residential real estate was modestly higher. October home sales grew compared with a year earlier in Bozeman and Missoula (Mont.) and in western and northern Wisconsin. Sales also grew slightly in Minnesota. But decreased sales were seen in Great Falls and Helena (Mont.) and Sioux Falls, S.D.

### **Manufacturing**

District manufacturing activity increased moderately since the last report. An ad hoc survey of Minneapolis-St. Paul inventory managers indicated that recent business activity had increased relative to the same period a year ago and that sales for the remainder of the year were expected to accelerate. An index of manufacturing conditions indicated increased activity in October compared with a month earlier in Minnesota and the Dakotas. A radiator plant in Minnesota and a furniture producer in Wisconsin announced expansions. In contrast, a paper producer shut down a production line at a mill in Minnesota.

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

District agricultural conditions remained weak overall, as good harvests were not expected to offset low prices. Early reports from harvests indicated solid production in District states, though corn and soybean production in the Dakotas was expected to decrease from last year. Respondents to the Minneapolis Fed's third-quarter (October) survey of agricultural credit conditions indicated that farm income and capital spending decreased relative to a year earlier, with further declines expected for the remainder of the year. Activity in the energy and mining sectors increased moderately since the last report. District oil and gas exploration as of mid-November was up slightly from a month earlier, though North Dakota recently approved or renewed a substantial number of drilling permits. September shipments of iron ore on the Great Lakes increased 23 percent from a year earlier. ■



## Summary of Economic Activity

Economic activity in the Tenth District increased moderately in October and early November, and most sectors expected continued moderate growth in future months. Transportation and manufacturing contacts reported a strong increase in activity, and professional, high-tech, and wholesale trade activity expanded at a moderate pace. District real estate activity continued to increase at a slight pace, while consumer spending contacts indicated growth was unchanged since the previous survey period. District energy activity continued to grow modestly and bankers reported steady overall loan demand, stable deposit levels, and unchanged loan quality. Agricultural conditions weakened but at a slower pace, with subdued farm income and lower farmland values in most areas. Employment and employee hours increased in most sectors, and contacts reported modest wage growth with further moderate increases expected. Input and selling prices were up moderately over the previous survey period in most sectors.

### Employment and Wages

Respondents in the wholesale trade, professional services, real estate, and manufacturing sectors reported an increase in employment, while respondents in the auto industry noted a slight decline. A significant majority of respondents in the District expected either increasing or unchanged employment levels in the next twelve months, due primarily to higher expectations of sales growth. Contacts in the manufacturing sector and most of the services sector with the exception of the auto industry reported rising employee hours. Respondents noted a shortage of commercial drivers, skilled technicians, and service workers. The primary factors cited as restraining hiring plans were a desire to keep operating costs low followed by the lack of available qualified workers.

Contacts in most sectors reported modest wage growth and expectations were for moderate wage growth in the coming months. Additionally, the majority of District contacts noted rising wages for both new and existing employees.

### Prices

Overall, input prices were up moderately compared to the prior survey period, and selling prices also increased at a moderate pace. Respondents in the retail sector

reported moderately higher input and selling prices, with both expected to rise strongly moving forward. Restaurant input prices increased moderately, while selling prices edged up. Transportation contacts reported moderate growth in both input and selling prices and anticipated strong increases in the coming months. Construction prices continued to increase at a moderate pace with modest increases expected in the next few months. Manufacturers reported a slight increase in prices for finished goods, while raw material costs continued to edge higher. Manufacturers anticipated moderate growth in both finished goods and raw materials prices over the next few months.

### Consumer Spending

Consumer spending activity was mostly flat in October and early November, while expectations for future growth increased at a moderate pace. Retail sales increased moderately over the previous survey period, and remained above year-ago levels. Several retailers noted an increase in sales for lower priced and discounted items, while higher-priced products sold poorly. Contacts anticipated sales to rise considerably in the next few months, and inventory levels were expected to increase moderately. Auto sales continued to fall moderately and were well below year-ago levels. Dealer contacts anticipated a moderate pickup in sales for the months ahead.

Auto inventories were expected to remain stable heading forward. Restaurant sales increased slightly and were modestly above year-ago levels. Contacts expected a mild decline in activity heading forward. District tourism activity was slightly lower than the previous survey and below year-ago levels. Tourism contacts expected activity to increase moderately heading into the winter months.

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

Manufacturing activity expanded at a strong pace in October and early November, and the majority of other business contacts reported moderate to strong sales increases. Manufacturers reported sustained growth in production, particularly for metals, plastics, and electronics products. Shipments, new orders, and order backlog grew at a solid pace, and activity was higher than a year ago. Manufacturers' capital spending plans rose moderately, and firms' expectations for future activity remained favorable.

Outside of manufacturing, transportation firms reported strong sales increases, while professional, high-tech, and wholesale trade contacts indicated more moderate growth. All firms expected a strong improvement in sales in the next six months. Professional, high-tech, and wholesale trade firms reported modest growth in capital spending plans, while transportation firms anticipated a moderate decrease in capital expenditures heading forward.

### **Real Estate and Construction**

District real estate activity continued to expand at a slight pace in October and early November. Residential home sales remained steady since the previous survey period, but expectations for home sales were modestly negative in the coming months. Sales of low- and medium-priced homes continued to outpace sales of higher-priced homes. Residential home prices rose modestly, while inventories fell further. Residential construction activity edged up, as construction supply sales increased modestly while new home starts were flat and traffic of potential buyers fell moderately. Commercial real estate activity continued to expand at a modest pace as absorption, completions, and sales rose, while vacancy rates declined. Activity in the commercial real estate sector was moderately above year-ago levels, and expectations were positive moving forward.

### **Banking**

Bankers reported steady overall loan demand for the month of October. A majority of respondents indicated a

stable 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 all major loan categories. Finally, results for the trends in deposits were varied with no discernible majority.

### **Energy**

Tenth District energy activity continued to grow modestly and expectations for future activity were positive. The number of active oil and gas rigs moderated somewhat, particularly oil rigs in Oklahoma. Still, oil and gas production was expected to increase since most drilling activity focused on development rather than exploration. Activity picked up modestly in New Mexico's San Juan Basin and Colorado's Denver-Julesburg Basin. Activity in Oklahoma's Arkoma basin, a predominately natural gas play, also expanded modestly since the last survey period. Respondents continued to focus on operating within cash flows, but said private equity capital remained readily available.

### **Agriculture**

The District farm economy and credit conditions continued to weaken since the previous reporting period, but the pace of the declines slowed. Farm income remained weak in November, which continued to reduce working capital and increase demand for financing. Farm loan repayment rates also generally declined, but at a more moderate pace than in the previous reporting period. District contacts reported that stronger livestock markets and expectations of a strong fall harvest kept loan repayment rates from declining more sharply. Farmland values also moderated further in most areas, but remained steady in areas where crop production was particularly high. District contacts noted that credit monitoring has increased slightly and interest rates on farm loans have edged higher alongside the elevated risk in the sector. However, most contacts expected only minimal sales of farm assets to improve cash flow and working capital. ■

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



## Summary of Economic Activity

The Eleventh District economy continued to expand at a moderate pace over the past six weeks. Manufacturing output strengthened, and activity in nonfinancial services increased. Retail sales growth continued but at a slower pace as the post-hurricane auto sales rush abated somewhat. Home sales rose during the reporting period. Loan demand was flat, and energy activity was largely unchanged. Crop conditions remained mostly favorable. Employment, wages and prices continued to increase, and widespread reports of a tight labor market persisted. Outlooks remained positive overall, and generally a bit more optimistic than in the prior reporting period.

### Employment and Wages

Overall employment growth remained solid, and upward wage pressure persisted at slightly elevated levels. Hiring picked up in the service sector, continued at about the same robust pace in manufacturing, and abated slightly in the energy sector. Labor market tightness carried on in most industries. Worker shortages were reported throughout the oil and gas supply chain and in construction, with contacts saying the scarcity of labor was driving up wages for certain types of workers. Similar reports came from manufacturing (particularly high-tech), airlines, and health care. Some banks reported that labor was becoming a bigger issue than regulatory compliance. Looking ahead, roughly two-thirds of contacts expect to increase employment over the next twelve months, largely citing an expectation of high sales growth as the impetus. Several firms said that the inability to find workers with the required skills was the main restraint for hiring plans.

### Prices

Pressure on selling prices remained elevated over the past six weeks. A pickup in price growth was noted among nonfinancial services, retail and construction firms. However, an airline noted falling ticket prices due to increased competition. New home prices were mostly flat, with some builders offering discounts and/or incen-

tives on higher-end houses due to push back from buyers at that price point. Oil and diesel prices rose over the reporting period, while gasoline prices exhibited mixed movements—falling from post-hurricane highs then rebounding in early November.

### Manufacturing

There was further pickup in the robust expansion in the manufacturing sector. A rebound in output growth for nondurable goods was seen in October, driven largely by chemical and food production. Strength continued in durable goods manufacturing, led by increases in transportation equipment production. Output growth among firms closely tied to energy was weaker than overall manufacturing in October. While refinery and chemical plants were largely back to normal operating rates after Hurricane Harvey, contacts said the storm caused a setback of one to two quarters of construction time for new facilities along the Gulf Coast. Refining margins were healthy, and sentiment was bullish through next year. For Texas manufacturing overall, growth in new orders picked up and outlooks remained highly positive.



### Retail Sales

Retail sales continued to expand, albeit at a slower pace than in the prior reporting period. Auto sales decreased from the initial post-hurricane surge but remained high. A clothing retailer noted that Houston-area stores benefited from the Astros playoff and World Series excitement, as well as some additional spending by flood victims. Along the border, several contacts noted ongoing concerns regarding a decline in demand for American goods by Mexican customers. Outlooks among retailers in general remained quite positive.

### Nonfinancial Services

Demand for nonfinancial services continued to expand moderately over the past six weeks. There were scattered reports of lingering effects from Hurricane Harvey, but for the most part business had returned to normal. Transportation services were a key driver of faster growth this period. Rail cargo volumes were up, particularly for frac sand and building products. Volumes for air cargo as well as containers and trailers also rose. Staffing services firms noted increased demand and broad-based strength. In North Texas, logistics, manufacturing, health care, call centers, and IT exhibited particularly strong demand for placements. Revenues in the leisure and hospitality sector rebounded in October after declining in the wake of Hurricane Harvey in September, but there were some businesses still recovering. Overall, outlooks were optimistic and improved from six weeks ago, although concerns remained. Some contacts noted that uncertainty surrounding federal tax reform, health care, and government regulation was making it difficult to plan for 2018.

### Construction and Real Estate

Home sales rose during the reporting period, although the pace of growth varied across regions. Contacts in Houston generally noted a rebound in sales activity following Hurricane Harvey, but there were some reports of weakness in areas affected by flooding. Respondents in Austin and Dallas-Fort Worth (DFW) reported slowing in the pace of sales growth, which some contacts in DFW attributed to buyers concerned about changes to immigration policy.

The apartment market was slowly returning to a normal pace of growth following a few years of above-average expansion, according to contacts. While overall conditions have improved in Houston's apartment market following Hurricane Harvey, one contact said rent concessions have slowly started to creep back in some areas where there is a plethora of new supply.

The office market remained mostly weak in Houston, despite a decline in sublease inventory and a pickup in investment sales activity. Office demand was solid in Dallas, and industrial market activity was reported to be stable in both metros.

### Financial Services

Demand for loans was flat over the past six weeks. According to contacts, loan volumes increased, but the pace of growth continued its downward trend over the past three reporting periods. The slowdown in loan volume growth was seen in commercial and residential real estate, while commercial and industrial loan growth edged up. Contacts again reported a slight decline in consumer loan volumes. Core deposit volumes increased, as did interest rates paid on them. Financial industry contacts noted improvement in general business activity over the past six weeks, and also expressed higher levels of optimism for the six-months-ahead horizon.

### Energy

Energy activity was largely unchanged from six weeks ago, despite an increase in oil prices. Drilling activity declined as the Texas rig count fell, but well completion and production activities increased. Demand for oilfield services in the Permian Basin remained healthy, and declining activity outside the Permian Basin may stabilize with the stronger oil prices, according to contacts. Outlooks for 2018 remained conservative, but were more optimistic than the last reporting period.

### Agriculture

Crop harvesting continued at a normal pace, with generally favorable crop conditions. An estimate from Texas A&M University puts agricultural losses from Hurricane Harvey at \$200 million, which is not as high as expected and far less than what was seen from Hurricane Ike in 2008 and Hurricane Irma. Texas corn and sorghum production is expected to be down in 2017 largely because of fewer acres planted, while cotton production is expected to be up more than 10 percent this year, according to the USDA. There was still financial stress in the farming sector, with producers primarily concerned about low crop prices across the board. On the livestock side, pasture conditions were fair to good and cattle prices increased sharply over the last six weeks largely in response to strong domestic demand and booming exports. ■



## Summary of Economic Activity

Economic activity in the Twelfth District continued to expand at a moderate pace during the reporting period of October through mid-November. Overall price inflation was flat. Conditions in the labor market tightened further, and upward wage pressures intensified. Sales of retail goods grew moderately, and growth in the consumer and business services sectors remained strong. Conditions in the manufacturing sector remained solid, and activity in the agriculture sector was flat. Contacts reported that residential real estate market activity remained robust and conditions in the commercial real estate sector were strong. Lending activity grew at a moderate pace.

### Employment and Wages

Conditions in the labor market tightened further, and upward wage pressures intensified. Shortages of skilled IT professionals in the technology, financial services, and manufacturing industries further intensified upward wage pressures. Wages in the construction industry climbed higher as post-hurricane rebuilding efforts in the Southeast worsened existing labor shortages. Contacts in the Mountain West observed very low unemployment levels in nearly every industry. Producers of manufactured pharmaceuticals reported intensified competition for new hires, increasing wage pressures notably. Major film releases during the holiday season and preparation for the upcoming awards season are expected to boost seasonal employment in the entertainment and related industries. Demand for labor in the commercial airline industry declined somewhat as manufacturers reported a slowdown in new orders.

### Prices

Overall, price inflation was flat over the reporting period. Prices for some building materials jumped as reconstruction efforts in the Southeast pushed up demand sharply. Airfare inflation picked up modestly due to a jump in fuel prices. Prices for transportation services are expected to increase over the holiday season as a large transportation company is expected to institute a holiday surcharge. Except for all but a small number of niche products, price growth for apparel was flat. Increased compe-

tion in the retail pharmaceutical industry slowed overall drug price growth, and contacts continued to report modest deflation in generic drug prices. Continued strong production slowed price growth for many agricultural commodities. Prices of mobile devices continued to decline on a 12-month basis.

### Retail Trade and Services

Growth in retail sales remained moderate over the reporting period. Sales of beverage products were strong, and contacts noted a shift in consumer preference towards smaller noncarbonated beverages. While e-commerce sales growth in the apparel industry continued to outpace sales declines at brick-and-mortar retailers, contacts noted that overall sales remain weak, given the favorable overall economic conditions.

On balance, holiday sales are expected to increase modestly relative to last year's holiday season due in part to an extra shopping day between Thanksgiving and Christmas. However, some industry surveys suggested there will be less in-store foot traffic on Black Friday this year as consumers have become accustomed to year-round discounting. Holiday sales of technology products are expected to increase relative to last year. Automobile sales during the holiday season are expected to be solid, but down from last year's strong pace. Elevated inventories and soft demand are expected to fuel strong discounting at apparel retailers during the holiday sales season.



Activity in the consumer and business services sector continued to grow at a strong pace. Demand for air travel reached its highest level in a decade, and revenue growth in the industry remained strong. Sales of technology services picked up as demand for cloud computing and security software remained robust, and infrastructure investment in data centers ramped up further. Wildfires in Northern California temporarily reduced shipping volumes in the region. However, shipping volumes are expected to increase to record levels during the holiday season, and contacts reported increased investment in automated warehouse technology to meet peak demand. After declines in the early fall, same-store sales in the restaurant industry have picked up modestly.

### **Manufacturing**

Conditions in the manufacturing sector remained solid. Demand for semiconductors continued to be strong. Production of steel and manufactured metals picked up further, and rebuilding efforts in the Southeast are expected to buoy normally soft year-end sales. However, capacity utilization rates in the steel sector remained below long-run levels. Deliveries of commercial aircraft reached peak levels, but new orders slowed somewhat. Production of manufactured pharmaceuticals slowed somewhat from its pace over the first half of the year.

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

On balance, activity in the agriculture sector was flat. Exports of some processed manufactured milk products were strong. Excess supply of wheat put downward pressure on prices and hampered profitability of growers in Eastern Washington. Harvest yields of potatoes in Idaho were slightly below long-run averages. Contacts emphasized that energy producers focused capital investments on improving existing infrastructure.

### **Real Estate and Construction**

Activity in real estate markets picked up to a robust pace. Construction activity in the residential market remained robust and was slowed only by shortages of land and labor. Low inventory levels and strong demand pushed up house prices and rents. Contacts reported that affordability remained a concern as price increases continued to outpace wage growth in much of the District. Commercial construction activity picked up to a strong pace. Contacts in Seattle noted continued strong demand for commercial office space, driven mainly by demand from large technology companies. Permits for commercial storage space are expected to surge in Eastern Washington and Idaho. Over the next 10 years, contacts expect that a significant number of large retail spaces will be repurposed for storage.

### **Financial Institutions**

Lending activity grew at a moderate pace over the reporting period. Loan demand remained moderate. Demand for deposits outpaced growth, pushing up deposit rates. Loan underwriting standards softened slightly. Delinquencies remained low, but contacts in some rural areas noted an uptick in nonperforming loans. Contacts reported that regulatory compliance continued to push up overall costs, particularly for community banks. ■



