For use at 2:00 PM EST

Wednesday

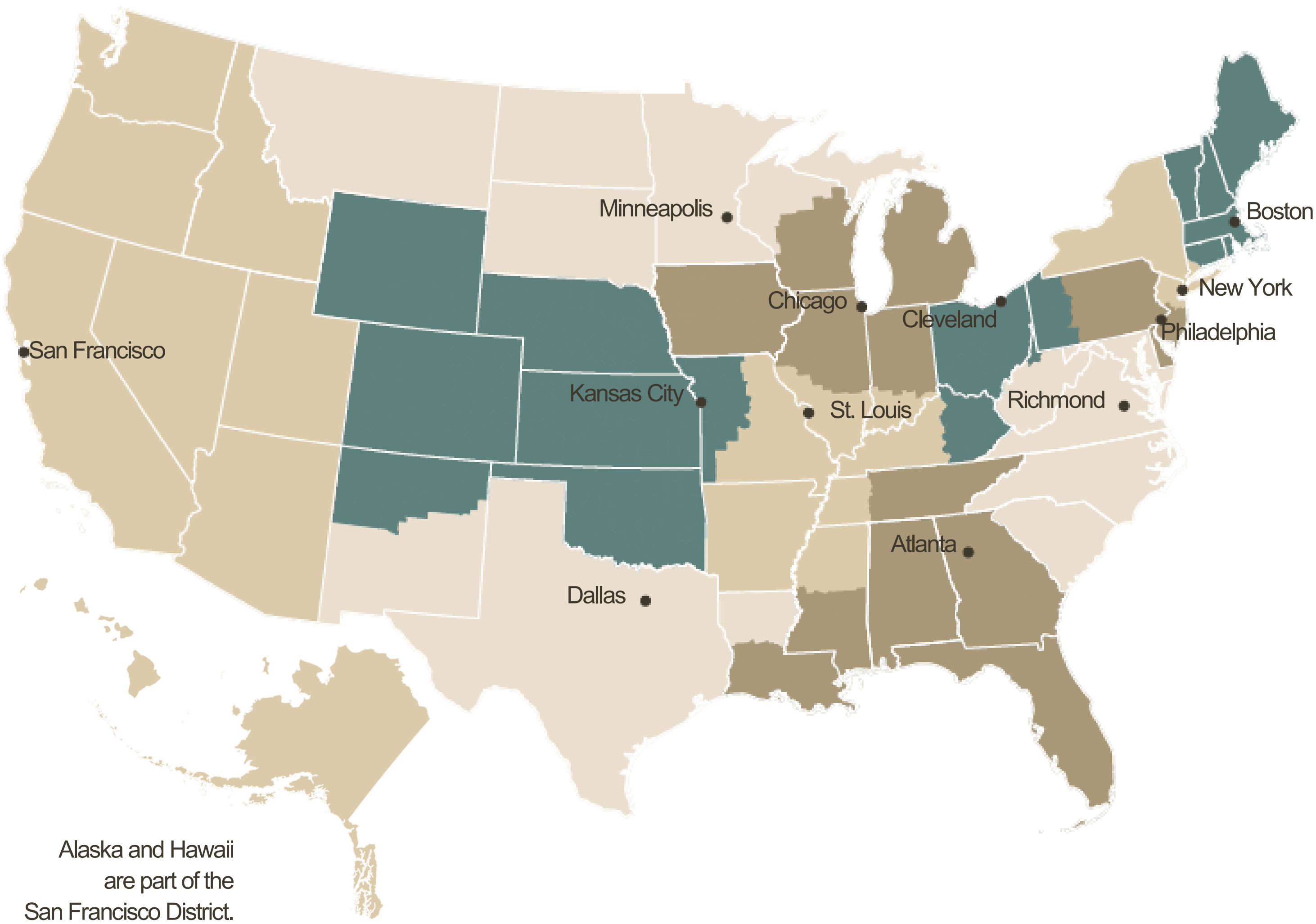
March 7, 2018

The Beige Book

Summary of Commentary on Current Economic Conditions
By Federal Reserve District

February 2018

Federal Reserve Districts



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

What is The Beige Book?

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

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

How is the information collected?

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

How is the information used?

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

This report was prepared at the Federal Reserve Bank of San Francisco based on information collected on or before February 26, 2018. This document summarizes comments received from contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.

National Summary

Overall Economic Activity

Economic activity expanded at a modest to moderate pace across the 12 Federal Reserve Districts in January and February. Consumer spending was mixed, as non-auto retail sales increased in just over half of the Districts while auto sales declined or were flat in every District. Tourism activity was broadly solid, with Atlanta and Richmond recording robust growth in this sector. On balance, Districts reported modest growth in home sales and construction, with the latter constrained by shortages of labor and materials. Conditions in the nonresidential real estate market improved moderately since the previous report, with robust construction activity noted in three Districts. Commercial rents in and around New York City were up significantly, according to contacts in the area. Increases in production were broad based across manufacturing sectors, with all but one District noting at least modest growth in activity. Loan volumes were generally flat, with a handful of Districts noting a modest decrease in delinquency rates. Among reporting Districts, agricultural sector activity was mixed but flat overall. Contacts in natural resource sectors saw modestly improving industry conditions, except in the Minneapolis District, where energy and mining activity was robust.

Employment and Wages

On balance, employment grew at a moderate pace since the previous report. Across the country, contacts observed persistent labor market tightness and brisk demand for qualified workers, as well as increased activity at staffing placement services. Several Districts reported continued worker shortages across most sectors, with contacts often mentioning shortages in the construction, information technology, and manufacturing sectors. In many Districts, wage growth picked up to a moderate pace. Most Districts saw employers raise wages and expand benefit packages in response to tight labor market conditions. Contacts in a few Districts conveyed reports of modest increases in compensation following passage of the Tax Cuts and Jobs Act.

Prices

Prices increased in all Districts, and most reports noted moderate inflation. Four Districts saw a marked increase in steel prices, due in part to a decline in foreign competition. Price growth for building materials such as lumber picked up, stemming from an uptick in construction activity. Several Districts reported moderate increases in broad transportation costs, caused primarily by higher fuel costs that boosted freight rates. Home and commercial lease prices rose across most of the country.

Highlights by Federal Reserve District

Boston

Business contacts at manufacturing and retail firms reported year-over-year revenue increases in recent weeks. These employers and staffing firms said labor markets were tight, and many cited potential wage increases. Price commentary was mixed, although no contacts planned substantial price increases. The outlook remained positive.

New York

Economic activity grew at a modest pace, while labor markets have remained tight. Input price pressures have intensified, while selling prices generally continued to rise modestly. Housing markets and commercial real estate markets have been mixed.

Philadelphia

Economic activity continued to grow at a modest pace, in particular for nonauto retail sales, manufacturing, nonfinancial services, and tourism. Nonresidential leasing improved to a modest pace, while auto sales continued a modest decline. Construction and existing home sales changed little. On balance, employment, wages, and prices continued to grow modestly.

Cleveland

The District economy expanded at a moderate pace. Labor markets tightened, with wage pressures noted broadly. The Tax Cut and Jobs Act is reportedly enabling firms to invest more and to increase worker pay. Stronger confidence in the economy supported rising demand in manufacturing, retail, and nonfinancial services. Construction activity remained buoyant.

Richmond

The regional economy expanded at moderate pace in recent weeks. Manufacturing activity picked up, but manufacturers faced longer vendor lead times due to trucking delays. Exporting activity rose more quickly and, for some ports, came more in line with imports. Labor demand increased moderately and wage pressures broadened. Prices continued to grow at a modest pace.

Atlanta

Economic conditions continued to improve modestly. The labor market remained tight and wage growth was balanced. Non-labor input costs edged up slightly. Retailers cited flat sales, while auto sales were sluggish. Home prices increased modestly. Demand for commercial real estate continued to improve. Manufacturers noted solid activity and steady production levels.

Chicago

Growth in economic activity remained at a moderate pace. Employment and manufacturing production increased moderately, business spending rose modestly, construction and real estate activity grew slightly, and consumer spending was down slightly. Wages increased modestly, prices rose slightly, and financial conditions deteriorated some. Farmers continued to face challenging conditions.

St. Louis

Economic conditions have continued to improve at a modest pace. District banking contacts reported stronger demand for new loans. Overall price pressures strengthened. The outlook among firms surveyed in mid-February was slightly more optimistic than the outlook in our mid-November survey and generally unchanged from one year ago.

Minneapolis

Ninth District economic activity grew moderately, and labor markets remained tight. Consumer spending was up modestly, while tourism got a boost from the Super Bowl in Minneapolis and good snowfall elsewhere. Energy and mining activity increased briskly. Commercial construction grew strongly, but residential construction was mixed. Home sales were generally lower across the District.

Kansas City

Economic activity continued to expand at a modest pace in late January and February, with broad-based growth across most District sectors. Consumer spending, real estate and energy activity increased modestly, while contacts in the manufacturing, transportation, wholesale trade, and professional and high-tech sectors reported moderate growth. Additional gains were expected in most sectors in the months ahead.

Dallas

Economic activity grew moderately, with sectors like manufacturing and energy continuing their solid expansions while others cooled somewhat. Growth in nonfinancial services activity slowed slightly, as did loan growth, and retail sales fell modestly. Hiring remained solid despite a tight labor market, and wage and price pressures remained elevated and in some cases strengthened.

San Francisco

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

Summary of Economic Activity

Economic activity expanded at a moderate pace in the First District, with almost all retail and manufacturing respondents citing sales and revenues in recent weeks ahead of year-earlier levels. By contrast, staffing firms reported year-over-year revenue declines, reflecting ongoing difficulty finding workers to fill openings. Commercial real estate contacts offered generally upbeat reports. Residential real estate markets in the region saw sales declines and price increases, which respondents attributed to very low inventories. Outlooks continued to be generally positive.

Employment and Wages

Most responding firms said labor markets were tight. Retail contacts noted increased difficulty hiring workers in some categories and said they expected the labor market to tighten further over the coming year. Merit raises for existing retail employees were in the range of 2.5 percent to 4.0 percent. One large retailer planned to pass along half its savings from the corporate tax cut to selected workers in the form of higher wages, while a smaller retailer said it planned to raise salaries a bit to match the wage increases announced by some prominent retail chains as a result of the tax cuts. A manufacturing contact with declining sales laid off temporary workers but has, so far, avoided any layoffs of permanent workers. Otherwise, no manufacturing respondents reported any major revisions to their hiring, although several said the market was particularly tight for skilled workers from machinists to electrical engineers. Manufacturing contacts reported higher starting salaries and longer waits to fill open positions. Staffing firms noted high labor demand from clients across the board, regardless of industry or occupation, paired with a dearth of candidates to fill open slots. They reported that bill rates and pay rates have risen, with some noting local minimum wage increases as a source of upward movement.

Prices

Firms' comments on pricing were mixed. Retail contacts said wholesale prices were steady; one indicated they will increase prices on most retail products by low single-digits in 2018, while another planned to raise retail prices to cover higher labor costs. Another retail contact noted higher shipping costs because of a shortage of trucks and drivers. In manufacturing, specific supply issues have resulted in selective price increases. Otherwise, manufacturing contacts reported no notable changes in the pricing environment.

Retail and Tourism

First District retail respondents reported that from early January through mid-February, year-over-year sales results were positive, ranging from mid-single-digit to double-digit increases. While two contacts cited high demand for winter items, others believed the increases represented a continuation of more buoyant consumer sentiment that took hold in the second half of 2017.

Contacts said the US economy is expected to do well overall in 2018, notwithstanding challenges facing some retailers. Predictions regarding consumer sentiment varied: One contact said that the cut in federal income taxes and actual or expected wage gains augur well for the retail sector. Others, including one citing recent stock market volatility, opined that consumers were likely to be cautious.

Boston-area hotels had their strongest December in five years. Despite a slow start during the first half, the average room occupancy rate in 2017 was 82.2 percent, the highest rate ever recorded and the fifth straight year above the hotel industry "gold standard" of 80 percent. Some in the tourism industry expressed concern that foreign travel to the United States will decline in 2018.

Manufacturing and Related Services

Only one of the ten First District manufacturers contacted this cycle reported lower sales – a gun maker. Otherwise, all manufacturing contacts reported higher sales than a year ago. Contacts in the semiconductor area reported strong sales and new orders. Demand was strong in other industries as well, including a manufacturer of membranes used in batteries and filters who reported December sales up 10 percent to 15 percent versus the previous year.

Several contacts reported constraints on the supply side. Two said they faced shortages of electronic parts; one attributed the shortages to new phones that “soaked up world supply” for selected components. Another supply issue was trucking. A contact said that companies now have to plan well in advance to guarantee trucking capacity; finding it at short notice is either impossible or very expensive – the main issue is a shortage of drivers.

Manufacturing respondents had a positive outlook. In general, contacts were increasing capital expenditures, although only one reported a major increase in spending (to build a new plant in New Hampshire). Contacts said that it was too soon to determine the effect of the new tax code on capital spending.

Staffing Services

New England staffing firms have seen mostly negative results over the last quarter of 2017 and the start of 2018, with the majority reporting revenue declines year-over-year. For most respondents, this reflects a low unemployment environment that has slowed hiring volumes and increased competition for the remaining labor supply. Some also remarked on the entry of new tech firms specializing in job posting sites, which has made it easier for companies to host job searches without using intermediaries. This has sparked experimentation as they look for ways to distinguish themselves through advertising, branding, improving online reviews, and increased attention to building relationships with potential talent. One respondent reported the temporary placement side of their business was the strongest, while most noted that few workers want temporary positions in the current labor market. All anticipate the continuation of a robust economy and expect to continue to work under the constraints of a tight labor market for the foreseeable future.

Commercial Real Estate

Contacts offered mostly upbeat reports on commercial real estate activity in the First District. Office leasing activity remained robust in greater Providence, driving further increases in rents, although suburban office locations remained less sought-after. Rhode Island’s industrial property market continued to experience strong demand. Boston posted an increase in office leasing activity, while leasing activity slowed across all sectors in Connecticut. Construction activity remained robust in Providence and Boston, but luxury multifamily construction continued to dominate in Boston where some contacts cited ongoing concerns about overbuilding in that submarket.

Respondents across the First District voiced concerns that commercial property values could fall in response to rising yields on long-term Treasuries, and cited both upside and downside risks related to recent changes in federal tax laws and the recently signed federal budget. A Connecticut contact said business sentiment remained very weak, leading to a pessimistic outlook for commercial real estate activity. A Rhode Island contact expected slower economic growth in the second half of 2018; by contrast, Boston contacts forecasted stable or strengthening growth despite risks in some submarkets.

Residential Real Estate

Residential real estate markets in the First District showed declines in closed sales despite strong demand. Closed sales for single-family homes decreased in four out of the six reporting areas, while New Hampshire and Maine reported moderate increases. For condos, sales decreased in all reporting areas but Maine. (Three of the six states, as well as the Greater Boston area, reported data through December 2017; Maine, New Hampshire and Vermont reported results to January 2018.)

Median sales prices increased for both single-family homes and condos, except in Vermont. Low inventory continued to be a key constraint in the First District, with all areas except Greater Boston reporting substantial decreases in inventory.

Contacts expressed positive outlooks in terms of market activity, citing strong buyer demand and the prospect of rising mortgage rates as the reasons. A Boston contact noted “Despite these drops in overall sales, activity has remained strong and we’re seeing an eager buyer population .” ■

Summary of Economic Activity

Economic activity in the Second District grew at a modest pace in the latest reporting period, while the labor market has remained tight. Input price pressures intensified, while selling prices continued to rise modestly. Growth in the manufacturing and distribution industries slowed to a moderate pace, and activity declined in some service industries. Consumer spending has weakened somewhat, though this was partially attributed to unseasonably harsh weather across much of the District. Housing markets have been mixed, with the sales market a bit firmer but the rental market steady to softer, especially at the high end. Commercial real estate markets were also mixed, with strength in the industrial segment but some slackening in the office and retail markets. Industrial construction activity remained robust, while office construction remained sluggish and multi-family construction was mixed. Finally, banks reported slightly weaker loan demand from the household sector, and steady to lower delinquency rates.

Employment and Wages

The labor market has remained tight, while hiring activity has been steady. One employment agency in upstate New York noted that hiring was sluggish in January but picked up in February. A major New York City agency indicated that labor demand has remained brisk, while qualified candidates have been in increasingly short supply—particularly for jobs requiring technical skills. One contact noted that drug testing and background checks have disqualified many job applicants.

Business contacts in most industries indicated that they are expanding staff modestly, with the exception of retailers, who indicated that they have reduced staff slightly. Hiring plans for the months ahead have remained fairly strong.

Businesses in the service sector reported further acceleration in wages, and a sizable proportion of firms across most industries indicated plans to raise wages in the months ahead. A New York City agency reports that most new hiring involves recruiting candidates who are already employed, and that this has made businesses increasingly negotiable on wages. A number of contacts in industries such as health care, retail, and restaurants noted they have been squeezed by wage pressures, including the recent hike in New York State's minimum wage rates. Some businesses have refrained from raising wages that are already above the new minimum.

Prices

Input prices have accelerated sharply, according to contacts in most industry sectors, and a sizable number of businesses foresee further hikes in the months ahead. However, businesses generally report that they have raised their selling prices only modestly. Looking ahead, a growing proportion of businesses in retail and wholesale trade said that they planned to hike prices in the coming months.

Consumer Spending

Retail contacts reported that sales have weakened in early 2018, falling short of 2017 levels. Retailers in upstate New York indicated that customer traffic has been fairly robust in recent weeks, despite unusually cold and snowy weather, but that sales were down from a year earlier. The trend toward online shopping has continued to adversely affect many brick and mortar stores—particularly small businesses—though jewelry stores, nail salons, and other service providers have been less affected. Inventories were generally reported to be at satisfactory levels, and retailers were moderately optimistic about the near-term outlook.

New vehicle sales in upstate New York were reported to be steady to softer since the last report, while sales of used cars were mixed. Vehicle inventories were said to be in fairly good shape. Dealers continued to characterize retail and wholesale credit conditions as favorable.

Consumer confidence in the Middle Atlantic states (NY, NJ, PA) edged down but remained at a very high level in January.

Manufacturing and Distribution

Manufacturers and wholesalers reported that growth slowed to a moderate pace, while transportation firms indicated that activity leveled off following robust growth in late 2017. Looking ahead, manufacturers expressed increasingly widespread optimism about the near-term outlook and noted that they were planning on boosting capital spending. Contacts in wholesale distribution and transportation were moderately optimistic.

Services

Reports from service-sector firms were mixed. Businesses in the information and leisure & hospitality industries reported that activity has declined, though part of this—at least for the latter—may be weather-related. Contacts in professional & business services and education & health again reported modest growth in activity.

Still, service sector businesses were generally optimistic about the near-term outlook, except in leisure & hospitality, where optimism was more subdued.

Broadway theaters reported that business was brisk in January, with attendance up more than 10 percent from a year earlier and revenues up more than 20 percent. However, both tapered off noticeably in February but were still up moderately from a year ago.

Real Estate and Construction

Housing markets across the District have been mixed, with the sales market picking up slightly but the rental market steady to softer. Real estate contacts in upstate New York reported that sales activity slowed in January, partly reflecting unseasonably harsh weather, though buyer traffic and listings picked up in February. In northern New Jersey, prices have been essentially flat, while sales volume declined slightly from a year ago. However, in Long Island, the Mid-Hudson Valley, and southwestern Connecticut, home sales have been fairly brisk, and prices have risen 3-5 percent.

New York City's co-op and condo market has also seen fairly brisk activity, though apartment prices have been flat overall—up modestly at the lower end but down at the high end of the market. The inventory of homes on the market was reported to be very thin throughout the District, except in Manhattan where it has been steady at a moderate level.

Rental markets have been mixed but, on balance, softer. New York City's rental market has weakened further, particularly at the high end. Effective rents have trended down, reflecting a combination of modestly declining face rents and rising landlord concessions. While these concessions have been common for high-end rentals for some time, they have recently been used on lower-priced units as well. However, rental markets in northern New Jersey, upstate New York, and the suburbs around New York City have held up better, with rents steady to up modestly.

Commercial real estate markets have been mixed. Office availability rates were steady to up slightly, while asking rents were mostly flat. The retail market has slackened more noticeably, especially in New York City, where vacancy rates have climbed to multi-year highs. In northern New Jersey and upstate New York, retail vacancies have been fairly stable. The industrial market, in contrast, has continued to strengthen, as availability rates have continued to decline throughout the District. Industrial rents in and around New York City and northern New Jersey have risen at more than a 10 percent pace, while rents in upstate New York have been stable.

Multi-family construction activity has remained brisk in northern New Jersey and has picked up across upstate New York, but has slowed in New York City. Office construction has been subdued, but industrial construction has been fairly robust.

Banking and Finance

Small to medium-sized banks in the District reported mixed demand for loans overall. Demand declined by a bit more than the seasonal norms for consumer loans and for residential mortgages but increased modestly for commercial mortgages. Refinancing activity also reportedly decreased. Bankers reported higher credit standards for C&I loans but unchanged standards for other types of loans. Finally, bankers reported lower delinquency rates for residential mortgages and unchanged delinquency rates across all other categories.

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

Summary of Economic Activity

Aggregate business activity in the Third District continued at a modest pace of growth during the current Beige Book period. Nonauto retail sales, tourist activity, manufacturing, nonfinancial services, and nonresidential leasing markets grew modestly, while little change was noted by contacts from new home construction, existing home sales, and nonresidential construction. Auto sales continued to decline modestly. On balance, employment, wages, and prices continued to grow modestly. The percentage of firms anticipating continued growth over the next six months remained essentially the same; however, the percentage fell somewhat among manufacturers and rose among nonmanufacturers. Several contacts observed that sentiment appears to be running a bit hotter than tangible signs of production and investment.

Employment and Wages

Employment continued to grow at a modest pace during the current Beige Book period. Manufacturing and nonmanufacturing firms reported ongoing net additions to staff, while average hours worked edged higher over the period for manufacturing firms but fell among nonmanufacturers.

On balance, wage growth held steady at a modest pace; the share of nonmanufacturing firms reporting increases held steady at about one-third. Most banking contacts noted the apparent disconnect between frequent talk of labor shortages and the lack of evidence that wages are rising significantly in response.

Staffing firms reported being busy in many of the District's labor markets; wage pressures varied a bit more. In two markets, wage rates were up about 3 percent, while firms pushed back against 3 percent hikes in another market with mostly manufacturing clients. Staffing contacts also noted healthy receivables and an absence of any other signs of financial deterioration from clients.

Prices

On balance, prices modestly, although greater price pressures began to emerge among manufacturers. Most contacts continued to report no change in prices paid and received. However, the percentage of manufacturing firms reporting increases rose significantly for prices paid and for prices received for their own goods. Among nonmanufacturing firms, contacts reported little change for prices paid and received.

Builders continued to note rising prices for construction materials as well as labor, but no acceleration. Existing home prices also continued to rise, as sellers have failed to emerge in sufficient quantity to provide inventories that meet the demand in most markets.

Looking ahead one year, manufacturing firms now anticipate receiving significantly higher prices for their own goods and services than they expected one quarter earlier. However, nonmanufacturing firms have lowered their expectations slightly. Overall, firms also reported somewhat higher expectations for annual consumer inflation.

Manufacturing

On balance, manufacturing activity continued at a modest pace of growth, with little change in shipments and in general activity, although orders dipped somewhat.

The makers of chemicals, primary metal products, industrial machinery, and electronic equipment continued to note gains in new orders and shipments; firms in the lumber, paper, and fabricated metal sectors reported more mixed results with some declines in activity.

Most manufacturing contacts continued to expect general activity to increase over the next six months; however, the percentage of firms expecting future increases did retreat below 60 percent. By comparison, the percentage of firms expecting increases in future capital expenditures and future employment held mostly steady at levels just above 40 percent.

Consumer Spending

On balance, nonauto retail sales continued to grow modestly. While the weather this year was generally more inviting for shoppers than last year, one contact noted that a snowstorm in January hurt sales when it occurred and then again in February because several school districts chose to make up that time on Presidents' Day, thereby affecting the critical holiday sale.

Auto dealers continued to report modest declines in year-over-year sales this period. Although sales remain at high levels, dealers noted lower profitability and worries about the future.

Tourism contacts continued to report modest growth overall. A Philadelphia contact noted that hotels benefited from several large conventions, Eagles' home playoff games, and the Super Bowl itself, which drew local fans for downtown hotel stays in anticipation of the evening celebration. A Delaware contact reported strong growth from an inland hotel and heavy traffic, packed outlets, and busy recreation venues at the shore, although shore hotels did not benefit. Also, Atlantic City's casino revenues returned to negative year-over-year comparisons.

Nonfinancial Services

On balance, service-sector firms have continued to report modest growth in general activity since the prior Beige Book period. The percentage of firms reporting an increase in sales and the percentage of firms reporting greater orders were essentially unchanged. However, expectations about future growth were more widespread, with nearly two-thirds of the firms anticipating increased activity.

Financial Services

Financial firms reported little change in overall loan volumes (excluding credit cards) after experiencing modest growth in the prior Beige Book period. Volumes did grow moderately in mortgages, commercial real estate loans, and commercial and industrial (C&I) lending. Home equity lines fell moderately, and auto loans dropped slightly, while growth of other consumer loans was strong.

Credit card lending fell substantially as consumers paid down holiday bills; however, the seasonal decline this year matched the decline in the comparable prior-year period. Also, over the entire year, credit card loan volumes and total lending in all the other categories combined have grown at a moderate pace.

Banking contacts continued to describe solid ongoing economic growth in most parts of the District. Although they described the confidence of consumers and businesses as running high, many noted that the sentiment appears greater than the tangible evidence of new consumption and investment. Overall, contacts noted that credit standards remain unchanged, credit quality remains very sound, and credit conditions were not expected to shift through the current year.

Real Estate and Construction

Homebuilders reported little overall change in activity. Sales traffic was weak as the year began and was only just beginning to pick up as February drew to a close. Contacts mentioned several possible factors, including higher interest rates and weekend distractions from the Eagles' playoff run.

Brokers in Third District housing markets reported mixed results for existing homes sales, with slight increases in the Lehigh Valley and the Greater Philadelphia area, but a modest decrease at the Jersey Shore. Increasingly lower inventories of houses continue to constrain sales and place upward pressure on house prices.

Nonresidential real estate contacts reported little change in the high levels of overall construction, although activity may begin to wane a bit at year-end unless new projects are forthcoming. Industrial/warehouse space continues to be the most robust sector throughout much of the District. Contacts have expressed more caution about multifamily housing and office space projects, which have tempered their pace. Neither real estate nor banking contacts have expressed concern about overbuilding of commercial real estate. Leasing activity has picked up a bit to a modest pace, mostly due to a growing cohort of leases that are up for renewal. ■

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

Summary of Economic Activity

Business activity in the Fourth District expanded at a moderate pace since our last report. Labor demand remains strong, but worker shortages are limiting firms' ability to hire. Competition for qualified workers has led employers to raise wages. Some firms reported that the Tax Cut and Jobs Act is enabling them to increase investment and raise worker pay. Upward pressure on input costs continued at the same pace as that seen during the past few reporting cycles. Firms generally were able to increase their selling prices. Retailers reported a continued boost in sales going into the first quarter, and they attributed this boost to stronger consumer confidence. Housing and commercial real estate markets remained buoyant. Manufacturing output trended higher.

Employment and Wages

Labor markets in the Fourth District tightened during the survey period as demand for talent exceeded the available supply. Hiring was strongest in manufacturing and construction. Retailers pared their workforces, citing the end of the holiday shopping season and a need to gain efficiencies. Transportation firms trimmed payrolls because of lower seasonal demand and driver shortages that prompted efforts to boost efficiency. Across industries, the majority of firms reported replacing staff or making seasonal adjustments, though a sizeable share said they had created positions. Overall, the market for talent remains challenging. Turnover and an aging workforce were commonly cited as key challenges. Retirements are limiting the potential pool of workers. One construction contact noted that he is expecting significant labor shortages this year. A steel producer observed that every time his firm gets close to having a full staff, someone quits. The tough competition for workers led employers to raise wages during the survey period, especially for lower-wage jobs. Contacts speculated that savings resulting from the Tax Cuts and Jobs Act (TCJA) will, in part, support pay increases over the short to medium terms. A few bankers expect to raise minimum pay to $15 per hour within the next year or two. However, few contacts expect the tax cuts to lead to more robust hiring. Rather, firms expect to maintain their recent hiring pace over the short term.

Prices

Non-labor input costs rose for a majority of contacts, at a pace similar to that of the previous survey period. A combination of stronger demand, supply constraints, and higher materials prices elevated non-labor costs, especially in the construction, manufacturing, and transportation industries. Steel producers reported raising selling prices because of a decline in market share for foreign steel and expectations about potential outcomes of pending trade cases. Manufacturers further down the supply chain reported sizeable increases in the price of steel that they purchased. Firms' ability to pass through price increases to their customers was little changed from the previous survey period, though there was considerable variation across industries. Transportation companies across the board were able to raise freight rates in response to higher fuel costs and capacity constraints. Similarly, construction firms were able to pass along their higher input costs without much pushback. Retailers, however, cited competition as a reason for their holding or lowering their selling prices.

Consumer Spending

Retailers reported improving sales during the survey period. Some retailers indicated that in early 2018 they were still benefiting from the holiday season. Others reported that rising consumer confidence could help explain stronger customer demand that began in November 2017. Most retailers were optimistic that sales would continue to increase during the remainder of the current quarter and into the next. Auto dealers experienced more challenges than their general retail counterparts at the beginning of the year. Unit sales of new motor vehicles declined about 7 percent in January compared to those of a year ago. Contacts indicated that this was due in part to poor weather conditions and higher interest rates. One dealer reported that new motor vehicle sales were beginning to slow after five to seven years of growth, increasing dealer inventories, especially for new cars. Pressure from OEMs to buy excess products also contributed to higher than normal inventory levels.

Manufacturing

Demand for manufactured goods increased during the survey period and on a year-over-year basis for many of our contacts. Strong customer confidence and seasonal demand changes for industrial products contributed to new manufacturing orders. One producer of residential HVAC systems reported a large increase in output during January compared with that of a year ago thanks to stronger consumer confidence and rising liquidity. Manufacturers of material handling and construction equipment were optimistic in their outlook. Rising commodity prices are encouraging demand for products from extractive and metal recycling equipment producers. Fabricated metals producers cited particularly strong growth because of decreased competition from imports. Imports have reportedly fallen because of stronger global demand and concerns about potential outcomes of pending trade cases. Most contacts in the fabricated metals industry reported that the TCJA and business-friendly policies are encouraging capital expansions and increased investment. They expect strong demand growth to continue with increased infrastructure spending. Contacts in the plastics industry relayed a mixed picture, with some contacts reporting slowing demand along seasonal trends and oversupply within the industry.

Real Estate and Construction

For most homebuilders, demand was stable or had improved since December and on a year-over-year basis. One contact reported that an improving labor market was boosting demand. Almost all homebuilders increased their base prices during the survey period as demand rose and as materials and labor costs increased. Some contacts specifically cited the Canadian lumber tax as a source of increased materials costs. The average sales price of new and existing single family homes increased 5 percent during January compared to those of a year ago. Homebuilders continued to raise wages to decrease turnover rates and to attract the best talent. Some homebuilders struggled to fill positions for framers, bricklayers, and drywall hangers.

Nonresidential builders saw a boost in inquiries at the beginning of 2018. Rising demand was attributed to improving economic conditions and higher customer confidence. Builders increased their billing rates because of rising demand and materials costs, both of which are expected to trend higher into the next quarter. Contacts reported that some lenders remain cautious when considering project financing, especially for multifamily developments.

Financial Services

Demand increased for C&I loans and for commercial real estate lending during the survey period. Bankers speculated that they are beginning to see an impact from the TCJA, saying that at the beginning of the first quarter, credit demand grew significantly because of pent-up demand for capital and real estate. Business lending was stronger on a year-over-year basis, with contacts citing greater customer confidence, improving market conditions, and expanding footprints. On the consumer side, credit card usage was seasonally lower following the holiday boom, while direct and indirect auto lending increased. One banker noted that consumers have built up home equity and that drawdowns on HELOCs are expected to increase as the spring home improvement season begins. Delinquency rates were stable. One contact said that current lending standards are working efficiently and that delinquency rates are quite low.

Nonfinancial Services

Activity in the nonfinancial services sector grew at a moderate-to-strong pace. Rising freight volumes across product segments were attributed primarily to solid economic growth. Freight haulers were concerned about capacity constraints caused by labor shortages. This situation is forcing freight customers to transition from truck to rail carriers. Within the professional services sector, contacts from engineering, software development, and accounting firms reported the strongest demand growth, which they said was due to passage of the TCJA and confidence in the overall economy. ■

Summary of Economic Activity

The Fifth District economy expanded at a moderate pace since our previous report. Manufacturing activity increased moderately but firms faced longer vendor lead times due, in part, to trucking delays. Trucking firms concurred, saying that driver shortages kept them from meeting the high demand. District ports saw moderate growth, overall, as export activity picked up and, at some ports, came more in line with imports. Retailers experienced a slight slowdown in recent weeks. Tourism and travel remained robust despite a few disruptions from wintry weather. Reports on commercial real estate conditions were mostly positive but varied by region. Likewise, lenders across the Fifth District gave somewhat mixed reports on commercial loan demand. Nonfinancial services firms generally experienced a moderate rise in demand and revenues, although there were some reports of profit margin compression. The demand for labor increased moderately and many employers had challenges finding workers. Wage pressures broadened, and more firms were raising starting wages and offering expanded benefits to attract new hires. Prices continued to grow at a modest pace, overall.

Employment and Wages

The demand for labor rose moderately in recent weeks. A staffing agent reported a modest increase in orders as the lack of available workers to fill permanent positions drove more employers to staffing firms for temporary help, particularly in manufacturing, warehousing, and distribution. Contacts also reported difficulty filling positions for IT professionals, engineers, accountants, health care providers, and construction workers. Some employers said they were willing to train underqualified workers but had trouble finding workers with soft skills and a strong work ethic. Upward wage pressures continued to broaden moderately. In addition to raising starting wages, there were some reports of employers looking to attract workers with expanded benefit packages and more flexible work schedules.

Prices

Since our previous report, prices grew at a modest pace. According to our most recent surveys, manufacturers reported moderate increases in input costs, which outpaced growth in selling prices. Some of the largest raw materials price increases were reported for lumber, plastics, metals, and packaging materials. A food manufacturer saw prices rise for flour and sugar but decline slightly for poultry, eggs, and beef. Service sector prices grew modestly, overall. Export prices rose slightly for metallurgical coal but declined somewhat for thermal coal. Meanwhile, natural gas prices declined modestly in recent weeks.

Manufacturing

Manufacturing activity grew moderately in recent weeks. A South Carolina copper parts manufacturer noted increased sales in both foreign and domestic markets, and an electronics manufacturer in Maryland reported an increase in defense-related orders. A South Carolina packaging manufacturer saw improved business conditions and began to increase capital investment in anticipation of higher interest rates. A Virginia wood-product manufacturer reported unpredictable business from week to week, as demand from restaurants increased while demand from retailers slowed. Manufacturers across the District continued to face supply chain disruptions resulting from delays in trucking.

Ports and Transportation

Port activity picked up moderately in recent weeks, with increases in both imports and exports. Faster growth in exports at some ports left them with a better balance in volume growth. Recent increases in exports were largely driven by automotive and commodities shipments. A North Carolina port attributed much of its growth to exporting wood chips to the UK to be used as fuel. However, a Maryland port continued to see more than twice as many loaded import containers as loaded export containers.

Trucking companies saw sustained growth in recent weeks, and many reported being unable to meet increased demand. A North Carolina company reported demand of about two truckloads for every available truck. Trucking companies have continued to turn away business because of driver shortages and expect this problem to worsen in coming months as shipments pick up seasonally in the spring.

Retail, Travel, and Tourism

Retailers experienced somewhat sluggish sales in recent weeks. Many firms noted a drop in revenues but remained optimistic that business would pick up in the near future. District auto dealers were seeing low credit scores prevent many customers from purchasing cars. A Maryland plumbing supplier said business was at a twelve-year high, and a Maryland hardware store saw an uptick in sales resulting from snow storms as people bought gear for removing snow and heating their homes. A West Virginia sporting goods retailer said strong wholesale demand made up for weak retail demand.

Tourism remained robust in recent weeks. Hotel stays around the District continued to increase; however, some North Carolina hotels reported that their business was suffering from increasing competition, despite strong tourism. A Virginia outdoor center reported having to turn away visitors as bookings increased. Tourism in D.C. adjusted down to normal levels compared to abnormally strong business last winter. Also, it did not suffer as much from the federal government shutdown as in the past because of its brevity. District ski resorts experienced a strong season, after a few weak years. However, winter weather hurt tourism elsewhere in the District, particularly in South Carolina, where the Charleston airport was shut down for four days.

Real Estate and Construction

Most Fifth District residential real estate contacts reported increases in sales and buyer traffic, and decreased inventories in the past few weeks. Although prices were generally increasing, one report from Washington, D.C. noted that the average price was lower due to higher sales in the lower price ranges. Agents across the Fifth District commented that lower priced inventory was absorbed quickly and that homes at the higher price points were slower to move. A few reports noted increased demand for large tracts of land for lot and house development, but it would be some time before the construction activity translated into increased inventories.

In commercial real estate, traffic and sales increased and prices were steady in recent weeks, although activity varied by geographic area and industry segment. An executive from Columbia, SC and another from Richmond, VA reported speculative construction in the industrial market. The Columbia report also noted strong activity in retail, including construction of small retail space. There was also steady demand for restaurant space. There were a few reports of slowing office-related activity. On the other hand, office activity expanded in Virginia Beach and there was strong demand for Class A urban office space and Class B suburban space in the Charlotte, NC area.

Banking and Finance

Since our previous report, loan demand increased slightly. Residential mortgage lending was flat to slightly lower, reflecting a typical seasonal slowdown, while refinance loan demand fell slightly. Interest rates edged higher in recent weeks. A banker in West Virginia attributed the decline in mortgage refinancing to the rise in interest rates. Deposits were up moderately, overall. Reports on commercial loan demand varied. For example, lenders in Maryland and North Carolina saw modest increases in commercial lending, while contacts in central Virginia and West Virginia reported flat to slightly lower demand. Credit quality remained strong. Credit standards declined slightly amidst reports of some higher loan-to-value ratios being accepted.

Non-Financial Services

Demand for nonfinancial services rose moderately in recent weeks. Professional and business services and administrative support services were among the sectors to report the strongest demand. An advertising and marketing firm saw steady demand but noted that rising input costs were compressing profit margins as they were unable to raise prices for their services. ■

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

Summary of Economic Activity

Business contacts indicated that economic activity in the Sixth District continued to expand, albeit modestly, from early January through mid-February. The near-term outlook among District contacts remains positive. On balance, the labor market remained tight and wage pressures were mild. Contacts indicated that non-labor input costs picked up slightly. Retailers cited steady sales since the previous report; however, automobile dealers indicated sales were soft. Tourism activity was robust across most of the District. Residential real estate builders and brokers indicated that home sales and inventory levels were flat to slightly down compared with a year ago. Home prices continued to increase modestly. Demand for commercial real estate continued to improve and commercial construction activity was flat or increased slightly. Manufacturers noted solid activity.

Employment and Wages

District contacts continued to report challenges filling certain positions, particularly in information technology, nursing, some skilled crafts, long-haul transportation, manufacturing, accounting, and low-skill/entry-level positions in many industries. Many employers noted that they continued to broaden their geographical area search for candidates, often pursuing workers from rural areas or from abroad. Firms also resorted to workforce training and education services to increase the pipeline of qualified workers. Additionally, employers further adopted strategies to improve worker satisfaction as an important tool to help attract and retain workers.

Broadly, contacts noted steady but modest wage growth; however, an increasing number of contacts reported either recently increasing wages or plans to do so in the coming months. This narrative was apparent among firms in the transportation, retail, finance, construction, and professional and business services sectors.

Prices

Businesses across the District reported a slight uptick in non-labor input costs and some contacts indicated an ability to pass along price increases. The Atlanta Fed's Business Inflation Expectations survey showed year-over-year unit costs were up 1.8 percent in February. Looking ahead, survey respondents indicated that they expect unit costs to rise 2.0 percent over the next twelve months.

Consumer Spending and Tourism

On balance, District retailers reported steady sales levels since the last report. Recreation retailers noted an increase in sales levels during the first few weeks of the year, while automotive dealers reported a slow start to 2018. The outlook among most retail contacts remains positive.

Travel and tourism contacts across the District noted a strong start to 2018 with growth in business and leisure travel since the last report. Hotel demand was higher than expected in the fourth quarter of 2017; a trend that has carried over into the first quarter of 2018. Contacts in Georgia and Florida cited an uptick in the number of visitors and spending over the first six weeks of the year. The outlook remains positive with healthy advanced bookings across the District through the first quarter of this year.

Construction and Real Estate

Reports from District residential real estate contacts signaled continued modest growth. Builder reports on construction activity in January compared to one year earlier were mixed. Builders and brokers indicated that home sales activity was flat to slightly down from the year-ago level. Many brokers reported buyer traffic was flat to down slightly, while builder reports were mixed. Most builders and brokers said inventory levels were down from one year ago. Builders and brokers noted that home prices increased in January. Looking ahead, brokers and builders expect home sales activity over the next three months will hold steady or increase slightly relative to the year-ago level. Many builders expect the pace of construction activity over the next three months to remain unchanged or to increase slightly.

Many District commercial real estate contacts reported improvements in demand that resulted in rent growth, particularly in industrial and warehouse/distribution properties. However, contacts continued to caution that the rate of improvement varies by metropolitan area, submarket, and property type. The majority of commercial contractors indicated that the pace of nonresidential construction activity was flat to slightly up relative to one year ago. Most contacts indicated that they have a healthy pipeline of activity, with the majority indicating backlogs greater than or similar to the previous year's level. The majority of reports noted that the pace of multifamily construction matched the year-ago level. The outlook among commercial contacts for nonresidential and multifamily construction remained positive, with the majority anticipating activity to match or exceed the current level.

Manufacturing

District manufacturers reported solid overall business activity since the last reporting period. Although most contacts indicated that production levels were holding steady, demand for their products continued to be relatively strong. Firms said that employment levels were flat to slightly up, and most contacts reported that they had open positions they were finding difficult to fill. Firms reported that input costs continued to rise, specifically steel, brass, and copper. In general, contacts are optimistic about future demand, suggesting that they expect sales levels to be up over the short to medium term.

Transportation

District transportation firms cited mixed results since the previous report. Ports continued to see year-over-year increases in container volumes and cargo tonnage. Year-to-date total rail traffic was down by double digits compared with year-ago levels, impacted mostly by decreased shipments of grain, non-metallic minerals, iron and steel scrap, and metallic ores. Intermodal traffic was also down. Trucking firms reported some pricing power amid strong demand and tight capacity.

Banking and Finance

District bankers indicated that credit remained readily available for most qualified borrowers except for some contacts in energy and commercial real estate industries. Banking contacts noted healthy loan pipelines and community banks, in particular, reported good loan demand. Some banks indicated more deposit pressure as short-term interest rates increased.

Energy

Planning and build out of natural gas and crude oil pipelines continued along the Gulf Coast. Contacts indicated that increased spending on pipeline infrastructure and other oil and gas projects intensified labor constraints in an already tight environment for certain skilled crafts. Freezing conditions across the Gulf Coast led a number of refineries to temporarily reduce or cease operations. Some refineries experienced power outages and other technical issues, however contacts indicated that the impact to product supplies was not significant. Persistent and unusual freezing temperatures across the region also caused power consumption to surge, which led to a brief spike in natural gas and heating oil pricing.

Agriculture

Agriculture conditions across the District were mixed. Drought conditions persisted in much of the District. However, rain in February brought some relief. The January forecast for Florida's orange crops was down further from the previous report as the effects of the Hurricane Irma continued to be felt. On a year-over-year basis, prices paid to farmers in December were up for cotton rice, beef, broilers, and eggs and down for corn and soybeans. ■

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

Summary of Economic Activity

Growth in economic activity in the Seventh District remained at a moderate pace in January and early February, and contacts expected growth to continue at that pace over the next 6 to 12 months. Employment and manufacturing production increased moderately, business spending rose modestly, construction and real estate activity grew slightly, and consumer spending was down slightly. Wages increased modestly, prices rose slightly, and financial conditions deteriorated some, on balance. Expectations for overall farm income in 2018 improved somewhat, though farmers continued to face challenging conditions.

Employment and Wages

Employment increased at a moderate pace over the reporting period, and contacts expected gains to continue at this rate over the next 6 to 12 months. As they have for some time, contacts indicated that the labor market was tight and reported difficulties filling positions at all skill levels. Hiring was focused on professional and technical, production, and sales workers, though there was a notable pickup in the number of firms looking to hire administrative workers. In addition, a staffing firm that primarily supplies manufacturers with production workers reported an increase in billable hours. Wage growth remained modest overall, though the number of contacts who reported pay increases for management and production workers was higher than a few months ago. In addition, most firms reported increasing benefits costs.

Prices

Overall, prices again rose slightly in January and early February, though more contacts now expect the rate of increase to pick up over the next 6 to 12 months. Retail prices increased slightly overall. Producer prices also rose slightly, reflecting in part the pass-through of higher raw materials and freight costs. There was a decline in the number of contacts reporting increased tax and regulatory costs.

Consumer Spending

Consumer spending was down slightly over the reporting period. Non-auto retail sales were flat on balance: gains in the electronics and appliance, building and gardening, entertainment, and health and personal care segments were offset by declines in the furniture, apparel, and grocery segments. Contacts continued to report strong e-commerce growth. New light vehicle sales volumes were down a bit, with flat sales in January and lower sales in early February. A number of dealers suggested that stock market volatility led potential customers to delay vehicle purchases. Despite the slow start to the year, contacts generally believed total light vehicle sales for 2018 would be similar to those for 2017. Used vehicle sales remained flat, and the vehicle mix for new and used vehicles continued to shift from cars to light trucks. Demand for residential energy increased moderately.

Business Spending

Business spending increased modestly in January and early February. Retail and manufacturing contacts indicated that inventories were generally at comfortable levels. Capital spending increased modestly, though contacts expected moderate growth over the next 6 to 12 months. Outlays were primarily for replacing industrial and IT equipment and for renovating structures. Demand for commercial and industrial energy increased slightly, and transportation demand increased moderately.

Construction and Real Estate

Construction and real estate activity ticked up over the reporting period. Residential construction rose modestly, and contacts expected activity to increase moderately over the next 6 to 12 months. With rising costs squeezing margins, contacts noted that homebuilders were focusing on the construction of high-price, high-margin housing. Overall, home sales were up slightly: sales of starter homes increased in spite of low inventories, while sales of high-end homes were flat and inventories ample. Home prices rose slightly, with stronger increases in the starter home segment. Nonresidential construction edged lower on balance, though building is expected to increase modestly going forward. Commercial real estate activity increased slightly from an already strong level, and contacts expected activity to increase slightly further over the next 6 to 12 months. Commercial rents rose slightly as vacancy rates decreased, and the availability of sublease space was little changed.

Manufacturing

Growth in manufacturing production continued at a moderate rate in January and early February. Steel production increased at a moderate pace in response to solid end-user demand and the rebuilding of inventories at steel service centers. Demand for heavy machinery also increased moderately as mining and construction activity continued to grow. Demand for heavy trucks was strong. Order books for specialty metals manufacturers increased moderately: growth was spread across a wide variety of sectors, with particularly strong demand from the oil and gas, aerospace, and transportation sectors. Manufacturers of construction materials continued to report slow but steady increases in shipments, in line with the pace of improvement in construction. Auto production was flat, but remained at a solid level.

Banking and Finance

Financial conditions deteriorated some on balance over the reporting period. Financial market participants noted falling equity prices, rising interest rates, and an increase in volatility. Small and medium business loan demand increased slightly, with growth coming primarily from small businesses. While competition remained strong, contacts reported little change in lending standards or loan quality. Consumer loan volume was little changed overall, though one contact noted a significant increase in demand for home equity loans since the start of the year. Consumer loan quality and lending standards were little changed.

Agriculture

Expectations for overall farm income in 2018 improved somewhat in January and early February, though much of the District's farm sector remained under stress. There were reports of more small tracts of ground being offered for sale. Corn and soybean prices were up enough to cover a slight rise in projected production costs for 2018. Soybeans remained more profitable than corn for most operations—one contact predicted that the split of corn and soybean acres planted this spring will be close to even (corn has consistently comprised the larger share). Contacts noted that subsoil moisture was very depleted in many areas because of drought conditions last year, making timely spring and summer rains more important for crop health this coming growing season. Hog, cattle, and egg prices were higher, but dairy prices lagged, leading to an increase in the number of liquidations of diary operations. ■

For more information about District economic conditions visit:
chicagofed.org/cfsbc

Summary of Economic Activity

Economic conditions have improved at a modest pace since our previous report. Firms reported modest increases in employment, despite continued difficulties finding workers. Wages continue to increase at a moderate pace, as do non-labor costs. Price pressures strengthened, as contacts generally see a greater ability to increase selling prices. Reports on consumer spending were generally mixed, with reports of bad weather reducing foot traffic and sales. Residential real estate contacts continue to report sluggish sales due to low inventories, while commercial real estate activity was slightly better. District banking contacts reported improving loan demand. Agricultural conditions also improved, thanks to high yields giving a boost to profits. Overall, the outlook among contacts has improved. On net, 54 percent of contacts expect conditions in 2018 to be better or somewhat better than in 2017.

Employment and Wages

Employment has increased modestly since the previous report. Of the contacts surveyed in early February, on net, 28 percent reported that first-quarter employment was higher or slightly higher than a year ago. Anecdotal evidence suggests that the labor market remained tight. Construction contacts continued to report shortages in qualified labor. Technology and manufacturing contacts in St. Louis and Memphis, respectively, also reported difficulties hiring suitable employees. Contacts in Louisville and Little Rock cited candidates' inability to pass drug tests as an impediment to hiring.

Contacts reported moderate wage growth since the previous report. On net, about 70 percent of contacts reported wages were higher or slightly higher than a year ago, and a similar share reported increases in labor costs. A construction contact in Louisville cited the need for higher wages to attract and retain skilled labor, while a contact in Little Rock reported that unskilled positions remain unfilled because of low wages.

Prices

Price pressures have moderately strengthened since the previous report. Firms reported modest growth in prices charged to consumers: On net, 33 percent of contacts reported that prices were higher than a year ago. Price increases accelerated somewhat in the second half of 2017, as contacts reported that their ability to raise prices has improved over the past three to six months. One food product manufacturer reported increasing their selling prices for the first time in 5 years.

Non-labor input costs grew at a moderate pace. On net, 67 percent of contacts reported that costs were higher than a year ago. Steel prices increased moderately throughout the District, and contacts in Louisville and Little Rock reported upticks in trucking freight rates.

Commodity prices generally rose throughout the District. Wheat, sorghum, soybean meal, corn, and corn feed increased moderately, soybeans increased modestly, and coal prices increased slightly. Rice and corn meal prices were flat while cotton prices fell modestly.

Consumer Spending

Reports from general retailers, auto dealers, and hoteliers portray a mixed picture of consumer spending activity. January real sales tax collections increased in Arkansas, Kentucky, and Missouri relative to a year ago and slightly decreased in Tennessee. In addition, several general retailers in St. Louis and Louisville indicated that sales fell short of expectations, attributing the slowdown to poor weather. Conversely, hospitality contacts in St. Louis reported that sales exceeded expectations.

Multiple auto dealers across the District reported a modest decline in sales, which have failed to meet their expectations. St. Louis dealers indicated a shift in demand toward high-end vehicles.

Manufacturing

There has been little to no growth in manufacturing since our previous report. A slight majority of contacts reported that new orders and capacity utilization were lower in the first quarter relative to one year ago, while production remained at the same level. This marks the fourth consecutive quarter of a decline in the share of contacts reporting growth in new orders and capacity utilization. However, the outlook of contacts remains optimistic, with most contacts expecting increases in production, new orders, and capacity utilization in the next three months.

Nonfinancial Services

Activity in the service sector has expanded moderately since the previous report. Transportation industry contacts reported that the dollar-value of sales has been higher in the first quarter compared with the same period last year. Most contacts expect sales to remain higher in the second quarter. While dollar sales are up, they have largely met expectations: More than half of contacts reported sales met expectations with remaining contacts split between falling short and exceeding expectations.

Real Estate and Construction

Residential real estate activity has declined slightly since the previous report. Seasonally adjusted home sales declined in January across the District's four major MSAs. Contacts continued to report that shortages in inventory are hindering sales. On net, about half of the respondents reported that first-quarter sales have fallen short of expectations. However, demand remains strong and a majority of contacts expect demand for single-family homes to increase over the next quarter.

Residential construction activity improved modestly. There was a modest uptick in December's permit activity within the District compared with the previous month. Two-thirds of local contacts reported that construction activity increased compared with the previous year, and the same fraction expects continued growth over the next quarter.

Commercial real estate activity increased slightly. Demand for industrial and office properties increased relative to a year ago. However, contacts noted that demand for retail properties fell while retail inventory increased. Contacts expect these trends to continue into the second quarter of 2018.

Commercial construction activity improved modestly. Local contacts reported increased demand for construction of all commercial property types. Over 80 percent of contacts, on net, expressed an optimistic outlook for 2018, but many continued to report that a shortage of labor is limiting construction activity.

Banking and Finance

Lending conditions in the Eighth District have strengthened at a moderate rate since the previous report. Loan demand increased moderately in year-over-year terms and, according to District banking contacts, there were some signs that the pace of overall loan growth may be rising after slowing in 2017. Commercial and industrial loan demand increased moderately after exhibiting flat growth last quarter. Bankers reported demand for auto credit remained unchanged after decreasing the previous two quarters. Credit standards for auto loans increased slightly. Overall, delinquencies continued declining, falling in every loan category except mortgages, which increased modestly. District bankers expect delinquencies to continue decreasing next quarter across all loan types, including mortgages.

Agriculture and Natural Resources

District agriculture conditions have improved slightly since the previous reporting period. In spite of concerns about low temperatures in early January, the percent of District winter wheat rated fair or better ticked up about a percentage point from the end of December to the end of January. Contacts expressed optimism about near-term farm income as area farmers were able to turn strong yields into profits in 2017, although some expressed concern about the downside risks of NAFTA renegotiations.

Natural resource extraction conditions declined from December to January, with seasonally adjusted coal production falling 10 percent. January production was also 11 percent down from a year ago. ■

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

Summary of Economic Activity

The Ninth District economy grew moderately overall since the last report, with employment, wages, and prices all seeing moderate growth. The District economy showed growth in consumer spending, tourism, commercial construction, manufacturing, real estate, energy, and mining. However, residential construction slowed, and agriculture remained weak.

Employment and Wages

Employment grew moderately since the last report, as hiring demand appeared robust, but tight labor restrained stronger hiring. An ad hoc survey of Minnesota staffing firms found that hours booked in the first six weeks of 2018 rose for most firms over the same period a year ago. Rural hiring sentiment increased notably over the previous month in Minnesota and the Dakotas, according to a February poll of rural bankers and other firms. Online job openings in January increased slightly in North Dakota over a year earlier; only the third increase in the past 18 months, but the second increase in the past four months. Tight labor markets, however, were limiting hiring. The number of job seekers registered with state workforce offices in January was 11 percent lower in North Dakota and 29 percent lower in Montana compared with a year earlier. Initial unemployment claims in the District over the first five weeks of 2018 fell almost 7 percent compared with a year earlier, though Minnesota's decline was less than 2 percent. Continuing claims fell by 8 percent. A Montana contact said that "many fear a better economy will exacerbate labor problems." There were several notable layoff events, including one at a Minnesota manufacturer that cut 900 workers. But sources suggested that job opportunities were available for those affected.

Wage pressures were moderate since the last report. A number of one-time bonuses were reported, stemming from recent changes in federal tax policy. Several contacts, including a Montana banker, also said raises were more likely because tax reform "provides a way to pay for increased wages" without increasing prices or reducing profits. A Minnesota construction contractor said wages "are going up because we are seeing an increase in productivity." A Montana ski resort contact said that tax savings would allow the company to raise wages, and a Montana construction contact believed tax changes would provide a sizable, single-step increase in wages. However, a number of public union contracts—covering South Dakota county employees, Minnesota and Wisconsin state employees, and higher education service workers in Minnesota—all settled for increases of 2 percent or less.

Prices

Price pressures were moderate since the last report. About three-quarters of respondents to a January survey of firms from around the District reported that they expected the prices they charge for their products or services to increase only slightly or not at all in the next three months. Retail fuel prices in District states as of late February were slightly higher than in the previous reporting period. Building materials prices continued to increase faster than overall prices. Prices received by farmers for wheat, hay, hogs, cattle, chickens, and eggs increased in December compared with a year earlier; prices for corn, soybeans, milk, and turkeys decreased.

Consumer Spending and Tourism

Consumer spending grew modestly since the last report. Closures of big-box and other franchised retail stores continued across the District. A large salon franchise headquartered in Minnesota announced the closure of 600 locations across the country. However, consumer spending has continued to grow. North Dakota sales tax revenue in January rose by 14 percent over a year earlier. Gross retail sales in South Dakota over the same period grew by 2 percent, though overall gross sales were much stronger, at 9 percent growth. Gross retail sales in Wisconsin were slightly higher since the last report.

Tourism saw moderate growth, boosted by activity from the Super Bowl, hosted in Minneapolis in early February. Retailers, especially those in or near downtown, reported strong revenue, and hotels saw outsized gains for the period. Elsewhere, Montana snow conditions were good, and a resort said the number of skiers so far this season was ahead of last year's record pace. A source in the Upper Peninsula of Michigan said that "things have been going well" for winter tourism so far, and February snow conditions in northern Wisconsin were reportedly excellent for snowmobiling, downhill skiing, and cross-country skiing.

Construction and Real Estate

Commercial construction saw strong growth since the last report. An industry report on January construction spending showed robust growth in District states compared with a year earlier, and every District state registered at least a small increase. Another industry database showed strong growth in new projects and total active projects over the first seven weeks of 2018 compared with the same period a year earlier. Commercial permitting activity was higher in many of the District's largest cities and particularly so in Sioux Falls and Rapid City, S.D. Residential construction was mixed; permit values were down in Minneapolis-St. Paul and Sioux Falls, but up in Billings, Mont., Rochester, Minn., and Rapid City. Total multifamily units permitted in January were lower than a year earlier.

Commercial real estate grew moderately, remaining at strong levels in Minneapolis-St. Paul. Occupied retail space continued to expand, with vacancy rates hitting their low for the year in the fourth quarter, due in part to the Super Bowl. Multifamily construction, unit sales, and rent increases continued at a healthy pace in Minneapolis-St. Paul, and an industry source said the market "defies gravity." Construction of new industrial space also has been strong while vacancy rates remained stable. The office market was somewhat softer due to a trend in smaller corporate footprints, but overall vacancy has been mostly unchanged. Residential real estate fell moderately. January home sales were lower across most of the District, with the notable exception of northern Wisconsin, where an 18-county rural region posted a 6 percent increase in sales, continuing a persistent growth trend there.

Manufacturing

District manufacturing activity increased modestly since the last report. An index of manufacturing conditions indicated increased activity in January compared with a month earlier in Minnesota and South Dakota; the index for North Dakota indicated flat to slightly decreased activity. A major fertilizer plant began operations in North Dakota. A solar-panel producer announced an expansion at a facility in Minnesota. An appliance manufacturer announced that it will close a plant in Minnesota.

Agriculture, Energy, and Natural Resources

District agricultural conditions were stable at low levels. Respondents to the Minneapolis Fed's fourth quarter (January) survey of agricultural credit conditions indicated that farm income and capital spending decreased relative to a year earlier, with further declines expected for the coming three months. Most of the Dakotas and portions of Montana were experiencing below average snowfall over the winter, with concerns that drought conditions could persist into the spring planting season.

Energy and mining activity increased briskly from the previous report. Oil and gas drilling in North Dakota and Montana as of mid-February increased from a month earlier, though cold weather slowed recent oil production. Contacts at nonferrous mines had a positive outlook, driven by increases in prices of gold, copper, and molybdenum. Development continued at a new copper mine in Michigan's Upper Peninsula. Iron ore mines in northern Minnesota were operating at high capacity. Output from Wisconsin sand mines increased in recent months, due to greater demand from hydraulic fracturing. ■

Summary of Economic Activity

Economic activity in the Tenth District continued to increase at a modest pace in late January and February, and a faster pace of expansion was expected in the months ahead. Consumer spending picked up modestly, as growth in the retail and tourism sectors more than offset a decline in restaurant and auto sales. Manufacturing contacts reported moderate growth including an increase in production, shipments, new orders, order backlogs, and capital spending plans. Sales rose moderately at transportation, wholesale trade, and professional and high-tech firms, and further gains were anticipated in the months ahead. District real estate conditions expanded modestly as activity in both the residential and commercial sectors increased. Banking contacts reported steady loan demand, unchanged loan quality and credit conditions, and steady-to-decreasing deposits. Energy activity continued to grow a modest pace as production increased and the number of drilling rigs edged higher. Agricultural conditions across the District remained weak, and farm income fell further. Employment and employee hours rose modestly compared to the previous survey period. Wages increased slightly in most sectors, and contacts expected stronger wage growth in the months ahead. Input and selling prices rose moderately, with stronger price gains in the retail sector.

Employment and Wages

District employment and employee hours rose modestly in late January and February, and contacts expected further gains in the months ahead. Respondents in the retail trade, transportation, professional services, real estate, restaurant, tourism, and manufacturing sectors reported employment growth, while contacts in auto sales, wholesale trade, and health services noted a slight decline. However, employment exceeded year-ago levels in all sectors. Employee hours increased in most sectors, but declined modestly in the restaurant sector. Labor shortages were reported in the services sector including commercial drivers, skilled technicians, and salespeople.

Wages picked up slightly in most sectors, and contacts anticipated moderate wage growth in the coming months.

Prices

Overall, input and selling prices increased moderately compared to the prior survey period, and additional moderate gains were expected in the months ahead. Retail contacts reported strong growth in input and selling prices and anticipated moderate increases moving forward. In the restaurant sector, input prices continued to rise slightly, while selling prices edged up after falling in the previous survey. Transportation contacts noted moderately higher input and selling prices and expected continued moderate growth in the coming months. Construction prices rose moderately in late January and February after declining in the prior survey period. Prices for finished goods increased slightly and raw material costs rose moderately in the manufacturing industry. Manufacturers expected moderate price gains for both finished goods and raw materials in the next few months.

Consumer Spending

Consumer spending activity picked up modestly in late January and February and was expected to increase further in the coming months. Retail sales increased at a moderate pace compared to the previous survey period and remained well above year-ago levels. Several retailers noted an increase in sales for lower-priced items, while higher-priced products sold poorly. Contacts anticipated retail sales to continue to rise in the next few months, and inventory levels were expected to increase moderately. Auto sales fell modestly but were slightly above year-ago levels. Dealer contacts anticipated a moderate pickup in sales in the months ahead, and auto inventories were expected to increase heading forward. Restaurant sales declined moderately but were well above year-ago levels. Contacts expected a strong pickup in restaurant activity in the months ahead. District tourism activity increased moderately since the previous survey and was similar to year-ago levels. Tourism contacts expected a strong increase in activity heading forward.

Manufacturing and Other Business Activity

Manufacturing and other business activity expanded at a moderate pace in late January and February. Manufacturers reported sustained growth in production, particularly for metals, machinery, and plastics products. Shipments, new orders, and order backlogs grew at a modest pace, and activity was higher than a year ago. Manufacturers' capital spending plans rose moderately, and firms' expectations for future activity remained strong.

Outside of manufacturing, transportation, wholesale trade, and professional and high-tech firms reported moderate growth in sales. Heading forward, transportation and wholesale trade firms expected strong sales growth, while professional and high-tech firms anticipated a moderate sales increase in the next six months. All types of firms reported moderate growth in capital spending plans.

Real Estate and Construction

District real estate activity increased at a modest pace in late January and February, and additional gains were expected moving into the spring months. Residential home sales and home prices rose moderately compared to the previous survey period, and inventories declined at a moderate pace. Sales of low- and medium-priced homes continued to outpace sales of higher-priced homes. Residential sales and home prices were anticipated to rise, while inventories were expected to fall further in the months ahead. Residential construction activity expanded slightly as home starts and traffic of potential buyers rose, while construction supply sales were flat. Commercial real estate activity increased modestly as absorption, completions, construction underway, and sales increased, while vacancy rates declined. Activity in the commercial real estate sector was expected to expand at a modest pace moving forward.

Banking

Bankers reported steady overall loan demand in late January and February. A majority of respondents indicated stable demand for commercial and industrial, residential real estate, and consumer installment loans. Demand for commercial real estate loans increased modestly, while contacts reported mixed demand for agricultural loans. Most bankers indicated loan quality was unchanged compared to a year ago and expected loan quality to remain stable over the next six months. Credit standards remained largely unchanged in all major loan categories. Bankers reported steady-to-decreasing deposits.

Energy

Energy activity continued to grow at a modest pace over the last six weeks. The outlook remained positive and somewhat cautious given the recent slight decline in commodity prices. The number of active oil and gas rigs continued to edge higher, primarily in New Mexico and Wyoming. Oil and gas production also picked up in Colorado's Niobrara basin, and growth was expected to be driven by operators completing their drilled-but-uncompleted (DUC) wells since the number of drilling rigs in the region remained relatively flat. In Oklahoma, natural gas activity continued to increase with the start of construction of a natural gas gathering system in the southeastern part of the state.

Agriculture

The Tenth District farm economy remained weak, but farm real estate values slowed their decline from the previous months, providing some stability for farm finances. Farm income continued to decrease. Agricultural credit conditions weakened further against year-ago levels, but at a more modest pace than in previous reporting periods. Although prices for most agricultural commodities increased slightly in February, prices for corn, soybeans and hogs were still lower than a year ago. Alongside an increase in cattle, wheat and cotton prices, farmland values declined only slightly and stabilized significantly in the western portion of the District. Conditions in the farm economy in Oklahoma also improved notably due to an increase in cotton acreage and a moderate increase in cotton revenues. ■

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

Summary of Economic Activity

The Eleventh District economy expanded at a moderate pace over the past six weeks. The manufacturing sector continued to expand robustly, energy activity increased, and home sales continued to rise. Growth slowed slightly in financial and nonfinancial services, while retail sales declined modestly. Hiring was strong across most sectors. Widespread reports of labor market tightness and difficulty finding qualified workers continued, and more firms responded by raising wages than in prior reporting periods. Price pressures remained elevated, and in some cases intensified. Outlooks remained broadly optimistic, although some uncertainty persisted.

Employment and Wages

Overall employment growth remained solid, and upward wage pressure increased somewhat. Hiring continued at a robust pace in manufacturing, services, and retail. Hiring in the energy sector has expanded so far in 2018, although numerous contacts noted a severe shortage of workers in West Texas, particularly for skilled positions. A lack of qualified candidates continued to challenge businesses in other sectors as well, with several reports that this lack of workers was inhibiting growth. Several contacts in construction-related industries noted further tightening in labor markets due to hurricane-related rebuilding. More firms said they raised wages to retain and/or attract workers than in the prior reporting period, particularly in the manufacturing, retail, and hospitality sectors. Energy contacts also noted an increase in wage pressure, for upstream jobs as well as for downstream construction labor. Also, a staffing firm noted that pay increases were fairly widespread among workers earning about $9 per hour.

Looking ahead, firms were quite bullish on their hiring plans. More than half of the 362 firms responding to supplemental questions in the February Texas Business Outlook Surveys said they expect to increase their employment over the next six to twelve months, up roughly five percentage points from a year ago.

Prices

Price pressures remained elevated over the past six weeks, and a slightly faster pickup was seen in input prices. Transportation firms noted an increase in fuel costs, manufacturers noted increases in steel and petroleum product prices, and homebuilders said the price of some raw materials like lumber and concrete had risen. Selling prices increased at about the same pace as in the prior reporting period, although there was acceleration in manufacturing finished goods prices.

The average natural gas price over the reporting period was largely unchanged from the prior period despite some brief cold-weather-related increases, while the average WTI oil price was the highest it's been since December 2014. The price of energy services continued to rise as drilling and well completion activity grew.

Manufacturing

Robust expansion in the manufacturing sector continued through February. Demand and output growth persisted, with a pickup in nondurables. Contacts noted strength in chemicals manufacturing in particular. One machinery manufacturer said business has been trending up over the past few months, with demand from the oil and gas sector playing a bigger role, and another said growth this year has been the best in the past five years. Outlooks overall remained highly positive, with contacts citing tax reform and a lower dollar as tailwinds, and rising interest rates and inflation as potential headwinds.

Retail Sales

Retail sales fell slightly over the past six weeks, led by a decline in auto sales. Several contacts attributed some of the weakness to poor weather. One auto dealer noted that after several years of increases in sales volumes, a slight decrease is to be expected. For retailers more broadly, contacts noted a continued increase in internet sales. One wholesaler noted that their decrease in brick and mortar sales was offset by an increase in internet sales. Outlooks among retailers in general remained positive but were less optimistic than the prior reporting period.

Nonfinancial Services

The nonfinancial services sector continued to grow but at a slightly slower pace. The professional and business services industry was a bright spot, with revenue growth accelerating so far in 2018. Demand for staffing services generally increased and was broad-based, especially in Dallas and Houston. Transportation services also remained strong—rail cargo volumes continued to increase, and airline demand held steady at robust levels. Weakness was largely concentrated in leisure and hospitality, although several contacts said the softness was largely due to colder-than-usual weather. Contacts in tourism areas along the Gulf Coast said business continues to struggle after the devastation of Hurricane Harvey. Overall, outlooks remained optimistic, although there was continued caution among transportation services firms and others concerned about the outcome of international trade negotiations.

Construction and Real Estate

Home sales rose over the reporting period, with contacts noting a good start to 2018. Home prices remained elevated, although contacts said it continued to be difficult to pass through further increases. Outlooks were positive, but there was concern among builders about margin compression and the potential impact of rising mortgage rates.

The Dallas-Fort Worth office market remained in good shape. Contacts noted a decline in sublease space in Houston, but overall office market conditions continued to be weak. Industrial availability generally remained tight across major metropolitan areas.

Financial Services

Loan volumes and demand increased over the past six weeks, but at a slower pace compared to the previous reporting period. Volume growth was strongest for residential real estate loans and weakest for consumer loans. Interest rates charged on loans picked up, with more than 40 percent of bankers surveyed noting an increase over the past six weeks. Two-thirds of bankers reported an increase in cost of funds, up from the prior reporting period when half noted an increase. The volume of core deposits continued to rise, albeit at a significantly slower pace than in the past several months. Credit standards and terms continued to tighten. Banking contacts remained optimistic, generally expecting stronger loan demand and increased business activity six months from now.

Energy

Energy activity was up from six weeks ago, as the rig count increased. New well completions also picked up, particularly in the Permian Basin. An oilfield services firm expects a further pickup in activity in the second quarter. Company outlooks remain relatively optimistic for 2018, with current oil prices at levels favorable for increasing production and employment.

Agriculture

Agricultural producers were concerned about worsening drought conditions. As of February 20, 70 percent of Texas was experiencing at least moderate drought, with some extreme drought in the High Plains and Panhandle. However, rainstorms late in the reporting period likely alleviated the dry conditions in parts of the state. The cattle sector remained solid with strong demand for beef, both domestic and international, and rising cattle prices. However, the dairy industry continued to struggle with declining prices. Cotton acreage will likely be up in Texas this year, and there was excitement among producers about cotton provisions being added back into the Farm Bill legislation. Financial concerns continued among grain farmers as they prepared for planting, with crop prices remaining low and some inflation seen in fuel and fertilizer costs. NAFTA renegotiations also remained a source of concern and uncertainty. ■

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

Summary of Economic Activity

Economic activity in the Twelfth District continued to expand at a moderate pace during the reporting period of mid-January through late February. Conditions in the labor market remained tight, and upward wage pressures increased. Overall price inflation increased moderately. Sales of retail goods picked up slightly, and growth in consumer and business services remained solid. Activity in the manufacturing sector continued to pick up, and conditions in the agriculture sector deteriorated modestly. Contacts reported that residential real estate market activity continued at a strong pace, and conditions in the commercial real estate sector were robust. Lending activity ticked up.

Employment and Wages

Conditions in the labor market remained tight, and upward wage pressures increased over the reporting period. Contacts noted labor shortages in various sectors, especially for high-skilled positions. Across the District, contacts reported difficulty finding workers experienced in information technology, accounting, and finance. To attract stronger job candidates, some contacts in Seattle and the Mountain West increased nonwage compensation, including vacation time and stock grants. A banking contact observed moderate wage growth for entry-level positions to increase retention. Contacts in the health insurance sector increased their use of offshore labor and automation in response to tight labor market conditions. Minimum wage laws continued to put upward pressure on labor costs generally. A utility provider in Southern California reported flat employment growth in the industry because of muted sales activity.

Prices

Overall price inflation increased moderately around the District. Continued strength in construction activity drove an increase in price growth for various building materials. A health-care provider in the Mountain West reported a jump in insurance premiums, partly due to a reduction in federal subsidies for low-income families. Decreased competition from abroad and solid domestic and international demand sustained elevated steel prices. Contacts in Idaho noted that animal health product businesses were able to pass on increased shipping costs to customers. Declines in input costs put downward pressure on electricity prices. Agricultural commodity prices decreased moderately due to excess supply.

Retail Trade and Services

Sales of retail goods picked up slightly over the reporting period. Contacts in the Mountain West saw stronger-than-expected sales in furniture and home entertainment equipment. A contact in the food and beverage industry reported solid sales. While automotive sales remained elevated, growth over the reporting period was flat. Unseasonably warm weather throughout the District restrained winter clothing and equipment sales.

Activity in the consumer and business services sector remained solid. A major health insurance provider in Utah reported an uptick in enrollment and ample capacity for further growth. Demand for health-care services increased slightly. Demand for business services in California's entertainment sector increased due to favorable state tax incentives. Restaurants continued to experience a decline in foot traffic.

Manufacturing

Activity in the manufacturing sector continued to pick up. A contact in the Mountain West noted that strong demand for microchips boosted production and caused some longer wait times for deliveries. Capacity utilization in the steel sector grew at a solid pace, driven by reduced overseas competition. Contacts in Washington noted that new orders for commercial aircraft were steady. Profitability in the aerospace sector increased, partly due to a pickup in sales of military aircraft and systems.

Agriculture and Resource-Related Industries

On balance, conditions in the agriculture sector deteriorated modestly. Low snow and rainfall over the reporting period limited new planting in Central California and resulted in weak crop yields. Contacts in Idaho noted that excess supply drove a decline in dairy sector profits to breakeven levels, with smaller producers being hit particularly hard. Grain inventories in the Mountain West were at record levels. Conditions in the swine industry continued to improve on a year-over-year basis. Increased global demand for beef products boosted feedlot utilization.

Real Estate and Construction

Activity in real estate markets continued at a strong pace. Construction activity in the residential market moderated slightly, limited by persistent labor shortages and increasing material costs. Contacts in Eastern Washington observed a notable decline in permits and starts for single-family and duplex dwellings. In Hawaii, housing development starts declined, and several projects were scaled back as prices for building materials increased. In Idaho, construction of residential properties grew at a fast pace. Throughout the District, low construction starts and resale volumes kept residential prices elevated over the reporting period. Contacts in Northern California reported rising home prices stemming from strengthening demand. Brisk demand from out-of-state buyers drove price increases in Oregon. Commercial real estate activity also continued at a strong pace. Large transportation infrastructure projects drove construction activity in Southern California. In Eastern Oregon, demand for warehouse and distribution sites was robust. Contacts in Washington noted an increase in the demand for warehouse space due to the expanding marijuana industry, which drove up industrial rents.

Financial Institutions

Lending activity ticked up over the reporting period. Loan demand was mixed but increased slightly overall. Contacts in Oregon noted that increased commercial real estate development drove growth in loan demand. In Central California, however, loan demand slowed modestly, leading to a slight loosening of lending standards. Across the District, interest margins widened slightly, though they remained narrow due in part to robust competition. In Eastern Washington, venture capital lending registered a slight pickup. ■

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