

For use at 2:00 PM EDT

Wednesday

January 16, 2019

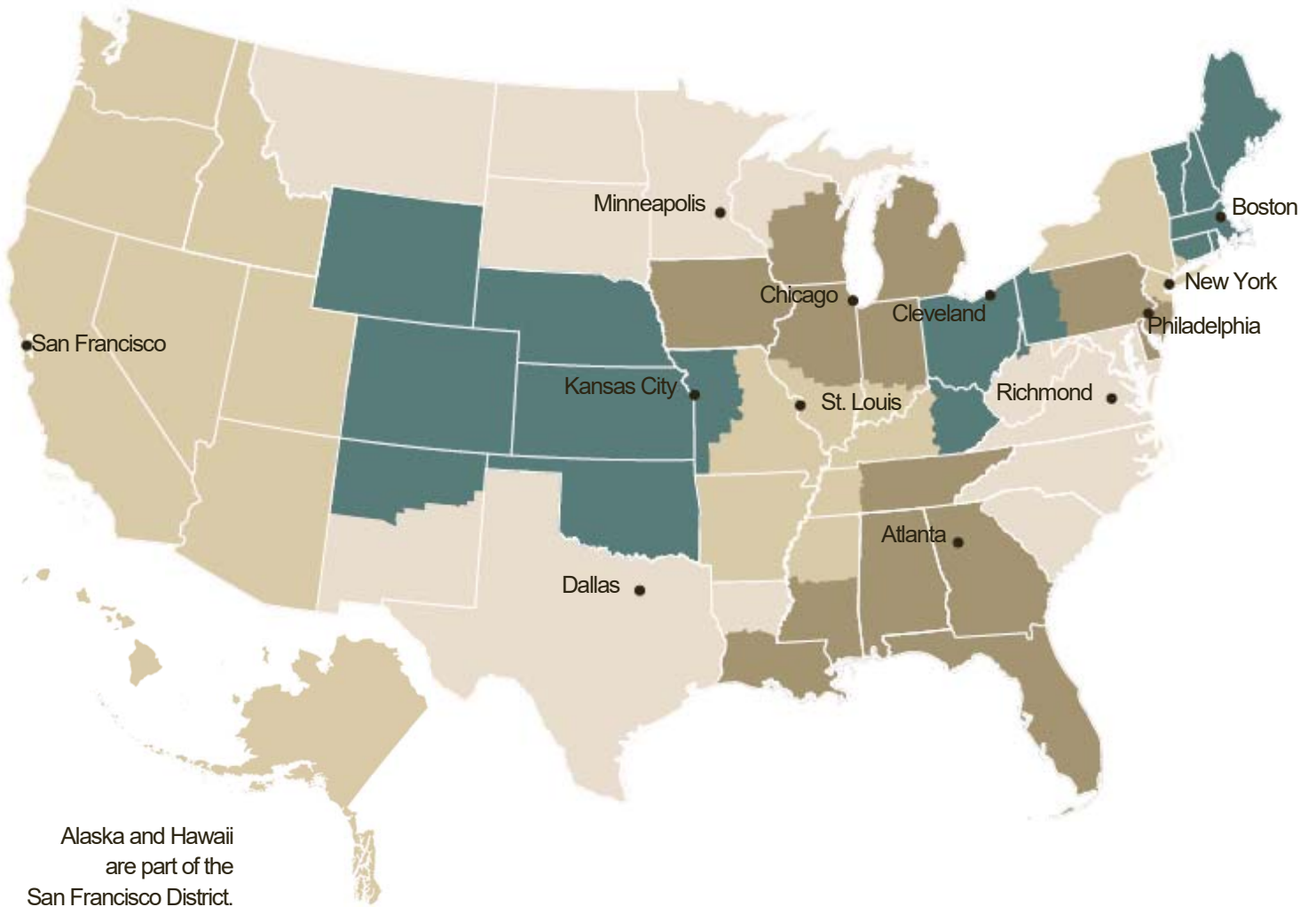
The Beige Book

Summary of Commentary on Current Economic Conditions

By Federal Reserve District

January 2019

Federal Reserve Districts



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

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What is The Beige Book?

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

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

How is the information collected?

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

How is the information used?

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

This report was prepared at the Federal Reserve Bank of Chicago based on information collected on or before January 7, 2019. This document summarizes comments received from contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.



National Summary

The Beige Book ■ January 2019

Overall Economic Activity

Economic activity increased in most of the U.S., with eight of twelve Federal Reserve Districts reporting modest to moderate growth. Nonauto retail sales grew modestly, as several Districts reported more holiday traffic compared with last year. Auto sales were flat on balance. The majority of Districts indicated that manufacturing expanded, but that growth had slowed, particularly in the auto and energy sectors. New home construction and existing home sales were little changed, with several Districts reporting that sales were limited by rising prices and low inventory. Commercial real estate activity was also little changed on balance. Most Districts reported modest to moderate growth in activity in the nonfinancial services sector, though a few Districts noted that growth there had slowed. The energy sector expanded at a slower pace, and lower energy prices contributed to a pullback in the industry's capital spending expectations. The agriculture sector struggled as prices generally remained low despite recent increases. Overall, lending volumes grew modestly, though a few Districts noted that growth had slowed. Outlooks generally remained positive, but many Districts reported that contacts had become less optimistic in response to increased financial market volatility, rising short-term interest rates, falling energy prices, and elevated trade and political uncertainty.

Employment and Wages

Employment increased in most of the country, with a plurality of Districts reporting modest growth. All Districts noted that labor markets were tight and that firms were struggling to find workers at any skill level. Minneapolis indicated that construction firms had turned down business because they could not find workers, and Atlanta reported that a few contacts were either actively overstaffing or retaining employees through lulls in demand in anticipation of future growth. Wages grew throughout the country, with the majority of Districts reporting moderate gains. Wages increased across skill levels, and numerous Districts highlighted rising entry-level wages as firms sought to attract and retain workers and as new minimum wage laws came into effect.

Prices

The majority of Districts reported modest to moderate increases in prices. Most Districts indicated that firms' input costs had risen, but reports were mixed on whether they could pass the higher costs on to customers. Reports often cited rising materials and freight prices as sources of cost increases, and a number of Districts said that higher tariffs were also a factor. While prices of most inputs were up, several Districts noted that fuel costs had gone down. A number of Districts reported rising home prices, while prices for commercial and industrial space either increased or were flat. Prices for agricultural commodities were generally somewhat higher.

Highlights by Federal Reserve District

Boston

Business contacts reported continued year-over-year growth in revenues even as they cited signs of a somewhat slower pace. Selected labor markets (occupations, locations) remained tight and wage increases were moderate. Some retailers and manufacturers raised selling prices. Most respondents said their outlook was positive, although somewhat less certain than earlier.

New York

Regional economic activity leveled off in the latest reporting period, while labor markets remained tight and wage growth picked up somewhat. Input costs and selling prices rose at a steady pace. Holiday season sales were a bit on the sluggish side but still up from a year ago. Tourism remained brisk, but most other sectors saw activity flatten out or decline slightly. Banks reported a dip in loan demand.

Philadelphia

Economic activity maintained a modest pace of growth, although further slowing occurred among service sectors and some real estate activity declined. Lack of qualified labor continued to constrain hiring and raise wage pressures. Price increases remained modest. Nevertheless, firms remained generally positive about the six-month outlook.

Cleveland

Economic activity in the Fourth District increased slightly. Hiring increased at a moderate pace. Upward pressure on costs and selling prices continued. Retailers reported slightly increased demand. Manufacturing and banking contacts noted a seasonal slowdown. Nonresidential construction continued to be strong and housing demand stabilized. Professional services firms reported increased activity driven by demand for information technologies.

Richmond

The regional economy expanded at a modest rate, on balance, in recent weeks. While many service sector industries saw positive growth, manufacturers reported a decline in shipments and orders and faced higher input costs due to tariffs. Loan demand increased and Fifth District ports experienced robust growth. Overall, labor demand and wages increased modestly while price growth remained moderate.

Atlanta

Economic activity improved at a moderate pace. The District's labor market remained tight and wages increased, on average. Nonlabor input costs picked up; however, reports of firms' ability to pass along increases were mixed. Holiday sales were solid. Home sales were subdued. Manufacturers noted a decrease in new orders and production. Bankers noted steady activity.

Chicago

Economic activity grew at a modest pace. Employment, consumer spending, and business spending increased modestly; manufacturing increased slightly; and construction and real estate activity was little changed. Wages and prices rose modestly and financial conditions deteriorated slightly. Prospects for farm income improved as corn, soybean, and wheat prices moved higher.

St. Louis

Reports from contacts indicate that economic conditions have continued to improve, although the pace of growth has slowed since our previous report. District banking contacts reported positive but slower growth in loan volumes during the fourth quarter.

Minneapolis

Ninth District economic activity grew moderately. Labor demand has ebbed slightly but remained healthy overall, while labor markets remained very tight. Price pressures were modest. District manufacturers indicated that business conditions were strong and generally expected to continue, with upbeat outlooks for the year to come. Holiday retail spending was strong.

Kansas City

Economic activity was flat since the previous survey, but expectations were generally positive. District agricultural conditions remained weak, and activity in the energy sector eased slightly as the outlook for oil prices declined. However, retail sales were strongly above year-ago levels, and manufacturing, wholesale trade, and professional and high-tech sectors continued to expand.

Dallas

While economic activity remained healthy, growth abated to a more modest pace. A broad-based deceleration was seen across manufacturing, services, retail, and energy. Hiring continued, and widespread labor shortages further elevated wages. Price pressures eased slightly. Outlooks were markedly less optimistic than the previous report.

San Francisco

Economic activity in the Twelfth District continued to expand at a moderate pace. Labor market conditions remained tight, and price inflation was flat. Sales of retail goods expanded moderately, and activity in the consumer and business services sectors was solid. Conditions in the manufacturing sector strengthened modestly. Activity in real estate markets was solid on balance. Lending activity ticked down.



Summary of Economic Activity

Economic activity in the First District expanded at a modest to moderate pace since the last report, amid some signs of slowing growth. Retailers reported moderate increases in sales, and tourist activity was strong. Most manufacturers cited increased revenue from a year ago, but some noted the pace of increase was slower recently than earlier in the year. Software and information technology services firms also reported moderate revenue and demand growth in the closing months of the year. Commercial real estate markets were largely unchanged since the last report. Residential real estate markets saw ongoing price increases and mixed sales results; contacts in a couple of markets cited greater “balance” as local shortages of housing inventory eased somewhat. While retailers (including an auto dealer) and manufacturers said sizable tariff increases would pose significant problems if they occurred and many respondents cited uncertainty, outlooks remained mostly positive.

Employment and Wages

Many contacts cited selected labor shortages and moderate increases in pay rates at the end of 2018. Retailers noted that their labor costs will continue to go up in 2019, in part because of state minimum wage increases and labor shortages in some markets. On balance, however, they said hiring in the retail sector has not been difficult. By contrast, a tourism contact noted serious concern about ongoing labor shortages on Cape Cod that will be more severe in 2019 if limits on the J-1 and H-2B visa programs are not raised. Manufacturing contacts did not report any significant changes in employment. Some cited difficulties finding workers, especially skilled engineers; however, one contact reported that after a “market adjustment” raised compensation by 10 percent to 15 percent, difficulties in hiring and retention dramatically eased. Software and IT services respondents reported annual wage and compensation increases of 2 percent to 4 percent, with no changes in average headcount or turnover rates.

Prices

Contacts cited modest to moderate increases in selling prices. Retail contacts said they expect to raise their selling prices between 1 percent and 4 percent in 2019, depending on the inputs for a particular item. In manufacturing, pricing pressures were mixed. Input costs were generally down due to lower fuel prices. A producer of frozen fish said they were able to put through their first “full price increase” since 2011 – an across-the-board 5-

percent rise. Most software and IT services contacts said there have been no real pricing changes throughout the past year, although two contacts mentioned price increases in 2018 and one is looking towards another increase in upcoming quarters.

Retail and Tourism

Retailers contacted for this round reported that comparable store sales increased by 2.8 percent to 4.0 percent year-over-year. All said traffic in their brick-and-mortar stores declined by a few percentage points compared to 2017, but noted that the average in-store purchase was up in 2018 (one retailer said by 5 percent). A contact with a strong online presence said that a significant rise in direct sales made up for the decline in in-store purchases. Retailers expect to see small revenue gains in 2019 over 2018, with consumer confidence high.

A contact in the automotive industry in southern New England reported that sales were steady but not robust.

Passenger traffic to Boston’s Logan Airport set a new record in 2018; departing flights in December were up 7.4 percent year-over-year. In 2019 new flight services will be added by domestic and international carriers. Strong tourist activity was seen on Cape Cod through December, as retailers and inns reported having a good holiday season. This respondent said that economic fundamentals in the United States remain strong, so 2019 should be a good year for the tourist industry.

Manufacturing and Related Services

Three-quarters of the manufacturing firms contacted this cycle reported higher sales year-on-year. One firm with lower sales, a chemical company, said that the year-earlier period was exceptionally strong. Another contact attributed the decline to slowing growth in the automotive industry around the world. Some contacts said growth slowed in the fourth quarter relative to earlier in the year. A diversified manufacturer said that customers were taking longer to pay bills. On the plus side, two contacts said that a shortage of trucking capacity that had been a problem in recent years appeared to have eased. Contacts did not report any major revisions to capital expenditure plans.

Respondents generally expected growth to continue in 2019, but they expressed significant reservations. Contacts viewed the trade situation as a significant risk factor. Several contacts noted that the length of the economic expansion made a downturn more likely, but none pointed to any specific issues with their customers or markets.

Software and Information Technology Services

Software and IT services firms reported moderate growth as the fourth quarter drew to a close. The majority of contacts noted revenue growth in the mid-to-high single digits year-over-year, with corresponding positive growth in product demand as well, both quarter-over-quarter and year-over-year. Looking to 2019, all but one contact reported a desire to focus more on investing in sales and marketing. Overall, contacts expressed wariness about the uncertainty they have felt in markets, but noted no specific impacts on their individual firms to date.

Commercial Real Estate

Commercial real estate markets in the First District showed few changes since the last report. Office leasing activity remained muted in the Hartford area, maintained a moderate pace in both the Providence and Portland areas, and stayed strong in the Boston area.

Contacts in each of those metro areas noted that suburban office demand remains weaker than urban office demand. Industrial leasing demand remained very robust in the Boston area but continued to soften in Maine and in Connecticut. In Rhode Island, low inventory of industrial space relative to demand has spurred increased interest in industrial construction, although one contact expected developers to exercise caution.

Investment sales demand in Providence strengthened on balance in 2018 from 2017, while in Hartford and Portland investment sales were described as steady in recent months. Boston's investment market, while still

characterized as strong, showed some tentative signs of softening, and contacts in that city expressed concerns that property values could face downward pressure as investors rebalance their portfolios after the recent declines in major stock market indexes. At the same time, commercial real estate financing costs remained relatively low as some banks reportedly reduced their interest-rate spreads on commercial mortgages. The outlook remained largely pessimistic for the commercial real estate market in Connecticut, while elsewhere in the District contacts seemed optimistic for the near term but increasingly uncertain about the outlook for late 2019 and beyond.

Residential Real Estate

Contacts reported that First District residential real estate markets had a strong finish and a good year overall in 2018. For single family homes, closed sales were up year-over-year from November 2017 to November 2018 in Rhode Island, Boston, and Maine, and down in Massachusetts and New Hampshire. (Data are missing for Connecticut because of an ongoing technical issue.) For condos, closed sales decreased in all reporting areas but Rhode Island. Vermont saw a decrease in sales for single family homes and condos combined. Median sales prices increased generally, with the exception of condo markets in Rhode Island and Maine, which reported mild price decreases year-over-year.

Residential markets in Rhode Island and Boston became more balanced in recent months, with growing supplies of homes for sale and moderation in the pace of home price appreciation. Despite a seller's market environment, contacts said real estate was a preferred investment choice, given the volatile U.S. stock market. ■

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



Summary of Economic Activity

Economic activity in the Second District has leveled off in the latest reporting period. Still, the labor market has remained tight, and wage growth has picked up slightly. Businesses noted that both input costs and selling prices continued to rise at a steady pace. Manufacturing activity leveled off, while business was down slightly in a number of service industries. On the other hand, tourism has remained fairly robust. Holiday season sales were a bit on the sluggish side but still up from a year ago. Housing markets have shown some further signs of softening, while commercial real estate markets have been steady overall. Finally, banks reported some weakening in loan demand and little change in delinquency rates.

Employment and Wages

The labor market has remained tight across the District, with employers continuing to report difficulties in filling a wide variety of open positions. Businesses reported that employment was little changed, on balance, since the last report. Firms in manufacturing, wholesale trade, finance, and leisure & hospitality reported modest net hiring, while contacts in the transportation, health & education, and professional & business services sectors indicated that employment was flat to down modestly. Retailers noted little change in holiday-season hiring, relative to the prior year, though more staff was reportedly assigned to handling on-line orders.

Wages have picked up somewhat, particularly in retail and leisure & hospitality. Employers indicated that they are budgeting for moderately larger wage increases in 2019 than they did for 2018. A number of business contacts in New York State, including a few manufacturers, expressed concern about the recent hike in New York's minimum wage.

Prices

Businesses reported little change in the pace of both input price increases and selling price increases in the latest reporting period. Input price pressures tended to be most widespread in manufacturing, finance, and

education & health. Contacts across most industry sectors reported steady to moderately rising selling prices. Two exceptions were real estate and transportation, where more contacts said they planned to reduce than raise their prices. A sizable proportion of businesses in transportation and wholesale trade indicated plans to hike prices in the months ahead.

Retailers generally indicated that selling prices remained stable, though some noted more widespread discounting than in recent years. Average ticket prices for Broadway shows rose less than usual this past December and were down more than 5 percent from a year earlier.

Consumer Spending

Retail sales were mixed but, on balance, up modestly. A major retail chain noted that holiday season sales were up modestly from the prior year but slightly below plan. Retailers in upstate New York were somewhat more upbeat, characterizing sales as fairly strong. A growing share of sales have been on-line, including merchandise ordered in advance and picked up at stores. Inventories were a bit leaner than usual going into the holiday season, but they were mostly at or slightly above desired levels at the start of the new year.

New vehicle sales were mostly flat in recent weeks, according to dealers in upstate New York, but down from

a year earlier. New vehicle inventories remained a bit on the high side. Sales of used vehicles were mixed but, on balance, steady. Dealers indicated that credit conditions remained in good shape.

Consumer confidence in the Middle Atlantic states (NY, NJ, PA), which had climbed to a cyclical high in November, retreated in December but remained quite elevated, based on the Conference Board's monthly survey.

Manufacturing and Distribution

The manufacturing and distribution sectors weakened noticeably in the latest reporting period. Manufacturers noted a sharp deceleration in business activity, while wholesale distributors and transportation firms reported outright declines.

Looking to the months ahead, contacts in these sectors remained somewhat optimistic, on balance, though less so than in recent months. As in recent reports, a handful of contacts continued to express concern about tariffs and trade restrictions.

Services

Overall, business has been mixed but, on balance, softer in the latest reporting period. Contacts in the professional & business services, education & health, and information industries reported flat to declining activity at year end, though they remain cautiously optimistic about the near-term outlook.

Leisure & hospitality businesses reported steady, moderate growth. In particular, New York City saw fairly strong tourism over the holiday season. A local tourism-sector expert indicated that the number of visitors has climbed and hotel occupancy rates remained high, though visitors have been spending less, on average, than in the past. Broadway theaters reported strong gains in revenues and especially attendance, which was up more than 20 percent from a year earlier in December.

Real Estate and Construction

Housing markets across the District have softened since the last report. Homes sales in upstate New York have slowed somewhat, and the prevalence of bidding wars has receded; still, the inventory of homes on the market remains exceptionally low, and prices have continued to rise, reflecting solid demand and low supply.

In New York City, sales of existing co-ops and condos continued to slow, especially on new developments. Selling prices for newly-built condos have fallen sharply, while resale prices on existing apartments edged down

last quarter but remained slightly ahead of a year earlier. The inventory of unsold homes has risen noticeably but is still fairly low by historical standards. Housing markets in the rest of the metro area have seen similar trends: weakening sales, steady prices, and rising (but still low) inventories. A local housing-industry expert noted that the curtailed federal tax deductibility of homeowner expenses has caused trepidation among both current and prospective homeowners.

Residential rents across the District have been mostly flat and little changed from a year earlier. In New York City, landlord concessions have remained ubiquitous, and this has helped to keep rental vacancy rates low.

Commercial real estate markets have been mixed but little changed overall. Office availability rates have been steady, while asking rents have been steady to up moderately. Retail markets have continued to soften, and there has been concern that retail vacancies will rise more sharply after the holiday season. Industrial markets, on the other hand, have remained robust: rents have continued to climb briskly and availability rates have been steady at or near multi-year lows.

New multi-family construction starts were sluggish, though a substantial volume of residential development remains under construction—particularly in New York City. New commercial construction starts have also been fairly subdued, aside from a sizable volume of new office development in Long Island.

Banking and Finance

Small- to medium-sized banks in the District reported lower demand for consumer loans, residential mortgages, and C&I loans, but steady demand for commercial mortgages. A decrease was also reported in refinancing activity. Bankers noted unchanged credit standards for residential mortgages but tightening standards for other types of loans. There was some further narrowing in loan spreads for consumer loans and residential mortgages. Finally, banks reported that delinquency rates held steady across all categories. ■

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



Summary of Economic Activity

On balance, aggregate business activity in the Third District maintained a modest pace of growth during the current Beige Book period, although slowing occurred among service sectors and some real estate activity declined. The labor market remains tight, which continued to constrain hiring at a modest pace and to apply moderate upward wage pressures. Price pressures remained modest and eased a bit for service sectors. Nonfinancial services eased back to a modest pace of growth, while manufacturing and nonauto retail sales maintained a modest pace. Auto sales were essentially unchanged, and tourism activity continued to grow slightly. Residential real estate sectors tended to decline, while commercial real estate tended to be flat or down slightly. The growth outlook over the next six months remained positive, with half of the nonmanufacturing firms and over 40 percent of the manufacturers anticipating increases in general activity.

Employment and Wages

Employment growth continued at a modest pace during the current Beige Book period. The share of firms reporting an increase in staff generally ranged between 15 and 25 percent among broad sectors. The firms noted very little change in the average hours worked since the prior Beige Book period.

Many contacts continued to note a tight labor market; however, builders said that construction activity had peaked or was peaking and that residential and commercial contractors were beginning to scramble for new projects to keep their workers employed. Staffing firms reported ongoing difficulty hiring and retaining workers, although one firm noted that orders had slowed a bit.

On balance, wage growth continued at a moderate pace as firms typically cited increases for wages and benefits that averaged 3.0 to 3.5 percent. In one of the District's tightest labor markets, average wage rates were up 6.0 percent over the prior year. The share of nonmanufacturing contacts who reported increases in wage and benefit costs remained steady at just over one-third. One staffing firm noted that wage increases had slowed but that several clients would be evaluating starting wages in

early 2019, so wage rate hikes were expected to pick back up in the first quarter.

Prices

Price increases remained modest for most firms. Moreover, compared with the prior period, a lower percentage of nonmanufacturing firms reported higher prices paid for inputs and prices received for their own goods. The share of manufacturing firms reporting increases in prices paid remained just above 40 percent, while prices received by manufacturers and prices paid by nonmanufacturers increased for about 25 percent of the firms. The share of nonmanufacturing firms reporting increases in prices received fell below 15 percent.

Looking ahead six months, nearly 60 percent of the manufacturing firms continued to anticipate paying higher prices for inputs, while those firms expecting to receive higher prices for their own goods fell to 45 percent.

Manufacturing

Manufacturing activity continued at a modest pace of growth – typical for the Third District. The percentage of firms that reported increased shipments fell somewhat, while the percentage reporting an increase in new orders edged up.

The makers of paper products, primary metal products, and electronic equipment tended to note gains in new orders and shipments; the makers of lumber products, chemicals, fabricated metal products, and industrial equipment reported mixed results. Contacts often cited labor supply issues as a deterrent to growth, in addition to supply chain problems, rising commodity prices, and uncertainty surrounding tariffs. Demand for equipment to supply the oil and gas producing sectors has slackened again.

On balance, manufacturers continued to expect general activity to increase over the next six months. Expectations of future increases in new orders, shipments, employment, and capital spending remained nearly the same as the prior period and at high levels.

Consumer Spending

Nonauto retailers reported a continuation of modest growth through the holiday season. Many contacts noted increased traffic per store and greater spending per customer – citing good weather, low gas prices, and an extended holiday shopping season as supporting factors.

Auto sales remained essentially flat compared with high 2017 levels – which continued to surprise dealers. While dealers provided early projections of slight year-over-year increases for December, in January, some dealers observed that year-end sales appeared to have slowed.

Tourism activity continued to grow slightly, according to contacts. A lack of snow hampered ski resort activity, but occupancies and spending at mountain resorts and restaurants remained solid. Growth of total Atlantic City casino revenue remained high in November, while traditional revenue from slots and table games fell again, exclusive of the two new casinos.

Nonfinancial Services

Service-sector firms reported a modest pace of growth – a notable slowdown from the prior Beige Book period. The percentage of firms reporting increased sales fell by over 20 percentage points to about 35 percent, and reports of new orders dropped 10 points to about 25 percent. Meanwhile, reports of declining sales and fewer new orders increased. Despite widespread reports of a slowdown, one large firm noted that its customers remain current on their bills. Expectations of future growth remained relatively strong but did fall to half of firms from two-thirds in the prior period.

Financial Services

Financial firms continued to report modest growth on a year-over-year basis in credit card lending and in overall loan volumes (excluding credit cards).

During the current period (reported without seasonal adjustments), volumes grew moderately in mortgages and in commercial and industrial lending; grew modestly in commercial real estate; and declined somewhat in home equity lines, auto loans, and other consumer loans (not elsewhere classified).

Bankers continued to note a strong underlying economy but reported that clients were “jittery” due to economic uncertainty. Contacts continued to cite strong competition for deposits and quality loans but noted little concern over credit quality deterioration.

Real Estate and Construction

According to homebuilders, activity appears to have fallen modestly – one large builder reported that the market had softened further in November. A smaller central Pennsylvania builder noted slow sales through year-end and the “lowest traffic in eight to 10 years,” while a South Jersey builder reported okay sales but that its backlog was down 14 percent compared with last year.

Existing home sales continued to decline moderately across most local markets – hampered by extremely low inventories. However, recent sales and an inventory drawdown have strengthened the Poconos market, which has labored with an excess of foreclosed properties since the Great Recession.

On balance, commercial real estate construction continued to decline slightly off high levels. Contacts noted ongoing strength in industrial/warehouse properties, except in areas with an insufficient labor supply. While architects and engineers remain busy, the pipeline is thinning for new office, retail, and high-rise residential projects. Contractors are preparing for a slight decline in 2019 activity. Commercial leasing activity has held steady, but analysts note an abundance of caution among market participants. ■

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



Federal Reserve Bank of Cleveland

The Beige Book ■ January 2019

Summary of Economic Activity

Economic activity in the Fourth District increased slightly since our previous report, with firms across industries reporting mostly stable demand. District firms continued hiring at a moderate but slightly softer pace than in recent months. Contacts noted continuing wage pressures to attract and retain workers. Reported wage increases were moderate and in line with recent trends. Upward costs pressures, especially for raw materials, remained elevated. Contacts also noted higher transportation costs. Builders and manufacturers reported being able to pass through cost increases to their customers. Demand was stable or increased in retail, construction, and nonfinancial services but softened slightly in manufacturing and banking, a situation which contacts largely attributed to seasonal factors.

Employment and Wages

District firms added workers at a pace that was moderate but slightly softer than in the previous survey period. Most firms that reported increased hiring also noted improved customer demand, while firms that reported decreased hiring noted seasonal business declines as reasons behind their staffing decisions. Across various industries, several firms reported hiring for new positions because of business expansions. Contacts also reported hiring to replace departed workers. A steel producer noted difficulty finding hourly workers. Driver turnover remained a problem in the freight industry; however, one trucking contact reported some success hiring drivers. Reports of wage pressures were similar to those of the previous period, and firms across many industries offered increased incentives to retain workers and attract new talent. In addition to annual cost-of-living and merit increases, some construction contacts raised incentives for retention, and manufacturers increased base pay to attract skilled new hires.

Prices

Upward pressures on input costs and selling prices remained elevated and were similar to those reported in the previous survey period. Contacts reported strong pressure on input costs, especially for raw materials,

including steel, concrete, and wood products. Various manufacturing firms continued to attribute cost increases to the effect of tariffs. Freight contacts reported recent decreases in diesel costs but noted that other costs have continued to increase, including truck parts and repairs. Retail contacts in turn noted continuing upward pressure on freight costs. Construction and manufacturing firms raised their prices to pass through higher costs of raw materials to consumers. The ability to pass through cost increases was similar to that reported in prior survey periods. A slightly lower proportion of freight contacts raised their rates compared with those who did so during the prior survey period. Retail contacts reported seasonal price promotions, while some professional services firms noted that increased demand and improved market opportunities have allowed them to raise prices.

Consumer Spending

Nondurable goods retailers reported slightly improved demand, driven primarily by seasonal factors. However, these retailers believe the momentum from the holidays will continue after the holiday shopping season, and they predict customer demand in the first quarter will remain strong. These retailers expect that growth in 2019 will outpace growth in 2018 overall. Nondurable goods retailers continued to see moderate wage and nonlabor cost

inflation and raised prices modestly. Auto retailers reported steady to slightly increasing demand overall, driven by used and nonluxury vehicles and increased new-vehicle incentives. While overall demand is up, rising interest rates are holding back demand and shifting it towards less expensive vehicles. Auto retailers expect demand to remain steady in the next quarter but to decrease in 2019 overall.

Manufacturing

Manufacturing conditions softened at the end of the fourth quarter, but many contacts reported that this was largely a result of the usual seasonal slowdown. Continued uncertainty about international trade policy and volatility in financial markets may dampen demand in 2019, and contacts signaled that customers' capital expenditures are slowing. They also acknowledged that some of the strength in 2018 was driven by orders being pulled-ahead amid concern about future price increases, which have now come to pass or will be implemented in early 2019. The outlook for conditions in 2019 remains fair.

Real Estate and Construction

Residential builders and realtors reported stable demand in the current period, a break from a trend of softening demand for housing in the recent survey periods. While decreasing home affordability weighed on customer demand over the past year, a slight drop in mortgage rates spurred some demand recently. The decrease in home affordability was driven by rising interest rates and also by rising selling prices as builders boosted prices to cover their increases in wages and nonlabor costs. Realtors noted decreased demand from first-time homebuyers. Housing inventory was stable. Residential builders expect worsening demand both in the first quarter and in 2019 overall.

Conditions in nonresidential construction continued to be strong and improved slightly during the period. Demand from the industrial and education sectors was noted to be especially strong. Backlogs remained elevated and were increasing. Commercial real estate developers reported stable conditions. Most nonresidential builders were optimistic about growth in the first quarter, and commercial real estate developers expect stable conditions. Nonresidential builders expect moderate growth in 2019 overall. Commercial real estate developers' outlooks for 2019 were mixed.

Financial Services

Banking conditions softened slightly, driven by seasonality in commercial real estate, mortgage, and auto lending. Business inquiries were steady, and large and mid-

dle-market firms continued to seek financing for plant equipment and mergers and acquisitions. Volatility in financial markets and political uncertainty have had a negative effect on consumer and business confidence and cloud the outlook for loan demand in the coming quarter. Some bankers indicated that rising interest rates may also dampen demand.

Nonfinancial Services

Activity in nonfinancial services increased at a modest pace. Professional and business services firms noted increased demand, especially in the information sector, in which firms reported regular year-end increases in purchases of software and digital technologies. Freight contacts noted that while demand remains high, capacity constraints continued to limit growth in the industry, and while most freight contacts reported stable demand during the period, some trucking contacts noted softer demand compared with that of the previous quarter because of the pull-ahead of imports from China. Several contacts anticipate continuing high levels of activity, but some reported cautious optimism about the near future. ■

For more information about District economic conditions visit:
www.clevelandfed.org/region/



Summary of Economic Activity

Since our previous Beige Book report, the Fifth District economy expanded at a modest rate. One exception was the manufacturing sector where many firms reported a decline in shipments and new orders and continued to report high input costs due to tariffs. Meanwhile, District ports saw robust activity, mainly from imports as companies tried to get goods in the country ahead of anticipated tariff increases. Trucking remained strong but companies continued to report capacity constraints in both labor and trucks. Travel and tourism increased modestly, overall, while retail shopping was hampered by adverse weather. Residential real estate activity picked up modestly with an increase in home sales but a decline in buyer traffic. Meanwhile, demand for commercial real estate increased moderately, with notable strength in industrial leasing. Lenders saw a modest increase in demand, particularly for commercial lending. On balance, nonfinancial services firms experienced modest growth. Energy sector firms reported moderate growth as coal production increased and pipeline construction continued. The demand for labor increased moderately while wage growth remained modest. Price growth remained moderate, overall, despite firms' reports of higher input costs.

Employment and Wages

On balance, the demand for labor increased modestly in recent weeks, but firms indicated that hiring remained constrained by the tight labor market. Some of the most hard-to-fill positions were electricians, hotel and restaurant workers, construction workers and managers, computer engineers, and cyber professionals. Meanwhile, a staffing agency reported a decrease in demand for temporary staffing services as more clients were hiring full-time workers instead. Wage growth remained modest, overall; however, a few contacts reported sharp increases in starting wages for particular positions.

Prices

Since our previous Beige Book report, price growth remained moderate, overall. According to our most recent surveys, manufacturing firms continued to report margin compression as input price growth outpaced selling price growth. Several manufacturers attributed the rise in input costs to tariffs. A food manufacturer added that the loss of domestic crops due to adverse weather forced them to turn to higher-priced imports, which were subject to tariffs. Likewise, service sector firms saw moderate price growth for selling prices that was outpaced by input price growth. Several services firms also attributed higher input costs to tariffs.

Manufacturing

A large share of the Fifth District manufacturers surveyed reported a decline in shipments and new orders in recent weeks. Some firms attributed the decrease to slowing global demand, adverse weather conditions, and/or seasonal factors. Meanwhile, rising raw materials costs were widely reported with some price increases being attributed to tariffs. A Maryland can manufacturer looked for ways to increase automation to reduce the number of employees in order to help offset the rising cost of raw materials. A Virginia display case manufacturer had Chinese goods shipped through west coast ports in order to get goods to the country ahead of an anticipated tariff increase. Meanwhile, a West Virginia steel company increased capital expenditures as they experienced strong business.

Ports and Transportation

Fifth District ports saw robust activity in recent weeks. Import volumes continued to exceed export volumes. Port executives noted a slight softening in auto exports but saw strong growth in imports, particularly from China. They attributed much of the strong import volumes to orders being made early to avoid possible tariff hikes, and they expected trade to soften in the next few months. One port had to store incoming cargo for retail-

ers who did not have adequate storage space. A District airport reported strong demand despite some weather related cancellations.

Demand for trucking remained strong in recent weeks despite a typical seasonal slowdown in shipping. Trucking firms continued to report capacity constraints. Some companies looked for more drivers to hire while others had enough drivers but not enough trucks. Trucking firms were generally optimistic about future growth and continued to make capital investments, but some contacts expressed concerns about tariffs and rising interest rates.

Retail, Travel, and Tourism

Travel and tourism grew modestly in the Fifth District in recent weeks. In Asheville, North Carolina, hotels were fully booked through the holidays, and tourism remained strong in Charleston, South Carolina, despite poor weather. However, hotels in Washington, D.C., saw lower occupancy and fewer meeting space reservations. New hotels and restaurants continued to open around the Fifth District, and some business owners expressed concerns about retaining their staff as competition increases. A Virginia resort executive noted that heavy reliance on J1 visa holders made them vulnerable to possible changes in immigration law.

Retailers in the Fifth District reported mixed conditions since our last report. Many firms felt that inclement weather hurt their business. A North Carolina auto dealer reported good business, particularly for new cars that had strong manufacturer's incentives, but saw a slight softening in demand for used vehicles. A West Virginia store saw profit margins decline as they were unable to pass along higher transportation costs. Conversely, a Maryland retailer was able to raise prices to pass along higher costs that stemmed from steel tariffs.

Real Estate and Construction

Residential real estate firms indicated modest growth, overall. Home sales rose modestly in recent weeks and were reportedly up compared to last year. Sales prices increased modestly, overall. Meanwhile, home inventories remained at low levels, as homes in good condition continued to sell quickly. However, contacts reported a slight uptick in days on the market in the past few weeks because of reduced buyer traffic. In most markets, new residential construction continued at a modest pace with limited speculative construction.

On the whole, commercial real estate activity picked up moderately in recent weeks. District brokers continued to report strong industrial leasing activity, and in the office and retail sectors, only a few contacts reported the normal seasonal slowing. District brokers continued to report low vacancy rates and strong absorption rates. Rental rates generally increased across the industrial market while rate increases were reportedly stable to flat for retail and office space. Multifamily leasing remained strong, but reports on construction activity varied across the District.

Banking and Finance

Loan demand grew modestly in recent weeks as gains in commercial lending drove the overall increase. Residential mortgage lending was generally reported as flat to down slightly compared to about a month ago, but up from the same time last year. On the commercial side, real estate loan demand picked up moderately. Deposits rose moderately, on balance, in recent weeks. Business loan demand increased slightly while automotive lending was reportedly flat. Credit quality and credit standards remained strong throughout the District.

Nonfinancial Services

Since our previous Beige Book, nonfinancial services demand increased modestly, overall. The most positive reports came from firms in the tech sector. A software development firm and an IT consulting business reported strong growth. Also, a Fifth District university reported an increase in interest in computer science and IT related majors. Meanwhile, an accounting firm experienced solid growth and expected continued growth in 2019.

Agriculture and Natural Resources

Energy sector contacts reported moderate growth. Coal production increased in West Virginia as the demand for coal exports remained strong and prices were fairly stable. Pipeline construction continued but was running behind schedule due to adverse weather conditions. In addition, construction in some areas was halted over environmental issues. ■

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



Summary of Economic Activity

Sixth District business contacts remained largely positive with a majority noting that economic activity grew at a moderate pace over the reporting period. Most contacts expect steady growth in the near-term; however, several contacts cited increased levels of uncertainty going into 2019, to include concerns over politics and trade. As labor markets remained tight, many firms noted increasing retention efforts. On balance, wages increased since the previous report, with pressure growing particularly among low-skill, hourly positions. Nonlabor input costs increased and the ability to pass along the increases varied among firms. Contacts reported that retail sales were solid during the holiday season and vehicle sales were up slightly. Reports from the hospitality sector were positive, reflecting strong advanced bookings for early 2019. Contacts reported that residential real estate activity slowed and commercial real estate activity remained stable over the reporting period. Manufacturers indicated that new orders and production levels decreased since the previous report. Contacts indicated that banking conditions were stable.

Employment and Wages

Similar to previous reports, business contacts remained focused on employee retention. District employers continued to expand wage and non-wage compensation offerings to retain workers. In spite of these efforts, firms expressed concern about their ability to meet growing demand with existing staffing levels. A few contacts from construction, manufacturing, and health services mentioned they were actively overstaffing certain positions where possible, or were holding on to workers even as demand eased in an effort to position themselves for future growth. Business contacts also mentioned that efforts to build culture and loyalty remained important to retention.

Average wage increases were typically reported around 3 percent across the District, a level that most firms intend to maintain in 2019. Broadly, businesses continued to report notable wage pressure among low-skill, hourly jobs, particularly in hospitality and retail. A number of business contacts noted that announcements by large national companies to raise their minimum wage intensified pressure among similar jobs. Challenges with escalating wage pressure were especially acute among small businesses, which reported struggles to compete with large- and medium-sized firms' ability to increase wages.

Prices

District firms continued to report rising input costs, particularly for products impacted by tariffs. Price increases related to tariffs were passed along with no significant pushback or impact to margins. However, some businesses reported hesitancy to pass along increases unrelated to tariffs, opting instead to continue to internalize cost pressures through a combination of lower margins and productivity improvements. The Atlanta Fed's Business Inflation Expectations survey showed year-over-year unit costs were up 2.2 percent in December. Survey respondents indicated they expect unit costs to rise 2.3 percent over the next twelve months.

Consumer Spending and Tourism

On balance, District retailers reported steady sales levels throughout the holiday season. Online sales levels continued to grow at a faster pace than brick and mortar sales. Recreational goods retailers noted an increase in sales since the last report. Automotive dealers reported an uptick in sales levels in November.

Travel and tourism contacts across the District noted a strong holiday travel season with growth in business and leisure travel. Hotel demand and average daily rates were higher than expected. The outlook for 2019 remains positive with healthy advanced bookings through the first quarter of the year.

Construction and Real Estate

Housing activity slowed on a year-over-over basis towards the end of 2018. In many District areas, existing home sales either moderated or declined. Although inventory levels remained low, they increased on a year-over-year basis in many markets. New home construction continued to lag behind demand with most new home starts being concentrated in higher price points within prime/high-demand submarkets. Though moderating, rising construction costs and low supply continued to push new home prices higher.

Commercial real estate leasing and sales activity remained steady during the reporting period. On average, vacancy rates in most District markets continued to trend downward modestly. Strength continued in the industrial, multifamily, and medical sectors. Contacts reported momentum in the industrial sector that continued to outpace the levels of new supply. Contacts continued to report concerns with bankruptcies and slowing activity in the big-box retail sector. Office market contacts reported overall continued strength; however, higher levels of employee densification and greater deliveries of space appear to be creating pockets of slowing in some local markets.

Manufacturing

Reports from manufacturing contacts indicated that business conditions softened slightly since the previous report. New orders and production levels decreased, and purchasing managers reported shorter wait times for supply deliveries. However, expectations for future production levels increased, with over half of contacts expecting higher production over the next six months, up from the previous report.

Transportation

The majority of District transportation contacts reported increased activity since the previous report. Ports noted record container volumes, along with further growth in trade of autos and heavy machinery. According to air cargo contacts, global air freight volumes continued to grow; however, in recent months, growth decelerated in some regions due to a softening in demand. Railroad contacts reported significant year-over-year increases in total traffic, including notable growth in intermodal shipments. Logistics firms saw improvements in volumes of delivered packages as compared with last year's holiday season.

Banking and Finance

Conditions at financial institutions held steady over the reporting period. Higher interest rates improved earnings and net interest margins for the majority of banks and increased competition for deposits. Loan growth contin-

ued but at a slower pace, especially in real estate. Financial institutions continued to loosen underwriting standards on selected portfolios due to slowing demand for credit and increased competition. Credit quality metrics generally remained positive with nonaccrual loans remaining near historical lows; however, some institutions in the District experienced an increase in consumer delinquencies.

Energy

Contacts reported that takeaway capacity of oil and gas products from the West Texas Permian region to the Gulf Coast remained extremely tight. Deepwater production continued to pick up in the Gulf Coast, as new drilling platform projects came online in the fourth quarter. Refinery utilization declined in the fourth quarter as many plants engaged in maintenance/turnarounds during the winter months. Demand for renewable energy, especially electricity, continued to grow compared to electricity generated by coal, gas, or nuclear. Industrial consumption was mostly down in late 2018 due to seasonal factors. Weather and improved efficiencies continued to drive down residential and commercial consumption.

Agriculture

Agriculture conditions across the District were mixed. Recent reports showed most of the District was drought-free with the exception of parts of south Florida where there were abnormally dry to moderate drought conditions. The USDA designated some counties in Alabama, Florida, Georgia, and Mississippi as natural disaster areas due to damages and losses attributed to Hurricane Michael, Tropical Storm Gordon, and flooding. The December forecast for Florida's orange crops was unchanged from the prior month, but up significantly from last year's production. In mid-December, weekly cash prices for corn, cotton, and beef were up while rice, soybean, broiler, and egg prices were down on a year-over-year basis. ■

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



Summary of Economic Activity

Economic activity in the Seventh District grew at a modest pace in late November and December, and contacts expected growth to continue at that pace over the next 6 to 12 months. Employment, consumer spending, and business spending increased modestly; manufacturing increased slightly; and construction and real estate activity was little changed. Wages and prices rose modestly and financial conditions deteriorated slightly. Prospects for farm income improved as corn, soybean, and wheat prices moved higher.

Employment and Wages

Employment growth continued at a modest pace over the reporting period and contacts expected job gains to continue at that rate over the next 6 to 12 months. Hiring was focused on production and professional and technical workers, while there was a decline in the number of contacts planning to hire sales workers. As they have for some time, contacts indicated that the labor market was tight and that they had difficulty filling positions at all skill levels. A staffing firm that primarily supplies manufacturers with production workers reported continued difficulty in filling orders and no change in billable hours. Wage growth remained modest overall. Contacts were most likely to report wage increases for managerial, professional and technical, and administrative workers. Multiple manufacturing contacts reported that rising wages for entry-level positions was leading them to invest in automation that would increase these workers' productivity and justify the higher wages. Many firms reported growing benefits costs.

Prices

Prices rose modestly in late November and December, and contacts expected prices to continue to increase at that rate over the next 6 to 12 months. Retail prices increased slightly overall. Producer prices again rose moderately, reflecting in part the pass-through of higher labor, materials, and freight costs.

Consumer Spending

Consumer spending rose modestly over the reporting period. Nonauto retail sales increased at a moderate pace, as contacts reported solid holiday sales and widespread gains across sales categories. Contacts also highlighted significant growth in the travel and personal service sectors. Light vehicle sales were flat and slightly under dealers' expectations for the reporting period. Some contacts attributed the slower-than-expected vehicle sales to rising interest rates and declines in the stock market.

Business Spending

Business spending increased modestly in late November and December. Retail contacts said that inventories were generally at comfortable levels. Most manufacturing contacts also reported that stocks were at comfortable levels, though steel service center inventories remained below historical norms and one steel consumer reported cutting back their own production because of steel input shortages. Capital spending increased modestly and contacts expected growth to continue at that pace over the next 6 to 12 months. Outlays were primarily for replacing industrial and IT equipment and for renovating structures. Energy demand from commercial and industrial users increased modestly, led by greater consumption by data centers and manufacturers. Demand for transportation services also increased modestly from an already strong level.

Construction and Real Estate

Construction and real estate activity was little changed over the reporting period. Residential construction increased slightly, with growth concentrated in the suburban single-family market. Nonresidential construction was little changed on balance, with reports of increased activity in the industrial and infrastructure sectors offset by declines elsewhere. Home sales were flat overall, though one contact in the Detroit area reported a moderate decline in sales, particularly for homes under \$250,000. Home prices and residential rents increased slightly. Commercial real estate activity was little changed, though the pace remained strong. Vacancy rates, sublease space, and rents were little changed.

Manufacturing

Growth in manufacturing production slowed in late November and December, with contacts reporting only a slight increase in output. That said, most contacts were pleased with the level of production. Demand for steel increased, but at a slower rate than earlier in the year. Steel imports continued to decline. Demand for heavy machinery increased moderately, with growth spread across the construction, transportation, and energy sectors. Demand for heavy trucks increased slightly from an already strong level. Specialty metals manufacturers reported modest increases in order books, with contacts highlighting growth in the medical devices, aerospace, and defense sectors. Auto production declined slightly, but remained at a solid level.

Banking and Finance

Financial conditions deteriorated slightly overall during the reporting period. Financial market participants noted substantial declines in equities prices and increased volatility. Business loan demand increased modestly, with contacts highlighting growth in the construction, manufacturing, and transportation sectors. Loan quality and lending standards were little changed. Consumer loan demand increased slightly, supported by increased auto lending. Consumer loan quality and lending standards were little changed. Demand for consumer insurance was also little changed.

Agriculture

Prices for corn, soybeans, and wheat moved higher over the reporting period, supported in part by news that trade talks between the U.S. and China had resumed and that China had purchased some U.S. soybeans. A second round of payments from the Federal Government's Market Facilitation Program also supported farm incomes (primarily for soybean producers), although payments have been disrupted by the government shutdown. The shutdown also slowed the release of government reports on agricultural market conditions, leading to greater uncertainty for market participants. Contacts noted that the profitability of the 2018 harvest was still unclear as a large amount of the harvest remained unsold. Lower ethanol prices weighed on ethanol producers, and there were reports of plant closures as well as expectations of more closures in the future. Cattle, egg, and dairy prices all rose, though dairies generally continued to face difficult operating conditions. Hog prices fell over the reporting period. Contacts noted that rising input prices for crop and livestock producers as well as higher interest rates were shrinking margins. ■



Summary of Economic Activity

Reports from contacts indicate that economic conditions have slightly improved since our previous report. Firms continued to report difficulties finding qualified workers. Overall, wage pressures have increased moderately, with contacts citing minimum wage increases as a contributing factor. Reports on consumer spending were positive. Activity in the manufacturing sector has increased in recent months, although at a slower rate than noted in the previous report. District banking contacts reported positive but slower growth in loan volumes during the fourth quarter. Agricultural conditions improved slightly thanks to higher crop prices; however, overall conditions remain weak in this sector.

Employment and Wages

Employment has grown slightly since the previous report. Contacts in Arkansas and Missouri reported slight growth in manufacturing employment, and small business employment increased modestly. Information technology firms in the St. Louis area reported plans to increase hiring in early 2019. Contacts throughout the District continued to cite difficulties finding qualified employees. The labor market was particularly tight for technical jobs, with some firms lowering education requirements to attract more candidates. Schools and firms also continued to develop training programs to alleviate shortages in skilled trades.

Wages have increased moderately since the previous report. Pay raises were especially strong for entry-level positions. Contacts in information technology and manufacturing reported that labor market tightness led to increases in starting wages. Furthermore, minimum wage increases in healthcare and the public sector were either announced or took effect throughout the District. Small business wages in Missouri and Tennessee grew moderately.

Prices

Prices have remained unchanged on net since the previous report. Metal prices have decreased slightly. Steel

prices showed some of the largest declines, but remain elevated in year-over-year terms. Coal prices have risen slightly since the previous report.

Broadly, agricultural prices have risen slightly since the previous report. Prices for soybeans and soybean meal have risen around 3 percent but remain lower than one year ago. Corn, corn meal, and sorghum all have posted particularly strong gains since the previous report.

Consumer Spending

Reports from general retailers, auto dealers, and hoteliers indicate that consumer spending activity has increased modestly since our previous report. November real sales tax collections increased in Arkansas, Tennessee, and Kentucky, but decreased in Missouri relative to a year ago. The West Tennessee consumer outlook remains positive, albeit less positive than earlier this year. On net, West Tennessee consumers expect to spend more compared with last year. Reports from Louisville auto dealers indicated that auto sales do not seem to have been affected by rising interest rates. Arkansas tourism sales tax revenue increased year over year.

Manufacturing

Manufacturing activity has increased at a moderate pace since our previous report. Survey-based indexes showed

that Arkansas and Missouri manufacturing activity continued to expand from November to December, but the pace of growth slowed. New orders and production also increased in both states, but at a slower pace than in the previous report. Several contacts expressed an optimistic outlook for the next quarter, including manufacturers of commercial vehicle parts and primary metals. An aluminum producer reported running at nearly full capacity and is considering additional expansion options. Similarly, contacts in the vehicle parts manufacturing industry noted strong sales in October. On the other hand, several manufacturers noted increases in wages leading to higher costs and higher turnover rates, making it difficult for them to recruit engineers and staff.

Nonfinancial Services

Activity in the nonfinancial services sector has been unchanged since the previous report. The number of vacancies for nonfinancial services occupations in December has decreased over the previous month. This can be attributed to a slowdown following the holiday rush; however, year-to-year vacancies are also down. The transportation industry continues to experience growth. Major logistics firms continue to make investments in distribution centers across the District. Growth is limited in the river transportation industry as barges dependent on coal transportation continue to experience a slowdown in this line of business.

Real Estate and Construction

Residential real estate activity has improved slightly since the previous report. Seasonally adjusted home sales for November increased slightly from the previous report across most of the District's four largest MSAs. Inventory levels remained low.

Residential construction activity was flat. St. Louis builders reported a slight decline in year-to-date single-family permits, but were optimistic that the recent decline in mortgage rates would increase construction activity in the near future. Contacts in Louisville expressed concern regarding rising interest rates and the rising cost of building homes.

Commercial real estate activity has improved slightly since the previous report. Louisville contacts reported increased demand for retail property types compared with this time last year. Commercial construction activity was flat. Louisville contacts noted that multi-family construction is robust while there is a lack of new warehouse construction.

Banking and Finance

Banking conditions in the District have improved modestly since the previous report. According to reports from

bankers, outstanding loan volumes grew by 4 percent relative to year-ago levels in the fourth quarter, which was a slight dip from the third quarter, continuing the steady decline in the rate of loan growth since the end of 2016. Commercial and industrial lending continued to be robust, but took a slight downward turn from the third quarter. Residential real estate lending in the District continued to grow slowly and lagged behind national rates for the fourth consecutive quarter. Commercial real estate maintained a positive, but slightly lower, growth rate compared with last quarter. Bankers reported a slight increase in deposits growth.

Agriculture and Natural Resources

District agriculture conditions have improved slightly since the previous report. The percentage of winter wheat rated fair or better remained approximately unchanged from the end of October to the end of November and remains at 93 percent. This is an increase from 89 percent of winter wheat rated fair or better at the end of 2017. Contacts continued to report very high crop yields for 2018. However, farmers still face headwinds due to low crop prices and continued trade concerns.

Natural resource extraction conditions improved slightly from October to November, with seasonally adjusted coal production increasing slightly. November production was also up slightly 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 modestly overall since the last report. Employment grew moderately, though lack of available labor continued to hamper overall hiring. Wage pressures were moderate, while price pressures were modest. The District economy showed growth in consumer spending, manufacturing, commercial real estate, and mining. However, construction and residential real estate were mixed, energy slowed, and agriculture remained weak.

Employment and Wages

Employment grew moderately since the last report, though lack of available labor continued to hamper overall hiring. Demand for labor across the District has ebbed slightly but remained healthy overall. November job postings fell slightly in Minnesota, South Dakota and Michigan's Upper Peninsula compared with a year earlier, in contrast with double-digit increases in Montana and North Dakota. Among more than a dozen staffing firm contacts, mostly in Minneapolis-St. Paul, a small majority said job orders and total clients were higher in the fourth quarter compared with a year earlier. But tight labor supply was limiting job placements and hours booked among staffing firms, with unfilled job orders seeing a notable increase. Surveys by the Minneapolis Fed in late November and December identified labor availability as the biggest obstacle to short-term growth. In a separate, external survey of Minnesota builders, almost two-thirds said the lack of available labor has forced them to turn down business. A Montana retailer noted that "every business is hiring and the hiring pool is shallow." Very little relief in labor supply was expected. Numerous metro areas were at or near record-low unemployment; unemployment insurance claims over the most recent six-week period (through mid-December) dropped more than 4 percent across District states, and continuing claims dropped by 10 percent.

Wage pressures rose moderately. Recent surveys by the Minneapolis Fed found widespread wage increases that coalesced a little below 3 percent. One survey found more persistent wage increases for new employees and specific positions, rather than company-wide raises. Staffing firm contacts noted continued reluctance among some clients to raise wages enough to change hiring difficulties. "Clients are not changing with the labor market, so wages are not going up as much as they should," said a contact in Minneapolis-St. Paul. A central Minnesota contact said that "skilled trades are hard to find and wages are not increasing (enough) to bring in good candidates that have the necessary skills and background." Most surveys showed that expectations for future wage hikes were slightly below 3 percent. One modest exception was the Minneapolis Fed's annual manufacturing survey (conducted in partnership with the Minnesota Department of Employment and Economic Development). Respondents to this survey expected wages to increase by 3 percent to 5 percent in 2019.

Prices

Price pressures were modest since the last report. Slightly more than half of respondents to the Minneapolis Fed's annual manufacturing survey reported that prices charged for their products increased over the past year, while just over a third reported unchanged prices. For the coming year, a similar proportion expected to

increase their prices, while a strong majority expected the rate of inflation in the broader economy to increase. Retail fuel prices continued to fall sharply in District states through the end of 2018, reaching their lowest levels in nearly two years by early January. Prices received by farmers for corn, wheat, hay, hogs, cattle, and eggs increased in October compared with a year earlier; prices for soybeans, milk, chickens, and turkeys decreased.

Consumer Spending

Consumer spending rose moderately since the last report. State-level sales tax collections in November were higher in the Dakotas and Wisconsin. Lodging taxes were higher in Montana over this period, but hotel occupancy rates in Minnesota fell and average room rates were flat. Total enplanements at a number of District airports in November rose notably, with the exception of Minneapolis-St. Paul International, which saw a slight decrease. Retail contacts reported a strong holiday shopping season overall. A mall manager in southern Minnesota said foot traffic was up on Black Friday compared with a year earlier, and stayed strong through the holidays despite the loss of a major anchor tenant earlier in the year. The manager added, "Overall sales and traffic exceeded expectations almost entirely across the board."

Construction and Real Estate

Commercial construction was mixed since the last report. An industry database of construction spending showed November activity was slower than a year earlier, particularly for nonresidential building. However, this was possibly related to a particularly strong October. Construction contacts in Minneapolis-St. Paul noted strong demand for new industrial building, but office construction was slow. Another industry database showed that projects out for bid in District states were somewhat higher over the most recent six-week period (through mid-December) compared with a year earlier. The average number of active projects was also higher over the same period; however, this might be the result of projects taking longer due to labor shortages in construction. Available data for November and December showed commercial permitting was higher in the core cities of Minneapolis and St. Paul, but lower across most of the District's other metro cities. Residential construction was mixed. Minneapolis-St. Paul and Bismarck, N.D., saw healthy year-end increases for both single- and multi-family units. But

residential activity elsewhere was flat or declined over the same period.

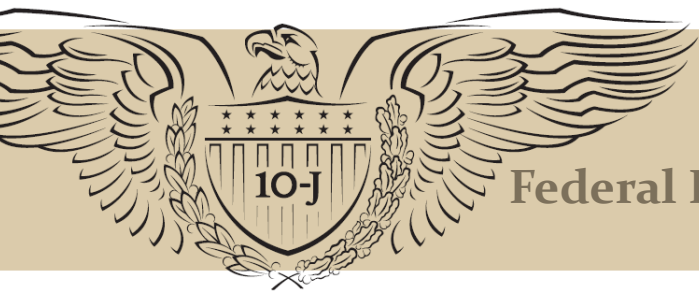
Commercial real estate increased slightly since the last report. Vacancy rates in multi-family units continued to be low throughout the District despite healthy construction activity. Similar market conditions existed for industrial space in Minneapolis-St. Paul. Large retailers continued to be pressured, with multiple big-box store closures across the District. Residential real estate was mixed. November home sales grew modestly over the previous year in western Wisconsin, Sioux Falls, S.D. and Missoula, Mont., but fell across Minnesota as well as in Bozeman and Great Falls, Mont.

Manufacturing

District manufacturing activity increased moderately since the previous report. Respondents to the Minneapolis Fed's annual manufacturing survey indicated growth in orders, production, employment, capital investment, and productivity over the past year, with expectations for further growth in 2019. An index of manufacturing conditions produced by Creighton University indicated increased activity in December in Minnesota and the Dakotas. A producer of electrical transmission equipment broke ground on a large new plant in South Dakota.

Agriculture, Energy, and Natural Resources

Agricultural conditions in the District were stable at low levels. District oil and gas drilling activity slowed notably recently in response to a rapid decline in the price of crude oil. An industry contact reported that expectations for capital expenditures in the Bakken oil patch have shifted downward dramatically. However, as of late December, the drilling rig count in the region was unchanged from a month earlier. District iron ore mines were operating at near capacity, with a recent estimate suggesting 2018 production would be up slightly from the previous year. ■



Summary of Economic Activity

Tenth District economic activity was roughly flat in December and early January, as growth in several sectors was offset by a slowdown in others. Moving forward, expectations were mostly positive for growth in the months ahead. Retail sales were strongly above year-ago levels, but growth in overall consumer spending was tempered by lower auto, restaurant, and tourism sales. Manufacturing activity edged up since the last survey period, and contacts expected modest increases in capital spending in the coming months. Sales rose at a modest pace in the professional and high-tech and wholesale trade sectors but fell modestly in the transportation sector. Residential real estate activity declined modestly, while overall activity in the commercial real estate sector rose slightly. Energy activity eased slightly since the previous survey period, and price expectations for crude oil declined further due to an increase in supply and rising global tensions. The District agricultural outlook remained weak despite slight gains in some commodity prices. Employment and employee hours rose across most industries in the District, and additional gains were anticipated in the months ahead. Wages expanded at a modest pace and were expected to grow at a similar pace moving forward. District prices rose further, and gains in input prices continued to slightly outpace those of selling prices.

Employment and Wages

Employment across the District rose modestly in December and early January, and employee hours edged up. Employment and employee hours were expected to pickup modestly in the months ahead. Respondents in the retail trade, wholesale trade, transportation, professional services, real estate, health services, restaurant, and manufacturing sectors noted rising employment and employee hours, while contacts in the auto sales and tourism sectors reported a decline. Contacts in the energy sector reported no change in employment levels, although slight gains were anticipated moving forward.

A majority of respondents continued to report labor shortages for low- and medium-skill workers, including positions for retail sales, mechanics, technicians, truck drivers, restaurant staff, and specialized IT workers. Wages continued to expand at a modest pace since the previous survey period and were moderately above year-ago levels. Wages were expected to continue their current pace of growth in the months ahead.

Prices

District input prices were modestly higher since the previous survey period, while selling prices rose slightly. The pace of input and selling price growth was anticipated to accelerate in the months ahead. Input prices in the retail and restaurant sectors rose moderately, while

selling prices expanded at a modest pace. Respondents in the transportation sector reported flat input and selling prices since the previous survey period, although both were strongly above year-ago levels. Manufacturers noted modest growth in raw material prices, while finished product prices held steady. Prices for finished products and raw materials in the manufacturing sector were expected to rise moderately moving forward.

Consumer Spending

Despite modestly higher retail sales, a decline in auto, restaurant and tourism sales weighed on overall consumer spending compared to the previous survey period. However, contacts expected consumer spending to increase slightly in the coming months. Retail sales rose modestly compared to the previous survey period and were strongly above year-ago levels. Respondents noted seasonal items and lower-priced goods sold well, whereas higher-priced items sold poorly. Auto sales fell modestly since the previous survey period, although contacts expected sales to expand at a modest pace in the coming months. In response to a question about projected capital spending, several auto contacts noted recent downward revisions to capital spending plans for 2019. Restaurant sales dropped moderately since the previous survey period, and contacts anticipated sales to decline modestly in the coming months. Tourism sales sank moderately compared to the previous survey period, but

were modestly above year-ago levels. One tourism respondent attributed some of the tumbling sales over the past six months to environmental factors, such as fires and drought seen throughout the summer in parts of the District.

Manufacturing and Other Business Activity

Manufacturing activity edged up compared to the previous survey period, and other business contacts noted mixed sales growth. Although factory activity continued to expand, the pace of growth slowed at both durable and nondurable goods plants due primarily to decreases in metals, electronics, and petroleum/coal products. The level of production and shipments fell slightly whereas new orders and inventories expanded slightly since the previous survey period. Production, shipments, inventories and new orders each remained above year-ago levels, and manufacturers expected modest increases in capital spending in the coming months.

Outside of manufacturing, firms in the wholesale trade and professional and high-tech sectors experienced modest increases in sales, while transportation firms reported a modest decline. In the coming months, transportation firms anticipated moderate sales growth, and wholesale trade and professional and high-tech contacts expected strong sales growth.

Real Estate and Construction

Real estate activity in the District remained mixed as residential real estate activity declined modestly while commercial real estate activity rose slightly. Residential home sales fell at a moderate pace since the previous survey period, and home prices and inventories continued to rise. Residential sales were expected to be flat in the months ahead, while home prices and inventories were projected to rise further. Sales of low- and medium-priced homes continued to outpace sales of higher-priced homes. Residential construction activity declined slightly since the previous survey period but was anticipated to rise slightly moving forward. Activity in the commercial real estate sector continued to expand at a slight pace as sales, prices, construction underway, and absorption rose, while vacancy rates and completions were flat. Contacts in commercial real estate expected additional slight gains in overall activity in the months ahead.

Banking

Bankers reported a slight increase in overall loan demand compared to the previous survey period. Specifically, respondents reported a slight increase in the demand for commercial and industrial loans. Demand for commercial real estate loans held steady, while demand for residential real estate loans, consumer installment,

and agricultural loans fell. Bankers indicated no change in loan quality compared to a year ago and expected a slight decline in loan quality over the next six months. Credit standards remained largely unchanged in all major loan categories, and bankers reported a modest increase in deposit levels.

Energy

Energy activity eased slightly since the last survey period, but production of oil and natural gas remained at high levels. The overall number of active oil rigs across the District was steady, as the number of rigs increased in Kansas and Wyoming and moderated slightly in Oklahoma. The natural gas rig count was relatively flat since the previous survey period. Crude oil inventories remained well above their five-year average, while natural gas stocks dipped lower. In December, crude oil prices continued to fall, though more slowly than in November. Price expectations for crude oil were down due to an increase in supply and rising global tensions. In addition, District energy contacts reported lower capital spending expectations for 2019 as a result of the recent decline in oil prices.

Agriculture

The Tenth District farm economy remained weak despite a slight improvement in prices of some agricultural commodities. In the crop sector, prices increased slightly from the prior period. Corn and wheat prices were slightly higher than year-ago levels, but soybean prices remained lower as uncertainty surrounding trade persisted. Although good yields contributed to higher 2018 corn and soybean production in Nebraska, below average yields in Missouri could put downward pressure on farm income. Cotton prices fell sharply since the prior period on expectations of lower ginning activity which, combined with lower 2018 production in Oklahoma due to poor yields, could also reduce revenues. In the livestock sector, cattle prices increased slightly compared to the previous survey period while hog prices were slightly lower. ■

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



Summary of Economic Activity

Expansion in the Eleventh District economy slowed to a more modest pace over the reporting period. While the level of activity generally remained healthy, growth decelerated broadly across the manufacturing, services, retail, and energy sectors. Loan volumes declined slightly and new home sales fell modestly. Conversely, ample soil moisture has boosted crop conditions and improved prospects for the agricultural sector this year. Employment expanded, albeit at a slightly slower pace, despite continued widespread labor shortages. Wage growth remained elevated, while price growth abated to more normal levels. Outlooks were notably less optimistic than in the previous report due to declining oil prices, political and trade uncertainty, higher interest rates, and stock market volatility.

Employment and Wages

Employment growth continued but slowed slightly over the reporting period, and labor market tightness persisted. Contacts continued to note a lack of available workers, both high skilled and low skilled, with specific mentions of shortages in construction, energy, hospitality, health care, banking, and transportation (truck drivers specifically).

Wage growth had been on the rise for most of 2018 but eased toward yearend in several sectors, while still remaining elevated. Numerous contacts said workers were expecting higher pay, and many raised wages by 3-10 percent in response. One contact implemented a higher minimum wage to reduce employee turnover and attract higher-quality applicants. Firms responding to special questions on wages reported 4.5 percent annual wage growth in 2018, on average, with expectations of growth slowing to 4.0 percent in 2019.

Prices

Input price growth abated to more moderate levels across most industries in December. Oil producers reported relatively stable costs due to rising supplies of local sand and ongoing improvements in operational efficiency. Over the reporting period, selling price growth moderated: falling to a more moderate pace in goods-producing industries but remaining elevated in the ser-

vice sector. Overall, most district firms were not able to raise selling prices fully in step with cost increases. Only about a quarter of the more than 300 Texas business executives surveyed said they were able to pass on to customers most or all of their cost increases. A durable goods manufacturer noted difficulty competing with foreign companies not facing the same raw materials tariffs. Margins at oilfield services firms continued to be under pressure from high costs and increasing competition.

Manufacturing

Over the reporting period, output growth continued to abate slightly for both durables and nondurables manufacturing. The Texas manufacturing sector ended 2018 with modest growth, a downshift from the more robust expansion seen earlier in the year. Lower fuel prices boosted demand among petroleum refineries.

Outlooks among manufacturers turned slightly negative in December. Contacts pointed to declining oil prices, labor constraints, political uncertainty, higher interest rates, and reduced activity in the housing and energy sectors as factors restraining growth or damping outlooks.

Retail Sales

Retail sales expanded at a slower pace compared with the previous reporting period. Online sales growth picked

up, while some contacts reported weakness in in-store sales. Auto sales weakened slightly, with a couple of contacts citing the negative effects of increasing interest rates, and one noting increased competition and price shopping by customers. Retailers along the border noted increased competition in Mexico's retail market and thus fewer Mexican shoppers. Overall, outlooks in the retail sector were notably less optimistic at yearend 2018 than in the prior Beige Book.

Nonfinancial Services

Growth in the nonfinancial services sector slowed notably over the reporting period. The slowing was led by staffing services, where demand decelerated from very high levels and revenue declined for some firms. A few staffing contacts reported increased uncertainty and customers delaying hiring plans. Slight revenue reductions were also reported in the health care sector, with multiple contacts mentioning an erosion of pricing power. Reports from transportation services firms were mixed. Leisure and hospitality was a bright spot, with solid revenue growth through yearend, and growth among professional, scientific, and technical services firms remained fairly stable.

Firms' outlooks deteriorated, with contacts citing softening oil prices, general market volatility, and political and trade uncertainty.

Construction and Real Estate

New home sales fell modestly since the last Beige Book, while reports on existing-home sales were mixed. Ongoing construction delays, in part due to fall rains, were noted in Houston, and one contact said that builders and developers were adjusting to the new flood plain regulations in the city. Outlooks were cautious, and builders were selective in signing new deals.

Apartment demand was seasonally slow over the reporting period. Rent growth strengthened in Austin, remained modest in Dallas and San Antonio, and slowed in Houston. Contacts continued to note some supply-driven softness in rent growth at the high-end. Industrial and retail activity generally remained healthy. Office demand was mixed, with leasing most active for new Class A office space.

Financial Services

Loan volumes declined slightly over the reporting period, led by a reduction in residential real estate loan volumes. Loan pricing continued to increase but at a slightly faster pace. Deposit volumes rose notably. Outlooks were less optimistic than they were six weeks ago, as more than a third of contacts believe general business activity will be worse six months from now. Bankers cite oil prices, trade

relations, increased interest rates, and uncertainties in U.S. and global markets among factors creating a more difficult lending environment.

Energy

Energy activity remained strong but growth slowed notably, and outlooks worsened. Drilling and completion activity were flat over the reporting period, while the inventory of uncompleted wells continued to grow due to lower oil prices and ongoing pipeline and transportation bottlenecks in the Permian Basin. Lower oil prices were a worry, and about half of energy firms lowered capital spending plans for 2019 in response, according to the Dallas Fed Energy Survey. However, most firms still believe their capital spending will be higher in 2019 compared with 2018. On average, survey respondents expect the WTI oil price to be around \$60 per barrel at yearend 2019—above the reported average breakeven price to profitably drill new wells.

Agriculture

Ample soil moisture has boosted agricultural producers' outlook for 2019, although prices for several crops remain low. The new farm bill offers farmers greater flexibility in choosing coverage options and reintroduced cotton as a covered commodity after it was removed in the 2014 farm bill. This cotton safety net is meaningful for many cotton growers as they secure financing for the upcoming crop season. Conditions in the livestock sector generally remained favorable, but milk prices have fallen over the reporting period and may cause strain on dairies. ■

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-November through December. Conditions in the labor market remained tight, and wage growth was moderate. Price inflation was flat. Sales of retail goods expanded moderately, while activity in consumer and business services was solid. Conditions in the manufacturing sector strengthened modestly, and conditions in agriculture deteriorated slightly. On balance, contacts reported that residential and commercial real estate market activity expanded at a solid pace. Lending activity ticked down.

Employment and Wages

Conditions in the labor market remained tight. Contacts reported that worker shortages persisted across industries and skill levels. Nonetheless, several contacts reported an uptick in the pace of hiring. A major shipping and logistics business in Northern California hired more seasonal workers than usual in response to strong holiday demand. In the restaurant industry, a contact in the Pacific Northwest observed rising employment levels, while contacts in the Mountain West and Southern California noted intense worker shortages that led one chain to cancel plans to open additional locations. A contact in the California banking industry increased employment as warranted by business demand but noted that future hiring plans would be sensitive to developments in the broader economy.

Wage growth continued to increase moderately. Contacts across the District observed intense compensation pressures for more highly skilled workers. Employers with vacancies in the information technology, cybersecurity, and management fields continued to boost starting salaries to attract qualified candidates. Wages for lower-skilled workers also rose moderately, due to brisk competition and, in some cases, in reaction to imminent minimum wage increases in the new year. A Southern California contact in the business services sector reported that training costs also increased as positions turned over more frequently given the tight job market.

Prices

Overall, price inflation was flat over the reporting period. Contacts in manufacturing and utilities observed upward pricing pressures due mainly to a further moderate pickup in the cost of metal inputs and higher financing costs for capital-intensive production. Food and beverage prices increased somewhat, reflecting higher labor costs at producers. The growth of building material prices slowed a bit, due in part to noticeably lower lumber costs, which fell because of the moderation in the housing market. Lower oil prices resulted in reduced fuel surcharges at shipping and logistics businesses and a modest decline in the price of some petroleum-based inputs to manufacturing. In the agriculture sector, prices declined modestly as demand from abroad weakened in response to trade policy changes and the stronger dollar.

Retail Trade and Services

Sales of retail goods expanded moderately. Contacts observed that a solid holiday shopping season bolstered retail activity over the reporting period, thanks in part to elevated consumer confidence and household wealth. A contact in the Pacific Northwest reported that demand at home-improvement stores increased further. In the food and beverage industry, a contact reported a modest increase in sales driven by increased demand for higher-end products. Automotive sales in the Mountain West declined slightly, due in part to higher financing costs.

Activity in the consumer and business services sectors was solid. Demand for shipping and logistics services continued to be strong. Demand for automotive repair services in the Mountain West picked up; one contact attributed the increase to drivers preferring to repair instead of replace their vehicles as financing costs increased. A contact in Southern California observed a slight tick down in tourist activity.

Manufacturing

Conditions in the manufacturing sector strengthened modestly overall. Contacts in Northern California reported that activity in the semiconductor industry was solid, but they noted the potential for stock market turbulence to modestly limit new orders. Deliveries and new orders of commercial aircraft increased slightly from the same period last year. A contact in the Pacific Northwest observed that demand for manufactured lumber products ticked down, due in part to somewhat slower growth in the housing market.

Agriculture and Resource-Related Industries

Conditions in the agriculture sector deteriorated slightly. Many contacts cited trade policy changes and the appreciation of the dollar as drivers of weaker sales in the sector. Demand from abroad for a variety of crops declined noticeably, hurting profitability for certain growers across the District. A few contacts reported higher inventory levels for crops such as soybeans and perishable fruits, while growers sought alternative markets for their products. A contact in California noted that the outlook for crop yields in the new year improved modestly after rainfall beat expectations over the reporting period.

Real Estate and Construction

Real estate markets expanded solidly overall, though

contacts continued to observe slightly slower growth in recent months, especially in the residential market. A contact in Eastern Washington reported that overall housing permits for construction were slightly lower on a year-over-year basis due to a drop in permits for multi-family units, though single-family units registered a year-over-year increase. In Oregon, housing inventory ticked up but was still very low by historical standards. A contact in Southern California reported that shortages of more-affordable housing units persisted, while construction of higher-end apartment buildings continued despite flagging demand in that segment. A contact in Oregon noted that housing prices were up substantially on a year-over-year basis, thanks in part to brisk demand from out-of-state buyers looking for less expensive housing options.

In the commercial real estate market, contacts generally noted solid construction activity and demand. Contacts in the Pacific Northwest observed strong building activity. In Eastern Washington, construction was under way on a major e-commerce distribution center. In Seattle, contacts noted brisk activity in office construction and leasing. Rents were stable at an elevated level, and contacts reported continued low vacancy rates.

Financial Institutions

Lending activity ticked down over the reporting period. Growth in loan demand slowed slightly, with contacts generally attributing most of the moderation to higher interest rates. At the same time, for many banks, competitive pressures in loan and deposit pricing increased and net interest margins narrowed. Most contacts reported that credit quality remained healthy. A few observed that lending standards loosened modestly. ■



