

For use at 2:00 p.m., E.D.T.  
Wednesday  
September 7, 2016

Summary of Commentary on \_\_\_\_\_

# Current Economic Conditions

By Federal Reserve District

August 2016

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS  
BY FEDERAL RESERVE DISTRICT

August 2016

## TABLE OF CONTENTS

SUMMARY .....	i
First District – Boston .....	I-1
Second District – New York .....	II-1
Third District – Philadelphia .....	III-1
Fourth District – Cleveland .....	IV-1
Fifth District – Richmond .....	V-1
Sixth District – Atlanta .....	VI-1
Seventh District – Chicago .....	VII-1
Eighth District – St. Louis .....	VIII-1
Ninth District – Minneapolis .....	IX-1
Tenth District – Kansas City .....	X-1
Eleventh District – Dallas .....	XI-1
Twelfth District – San Francisco .....	XII-1

## Summary\*

Reports from the twelve Federal Reserve Districts suggest that national economic activity continued to expand at a modest pace on balance during the reporting period of July through late August. Most Districts reported a “modest” or “moderate” pace of overall growth. However, Kansas City and New York reported no change in activity, and Philadelphia and Richmond noted that, while still expanding, activity slowed from the previous period. Contacts across the twelve Districts generally expect moderate economic growth in coming months. Overall consumer spending was little changed in most Districts, and auto sales declined somewhat but remained at high levels. Tourism activity was flat from the previous report but above year-earlier levels. Sales of nonfinancial services gained further momentum. Manufacturing activity rose slightly in most Districts. Activity in residential real estate markets grew at a moderate pace, but the pace of sales was constrained in a few Districts by shortages of available homes. Commercial real estate activity expanded further. Demand for business and consumer credit varied across Districts but appeared to expand at a moderate pace overall, with stable credit quality. Agricultural conditions were mixed, with price declines largely offsetting growing volumes. Overall demand for energy-related products and services weakened.

Labor market conditions remained tight in most Districts, with moderate payroll growth noted in general. Upward wage pressures increased further and were moderate on balance, with more rapid gains reported for workers with selected specialized skill sets. Price increases remained slight overall.

### **Consumer Spending and Tourism**

Retail sales volumes appeared little changed since the prior reporting period, although the Boston, Cleveland, and San Francisco Districts suggested modest gains on balance. Respondents in Boston reported a pickup in retail sales due in part to increased customer traffic, while contacts in the Philadelphia District reported that decreased foot traffic did not reduce sales volumes. Retail sales declined in the Dallas and Kansas City Districts, and Chicago reported that consumer spending “slowed notably.” Sales “softened” according to Richmond and Atlanta, but contacts in the latter District expect the usual seasonal boost in sales during the Labor Day weekend. Inventory levels were in line with retailer expectations in the Boston, Dallas, and San Francisco Districts, but higher than desired in the Chicago District.

The pace of auto sales declined somewhat but remained at high levels in general. The Atlanta, Chicago, New York, Cleveland, and San Francisco Districts all noted a slowdown or reduction in sales, with New York pointing to a reduction in dealer incentives as a factor. Only Dallas reported strong growth

---

\*Prepared at the Federal Reserve Bank of San Francisco and based on information collected on or before August 29, 2016. This document summarizes comments received from business and other contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.

in auto sales. Vehicle sales in the Philadelphia District were unchanged from last period, and contacts reported narrower profit margins. Inventory levels varied across Districts, with dealers in St. Louis reporting an elevated level, while dealers in Richmond kept inventories of new vehicles tight.

Tourism activity was mostly flat relative to the prior reporting period, although the reports suggested that it was above year-earlier levels. Contacts in Chicago reported that the tourism industry continued to perform well, and demand for air travel in the San Francisco District remained strong. Demand for hotel rooms ticked down in Dallas, St. Louis, and New York. The elevated dollar did not slow international arrivals in Boston but did slow tourism activity in Minneapolis and San Francisco. Contacts in the Atlanta District also observed fewer international arrivals relative to the previous reporting period and were monitoring the potential impact of the Zika virus on international travel.

### **Nonfinancial Services**

The pace of demand growth for nonfinancial services picked up slightly from the prior reporting period, and contacts generally expect moderate growth to continue in the sector. Only the New York District reported a broad decline in demand for services. Contacts in Richmond reported that demand for health-care services remained strong, particularly for outpatient care. Demand for restaurant services increased in Dallas and Kansas City. Activity in the information technology industry expanded in Minneapolis and St. Louis, and contacts in the Kansas City District expect moderate growth in that sector to continue over the coming months. Freight volumes picked up in Philadelphia, Richmond, and San Francisco but declined in Cleveland, Dallas, and St. Louis. Staffing services businesses in most Districts reported a moderate increase in activity, with Boston contacts reporting revenue increases of 3 to 30 percent over last year. By contrast Philadelphia reported slower growth in staffing demand since the prior reporting period. Transportation firms in the Atlanta District reported mixed results, with contacts in the rail industry reporting no change in volumes, but port contacts noting a year-over-year increase in shipping volumes.

### **Manufacturing**

Activity in the manufacturing sector was flat to slightly up in general, with Chicago in particular reporting a moderate pace of growth. Activity in technology manufacturing was up modestly in Dallas, but contacts in San Francisco noted that production of semiconductors was flat and that capacity remained somewhat underutilized. Several transportation equipment and industrial machinery manufacturers reported plans to expand facilities in the St. Louis District. Pharmaceutical manufacturers in the San Francisco District reported that sales continued at a strong pace despite increased regulatory burdens and negative media coverage around industry pricing decisions. Weakness in the oil and gas extraction sector combined with competitive foreign supply to depress demand and production of steel products in several Districts. In contrast, contacts in the Chicago District noted that demand for steel was steady and declining

imports have helped domestic producers gain market share. Manufacturers in Richmond are optimistic about growth prospects, and contacts in Philadelphia expect growth to pick up over the next six months.

### **Real Estate and Construction**

Activity in residential real estate markets expanded further in most Districts. Growth in residential construction activity was moderate across many Districts but robust in San Francisco, where contacts reported that contractors are bumping up against capacity constraints for new projects. In Minneapolis, strong growth in the construction of single-family units was offset somewhat by a slowdown in the construction of multifamily units. Contacts in Dallas reported that demand for low- to mid-priced homes remained strong, while demand for higher priced homes softened in Dallas and New York, and was flat in Chicago. By contrast, sales in Cleveland were equally skewed toward the entry-level and high-end segments of the market. Boston, Richmond, Philadelphia, and St. Louis noted that home sales slowed in some areas of their Districts due to shortages of available units. Recent house price appreciation was reported to be modest in general. Contacts in several Districts were optimistic about future growth prospects, except in Kansas City, where respondents expect further declines in sales and inventories in the months ahead.

Commercial real estate activity expanded further in most Districts. Construction and sales rose only slightly in Boston, Kansas City, and St. Louis but grew at a faster clip in Cleveland and Dallas. In the Atlanta District, construction activity expanded moderately, but contractors reported tight supply conditions, with construction backlogs of one to two years. Contacts in Richmond and New York noted strong growth in industrial construction, and vacancy rates for industrial space fell to 10-year lows in the latter District. Commercial leasing activity strengthened in New York, Richmond, and San Francisco, but grew at a softer pace in Philadelphia, where contacts described the market as in a “lull, not a retreat.” Vacancy rates on commercial properties increased along with completions in the Kansas City District. Commercial rents edged up in various Districts, including in Dallas and San Francisco. Contacts in several Districts cited only modest expectations for sales and construction activity moving forward, due in part to economic uncertainty surrounding the November elections.

### **Banking and Finance**

Demand for business and consumer credit varied widely but grew at moderate pace overall. Bankers in San Francisco reported strong demand for loans, while demand for loans in Dallas remained soft. Commercial and industrial lending activity slowed in some Districts, but Philadelphia reported that most loan categories grew at a faster pace than in the previous report. Small to medium-sized banks in the New York District noted strong demand across all loan categories. According to the Dallas and Kansas City Districts, some oil and gas companies reported challenges obtaining credit.

Credit quality remained favorable for most Districts. However, contacts in the Richmond District noted that credit quality deteriorated slightly. Bankers in the St. Louis District reported that creditworthiness was largely unchanged for most loan applicants but declined somewhat for commercial and industrial lending. Contacts in the Atlanta District noted a drop in delinquencies and charge-offs. In the San Francisco District, financial institutions in states with a legal marijuana industry reported increased operational costs related to regulatory constraints.

### **Agriculture and Natural Resources**

Agricultural producers faced mixed conditions during the reporting period, as contacts in many Districts reported that lower prices pushed down revenue despite growth in volumes. In the Chicago District, already low expectations for farm incomes deteriorated further, as the potential for a record national harvest pushed down crop prices further. Above-average water availability translated into record yields for almonds and walnuts in the San Francisco District. Contacts in several Districts reported strong yields for corn and soybeans. Severe flooding in parts of the Atlanta District lowered harvests somewhat, but cotton production is expected to expand relative to last year. Excess inventories of selected crops contributed to weak pricing trends. Growth in the price of agricultural products was flat to declining in many Districts, and contacts in Chicago reported that ample supplies of wheat, dairy, and some meat products resulted in price declines. In contrast, dairy producers in the Dallas District benefited from a price rally over the past six weeks. In Kansas City, bankers reported that, while agricultural loan delinquencies remained low, requests for loan extensions increased and loan repayment rates weakened.

Overall, demand for energy-related products and services continued to decline, albeit with some signs of stabilization. Oil extraction activity fell further, and contacts in the Atlanta District noted that inventories remained near historical highs despite a recent drawdown. In contrast, contacts in the Kansas City District reported an uptick in the number of active oil and gas drilling rigs in response to an anticipated increase in oil prices. Demand for natural gas varied across Districts. In the Cleveland District, demand increased as the utility and power generation sectors continue to migrate from coal-fired plants to using natural gas. Contacts in Atlanta reported that the supply of natural gas remained elevated and demand declined further. Coal production declined further in St. Louis. More generally, coal prices fell further, while the prices of oil and natural gas were flat to slightly up. Contacts in the Minneapolis District reported a slight uptick in mining activity, and noted that an idled iron ore mine resumed production and broke ground on an expansion. Contacts in Dallas remained optimistic for modestly improving conditions in the energy sector through the end of the year and into 2017.

### **Employment, Wages, and Prices**

Employment expanded at moderate pace since the previous report. Conditions in the labor market remained tight in the Boston, Chicago, New York, San Francisco, St. Louis, and Minneapolis Districts. In

Boston, contacts reported an unusually high number of job openings, and in the Richmond District turnover rates increased for entry-level positions. Employment gains were only modest in Cleveland, and contacts in Philadelphia reported an increase in part-time employees and longer workweeks along with a reduction in full-time hires. In many Districts, businesses reported trouble filling job vacancies for high-skilled positions, especially those aimed at technology specialists, engineers, and selected construction workers. Overall, employment declined in the carbon extraction industry; however, contacts in the Atlanta District reported an uptick in hiring at petrochemical refining companies.

Wage growth ranged from flat to strong across the Districts, but most reported that wage pressures remained fairly modest. Contacts in Minneapolis reported moderate wage pressures, while contacts in St. Louis and San Francisco reported strong wage growth. On balance, wage pressures increased for highly skilled workers in many Districts, and contacts in San Francisco reported continued strong wage growth for technology specialists. In Cleveland, wage pressures were most evident in the construction and retail sectors. In Philadelphia, wage pressures were modest, but contacts reported upward pressure to employee benefit expenses from rising health-care costs. In general, expectations of wage growth for the coming months were modest.

Overall price inflation was modest. The Boston, Chicago, Cleveland, and Dallas reports suggested that prices were largely unchanged from the previous period. St. Louis reported modest price pressures. Businesses in the Atlanta and Kansas City Districts reported slight increases in input prices, while reports on selling prices were mixed. The prices of finished goods rose at a somewhat slower pace in Richmond, compared with the previous reporting period. Contacts in several Districts expect prices to increase modestly in the coming months, and manufacturers in Philadelphia are expecting smaller price increases than nonmanufacturers.



**FIRST DISTRICT – BOSTON**

Economic activity continues to increase in the First District, although there are scattered signs of slowing growth rates. Most responding retailers and manufacturers cite increased sales and revenues from a year ago, as do staffing firms. A tourism contact indicates Boston-area hotels have shaved their expectations for 2016, but still expect high occupancy and good revenue growth. Commercial real estate activity is flat or up slightly in regional markets. Residential real estate markets are said to be constrained by limited supply, with year-over-year declines in closed sales in five of the six New England states mostly attributed to shrinking inventories. Respondents in several sectors cite tight labor markets, with staffing firms reporting short supply and strong demand. Firms report little action on prices. Looking forward, contacts generally expect “more of the same.”

**Retail and Tourism**

Retail contacts report that since early July, comparable-store sales have ranged from down slightly to up between 2 percent and 4 percent on a year-over-year basis. Respondents offer various reasons for these results. One retailer attributes their positive results to increased customer traffic, while another reports that lower customer traffic was offset by higher ticket orders. Adult apparel and footwear are reportedly selling well, but demand is lower for furniture and household wares. Inventory levels are variously described as lean to higher than planned, with the latter attributed to slower sales. One retailer hypothesizes that sales may have been negatively affected by Massachusetts not holding its usual tax-free weekend in mid-August. Prices remain unchanged or just slightly up. Hiring is “as needed,” although contacts say labor markets are tight in a few areas. Expectations vary a bit—those retailers experiencing slower sales are waiting to see if the pattern reverses in the next couple months, while others continue to expect moderate growth to continue for the foreseeable future, unless some unanticipated event occurs.

A travel industry contact reports that Boston area hotels have revised their expectations for 2016 slightly downward—from an 80.4 percent room occupancy rate to 80.0 percent, and room revenues up 4.0 percent instead of the original forecast of a 6.5 percent increase over 2015. While realization of these lower expectations would still represent very good results, the revision is driven by lower spending on business travel in recent months, counterbalanced by a modest increase in leisure travel, both domestic and international. Museum attendance is up 10 percent year-to-date, providing further evidence of an increase in leisure travel. So far, the area has seen no slowdown in Asian, British, and European visitors, despite the strength of the U.S. dollar. However, since foreign travelers tend to plan and pay for their trips months in advance, this contact says it remains to be seen how U.K. bookings might be affected by the Brexit vote and the depreciation of the pound.

**Manufacturing**

Of seven manufacturing firms contacted this cycle, only one reports significant negative results. That firm spans aerospace, which has done very well, and industrial distribution, which was hit hard by the weakness in the oil, gas, and mining sector; sales were down 35 percent year-on-year in the second

quarter but about level with the first quarter. A contact in the medical device business says their sales growth slowed significantly due to an inability to find and retain salespeople. A manufacturer of furniture that has struggled recently reported sales growth and an optimistic outlook for the first time in several years. The remaining manufacturing respondents say that growth is at a pace typical of recent years.

Overall, firms report no major pricing pressure. A dairy producer says raw milk prices are down. A manufacturer of tools reporting a price rise attributes it to innovative new products, not rising costs.

Only one contact, in the industrial distribution business, reports reducing headcount; they carried out a restructuring in the last few quarters that resulted in a 5 percent staff reduction. As noted above, one contact reports that the inability to hire and retain salespeople is constraining revenue growth; however, the hiring problems are confined to salespeople and otherwise, he says, the labor market is not very tight.

None of our contacts reports any major revisions to capital spending plans. Similarly, none reports major revisions to their outlook. The industrial distribution firm indicates that their decision to lay off employees reflects their conviction that the oil and gas sectors will not come back any time soon.

### **Staffing Services**

Business activity in the New England staffing services industry has been “mixed” through August: year-over-year revenues are up for a majority of responding firms; increases range from 3 percent to 30 percent. Several contacts report seasonally slow business in the summer months. All respondents observe a tight labor market with short labor supply and strong demand, the latter evidenced by an usually high number of job postings. Contacts point to a dearth of skilled candidates to fill positions in property and corporate law, information technology, engineering, medicine, and welding, among others. They attribute the lack of labor supply to the low unemployment rate and skills mismatch in the labor market, as well as attractive salaries in permanent positions causing people to hold on to existing jobs or leave temp jobs after short tenure. Both bill and pay rates increased or remained flat for all firms, with increases driven by higher paying positions. Looking forward, most firms remain optimistic; some cite concern over the upcoming November election. They expect continued labor shortages and strong labor demand in the coming months, and say they will have to employ creative techniques to secure qualified candidates faster than their competition.

### **Commercial Real Estate**

Commercial real estate activity in the First District is flat or improving modestly, depending on the location. In the Hartford area, office leasing activity remains limited and office rents are unchanged, while industrial leasing activity continues to show relative strength. Office leasing activity is steady at a healthy pace in greater Boston, where office rents are up slightly in recent weeks and up roughly 5 percent since last year. In the Providence area, office leasing activity increased modestly in August after a seasonally slow July; office absorption is positive so far in 2016. In the sales market, demand for commercial properties in Boston remains robust, especially among foreign investors, while in Hartford investment demand is somewhat softer than it was six months ago. Office construction activity is mixed, with little to

no activity in the Hartford and Providence areas and moderate activity in the Boston area. However, the pace of office construction in Boston is said to be slightly below the national pace. The outlook for commercial real estate is neutral-to-pessimistic in Hartford and modestly optimistic for Providence and Boston. Across the District, the key downside risks cited by contacts include an aggregate economic slowdown and political uncertainty in the face of the November elections.

### **Residential Real Estate**

Residential real estate markets in the First District began to show signs of moderation in July following a very busy spring and early summer. For single-family homes, closed sales decreased year-over-year in July in every state except Rhode Island. In Massachusetts, July represents the first year-over-year decrease in 14 months after a year that included several records highs. A contact in Boston similarly notes that although closed sales fell, volume is still well above average. Many contacts cite increasing prices as one reason for declines in closed sales; median sales prices increased year-over-year in every state except Connecticut. Pending sales were generally at higher levels than in July last year although the increases were more moderate than in the preceding months; a contact in Rhode Island notes that these figures “indicate a more tempered market heading into the fall.” The market for condominiums showed similar trends, with closed sales decreasing in every state except Vermont and median sales prices increasing or decreasing only slightly. Pending sales data, however, were softer in the condominium market, decreasing in every state except Massachusetts and Maine.

Low inventory persists as an issue in the First District. For both single-family homes and condos, inventory decreased in every reporting region. All reporting states also saw a decreased number of months of available supply, further indication that the number of houses for sale is insufficient to meet buyer demand. Contacts consistently reference the inventory situation as the other explanation for softer closed sales data in July. The press release for Vermont and New Hampshire notes that “Many areas are falling behind last year's closed sales totals simply because of lack of available inventory.” Putting together the two explanations, a contact in Massachusetts says “we know some buyers are getting priced out of the market, and the only way we can fix this is with more inventory.”

Although sales activity has decreased from preceding months, contacts remain optimistic. A more temperate market is generally expected in the fall, as many point out that the levels of activity are still above average. Increasing prices and low inventories are the main areas of concern. Contacts are adamant that demand is healthy and that these price and inventory issues are hindering buyers who want to take advantage of “record-low mortgage rates and an unemployment rate under 5.0 percent.”

## SECOND DISTRICT--NEW YORK

There has been little to no economic growth in the Second District since the last report, though labor markets remain tight. Contacts note continued moderate pressure on input prices and wages but little change in selling prices. Manufacturers report that business activity has been flat, on balance, while service-sector businesses note that activity has declined. Consumer spending was little changed, on balance, while tourism activity showed further signs of weakening. Residential real estate markets continued to be mixed with further weakening at the high end; however, commercial real estate markets strengthened. Residential and office construction has tapered off, while industrial construction has picked up. Banks report further strengthening in loan demand and continued improvement in delinquency rates across the board.

**Consumer Spending**

Retail merchandise sales were mixed but generally little changed in July and August. One major chain reports that sales were above plan in July but weakened substantially in August and were below plan; however, another major chain reports that sales, though below plan in both months have improved gradually. In contrast, retailers in upstate New York characterize sales as solid in both July and August and up from a year ago. More generally, retailers report steady prices on net; some contacts note more discounting than a year ago, while some indicate less. Inventories are widely described to be at satisfactory levels.

New vehicle sales in upstate New York are reported to have softened further in July and August. Part of the general weakness is attributed to reduced incentives from manufacturers. Inventories of new vehicles are reported to be mixed. The used car market has generally been soft, though there has been some pickup in demand for lower priced models. Retail and wholesale credit conditions generally remain favorable.

Tourism activity has been steady to softer since the last report. Hotels report that business has been flat to declining moderately. Attendance at Broadway theatres weakened in July and

August and was running slightly below 2015 levels. Moreover, with average ticket prices down modestly, overall revenues have been running roughly 5 percent lower than a year ago. Consumer confidence in the Middle Atlantic states (NY, NJ, PA) slipped in July.

### **Construction and Real Estate**

The District's housing markets have been mixed since the last report, with ongoing weakening at the high end. New York City's rental market has softened further in both Manhattan and the outer boroughs: rents on larger and luxury units have continued to slip and more landlords are offering concessions (e.g., free month's rent, waived fees), while rents on smaller units have been essentially flat. Vacancy rates across the city have remained steady near six-year highs. However, rental markets are still described as strong in areas of New Jersey close to New York City.

New York City's co-op and condo resale market has been mixed. There is a sizable overhang of unsold new developments—mostly luxury units—and prices of these, as well as high end resale units, have declined. However, sales activity has been robust in the lower and middle segments of the resale market, especially in Brooklyn and Queens, where inventories remain low and prices continue to climb. In Manhattan, resale inventory has risen in recent months, while prices have increased modestly. Realtors across New York State report that the market for existing homes remained robust in July, as sales activity was fairly solid and prices were up more than 8 percent from a year earlier. A Buffalo-area contact notes that prices have risen moderately, inventories remain tight, bidding wars remain fairly common, and real estate agents are extremely busy. In northern New Jersey, however, market conditions have been more sluggish, for both new homes and existing properties—particularly at the high end—as an overhang of distressed properties continues to hamper the market in many areas.

Commercial real estate markets have strengthened since mid-year. In Manhattan, office availability rates were little changed, but asking rents picked up in July and August. Elsewhere, office availability rates fell to new multi-year lows in northern New Jersey, Long Island, Westchester

and across upstate New York, while asking rents in those areas were generally steady to up modestly. The industrial market has strengthened across the District: vacancy rates have fallen to 10-year lows, while asking rents have accelerated and are up roughly 10 percent over the past year. Much of this strength has been in northern New Jersey.

New residential construction has slowed somewhat, with multi-family activity tapering off and the single-family segment remaining sluggish. New office construction has slowed in New York City and remains moribund elsewhere; still there is a large volume of office space currently under construction across New York City and a moderate amount in northern New Jersey. In contrast, new industrial construction has been increasingly robust—particularly in northern New Jersey.

### **Other Business Activity**

Contacts across the District generally report that business activity has weakened since the last report. Manufacturers report that activity has been essentially flat, on balance, while service-sector contacts indicate that it has declined. Both manufacturing and service-sector contacts continue to report little change in selling prices but continued upward pressure on input prices.

The labor market has remained tight since the last report. Both manufacturers and service firms report little change in staffing levels; service firms have scaled back hiring plans in recent weeks, while manufacturers expect staffing levels to be steady to lower in the months ahead. One major New York City employment agency reports that hiring activity has remained brisk during the usually slow summer months. However, two other agencies in the District report that demand for workers has been steady, albeit at strong levels. Wage pressures have picked up somewhat but remain modest. A trucking industry analyst notes that there remains a shortage of drivers, as firms do not have enough pricing power to enable them to afford raising salaries.

### **Financial Developments**

Small to medium-sized banks in the District report stronger demand for all categories of loans—particularly residential mortgages. Bankers report that credit standards remained unchanged

across all loan categories. Contacts report that spreads of loan rates over cost of funds narrowed across all loan categories—most notably for residential as well as commercial mortgages. Bankers indicate declining delinquency rates across all loan categories, with the most widespread declines reported for consumer loans.

**THIRD DISTRICT — PHILADELPHIA**

Aggregate business activity in the Third District grew slightly during the current Beige Book period — a bit slower than the modest pace reported last period. Similarly, overall hiring slowed to a slight pace of growth. Staffing firms reported a modest increase in activity, while manufacturers continued to report job cuts, and other sectors noted mixed trends. On balance, firms reported that prices continued to rise slightly over the current period, as did home prices. Other than health-care costs and wages for certain skilled positions, banking and staffing contacts reported that wages continued to rise modestly. Overall, firms expect moderate growth over the next six months — a little higher than they reported last period.

Third District contacts reported moderate growth for general services and lending volumes, modest growth for staffing services and tourism, and slight growth for homebuilders and commercial leasing agents. Little or no change in activity was noted by manufacturers, auto dealers, nonauto retailers, residential brokers, and commercial contractors. Most of the contacts have noted changes in the direction or pace of growth since the prior period; three sectors improved a bit, while growth in six sectors slowed, as noted in their respective sections below.

**Manufacturing.** Contacts reported that overall activity had changed little since the prior Beige Book period. Reports indicated that general activity fell and then rose during the period, orders rose and then fell, and shipments increased throughout. Along with these offsetting trends, firms reported that the number of employees and the average employee work hours continued to fall. The makers of paper products, fabricated metal products, and electronic equipment noted overall gains in activity from the prior period, while the makers of lumber, chemicals, and primary metals noted weaker activity. Contacts expressed higher expectations of growth over the next six months than they did during the last period. Expectations of future capital expenditures also rose; however, those for future employment did not.

**Retail.** Overall, nonauto retail contacts reported little change in sales during the current Beige Book period, following a slight decline during the prior period. Outlets reported that sales were flat to up slightly, although customer traffic decreased. According to convenience store operators, sales were still good, but the pace had slowed. They also noted that other food retailers had felt a slowdown that continued into the current period. Generally, contacts are more cautious than before but still expect modest growth for overall retail sales through 2016.

After edging down last period, light vehicle sales in the Third District held steady this period at high levels. While sales have been swinging between periods of growth and decline,



dealers expect total 2016 sales to be slightly above the 2015 level. They also noted tighter profit margins, as sales flattened out, but expenses continued to rise. Since the average age of vehicles on the road remains high, dealers believe pent-up demand will be strong for sales beyond 2016; however, they noted that used car prices may begin to fall and supplant demand for new cars.

**Finance.** Third District financial firms continued to report moderate growth of total loan volumes over the Beige Book period. Volumes within all lending categories have grown since the prior period except for home equity loans and commercial and industrial (C&I) loans, which tailed off in August. All categories except C&I loans and automobile loans grew at a faster pace than during the same period one year ago. The strongest growth during the current Beige Book period was for credit card debt, commercial real estate, automobile loans, and other consumer lending. Mortgage lending was up slightly during the period, while home equity loans were down slightly; both have declined since last year.

On balance, banking contacts continued to describe their loan portfolios as healthy and their customers' financials as improving. Most contacts state they have left their loan standards unchanged for most loan categories, and few expressed concerns about riskier loans by their competitors. Many continued to characterize the lending environment as competitive. Most bankers described the confidence of their business and consumer customers as low; some said that confidence was steady, if not rising, but that customers remained cautious of borrowing and investing. Bankers remained cautiously optimistic that slow, steady growth would continue.

**Real Estate and Construction.** Homebuilders reported that activity continued to rise slightly, although prospective traffic slowed more than expected for the late summer season. Builders noted few cost pressures, other than for some subcontractors with skilled labor positions; material costs pressures remained subdued.

Brokers in the major Third District housing markets noted that existing home sales activity had leveled off since the prior period. A major Philadelphia-area broker as well as bankers throughout the Third District noted that sales continued to be weak because of the lack of inventory for mid-priced housing and a lack of demand for high-priced homes. Overall, home prices are still rising slightly, although this varies across markets and price categories.

Nonresidential real estate contacts, predominately in the Greater Philadelphia area, reported that construction activity remained steady at healthy levels, while leasing activity was flat to up slightly. In what was described as a lull, not a retreat, contacts reported that activity in both segments was growing at a somewhat softer pace compared with last period's modest growth. Contacts noted that more projects are in the pipeline for future groundbreaking, which should keep the level of new construction relatively high. One firm noted that new warehouse

developments have spread from e-commerce projects to now include expansions for local manufacturers. In the office market, a firm described a critical mass of deals from a variety of sectors, including health and finance, which are creating demand beyond Center City Philadelphia to include the inner-ring transit suburbs.

**Services.** Third District service-sector firms reported a moderate pace of growth — somewhat better than the prior Beige Book report. Contacts noted similar improvements in the pace of sales and new orders. Two large national service-sector firms noted continued growth overall, a positive outlook, and little concern for cost pressures, including wage pressures. One firm specifically noted that its customer payment default rates in this region had improved, suggesting generally healthy household finances. A transportation services analyst noted some uptick in activity, but that the underlying numbers remain soft.

Tourism contacts expressed mixed results for a continuation of modest growth overall. Philadelphia convention bookings have been especially strong all summer and into September. Tourist activity in the mountains and at the shore was described as somewhat softer than expected; however, last year was exceptionally good and the weather less oppressively hot. Atlantic City casino revenues showed little sign of strengthening, and another casino will close after Labor Day.

Employment indicators were mixed, as many contacts noted using fewer full-time hires, greater part-time hires, and a longer workweek since the prior period. Staffing firms reported modest growth — a slower pace since last period — and expressed greater caution. Expectations for future growth in services have improved somewhat since the prior Beige Book period, with a higher percentage of service-sector contacts expecting activity to grow over the next six months.

**Prices and Wages.** On balance, price levels have continued to rise slightly since the previous Beige Book period. Over half of all contacts reported no significant changes in the prices they paid or received for their goods and services — similar to last period. Of the firms that indicated a change, more noted increases than decreases. Separately, bankers noted no signs of excess inflation, except in health care. Over the next year, manufacturers anticipate a 1 percent increase in prices received for their own goods and services; nonmanufacturers expect a 2.5 percent increase. Manufacturers also reported expectations of 2 percent annual inflation for consumers, while nonmanufacturers expect 2.5 percent inflation.

Banking and staffing contacts cited little change in relatively modest wage pressures for their firms and for their business clients, other than for certain skilled positions. They did note pressure on employee benefits from rising health-care costs. Over the next year, most firms expect their own compensation costs per employee (wages plus benefits) to rise 3 percent.

**FOURTH DISTRICT – CLEVELAND**

Aggregate business activity in the Fourth District has grown at a modest pace since our last report. Manufacturing output increased on balance, albeit at a slow rate. The housing market improved, with higher unit sales and higher prices. Commercial builders reported some weakening in the industry's strong pace of growth, but they expect that it will be a short-term event. Retailers experienced higher revenues, while sales of new motor vehicles declined. Commercial and retail credit expanded slowly. There is some optimism in the upstream oil and gas business as wellhead prices are showing signs of trending higher. Freight volume remains at a low level.

Payrolls were little changed on balance over the period. Job gains in construction and banking were offset by losses in manufacturing and freight hauling. Wage pressures were most evident in the construction and retail sectors across skill levels. Staffing firms noted an increase in the number of job openings and placements, especially for temporary positions. Other than price increases for steel products and declines in agricultural products, input and finished-goods prices were steady.

**Manufacturing.** Manufacturing output increased slightly over the period, with the strongest demand coming from domestic markets. Activity for suppliers to the motor vehicle, aerospace, commercial construction, housing, and food industries remains elevated. Mineral extraction, coal, oil and gas, and agricultural equipment suppliers cited weak activity. Year-to-date production through July at District auto assembly plants declined 9 percent when compared to that of the same time period during 2015. Declines were evenly distributed between cars and light trucks. That said, OEMs believe that the auto industry remains strong. Although steel producers are encouraged by the increase in domestic steel prices, one contact noted that the seasonal downturn in July was larger than expected. Manufacturing output is expected to increase at a modest pace on balance in the upcoming months. Contacts anticipating weaker growth attribute the situation to uncertainty and weakness in global markets.

Capital budgets were cut back slightly during the past six weeks. Allocations are primarily for maintenance projects and equipment. The number of contacts citing spending for product development increased. On balance, input costs and finished-goods prices were little changed. On the input side, higher steel prices were offset by lower energy costs. Some manufacturers reduced finished-goods prices in response to competitive pressures. Others raised prices because of higher raw material costs. Manufacturing payrolls shrank across job categories. Firms cutting employment cited weak sales projections or seasonal factors. Several manufacturers noted annual cost-of-living increases. Otherwise, wages were steady.

**Real Estate and Construction.** Year-to-date sales through June of new and existing single-family homes increased more than 7 percent compared to those of a year earlier. The average sales price rose 4 percent. Builders and real estate agents believe there is pent up demand for homes that is spurred by low interest rates. Year-to-date estimates of single-family construction starts were significantly higher across all regions of the District compared to those

of a year ago. New-home contracts were concentrated in the first move-up and high-end price point categories. New-home list prices moved slightly higher during the period to cover higher costs for labor and land development and higher prices for building materials. Contacts expect that home sales will be on par with or rise above seasonal trends for the remainder of the year.

Commercial contractors continue to report favorable business conditions. Although the number of inquiries and backlogs remains elevated, the pace of growth for both metrics has slowed over the period. General contractors attribute the slowing to market uncertainty and to uncertainty about the outcome of the presidential elections. They also noted that their customers' decision-making process is taking longer than it did earlier in the year. General contractors continue to increase their billing rates in order to cover higher labor and development costs. However, they are getting pushback, and the amount of the increase is not enough to widen margins in most cases. Segments with the strongest demand were CRE and higher education. We heard a couple of reports about bankers' moving more cautiously when considering financing multifamily developments out of concern that some markets may be overbuilt. Most contractors expect that the current slowing in the pace of growth will be short-lived and that the industry will see a return to more robust growth in the near term.

Home builders and commercial contractors reported a modest increase in building materials prices, especially for lumber, steel, concrete, and drywall. Field and office payrolls are expanding, but at a more modest pace than in the spring. The industry is experiencing wage pressure across skill levels. Subcontractors remain very busy. They are challenged by labor shortages and, as a result, many are selective when bidding. In order to cover rising labor costs, subcontractors are increasing their rates.

**Consumer Spending.** Retail chains reported higher revenues early on in the third quarter compared to those of the same time period a year ago. Contacts attributed the increase to improving labor markets, low gas prices, and promotional activity. Products selling particularly well include summer apparel, active wear, and personal items. A reduction in international tourism dampened sales of select lines for a few chains. Restaurateurs reported softening in their retail business that was offset by an increase in corporate event catering. Retailers expect revenues to rise slightly heading into the fall season. Overall, vendor and shelf prices were stable. That said, the prices of food sold to restaurants and chains declined, and one chain started a program that will incrementally reduce shelf prices across product lines. Retailers and restaurateurs are concerned about the implications of minimum wage increases and the new overtime pay law. As wages rise, chains are undertaking initiatives with the objective of improving employee retention.

Year-to-date sales through July of new motor vehicles declined 2 percent when compared to those of the same time period in 2015. Light trucks (including SUVs and crossovers) continue to dominate transactions. Although rising fleet sales partially offset the decline in retail sales, dealer inventories are above normal levels. Demand for new vehicles is expected to remain at current levels for the remainder of the year. Consumers are seeing increasing value in used

vehicles. Year-to-date sales of used vehicles rose more than 2 percent compared to those of a year ago. Although dealer payrolls were stable, contacts reported that they have boosted wages over the period because of tight labor market conditions.

**Banking.** Bankers were generally satisfied with their commercial and retail credit portfolios. Growth was characterized as steady overall, albeit at a slow pace. On the commercial side, highest demand was for CRE loans and M&A financing. C&I lending was slower than desired. Customers are seemingly reluctant to add capacity or to invest in large-scale capital projects. Lending for agricultural equipment is down. Reports from retail banking indicate that demand was strongest for auto loans and home equity products. Bankers noted some dampening in their residential mortgage business because the inventory of existing homes for sale is at a low level. Nonetheless, activity in residential mortgages remains elevated. Several bankers reported that lending is stronger than that of a year ago, a situation which they attributed to both a growing confidence in the economy and a low interest rate environment. Credit quality remains strong, and little change was reported in loan-application standards. Core deposit balances increased during the period, though business deposits grew at a faster pace than did consumer deposits. Banks' capital budgets expanded slightly, with spending allocated primarily for updating branch offices and technology. Banking payrolls showed a small increase. Employment growth was concentrated in compliance and risk. Wage pressures are being felt in select job categories, and employees are becoming more opportunistic in seeking out new jobs.

**Energy.** Natural gas output from the Marcellus and Utica Shales remains at a historic high; however, the pace of growth has slowed during the past few months. That said, there is more optimism across the industry as wellhead prices are starting to trend slowly higher, and the demand for natural gas is rising because of a decline in the use of coal by electric utilities. Wellhead prices remain below levels that would spur companies to restart drilling programs. Pipeline projects are moving ahead, but investment in midstream projects has slowed. Most midstream plants are built out and can process all the gas that is currently being produced.

**Freight Transportation.** Freight volume contracted on a year-over-year basis and is at a low level. Our contacts attributed this situation to sluggish growth, especially in the industrial sector, resulting in high inventory levels across the supply chain. A relative bright spot for the industry is shipments of commercial and residential building materials. We heard several reports about overcapacity in the system, and this overcapacity is forcing some haulers to lower shipping rates and to reduce capital budgets. Spending is now primarily for equipment replacement and maintenance projects. Contacts' outlook is cautious, and a majority expects that volume will begin to increase along seasonal trends during the upcoming months. On balance, freight payrolls have declined over the period. Hiring is limited to replacement. Firms continue to pay cost-of-living increases.

**FIFTH DISTRICT–RICHMOND**

**Overview.** Economic growth in the Fifth District slowed since the previous Beige Book. Manufacturing activity was mixed. Retail sales softened on balance since our prior report and revenues rose modestly faster at other services firms. Tourism slowed somewhat after accounting for typical seasonal fluctuations. Residential loan demand increased marginally. Commercial loan demand continued to rise moderately. Residential real estate activity grew modestly, and commercial leasing increased moderately. Agricultural activity edged up. According to our most recent survey, prices of raw materials rose at a somewhat faster rate, and prices of finished goods rose at a somewhat slower pace. Retail price growth decelerated, while price growth at other services firms remained slight. Hotel room and vacation rental rates were mostly unchanged. Farm input prices were unchanged in recent weeks.

Labor demand increased modestly. According to our most recent surveys, manufacturing employment continued to rise. In the service sector, more retailers were hiring, while other firms indicated relatively steady labor demand. A wider range of manufacturing and service sector establishments reported wage increases.

**Manufacturing.** Indicators of manufacturing activity were mixed. On the one hand, participants in our most recent survey indicated that overall business conditions declined, while on the other hand, anecdotal reports were more positive since the previous Beige Book. Firms' expectations for the next six months were optimistic. Producers of machinery, building supplies, electronics, food, and plastics and rubber reported an increase in new orders. A manufacturer of engineering products said that shipments increased in recent weeks, and a manufacturer of polyurethane foam, nonwoven fabrics, and sporting goods reported that business has never been better. A producer of dental products reported steady business. However, business conditions were unchanged for a spark plug manufacturer and a producer of base materials for composite structures. Furniture manufacturers also reported no change in new orders. Manufacturers of chemicals and paper reported slower new order growth in the past six weeks. A machine parts manufacturer said recent weeks have been the worst in over a year, and a metals manufacturer said sales dropped in July and August. According to our most recent survey, prices of raw materials rose at a somewhat faster rate, and prices of finished goods rose at a somewhat slower pace.

**Ports.** Port activity strengthened overall since our previous report. One port official reported robust growth and said container volume was at a record high for this time of year, with the automotive segment leading both imports and exports. At another port, container imports rose modestly, and despite slowing global trade, export volumes ticked up. However, imports and exports of large machinery settled into the doldrums after improving in early summer.

**Retail.** Retail sales softened on balance since our prior report. Auto sales were mostly unchanged, with one dealer reporting a recent uptick. Dealerships were attempting to keep inventories tight as they received both current year vehicles and new models. Most other retailers reported flat to lower sales in recent weeks with the exception of home improvement stores. Retail price growth decelerated.

**Services.** Overall, services firms reported modestly faster revenue growth compared to the previous report. A wealth manager said that his office was experiencing good activity, while an executive at an accounting firm reported little change. In trucking, an executive at a national firm said demand had increased slightly, and that his firm had received bids from retail firms for additional seasonal shipping services during the next quarter that suggested stronger business. Demand for health care remained strong, particularly for outpatient care, according to an executive at one organization. That year-long trend is expected to continue into next year and has required additional hiring of nurses and medical technicians. In contrast, another healthcare organization reported slower demand in recent weeks, with hiring limited to replacing departing workers. Price growth remained slight.

**Tourism.** Tourism slowed somewhat since the July Beige Book, after accounting for normal seasonal variations. An executive at a hotel chain with beach locations said that demand was slightly below typical levels and advance bookings for fall have been flat to lower than in normal years. An hotelier at a mountain resort said his season-end bookings were close to a year ago. In contrast, two other hotels had booking rates ahead of last year's, and one of them had remained almost fully booked for the entire summer. Room and rental rates were mostly unchanged.

**Finance.** Since our previous report, lending activity increased slightly. Residential loan demand rose marginally, on balance. Bankers in the District of Columbia and South Carolina said that mortgage lending activity picked up. A contact in central Virginia, on the other hand, reported a slowdown in recent weeks due in part to a low inventory of houses available for purchase. A West Virginia banker reported flat mortgage demand. Refinancing volumes rose slightly, according to a lender in South Carolina. Commercial demand continued to rise moderately since our previous report. A Virginia banker said that construction lending accounted for the majority of new activity. Meanwhile, a contact in South Carolina noted growth in small business lending. Deposits rose moderately, according to a banker in West Virginia, due to a lack of low risk investment alternatives. Competition intensified in recent weeks, particularly for 10-year fixed rate commercial loans. Net interest margins continued to face downward pressure. Credit standards on new loans were unchanged on balance, while credit quality measures on existing loans declined slightly. A banker in Virginia reported slightly weaker credit applicants and a West Virginia banker reported some increases in loans past due.

**Real Estate.** Residential real estate sales grew modestly since the previous report. Real estate agents continued to report low levels of inventories. Days on the market varied across price range and region. A residential broker in Greensboro, North Carolina reported an increase in the number of sales,

despite slightly slower buyer traffic, while a contact in Durham stated that average sale price rose. Demand in Roanoke, Virginia remained strong for the \$250,000 plus range. Washington, D.C. brokers stated that sales decreased slightly since the previous report, but some homes were selling quickly above listing price. A contact in Spartanburg South Carolina stated that there is a shortage of affordable housing below \$200,000. Residential construction contacts continued to report low new home inventories and lot shortages, resulting in difficulty meeting demand and, in some regions, higher new home prices. Multi-family construction reports were mixed, although leasing remained strong. Overall, builders and residential developers were optimistic about the future.

On the commercial side, leasing increased moderately overall, with strong retail and industrial construction. A commercial Realtor in Virginia Beach said that the retail leasing sector remained strong, and noted increased leasing inquiries in the office sector. A Richmond broker reported strong leasing across all submarkets, adding that landlords were more reluctant to renovate existing space. Sales of industrial property were also robust in Virginia. An industrial commercial contact in Charleston, South Carolina noted low inventory in the industrial sector while demand continued to increase. Baltimore commercial sales remained strong, and a Roanoke, Virginia contact stated that the retail leasing was robust. Additionally, a Washington D.C. Realtor reported increased leasing. Commercial real estate leasing in Charleston, West Virginia decreased since the previous report.

**Agriculture and Natural Resources.** Agricultural activity increased modestly since our previous Beige Book report. Farming contacts reported flat demand in the timber and forestry industries, but noted expansion in the poultry industry. Farm input prices were unchanged in recent weeks, while prices of grains, cotton, soybeans, and corn ended the reporting period at low levels.

Natural gas extraction and coal production were unchanged since the previous report. Prices of natural gas declined slightly in the past month, and coal prices remained low.

**Labor.** The demand for labor increased modestly for workers across all skill levels since our previous report. Executives reported difficulty finding engineers, construction workers, skilled tradespeople, warehouse and production workers, truck drivers, physicians, nurses, managers, and advanced technicians. Turnover rates increased, particularly in entry-level positions. One contact in North Carolina reported that manufacturing competitors were stealing workers and mechanics from each other. According to our most recent surveys, manufacturing employment continued to rise. In the service sector, more retailers were hiring and other firms indicated steady labor demand. Wage increases were reported more broadly at manufacturing and service sector establishments. A staffing service in Maryland said that some employers were raising starting wages to attract new entry level workers and to retain existing employees. An executive in North Carolina reported mid-year wage increases in the hospitality industry, particularly for housekeepers and lower wage workers. A few resort hotels reported increased hiring of foreign workers because they were unable to find employees locally.



**SIXTH DISTRICT – ATLANTA**

According to reports from businesses across the Sixth District, economic activity expanded at a modest pace from July through mid-August. The outlook among contacts remains optimistic as most expect higher growth over the remainder of the year.

Reports from retailers, including automotive, indicated that the pace of sales had softened. The hospitality sector continued to experience weakening activity. On balance, residential brokers and builders cited that sales of existing and new homes were flat to slightly up from a year ago and home prices continued to rise modestly. Commercial real estate firms reported that demand continued to improve and construction increased from a year ago. Manufacturers noted that activity increased slightly since the previous report. Bankers indicated that credit conditions continued to improve. Businesses reported continued tightness in the labor market. Firms cited slight wage pressure and modest non-labor input costs.

**Consumer Spending and Tourism.** Most District retail contacts reported that year-to-date revenues grew slightly compared with a year ago; however, some merchants noted a recent slowdown in year-over-year sales growth. Retailers expect the usual boost in sales activity during Labor Day weekend. Automotive dealers continued to report a slowdown in the momentum of auto sales.

In general, tourism and hospitality contacts in the District reported that while activity over the reporting period was higher than a year earlier, it was softer than expected. Contacts in South Florida reported a decrease in the number of international visitors since the previous report. They also indicated that they are monitoring the developments and impact of the Zika virus. Contacts in Louisiana reported that year-to-date occupancy and hotel-tax revenues were slightly higher compared with the same period last year. Mississippi's casino gaming revenues increased year-over-year. The outlook for the remainder of the year is for tourism activity to be in line with forecasts made earlier in the year.

**Real Estate and Construction.** Residential real estate contacts across the District continued to report slow but steady growth. The majority of builders noted that construction activity was up from the year-ago level. The majority of builders and brokers said home sales were flat to slightly up relative to the year-earlier level. Most builders and brokers indicated that buyer traffic was equal to or higher than the previous year's level. Brokers' reports on inventory levels were mixed and builders' reports suggested that inventory levels were either equal to or higher than the year-earlier level. Builders and brokers continued to note modest gains in home prices; they anticipate sales over the next three months to be comparable or slightly higher than

the year-ago level. The majority of builders expect construction activity to increase slightly over the next three months.

Commercial real estate contacts continued to report improvement in demand resulting in rent growth and increased absorption, but continued to caution that the rate of improvement varied by metropolitan area, submarket, and property type. The majority of commercial contractors indicated that the pace of nonresidential construction activity had increased from a year ago, with many reporting backlogs of one to two years. Many District contacts also indicated that the pace of multifamily construction continued to increase from the year-earlier level. Over the coming quarter, most District commercial real estate contacts expect the pace of nonresidential construction activity to increase slightly, however, many indicated that they expect the pace of multifamily construction to level off.

**Manufacturing and Transportation.** Manufacturing contacts indicated that overall business activity increased slightly compared with the previous report, although declines in new orders were reported. Purchasing managers also reported that factory payroll levels continued to increase, production levels remained relatively flat, and finished inventory levels rose. Expectations for future production increased considerably, with almost one-half of firms expecting an increase in production levels over the next six months, up from a third in the previous report.

District transportation firms continued to cite mixed results. Rail activity remained relatively flat since the previous report, and overall volume remained well below year-earlier levels, driven mainly by declines in coal, metallic ores, and petroleum products. Intermodal traffic continued to decline slightly, while automotive shipments by rail remained strong. Most ports noted year-over-year volume increases in container traffic, bulk cargo, and automotive and machinery. Demand for ocean carriers was down, which contacts attributed to a combination of a normal summer slowdown coupled with overall soft market conditions. Some trucking contacts noted a slowdown in freight volumes, while others indicated broad based increases that were in line with expectations.

**Banking and Finance.** Credit remained readily available for most qualified borrowers. Energy-related companies reported challenges in obtaining credit. While some small to medium-sized businesses also reported challenges in obtaining credit, many of them indicated they were seeking loans from non-traditional lenders. Contacts from financial institutions indicated credit quality was improving and delinquencies and charge-offs were down. Some

banking contacts were challenged by low growth of deposits. Loan demand for commercial real estate, residential mortgages, refinancing, and home improvement increased.

**Employment and Prices.** Business contacts continued to describe a tightening labor market with challenges finding high-quality workers to fill open positions, particularly in fields that require high-skills, such as information technology, finance, and engineering. As a result, contacts from staffing agencies noted that demand for recruitment services remained steady. Regions and industries directly tied to the oil and gas sector continued to experience layoffs; however, business contacts noted an uptick in hiring at petrochemical refining companies as plant expansions continued across South Louisiana and the Mississippi Gulf Coast.

Across the district, firms reported little evidence of wage pressure and labor costs were generally well contained. Non-labor input costs remained modest. A number of contacts noted pricing power continued to be relatively weak. According to the Atlanta Fed's survey of business inflation expectations, year-over-year unit costs were up 1.5 percent. Survey respondents also indicated that they expect unit costs to rise 1.8 percent over the next 12 months.

**Natural Resources and Agriculture.** The District's oil and gas sectors continued to sell off assets, cut costs, and adapt to an environment of lower oil prices. Contacts indicated oil production continued to decline and inventory drawdowns were evident; however, inventories remained near historically high levels. Natural gas production continued to fall while supply remained elevated. Broad based industrial and commercial electricity usage across the District experienced a decline due to greater efficiencies. The utility and power generation segments continued to migrate to natural gas-fired power and to reduce coal usage.

Agriculture conditions across the District were mixed. Damage and losses from drought conditions in the region caused the USDA to designate many counties in Alabama, Georgia, Mississippi, and Tennessee as natural disaster areas. Additionally, parts of southern Louisiana experienced severe flooding and there are preliminary reports of crop damage. Compared with last year, District cotton production is forecasted to be higher, while soybean and peanut production is expected to be lower. On a year-over-year basis, prices paid to farmers for corn and soybeans increased, while cotton, rice, beef, broilers and egg prices decreased. However, on a month-over-month basis, prices for corn, cotton, soybeans, and broilers were up, while prices for beef and eggs were down.

## SEVENTH DISTRICT—CHICAGO

**Summary.** Growth in economic activity in the Seventh District picked up to a moderate pace in July and early August, and contacts expect growth to remain moderate over the next six to twelve months. Business spending and manufacturing production grew at a moderate rate, construction and real estate activity increased slightly, and consumer spending was little changed. Financial conditions improved modestly and cost pressures continued to be mild. Forecasts for a record harvest pushed down crop prices, weighing further on farm income expectations.

**Consumer spending.** Growth in consumer spending slowed notably over the reporting period with most segments reporting little change in sales in spite of an increase in the intensity of promotions. Contacts also expected growth in back-to-school sales to be much slower than last year. The tourism industry continued to perform well, with moderate increases in room rates and revenues, even as room supply increased. Sales of new and used light vehicles slowed some, but remained strong, as dealers continued to outperform their expectations for the year. Motor vehicle sales incentives were a bit more generous than during the previous reporting period. In addition, one contact indicated that fleet sales were helping to maintain the strong overall sales pace.

**Business spending.** Growth in business spending picked up to a moderate pace in July and early August. Retail inventories were somewhat higher than desired because of softer sales, while manufacturing inventories were generally at desired levels. Current capital expenditures picked up to a moderate pace, as did expectations for future spending. The increase in outlays was primarily for replacing industrial and IT equipment. Spending on expansion declined some, particularly among manufacturing firms. Hiring continued at a modest rate, though contacts expected it to strengthen to a moderate pace in the next six to twelve months. Many contacts noted that the labor market continues to tighten. Demand remained strong for skilled workers, particularly for many professional and technical occupations, sales, and skilled manufacturing and building trades. Contacts also indicated that competition was growing for lower-skilled workers. Staffing firms again reported no change in billable hours and difficulty filling orders at the wages employers are willing to pay. Demand for electricity increased slightly, led by residential and large industrial customers. Shipping volumes again declined.

**Construction and real estate.** Construction and real estate activity increased slightly on balance over the reporting period. Residential construction increased slightly, with growth primarily coming in the single-family segment. The overall pace of home sales also picked up slightly, with

## VII-2

the strongest reported growth in the single-family segment in urban locations. Activity varied by price range: sales grew strongly for homes under \$250,000, picked up a bit for homes between \$250,000 to \$500,000, but changed little for homes over \$500,000. Home prices rose slightly overall, though prices of homes above \$500,000 declined. Demand for nonresidential construction picked up some. One contact noted that while demand for private construction is growing in most segments, public construction is at historically low levels. Commercial real estate activity increased slightly, particularly in the for-lease market and retail segment. Commercial rents inched up, vacancy rates decreased a little, and the availability of sublease space changed little.

**Manufacturing.** Growth in manufacturing production picked up to a moderate pace in July and early August. Activity continued to be strong in autos and aerospace, and increased in most other industries. Growth in steel demand was steady, and declining imports (reflecting in part recently imposed duties on steel imports for some countries) helped domestic producers gain market share. Heavy machinery manufacturers reported moderate declines in demand resulting from dealer inventory reductions and a large supply of used equipment. Demand for specialty metals increased slightly on balance with results depending on the industry supplied: auto and aerospace demand was steady, while demand from the heavy machinery and oil and gas industries continued to be very weak. Manufacturers of construction materials again reported slow but steady growth in shipments, in line with the pace of improvement in construction.

**Banking and finance.** Financial conditions improved modestly over the reporting period. Financial market participants noted higher equity prices and low levels of volatility. One contact indicated that impending regulatory changes for institutional money market mutual funds had led to large withdrawals from the funds, pushing up short term interbank lending rates. Loan demand from small and middle market businesses grew modestly, and one contact said that there was a good pipeline of new business loans. Another contact noted increased interest from transportation firms in borrowing for capital expenditures. Demand for commercial real estate loans ticked up. Consumer loan demand increased slightly. Lower mortgage rates led to increases in mortgage originations and refinancing, and residential loan quality improved slightly. Credit card balances were little changed. Auto loan demand continued to be strong, but lenders expressed concern that the current pace of sales was unsustainable.

**Prices/costs.** Cost pressures were unchanged, remaining mild in July and early August. Most energy and metals prices were flat and stayed low. Retail prices changed little, on balance.

### VII-3

Wage pressures were steady overall, with greater pressure for high-skilled occupations than for low-skilled occupations. Non-wage labor costs were little changed.

**Agriculture.** Already low expectations for farm incomes deteriorated over the reporting period as the potential for a record national harvest pushed prices down further. District corn and soybean growing conditions were better than a year ago (with the exception of Michigan), and the U.S. Department of Agriculture (USDA) forecasted near record yields for corn and soybeans for most District states. Corn and soybean prices moved lower, although soybean prices remained above last year's level. Strong supplies also resulted in declines for wheat, egg, dairy, hog, and cattle prices. The USDA announced limited purchases of dairy and egg products to help address excess supplies.

**EIGHTH DISTRICT—ST. LOUIS****Summary**

Information received from business contacts suggests that economic conditions in the Eighth District have slightly improved since our previous report. Manufacturing activity has been mixed, while activity in the service sector has been positive. Employers continued to report modest hiring, although with ongoing difficulties finding qualified workers, and wage pressures remain strong. Price pressures remain modest. Consumer spending was somewhat mixed with auto dealers noting that sales fell short of expectations. Real estate conditions weakened slightly but were generally strong. District Bankers reported strong loan demand. Conditions weakened according to the District's row crop farmers.

**Employment, Wages, and Prices**

Contacts noted continued tightening in local labor markets with relatively strong wage growth and moderate employment growth. Among businesses surveyed during mid-August, 60 percent reported nominal wages were higher relative to the same time last year and 30 percent reported employment was higher or slightly higher. Contacts expect similar trends to persist over the next quarter. Contacts in manufacturing, construction, and wholesale trade continued to report difficulties in finding skilled or qualified candidates to fill job vacancies, citing either a shortage of applicants or candidates lacking the necessary skills.

Contacts reported modest price pressures. Almost half of contacts reported that non-labor input prices were higher or slightly higher than one year ago. However, contacts reported limited movement on selling prices, as only 20 percent reported prices charged to customers were higher or slightly higher than one year ago.

**Consumer Spending**

Reports from general retailers and auto dealers paint a mixed picture of consumer spending activity in the District. Contacts in the restaurant and hospitality industry in Memphis reported that business continues to be strong, though contacts in Little Rock and eastern Arkansas indicated a slowdown in general retail sales since the previous report. Hotel occupancy rates in Louisville are

stabilizing due to a deceleration in lodging demand. Multiple auto dealers indicated that sales fell short of expectations in recent months. The majority of dealers surveyed reported high inventories. Nevertheless, over half of dealers expect an increase in sales in the fourth quarter.

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

Manufacturing activity has been mixed since our previous report. In a recent survey of manufacturers, roughly one-third reported that production, new orders, and capacity utilization increased in the third quarter relative to one year ago, while one-third reported no change and one-third reported a decrease. Several companies reported capital expenditure and facility expansion plans in the District, particularly among firms that manufacture transportation equipment and industrial machinery. However, reports from manufacturers of primary and fabricated metal products were generally weak. Two manufacturers of metal pipes for the oil and gas industry announced layoffs and cutbacks in production, and a manufacturer of mining equipment components reported that demand was weaker than expected.

Reports of plans in the District's service sector have been positive since the previous report. In particular, several firms that provide business support services, information technology services, and education services announced plans to build new facilities and hire new employees. Despite growth in the sector, nearly half of service sector contacts reported that sales in the current quarter fell short of expectations. However, the majority reported an increase in the dollar value of sales relative to one year ago, and most expect an improvement in sales in the fourth quarter relative to the fourth quarter one year ago. Reports from the transportation sector were generally mixed; notably, a contact in the railroad industry reported that sales continued to trend downward as a result of fewer coal and crude oil shipments.

### **Real Estate and Construction**

Residential real estate activity has weakened slightly since the previous report but has remained strong overall. Compared with a year ago, July home sales decreased across all four major MSAs, declining by 9 percent in St. Louis, 5 percent in Louisville, 4 percent in Memphis and less than 1 percent in Little Rock. Despite this slowdown, year-to-date sales are higher than one year ago and most real estate



contacts reported that recent sales have met expectations. Some contacts noted that some of the sales shortfall was due to a lack of inventory, and approximately two-thirds of contacts indicated that inventory was slightly lower than a year ago. Residential construction activity continued to improve. Most residential real estate contacts reported that new construction was moderately higher than a year ago.

Commercial real estate activity strengthened slightly. Local commercial real estate contacts indicated that demand was either about the same or slightly higher than a year ago for most property types. Reports on inventory levels were mixed. Vacancy rates remained stable or decreased marginally across most property types and regions. Commercial construction activity improved slightly. Several commercial real estate contacts reported an increase in speculative industrial space, but many others reported little change in speculative building activity of other property types.

### **Banking and Finance**

A survey of District banks indicates strengthening loan demand, and credit conditions have remained stable. Demand for mortgages and credit cards remained strong, especially in the St. Louis area. Bankers reported demand for mortgages has consistently increased since the start of 2016. Demand for commercial and industrial loans was mostly unchanged. Credit standards were unchanged in all loan categories. Creditworthiness of applicants was slightly lower for commercial and industrial loans and largely unchanged for all other loan categories. Delinquencies fell or remained stable across the District for all loan categories.

### **Agriculture and Natural Resources**

While the quick return to low crop prices has weakened the near-term outlook for farm income, crop conditions bode well for strong yields. The proportions of corn, cotton, rice, and soybeans rated fair or better were roughly the same as in our previous report, but the proportion of crops rated excellent increased. Contacts also reported good conditions. Multiple contacts noted that expected strong yields, both in the District and elsewhere, are likely playing a role in the return of low prices. The sharp downward trend continues for coal production, with July production down 18 percent from a year ago, and year-to-date production down 27 percent.

## **NINTH DISTRICT—MINNEAPOLIS**

The Ninth District economy grew modestly overall since the last report. Growth was noted in commercial real estate, professional services, and mining. Activity in energy and manufacturing was steady, while commercial construction and residential real estate slowed from high levels. Consumer spending, tourism, residential construction, and agriculture were mixed. Employment grew moderately since the last report, wage pressures were moderate, and price pressures were modest overall.

### **Consumer Spending and Tourism**

Consumer spending since the last report was mixed. A Minneapolis-St. Paul area mall reported a 20,000-square-foot expansion and the addition of 12 new stores in space freed up by the downsizing of a national retailer. In Minneapolis-St. Paul, six new grocery stores opened since the last report. A fabric store chain and an \$18-million hardware and outdoor sports store opened in the Duluth, Minn., area. In contrast, two well-established restaurants closed in Minneapolis, and a national chain closed in Sioux Falls, S.D. A national retail chain saw a drop in sales since the last report—the first drop in two years. Overall sales by vendors at the North Dakota State Fair dropped 4 percent from last year.

Tourism was mixed across the region since the last report. Hoteliers in Sioux Falls reported a “lackluster summer,” and they expect flat revenue for the remainder of the year. Hotel occupancy in North Dakota in general has dropped by 21 percent since this time last year; tourism officials attribute this to the “perfect storm” of the falling Canadian dollar and the drop in activity at oil fields.

Yellowstone National Park visits were up 6.5 percent during the first six months of the year, and Glacier National Park “shattered” previous visitation records with a nearly 14 percent increase during this period. Park officials attributed the increased activity to the centennial celebration of the National Parks Service as well as low gas prices. However, numbers for the annual motorcycle rally in Sturgis, S.D., were down 40 percent from last year. One regular attendee shared her observation that the turnout was the “lowest in decades.”

### **Construction and Real Estate**

Commercial construction activity was modest since the last report, slowing slightly overall from high levels. Nonresidential construction in June and July rose in Montana and South Dakota compared with a year earlier, but fell in Minnesota and North Dakota. A construction database showed that weekly projects out for bid have dropped persistently from spring through mid-August. The value of new commercial construction permits during summer months fell in Sioux Falls, Rochester, Minn., Bismarck, N.D., and Billings, Mont., compared with similar months in 2015, but remained strong in the city of Minneapolis. Residential construction was mixed. In Minneapolis-St. Paul, single-family units authorized in June-July rose 15 percent over a year earlier, but total housing units were slightly lower due to a slowdown in multifamily units. The value of newly permitted housing units rose in

Fargo, N.D., and St. Cloud, Minn., and was flat in Rapid City, S.D., but fell in Sioux Falls, Bismarck, and Billings.

Commercial real estate activity was moderate since the last report. Apartment sales in Minneapolis-St. Paul continued at a record annual pace through mid-August, according to industry data. Transactions involving industrial space were also strong over this period, both in terms of number and total value, but activity in the office market has fallen off. Vacancy rates for office, industrial, medical, multifamily, and retail space in the region were low. Residential real estate activity slowed from high levels. Closed sales in Minnesota fell by 2 percent in June and July compared with a year earlier. Summer sales also fell in northern and western counties of Wisconsin, and Fargo saw a notable July slowdown. Inventories were lower in most markets, negatively affecting sales, sources said. In Sioux Falls, July home sales were down 14 percent from a year earlier. Inventory was down 9 percent over the same period, but homes below \$200,000 dropped by 24 percent.

### **Services**

Service-providing industries reported increased business since the last report. A national ride share company continued to expand its services in Montana. An accounting agency in Wisconsin reported that business activity was up 5 percent to 10 percent over last year. An information technology consultancy in Minneapolis-St. Paul expanded its business as a result of bringing on new clients.

### **Manufacturing**

District manufacturing was flat since the last report. An index of manufacturing conditions by Creighton University fell to levels indicating slight growth in July in Minnesota and South Dakota; the index fell further from a month earlier to levels indicating contraction in North Dakota. A Montana producer of aerospace parts was expanding production and moving into a new product line. A manufacturer of oil spill containment products and a motorized bicycle maker announced plans to open plants in western South Dakota. A Minnesota biotech firm announced it would open research and production facilities there. In contrast, a medical device maker closed a plant in Minnesota, and a manufacturer of forest products equipment announced it would close a plant in Wisconsin.

### **Energy and Mining**

Activity in the energy sector was steady at low levels. The number of active drilling rigs in the District in mid-August was unchanged from the previous month, but was well below the level of a year earlier. North Dakota daily oil production in June fell 2 percent from a month earlier. North Dakota regulators approved permits for three oil pipeline projects, while large protests at one pipeline already under construction halted development. Mining activity was up slightly since the last report. An idled Minnesota iron ore mine resumed production and broke ground on an expansion. Production increased recently at a precious-metals mine in Montana on a recent uptick in prices. However, Montana coal production through June was down substantially from the first half of 2015.

**Agriculture**

District agricultural conditions were mixed, with strong growing conditions offset by low commodity prices. District crops were mostly in good condition as of mid-August, with record harvests expected in some cases; parts of western South Dakota and Montana suffering from severe drought were an exception. Winter and spring wheat harvests were progressing ahead of schedule, but high yields were not expected to fully offset the effect of low prices on income, according to contacts. Prices received by farmers increased in June from a year earlier for corn, soybeans, hogs, and turkeys; prices for wheat, hay, cattle, chickens, eggs, and milk fell from a year earlier.

**Employment, Wages, and Prices**

Employment grew moderately in spite of tight labor availability. A staffing firm in southern Minnesota said sales activity this summer was the “highest ever.” Separate call centers in Montana and South Dakota announced plans in late summer to hire 100 and 460 new workers (including seasonal), respectively, over the coming months. In northeastern Minnesota, more than 20 employers took part in an August job fair, “and there were anecdotes of on-the-spot hiring,” according to a workforce development source. Not all companies have been able to procure needed labor. Hours billed at a Minneapolis-St. Paul staffing firm fell from June through mid-August, which the owner said was “nearly 100 percent due to lack of available workers.” There were also some notable job losses; a previously-reported iron ore mine closure in Michigan’s Upper Peninsula left more than 300 jobless.

Wage pressures were moderate since the last report. “We are definitely seeing a steady increase in entry-level wages in recent months, and across industries,” said a Minnesota workforce development source. Recently settled contracts for a handful of construction unions in Minnesota saw total compensation increases of 3 percent to 5 percent per worker. However, not all regions were seeing wage increases. A source in Michigan’s Upper Peninsula noted that despite strong demand for summer tourism workers, there was “not much of a wage increase.”

Price pressures were modest overall since the last report. A recently released construction cost index for Minneapolis-St. Paul reported that overall costs were “essentially flat from last year.” A South Dakota source in heavy construction said low oil prices kept a lid on costs for asphalt and fuel. From July to mid-August, average gas prices fell in all District states, but by less than the national average. Based on expected low fossil fuel costs, a Wisconsin utility is forecasting a small drop in electricity rates next year.

**TENTH DISTRICT - KANSAS CITY**

Economic activity in the Tenth District was largely flat since the previous Beige Book period, although expectations remained mostly positive. Energy activity edged higher from low levels on expectations of higher prices, and the commercial real estate market strengthened slightly. Professional and high-tech firms also reported moderate increases in activity, and bankers reported steady loan demand, stable deposit levels, and overall consistent loan quality. However, consumer spending was mostly flat, and residential real estate activity slowed. Transportation and wholesale trade contacts also noted a slowdown in sales, and district manufacturing firms reported modest declines in activity. Agricultural conditions remained subdued with weak profit margins, although prices and growing conditions improved slightly. Input prices increased slightly, while selling prices were mixed across sectors. Wages continued to grow modestly in most industries with some labor shortages reported for selected skilled positions.

**Consumer Spending.** Consumer spending was mostly flat since the previous survey period, and expectations for future activity were mixed across sectors. Retail sales declined over the previous survey period but remained slightly above year-ago levels. Several retailers noted that luxury products sold poorly, while sales of building materials and home improvement items improved. Contacts anticipated a modest increase in sales the next few months, with inventory levels expected to rise slightly. Auto sales increased at a moderate pace and remained generally flat compared with a year ago. Auto dealers expected a modest increase in sales for the months ahead. Auto inventories decreased and were expected to continue falling in coming months. Restaurant sales increased moderately and were well above year-ago levels, although contacts expected some slowing in the months ahead. District tourism activity slowed modestly with the end of the summer tourist season, and remained slightly lower than a year ago. Contacts expected some further weakening in activity for the fall months.

**Manufacturing and Other Business Activity.** Manufacturing activity declined modestly in late July and August, while most other business activity was mixed. The decline in manufacturing came mainly from durable goods factories, particularly for metal, plastics, and aircraft products. Factory activity remained weak in most District states. Production, shipments,

new orders, and export orders all declined, and capital spending plans were lower than a year ago. Expectations for future activity, however, remained moderately positive.

Outside of manufacturing, professional and high-tech firms reported a moderate increase in sales, with further improvements expected in future months. Transportation and wholesale trade contacts noted a modest decrease in activity, though many transportation firms expected modest growth in sales the next three months. Professional, high-tech, and wholesale trade firms reported favorable capital spending plans, while transportation contacts expected capital spending to fall modestly.

**Real Estate and Construction.** District real estate activity increased slightly in August as commercial real estate activity expanded while the residential market slowed. Residential sales and inventory were modestly lower than both the previous survey and the same time last year. Respondents expected a further decrease in residential sales and inventory in the months ahead, with some contacts citing normal seasonal effects for the slowdown. Residential home prices were strongly up over last year, but expectations for the coming months were flat. Sales of low- and medium-priced homes continued to outpace sales of higher priced homes. Activity among residential construction firms slowed slightly. Housing starts and sales decreased while inventories were up modestly over both the previous survey period and same time last year. Commercial real estate activity expanded slightly as absorption, completions, construction underway, prices and vacancy rates increased. Expectations for the commercial real estate market were for continued moderate expansion.

**Banking.** Most bankers reported steady overall loan demand for the period from late July through August. Respondents indicated a steady demand for commercial and industrial, commercial real estate, residential real estate, agricultural and consumer installment loans. Most bankers indicated loan quality was unchanged compared to a year ago. In addition, a majority of respondents expect loan quality to remain essentially the same over the next six months. Credit standards remained largely unchanged in all major loan categories. Finally, a majority of respondents reported stable deposit levels.

**Energy.** District energy activity edged higher from low levels, and the outlook remained slightly positive. There was an uptick in the number of active oil and gas drilling rigs, attributed to

increased expectations of higher oil prices. Some respondents were more confident than in the previous survey that global demand and supply would rebalance before year-end 2017. However, some local producers continued to shed non-strategic assets to help lower debt levels and continued to operate with fewer employees. Natural gas prices were mostly unchanged since the previous survey period but higher than earlier in the year. Higher summer prices were mostly driven by strong seasonal demand, lower production and smaller-than-expected additions to inventories.

**Agriculture.** District farm income and agricultural credit conditions softened moderately since the last survey period. Following an early June rally, crop prices declined in late July and August due to expectations that a strong wheat harvest and favorable growing conditions for fall crops would generate excess supply. Cattle prices also remained well below year ago levels, despite a slight uptick in early August. Although agricultural loan delinquency rates remained low, bankers reported increased demand for farm loan extensions and weaker loan repayments rates. Additionally, District bankers reported modest increases in the severity of agricultural loan repayment problems. Financial strain was particularly high in the western portion of the District due to the combination of subdued commodity prices and increased drought stress. Lower commodity prices, softer farm income and weaker credit conditions continued to push farmland values lower throughout the District when compared with a year ago.

**Wages and Prices.** Input prices in most sectors increased slightly since the previous survey period, while selling prices were mixed and wages continued to grow modestly. Retail input prices rose slightly, and selling prices increased moderately. Input prices for restaurants held steady after falling in the previous survey, though menu prices rose modestly. Transportation input prices increased at a slower pace than in the prior survey, while selling prices decreased slightly. Construction prices increased moderately, with further increases expected. Manufacturers reported continued slight declines in finished goods prices, despite modest increases in raw material costs. Manufacturers expected both finished goods and raw materials prices to rise in the next few months. Contacts in retail and transportation sectors reported moderate increases in wages, while restaurant sector wages held steady. Contacts in these sectors expected wages to increase slightly moving forward. Respondents reported a shortage of commercial drivers, salespeople, and skilled technicians.

## ELEVENTH DISTRICT—DALLAS

**Summary of Economic Activity** Economic activity in the Eleventh District expanded slightly over the past six weeks. Manufacturing activity was flat to up, and demand for nonfinancial services increased. Overall retail sales declined slightly on net, although automobile sales remained strong. Real estate activity was flat to up in most markets. Loan demand remained soft. Demand for oilfield services remained depressed, but contacts expect conditions to improve through the end of the year and into 2017. Agricultural conditions were favorable, although crop prices remained low. Reports of employment changes were mixed and prices held steady. Outlooks were generally positive but cautious, with the upcoming presidential election driving some of the uncertainty. Several contacts said they believe the worst of the oil bust slump has passed, but that economic growth has not yet returned to normal levels.

**Prices** Prices were fairly stable over the reporting period. Input costs were flat to up, with slightly more upward pressure than during the prior period, especially for construction materials. Selling prices were mostly flat. Auto dealers noted manufacturer incentives increased over the reporting period, pushing down the final price for consumers. Fuel and chemical prices in the Gulf Coast were flat to down over the past six weeks, as large inventories and relatively tepid demand growth abroad put downward pressure on prices despite some signs of domestic demand growth.

**Employment and Wages** Employment reports varied across sectors. Manufacturing and energy services firms continued to trim payrolls. Retail employment was flat to down. Reports of hiring were scattered among service sector companies with staffing firms adding employees and hiring continuing among leisure and hospitality firms. Several contacts noted a tight labor market for health care professionals, and labor constraints in the construction sector were ongoing. Wage pressures were minimal.

**Manufacturing** The manufacturing sector stabilized over the reporting period, with some sectors even noting a pickup in demand. Construction-related manufacturers continued to see steady demand, with strength in the Dallas–Fort Worth market but mixed signals in Houston. High-tech manufacturing demand picked up modestly, with strong growth in autos, growing interest in virtual reality hardware, and continued development of new display technology. Demand was also up slightly among food manufacturers.

Refinery utilization rates remained very healthy in spite of softening profit margins. Flooding in Louisiana was not expected to have a significant impact on refining or petrochemical output overall. Gulf Coast chemical production was largely unchanged and continued to face headwinds from a strong dollar and softening global demand.



**Retail Sales** Retail sales demand weakened slightly over the reporting period, and Texas remained the worst performing market in the nation according to two national retailers. Inventories are down year-over-year, in line with contacts' targets. Outlooks were less optimistic than during the last reporting period, although some improvement is expected over the next six months.

One bright spot in the retail sector is that automobile sales remained at high levels. Demand held fairly steady this reporting period and was in line with year-ago levels, although some contacts noted weakness in the Houston auto market. Contacts were more uncertain in their outlooks this reporting period, mainly because of the presidential election and its impact on consumers and consumer confidence.

**Nonfinancial Services** Demand for nonfinancial services expanded over the past six weeks. Staffing services firms said demand picked up, particularly in Dallas, and a slight uptick was seen in Houston as well. Leisure and hospitality contacts said demand was mixed. Restaurants saw continued growth overall, with some signs of recovery in oil and gas areas. Hotel demand softened toward the end of the summer season. The outlook for the leisure and hospitality industry was positive, with restaurants expecting moderate to strong sales growth to continue through the end of the year, while hotels were more mixed in their expectations.

Cargo volumes were generally down over the reporting period. Overall rail cargo dipped further, led by declines in petroleum shipments, although grain shipments posted another notable increase. Low fuel prices continued to impact sales in the public transportation industry, and a contact noted that the freight trucking industry was negatively impacted by the energy bust leading to excess trucks on the market.

**Construction and Real Estate** Reports on home sales and buyer traffic were mixed over the reporting period. Overall, sales of low to mid-priced homes remained strong. Some contacts noted increased competition among builders of move-up product, while demand softened at higher price points. Home prices were elevated, although there were several reports of discounting in Houston. Outlooks were positive through yearend with the exception of Houston, where contacts expect continued weakness in sales and starts.

Apartment leasing activity and rent growth was solid in most major Texas metros. In Houston, however, rents were flat to down, and up to three months of free rent was being offered in some areas. Multifamily construction continued to be elevated in Dallas–Fort Worth but is tapering off in Houston. Some contacts noted general tightening in multifamily construction lending, while one noted strong investment sales in Dallas–Fort Worth.

Demand for office space was steady in Dallas–Fort Worth and rents continued to edge up, while contacts in Houston noted slow leasing activity and continued increases in sublease space—which is

currently well above its historical average. Office rents were flat to down in Houston. Industrial leasing was mixed in Houston, while retail demand and construction remained active.

**Financial Services** Loan demand remained soft, which was partly due to seasonal factors, according to some contacts. Residential real estate lending grew, and consumer auto loans continued to perform well. On the other hand, commercial real estate and C&I loan demand remained weak. Most contacts noted improved loan quality, although there was some concern associated with loans to oil and gas companies. Credit standards were unchanged since the last report, with requirements remaining tight for energy-related loans. Loan pricing was very competitive in order for lenders to attract qualified borrowers. Deposits were flat as interest rates on deposits remained unchanged. Although there was still much uncertainty, mainly because of the upcoming presidential elections, contacts indicated improvement in their outlooks compared with six weeks ago.

**Energy** Demand for oilfield services remained depressed, even as drilling ticked up. At current pricing and demand, the financial positions of many firms remained distressed. Most contacts were optimistic for modestly improving conditions and activity through the end of the year and into 2017.

**Agriculture** Strong crop production prospects materialized into above-average yields for several crops, with double-digit increases expected for the 2016 cotton, corn and soybean crops. This will help offset some of the negative impact of low crop prices for farmers. Livestock grazing conditions have been very good this year, which, coupled with low grain prices, has reduced feed costs. Dairy producers benefitted from a marked rally in dairy prices over the past six weeks.

**TWELFTH DISTRICT—SAN FRANCISCO****Summary**

Economic activity in the District continued to grow at a moderate pace during the reporting period of July through late August. Overall price inflation remained limited, while upward wage pressures intensified. Sales of retail goods expanded somewhat, and activity in the consumer and business services sectors grew at a moderate pace. Manufacturing activity changed little on balance. Improved growing conditions provided a slight boost to activity in the agricultural sector. Contacts reported vigorous activity in residential real estate markets, while conditions in the commercial sector firmed a bit. Lending activity grew at a solid pace.

**Prices and Wages**

Overall price inflation remained limited over the reporting period. Prices for new automobiles ticked down, while prices for used vehicles moved up slightly. Lower demand for hotel rooms held down price growth in the sector. Prices of agricultural products declined somewhat. Ticket prices in the airline industry grew modestly as demand for domestic and international travel both increased. Strong demand for pharmaceuticals pushed up prices for branded and generic products.

Wage increases picked up further and were strong on balance during the reporting period. Growing demand for highly skilled workers and technology specialists fueled strong wage growth in the technology, banking, and health-care IT sectors. Shortages of physicians and nurses continued to push up wages in the health-care industry. Increased demand and the implementation of minimum wage laws in some parts of the district increased wages for less-skilled workers. Contacts in the financial services industry reported that quit rates rose, and wage growth remained solid. Shortages of engineers fueled strong wage growth in the aerospace and defense sector.

**Retail Trade and Services**

Sales growth was modest overall in the retail sector. Reports on overall retail spending were mixed, with sales gains reported in some regions and flat demand in others. Sales of apparel products were largely unchanged after falling over the first half of the year, and contacts reported that inventory levels stabilized. Downward price pressures from discount outlets kept retail grocery revenues largely flat. Contacts reported

that automobile sales declined somewhat despite price discounting and favorable financing terms.

Activity in the consumer and business services sector grew at a moderate pace over the reporting period. Demand for air travel remained strong and combined with low fuel prices to boost industry profits. In the broader transportation sector, delivery volumes continued to grow at a brisk pace, particularly for e-commerce. Demand for restaurant meals changed little, except in the quick service sector, which has maintained solid sales growth since the start of the year. Demand for hospitality services was mixed, with contacts in some regions reporting strong demand growth but others reporting an increase in hotel vacancies and restrained spending by travelers. Additionally, contacts reported that stays from European travelers softened somewhat due to the elevated dollar.

### **Manufacturing**

On balance, manufacturing activity was largely unchanged over the reporting period. Contacts reported that sales of pharmaceuticals grew at a strong pace despite some increased production costs from government regulation and negative media coverage around industry pricing decisions. Orders for new commercial aircraft were modest, and deliveries remained flat compared with the same period last year. Activity in the semiconductor industry was largely stable, with new orders coming in at the same pace as final sales and capacity remaining somewhat underutilized. On balance, manufacturers' demand for energy declined modestly, although the decline was less rapid than earlier this year. Activity in the aerospace and defense sector was constrained by continued uncertainty surrounding the federal defense budget. Demand for steel and recycled metals contracted further due to a loss in export competitiveness from the elevated dollar, further increases in foreign production, and weaker domestic demand from the energy sector. Overall, contacts reported that capacity utilization rates remained slightly low on a historical basis.

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

Activity in the agricultural sector expanded modestly. Above-average water availability boosted harvests, with record yields recorded for almonds and walnuts, but contacts expressed concern that a return to earlier weather trends would hurt yields over the near term. On balance, increased foreign production, the elevated dollar, and flat overall demand increased inventories of many agricultural goods. Contacts reported

that dairies continued to operate at a loss despite lower input prices, while ranchers benefited from somewhat firmer cattle prices.

### **Real Estate and Construction**

Real estate market activity expanded further over the reporting period. Residential construction remained robust, and contacts reported that many contractors are at capacity for new projects. Sales of residential units were strong, and the inventory of available units declined further. In Idaho, contacts reported that shortages of rentals and multifamily units have held down in-migration and labor availability. Contacts in Arizona reported an undersupply of affordable housing. On the commercial side of the market, construction activity grew at moderate pace, and lease rates picked up in some metropolitan areas, particularly those with a vibrant technology sector. Shortages of raw materials and labor somewhat constrained growth in construction activity in some parts of the District.

### **Financial Institutions**

Lending activity grew at a solid pace over the reporting period. Loan growth was strong, but contacts reported that competition for borrowers was fierce as supply of funds remained above demand. Deposit growth rose at a strong pace, and banks reported having ample liquidity. Credit quality was stable, and a few contacts reported that underwriting standards loosened slightly. Contacts in the community banking sector reported moderate revenue growth relative to the same period last year. Financial institutions in a few states with a legal marijuana industry reported increased operational costs related to regulatory constraints on activities linked with that industry.