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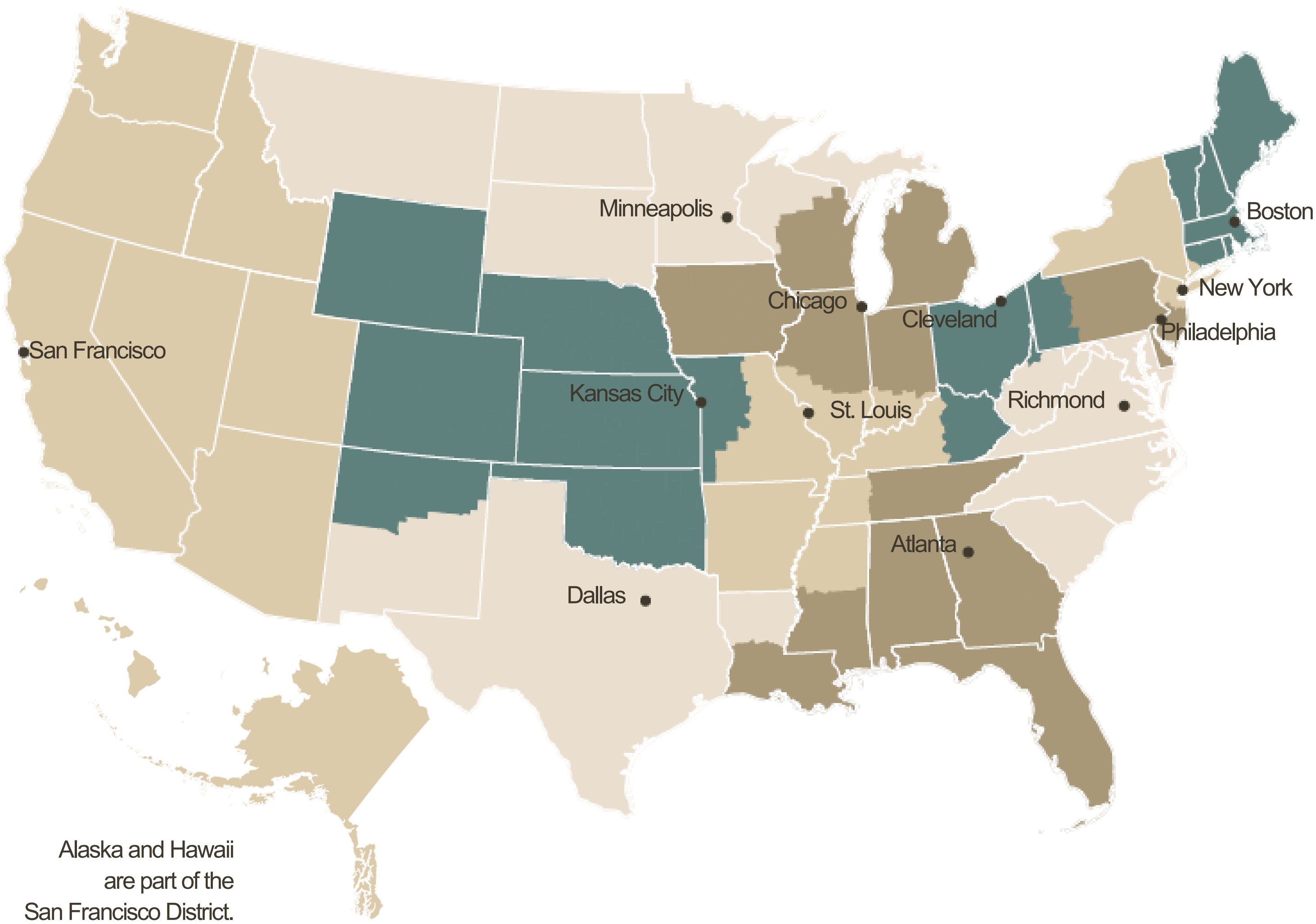
The Beige Book

Summary of Commentary on Current Economic Conditions
By Federal Reserve District

February 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.

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 Kansas City based on information collected on or before February 25, 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

Overall Economic Activity

Economic activity continued to expand in late January and February, with ten Districts reporting slight-to-moderate growth, and Philadelphia and St. Louis reporting flat economic conditions. About half of the Districts noted that the government shutdown had led to slower economic activity in some sectors including retail, auto sales, tourism, real estate, restaurants, manufacturing, and staffing services. Consumer spending activity was mixed across the country, with contacts from several Districts attributing lower retail and auto sales to harsh winter weather and to higher costs of credit. Manufacturing activity strengthened on balance, but numerous manufacturing contacts conveyed concerns about weakening global demand, higher costs due to tariffs, and ongoing trade policy uncertainty. Activity in the nonfinancial services sector increased at a modest-to-moderate pace in most Districts, driven in part by growth in the professional, scientific, and technical services sub-sector. Residential construction activity was steady or slightly higher across most of the U.S., but residential home sales were generally lower. Several real estate contacts noted that inventories had risen slightly but remained historically low, while home prices continued to appreciate but at a slightly slower pace. Agricultural conditions remained weak, and energy activity was mixed across Districts.

Employment and Wages

Employment increased in most Districts, with modest-to-moderate gains in a majority of Districts and steady to slightly higher employment in the rest. Labor markets remained tight for all skill levels, including notable worker shortages for positions relating to information technology, manufacturing, trucking, restaurants, and construction. Contacts reported labor shortages were restricting employment growth in some areas. Contacts in the higher education sector from the St. Louis District indicated falling enrollment as potential students were increasingly choosing to enter the labor market. Wages continued to increase for both low- and high-skilled positions across the nation, and a majority of Districts reported moderately higher wages. In addition, contacts in about half of the Districts noted rising non-wage forms of employee compensation, including bonuses, relocation assistance, vacation time, and flexible work arrangements.

Prices

Prices continued to increase at a modest-to-moderate pace, with several Districts noting faster growth for input prices than selling prices. The ability to pass on higher input costs to consumers varied by region and industry, and a few Districts noted that demand and the level of industry competition played a role in this variance. A few Districts continued to report upward price pressures from tariffs on certain goods and services. However, several Districts noted that the price of steel, which has been impacted by tariffs, had stabilized or fallen recently. In addition, energy costs, including fuel, declined in some areas. Agriculture commodity prices were mixed, though soybeans and dairy prices were notably weak.

Highlights by Federal Reserve District

Boston

Retailers and the restaurant industry reported continued growth in sales. Most manufacturers cited sales increases, but some said sales were down from a year earlier. Staffing firms also reported revenue declines, which they attributed to tight labor markets. Some retailers reported price increases. Aside from manufacturers, outlooks remained positive.

New York

Regional economic activity increased slightly in the latest reporting period, while labor markets remained tight and wage growth picked up further. Input costs rose at a steady pace, while selling prices accelerated slightly. Consumer spending weakened, while housing markets were steady to slightly softer. Most sectors saw modest growth in activity. Banks reported weaker loan demand and a modest pickup in delinquency rates.

Philadelphia
On balance, growth of aggregate Third District business activity appeared to pause during the current Beige Book period. Most sectors showed little or no change from the prior period. Lack of qualified labor continued to constrain hiring and raise wage pressures, while price increases remained modest. Nevertheless, the firms remained generally positive about the six-month outlook.

Cleveland
The District economy grew at a modest pace, with services driving much of that growth. Seasonal factors temporarily weighed on growth in construction and freight. Employment increased modestly in many sectors. Wages grew moderately across the board. Selling prices rose moderately, as companies passed through cost increases to their customers. A drop in mortgage rates spurred slight improvement in home sales.

Richmond
On balance, the regional economy expanded at a modest pace. Port activity, trucking, and tourism were generally increasing at a moderate to robust rate. Labor demand strengthened moderately, overall. Manufacturers, retailers, and nonfinancial services firms gave mixed accounts. Some retail and professional business services in and around D.C. cited delays and lost activity due to the partial federal government shutdown.

Atlanta
Economic activity moderately expanded. The District’s labor market remained tight and wages increased, on average. Nonlabor input costs continued to rise. Retail sales were flat, and tourism was robust. Home sales continued to slow, and commercial real estate was steady. Manufacturers noted that new orders were flat, but production and inventories increased. Bankers noted steady activity.

Chicago
Economic activity increased slightly on balance. Employment and business spending increased slightly; manufacturing and construction and real estate activity were little changed; and consumer spending fell modestly. Wages rose modestly, prices rose slightly, and financial conditions improved modestly. Contacts expected crop incomes to be lower in 2019 than in 2018.

St. Louis
Economic activity was unchanged from the previous report. Manufacturing activity continued to improve at a moderate pace. District bankers reported a slight decrease in loan volumes in the first quarter. Residential real estate contacts reported that recent sales have fallen below expectations. Local farmers expressed concerns regarding the near-term status of the industry.

Minneapolis
Ninth District economic activity grew modestly. Labor demand remained healthy, but signs of weakness surfaced. Price and wage pressures were moderate. Consumer spending offered mixed signals on economic activity. Manufacturing, energy, and mining activity grew, but agricultural financial conditions continued to deteriorate and no change was expected in the coming months.

Kansas City
Economic activity expanded slightly, and additional gains were expected in the months ahead. Consumer spending increased slightly, with gains in retail, restaurant, auto and tourism sales. Manufacturing, wholesale trade, transportation, and professional and high-tech firms also reported rising activity. However, residential real estate activity fell modestly, and agricultural conditions remained weak.

Dallas
Economic activity expanded moderately, with a slight pickup in demand seen across the manufacturing, services, and housing sectors. Drilling activity dipped. Hiring continued at a moderate pace, and employment outlooks were bullish. Input price pressures moderated but wage pressures remained elevated. Outlooks were more 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 unchanged. Sales of retail goods expanded modestly, and activity in the consumer and business services sectors was strong. Conditions in the manufacturing sector strengthened moderately. Activity in real estate markets expanded moderately on balance. Overall lending activity was flat.

Summary of Economic Activity

Reports from business contacts in the First District indicate that activity was somewhat mixed since the last report. Retailers reported moderate increases in sales, and restaurant sales were also up. Manufacturers' results, by contrast, were varied, with half of this round's respondents citing declines in sales or revenue or a marked slowdown in the pace of growth. Staffing firms also reported revenue declines, largely attributable to a shortfall of candidates in the current tight labor market. Commercial real estate markets were similar or slightly improved since the last report. Residential real estate markets in most areas saw declines in closed sales and increases in median sales prices. Manufacturers said they were cautious about 2019; other contacts' outlooks remained mostly positive.

Employment and Wages

Business contacts said that labor markets remained tight but wage pressures continued to be moderate. Beyond a shortage of workers in certain skill categories, such as information technology, retail respondents reported no real problems filling job openings. Depending on local labor market conditions, some retailers reported seeing higher wage costs. The restaurant industry complained of severe labor shortages. Hiring by manufacturers was mixed. A furniture maker laid off 10 workers in January. A semiconductor manufacturer facing big declines in demand from China put a hiring freeze in place, but they were reluctant to institute layoffs since it takes three to six months to train new workers. Three-quarters of manufacturing contacts reported continuing to hire at their normal pace; none cited unusual wage pressure. Staffing firms reported tight labor markets and some increases in bill and pay rates (that is, wages).

Prices

Pricing reports were mixed. Retailers said price declines for certain food categories have slowed down and some grocery categories saw price increases. A prominent big-box retailer reported that some consumer goods manufacturers announced plans to raise prices by 7 percent to 10 percent, though when these cost increases pass through to retail prices depends on when contracts with individual retail chains are renewed. Manufacturing contacts reported no unusual pricing pressures.

Retail and Tourism

Retailers contacted for this round reported that on a year-over-year basis, comparable-store sales were up by mid-single-digit percentages. Capital spending plans for 2019 are a bit higher than 2018. One contact observed that consumers seem willing to spend on all categories of goods, "whether a $10 T-shirt or a $2,000 television set." Moderate but positive growth is expected for the rest of this year, though there is some lingering worry that higher tariffs, if implemented, could put a damper on sales of affected products.

A contact in the Massachusetts restaurant industry reported that based on meal tax receipts, restaurant sales were up 5.4 percent year-over-year in January. However, these overall results were largely driven by new entrants, as established locations reported sales ranging from flat to down or up 1 percent. Such lackluster performance, higher operating costs, acute labor shortages, and higher labor costs (in part attributable to scheduled increases in the minimum wage for tipped workers) have prompted recent restaurant closings by some experienced and high-profile operators. Given the greater competition from the proliferation of restaurants, operators are reluctant to raise menu prices to cover their higher costs. Despite the threat of more closings, aggregate expectations for the Massachusetts restaurant industry in 2019 are positive.

Manufacturing and Related Services

The news from manufacturers was mixed. Of eight responding firms, two reported substantial drops in sales and two reported significant weakness. The two firms that reported serious issues were a semiconductor manufacturer and a furniture builder. The furniture firm makes its products in factories in New England; they reported sales in January were down 30 percent versus the same period a year earlier; but better results over President's Day weekend reduced concern. The semiconductor firm sells mostly to the auto industry and said that a 40 percent drop in new orders from China was the biggest fall in sales since the collapse of Lehman in 2008. Two other firms, both with heavy exposure to semiconductors, said that the market had slowed significantly since earlier in 2018. Four other contacts reported good overall sales.

Capital expenditures were down for several contacts and unchanged for others. One said that they had "mothballed" plans for a major expansion of a semiconductor wafer plant; another said they might delay construction of a new plant due to start this summer.

Most manufacturing contacts expressed caution about 2019. The ones facing the most severe declines were waiting to see if the weakness was transitory, while others said they were very uncertain. The slowdown in China, whether or not the result of trade issues, cast a shadow over the manufacturing sector.

Staffing Services

New England staffing firms reported negative single-digit revenue growth for the year 2018. Regardless of industry and placement type, all respondents cited low unemployment rates and limited applicant supply as challenges to their business, and remarked on the healthy number of job requests from clients. A few staffing firms said the tight labor market made it possible to raise rates, with no push-back from clients. Most firms reported ongoing work to strengthen relationships with community groups and advertise for candidates on social media channels. The partial government shutdown reportedly created uncertainty among client organizations, who were less willing to make hiring decisions near the end of 2018. Under tight labor market conditions and with a limited talent pool, respondents expressed mixed views on the outlook, but a majority were optimistic.

Commercial Real Estate

Commercial real estate fundamentals in the First District were either flat or up slightly in recent weeks, depending on the location and property type. Office leasing activity remained strong in both Boston and Portland, with asking rents continuing to rise in the former and holding steady in the latter. Office leasing was described as stable at a modest pace in Providence and slow (but also stable) in Hartford. In Providence, office rents were up 2 percent to 4 percent from one year ago; in Hartford, rents have been flat for an extended period. Industrial leasing demand was robust in most of the First District, although low inventories held back activity in Rhode Island. Contacts in Providence and Hartford perceived that investors were increasingly seeking to purchase properties in smaller cities in order to obtain higher yields than in Boston, but hard numbers on transactions volume were not available.

Planned construction of speculative office space tailored to the life sciences industry increased in the Boston area. Commercial real estate lenders were reported to be offering increasingly narrow interest rate spreads and generous loan terms. Construction costs continued to rise on average, and one Boston contact saw steep increases in subcontracting costs from a year ago that were attributed to scarce labor in the skilled trades.

Most contacts maintained a positive outlook. However, some expect economic growth—and hence demand for commercial real estate—to slow in 2019.

Residential Real Estate

Heading into 2019, residential real estate markets in the First District experienced a slowdown in sales. Sales decreased or stayed flat in all reporting areas for both single family homes and condos. (Most areas reported year-over-year changes from December 2017 to December 2018, while New Hampshire reported statistics through January 2019.) Contacts cited interest rate hikes, appreciating prices, and the recent partial government shut down as possible reasons for lower sales.

For single family homes, median sales prices increased in all reporting areas but Massachusetts. Inventory dropped in all areas except Rhode Island. For condos, prices declined in Rhode Island, Massachusetts, and New Hampshire, stayed flat in Boston, and increased slightly in Maine. Condo inventory increased in most areas, while New Hampshire saw a moderate drop. Vermont data refer to single family homes and condos combined; the median sales price increased, while inventories declined. ■

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

Summary of Economic Activity

Economic activity in the Second District has increased slightly since the last report. The labor market has remained tight, and wage growth has picked up further—mainly in lower wage industries. Businesses noted continued widespread cost pressures and increasingly widespread hikes in selling prices. Manufacturing activity expanded slightly, while business picked up in a number of service industries. Consumer spending has been weaker, on balance, and tourism has been mixed. Housing markets have been stable to slightly softer, while commercial real estate markets have remained steady overall. Finally, banks reported steady to weaker loan demand and a modest upturn in delinquency rates.

Employment and Wages

The labor market has remained tight across the District, with employers reporting ongoing difficulties in filling job openings, particularly for skilled trades and technical fields. Businesses generally reported that employment was flat to up slightly, on balance, since the beginning of the year. Firms in the wholesale, finance, and education & health sectors reported modest net hiring, while contacts in the manufacturing, transportation, professional & business services, and real estate & construction sectors indicated that employment was essentially flat. Contacts in the retail and information industries noted modest net declines in staffing levels.

Wages have picked up further, particularly in the lower-wage retail and leisure & hospitality industries. A number of business contacts in New York State's manufacturing, retail, and leisure & hospitality sectors indicated that the year-end hike in the minimum wage was affecting their employment and compensation decisions.

Prices

Businesses reported ongoing widespread escalation in input prices and increasingly widespread hikes in selling prices in the latest reporting period. Input price pressures tended to be most widespread in transportation and wholesale & retail trade sectors. Contacts across most industry sectors reported steady to moderately rising selling prices, with the most widespread rises reported from wholesalers. Contacts in the real estate and education & health sectors reported that selling prices were flat overall.

Retailers generally indicated that selling prices were up modestly in early 2019, though one major chain reported more discounting than usual to clear out excess holiday-season inventories. Nightly rates for New York City hotel rooms were little changed from a year earlier, and average ticket prices for Broadway shows continued to slip further and were down 5-6 percent from a year earlier.

Consumer Spending

Retail sales were mixed but sluggish, on balance. A major retail chain noted that sales were well below plan in January and down from a year earlier before rebounding modestly in early February; the weakness was partly attributed to adverse weather and the government shutdown. Reports from retailers in upstate New York were more upbeat, characterizing sales activity as solid. Inventories, which were a bit leaner than usual going into the holiday season, were generally said to be in good shape as of mid-February.

New vehicle sales have weakened in early 2019, according to dealers in upstate New York, falling well below early-2018 levels. Some of this weakness was attributed to harsh winter weather. New vehicle inventories remained somewhat high, on balance. 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 and edged down further in January, based on the Conference Board's monthly survey.

Manufacturing and Distribution

The manufacturing and distribution sectors picked up somewhat in the latest reporting period. Manufacturers noted a modest pickup in growth, while wholesale distributors and transportation firms reported solid gains, following weak reports at the end of 2018.

Looking ahead, contacts in the manufacturing and wholesale trade sectors have regained a fairly high level of optimism, but those in the transportation sector have remained more circumspect. A number of contacts continued to express concern about tariffs and trade restrictions, as well as New York State's minimum wage hikes.

Services

Overall, business has been mixed but, on balance, up modestly in the latest reporting period. Contacts in the information and health & education sectors reported flat activity in early 2019, while businesses in professional & business services noted some pickup in activity.

Leisure & hospitality businesses reported steady, moderate growth. Tourism was mixed in New York City, following a brisk holiday season. A local tourism-sector expert indicated that hotel occupancy rates, though still fairly elevated, slipped below year-ago levels. However, Broadway theaters continued to report strong year-over-year gains in revenues and especially attendance, which was up nearly 20 percent from a year earlier in both January and early February.

Real Estate and Construction

Housing markets across the District have been stable to somewhat softer since the last report. Homes sales in upstate New York have slowed further, though the inventory of homes on the market has remained low, and prices have continued to rise. In New York City, sales of existing co-ops and condos have slowed further. Selling prices for newly-built condos have weakened further, while resale prices on existing apartments have been mostly flat to down slightly. The inventory of unsold homes has continued to climb but is still fairly low by historical standards. Housing markets in the rest of the metro area followed a similar pattern. A local housing expert noted that potential buyers have been hesitant. At the high end of the market, an oversupply and concern about the curtailed federal tax deductibility of homeowner expenses have weighed on the market. At the lower end, some potential buyers have become more inclined to rent than to buy.

Residential rents across the District have picked up somewhat since the last report but remain roughly on par with a year earlier. In New York City, the prevalence of landlord concessions appears to have receded somewhat and rents have risen modestly, as rental vacancy rates have remained low. The recent withdrawal of Amazon's planned expansion in northwestern Queens has reportedly had little effect on the area's housing market.

Commercial real estate markets have been mixed but little changed overall. Both office availability rates and asking rents have remained steady, on balance. Retail markets have continued to soften, as vacancies have continued to rise. Industrial markets, on the other hand, have remained firm: While availability rates have leveled off at low levels, rents have continued to climb briskly—mainly in the New York City metropolitan region.

New multi-family construction starts remained sluggish, though a substantial volume of residential development remains under construction—particularly in New York City. New office construction starts picked up in New York City but remained sluggish elsewhere.

Banking and Finance

Small to medium-sized banks in the District reported lower demand for consumer loans, residential mortgages, and commercial mortgages, but slightly higher demand for commercial and industrial (C&I) loans. Refinancing activity was reported to be little changed. Banks reported higher credit standards for commercial mortgages but unchanged standards across other categories. Higher loan spreads were reported on residential mortgages, while spreads were steady for all other categories. Finally, banks reported increased delinquency rates on consumer and C&I loans but unchanged delinquency rates on residential and commercial mortgages. ■

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, growth of aggregate Third District business activity appeared to pause for much of the current Beige Book period; however, late reports indicated a resumption of slight growth in some sectors. Significant sectors, including manufacturing, nonfinancial services, and nonauto retail sales, slowed from modest growth in the prior period to little or no change in the current period. Factors cited for the slowdown included weak global demand and uncertainty because of trade wars and the government shutdown. Nevertheless, employment continued to grow at a modest pace, although the labor market remained tight and upward wage pressures remained moderate. Price pressures remained modest. Despite the apparent pause in growth, firms' outlook for growth over the next six months remained positive, with two-thirds of the nonmanufacturing firms and nearly half of the manufacturers anticipating increases in general activity.

Employment and Wages

Employment growth continued at a modest pace during the current Beige Book period. About one-fourth of the firms reported an increase in staff. Manufacturers have noted little change in the average hours worked since the prior Beige Book period; however, average hours appeared to contract a bit among other firms.

Most contacts continued to note that the labor market was very tight and that hiring and retaining workers remained difficult. Firms are responding by raising wages, increasing job flexibility, training new hires who have fewer skills than desired, and making greater use of trial periods of temp agency placements.

Wage growth continued at a moderate pace, with reports of wage and benefit cost increases averaging about 3.0 percent. The share of nonmanufacturing contacts who reported increases in wage and benefit costs edged higher to near 40 percent. Contacts noted that recent state increases in the minimum wage may cause some wage compression, but most firms were already paying above the new minimums. A few that were not continue to look toward automation.

Prices

Price increases remained modest for most firms. The share of manufacturing firms reporting increases in prices paid and prices received averaged around 30 percent. The share was much lower among nonmanufacturing firms. Several contacts noted that food commodity prices had remained modest or were better than expected.

Looking ahead six months, the percentage of manufacturing firms that expect to pay higher prices for inputs fell to 40 percent from 60 percent. Those firms expecting to receive higher prices for their own goods fell to 30 percent from near 50 percent.

Manufacturing

Manufacturing activity appeared to decline slightly – a reversal of trend from modest growth. The percentage of firms that reported increased shipments and new orders fell almost to one-fifth, but the percentage reporting decreases rose to about one-fourth.

The makers of chemicals, primary and fabricated metal products, and electronic and industrial equipment mostly have noted no change in new orders and shipments – and occasionally declines – since the prior period. However, these changes were weaker than those reported for the same period last year. The makers of lumber and paper products also reported flat or negative activity, changes which were comparable to the prior year.

Explanations cited for the slowdown included falling demand from European and Asian markets, with tariffs and Brexit as prime factors. Reduced demand from domestic sources was attributed to several factors: a pullback in orders following an excessive inventory buildup; lower oil prices, which have dampened capital expenditures from energy producers; and uncertainty during the government shutdown.

Despite the current period's pause, manufacturers' expectations of general activity six months from now did not shift. Moreover, expectations of future shipments also held steady. However, expectations of future new orders, employment, and capital spending edged lower. On balance, expectations for each of these indicators were near or above their historic nonrecession averages.

Consumer Spending

On balance, nonauto retailers reported slight gains in the new year. While some brick-and-mortar retailers continue to lose market share to online stores, contacts cited low unemployment rates, relatively high consumer confidence, and relatively low gas prices as factors contributing to ongoing gains in current sales and in expected sales. However, the government shutdown was costly for a few smaller Center City Philadelphia businesses, such as coffee shops, that serve federal office buildings and national historic areas.

Auto sales continued to bump along at relatively high levels, with little overall change compared with the same period last year. Sales reports for January were mixed, and some early reports for February noted a decline.

Tourism activity was off a bit, according to contacts. One contact noted an unexpected downtick in activity in the Poconos – partially due to poor weather in January. Philadelphia hotels were challenged compared with last year; the Eagles' 2019 playoff run included no home games, then the government shutdown closed several national park attractions, reducing tourism activity in the city. An analyst noted concerns with ongoing trade uncertainty and the strong dollar, which reduces foreign tourist visits and average visitor spending.

Nonfinancial Services

On balance, service-sector firms grew slightly as mid-period reports suggested a brief pause in activity. The percentage of firms reporting increases in sales and in new orders remained nearly the same, while reports of declining sales and fewer new orders edged higher on average. Expectations of future growth rebounded to two-thirds of the firms from half 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 robustly in commercial and industrial lending and in other consumer loans (not elsewhere classified). Loans grew modestly in commercial real estate and home mortgages; auto loans were flat; and home equity lines declined.

Bankers cited client uncertainty stemming from trade policy, the government shutdown, and global outlooks but described no concerns with the underlying U.S. economy. Lending standards were mostly unchanged, with a few banks tightening in specific segments. Contacts also noted no problems with credit quality.

Real Estate and Construction

According to homebuilders, contract signings appear to have held steady, although excessive rain has hampered construction activity. One builder – just returned from a national trade conference – reported that after a year-end slowdown, activity had picked up by February, nationally and locally.

Existing home sales continued to decline moderately across most local markets. Contacts noted no early signs that the spring selling season would bring an end to the extremely low inventories that have constrained sales.

On balance, commercial real estate construction and leasing activity appear to have edged down slightly from relatively high levels. However, most contacts remain very busy. Consolidations in health care and education are fueling new projects for architects and engineers. Contacts noted that absorption of new hotel properties and high-end multifamily units have largely kept pace with construction. The strong market for industrial and warehouse space continued for smaller spaces; however, demand may have eased a bit for warehouses in excess of 1 million square feet. ■

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

Summary of Economic Activity

Economic activity in the Fourth District grew at a modest pace since our last report. Professional and business services saw moderate demand growth. Home sales increased slightly because of a drop in mortgage rates. Retailers noted a slight softening in demand after the holiday season, while banking conditions improved modestly after seasonal slowness. Seasonal factors weighed on growth in nonresidential construction and transportation. Manufacturers gave mixed reports, as some saw a pickup in demand, while others reported slowness and uncertainty in the global economy weighed on growth. Employment in the District increased modestly, with much of the growth coming from nonfinancial services and from manufacturing. Wages rose moderately across many sectors and occupations. District companies increased their selling prices moderately. Construction companies passed on strong input cost increases. By contrast, manufacturers' prices remained more stable as the input cost pressures they had been facing in prior periods abated. Transportation companies raised prices, but retailers did not raise prices to cover transportation cost increases.

Employment and Wages

District contacts reported modest increases in staffing levels. Construction companies added some office staff but, because of the winter weather, did not hire field workers. They expect to resume increasing field staff in the spring. Manufacturers added both salaried and hourly staff, with one contact stating that her company had been hiring more of its temporary staff into full-time employment. Staffing companies reported increased placements and noted that nursing, information technology, and manufacturing staff are particularly in demand. Professional and business services firms, especially information technology firms, accelerated hiring to meet strong demand and expected to continue to add to their payrolls in the next few months. Trucking companies continued to add drivers when possible, but railroad companies downsized their staff. Railroad companies expected further staff reductions in the next few months. Retailers indicated that staff turnover was higher than usual in the beginning of the year and that they were hiring to maintain staff levels. Still, nondurable goods retailers continued to increase wages in line with inflation. Retailers planned to hold staff levels steady in the next few months.

Wages in the District rose at a moderate pace that was similar to that of the previous survey round. Wage growth was broad-based, as wages rose for a wide range of industries and occupations. Bankers raised wages both for low-wage and for high-wage positions, citing competitive labor markets. A couple of construction companies granted large retention-focused merit increases to office staff, but other companies mentioned that they tended to grant raises during busier seasons. Manufacturers re-evaluated wage rates for blue-collar laborers, and many manufacturers increased pay beyond the rate of inflation. Auto dealers also noted that pay for qualified technicians rose. Trucking companies continued to compete on wages, noting that demand for drivers exceeded supply. Some retailers felt pressure from local minimum wage increases. Staffing firms also noted upward wage pressures. One firm stated that new hires have been pressuring the firm to increase its starting wages; another stated that it now offers raises every 6 months instead of every 18 months, as it did previously. The rate of hiring by professional and business services firms accelerated somewhat. Nevertheless, wage increases in the industry decelerated, with a number of firms stating that wages were already high.

Prices

Selling prices rose moderately, with many businesses reporting that they were keeping up with input cost inflation. Upward cost pressures were strong for construction firms, which reported higher concrete prices. Nonresidential builders, and to a lesser extent homebuilders, raised their selling prices to maintain their margins. Upward cost pressures in manufacturing eased, as a number of producers reported stable or even lower steel prices after the tariff-driven steel price escalation in 2018. Because manufacturers did not see the same cost pressures as construction firms, they did not raise their prices to the same extent. Some producers actually cut their prices because of the lower steel prices. Retailers cited tariffs and higher transportation prices as elevating their costs. Yet, the majority of retailers held their prices steady, while auto dealers and producers gave fewer new-vehicle incentives. Transportation contacts reported elevated input costs as higher maintenance, repair, and other services costs outweighed savings from stable or lower fuel prices. However, pricing power was strong for transportation firms. The majority of freight contacts were able to raise their fees thanks to continued strong demand for their services.

Consumer Spending

Retailers reported slightly softer demand following the strong holiday season. By contrast, contacts had indicated in the prior survey round that they had expected solid growth through the first quarter of 2019. One auto retailer noted that sales of new vehicles had decreased slightly because of higher prices, while the demand for used vehicles increased. Retailers expect demand growth going into the second quarter of 2019 to be the same or better than in 2018.

Manufacturing

Manufacturers in the District gave mixed reports. Many contacts reported that activity picked up during the last two months as a result of the usual seasonal build up and that they expect growth to continue. However, others expressed concerns about a number of factors that dragged down demand and weighed on the outlook for future growth. These include 1) supply chain constraints that have affected the availability of intermediate goods and components, 2) slower global growth—particularly in Europe and China—that contributed to a slowing in orders, 3) continued uncertainty about the future of tariffs on steel and aluminum and ongoing US–China trade negotiations, and 4) decreased consumer confidence. In addition to the ongoing trade negotiations between China and the United States, one manufacturer noted that if Chinese policymakers choose to stimulate heavy industry in their country, the outlook for his organization would be better than it would be absent intervention in the Chinese market.

Real Estate and Construction

Demand for residential real estate and construction improved slightly, as lower mortgage rates spurred home sales. Homebuilders and real estate agents expressed optimism that conditions will improve in the next few months, though they attributed this expectation primarily to warmer weather. Real estate agents reported that homeownership, relative to renting, rose in the region.

Nonresidential construction remained steady, as negative seasonal effects countered underlying demand growth. Nonresidential builders noted that they believed normal seasonal variation caused the pause in demand growth, and they expected growth to resume once winter ends. Nonresidential builders' backlogs increased, as the stable and strong demand outpaced their ability to work through it during the winter. Builders acquired more public projects than private work.

Financial Services

Banking conditions recovered after a seasonal slowdown. Though some seasonal softness remained on the consumer side, this was offset by strength in commercial and industrial lending. Consumer demand for credit declined as consumers used the first quarter to pay off credit card balances following the holiday season. Reports about mortgage and auto lending were mixed. Some bankers indicated they felt the housing market was slowing, while others expected a seasonal upswing in mortgage demand. Commercial demand was concentrated among large and middle-market firms for mergers and acquisitions and some CRE projects, though one banker noted that "precautionary demand for cash and liquidity" had increased from commercial customers.

Nonfinancial Services

Professional and business services firms reported moderate demand and growth. A contact at a design firm noted that previously postponed projects were coming to fruition because consumer confidence improved. These firms expected sales and growth to be strong over the next few months. Freight contacts reported demand was flat because of extreme weather in the Midwest and Northeast. These contacts expect shipping volumes to be stable in the coming months. The majority of nonfinancial services firms expected to modestly increase their prices charged over the course of 2019. ■

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

Summary of Economic Activity

The Fifth District economy continued to grow at a modest pace in recent weeks. Port activity remained robust; however, some contacts expressed concern that trade policy could negatively affect volumes in the next several months. Meanwhile, trucking demand growth slowed to a moderate pace. Manufacturing activity was mixed, and firms continued to report uncertainties and higher materials costs associated with tariffs and trade. Travel and tourism rose moderately, overall. However, a sharp decline in tourism was reported by several firms in and around the District of Columbia, which was attributed to the partial federal government shutdown. Retailers gave mixed reports; some with lower sales citied poor weather or the shutdown. Several nonfinancial services firms also reported project delays and lost revenue due to the shutdown, but other businesses saw increased demand for their services. Residential and commercial real estate sales and leasing rose modestly, on balance. Banks reported modest growth in loan volumes. Labor demand strengthened moderately, wages rose modestly, and many firms reported using non-wage benefits to attract and retain talent. Price growth remained moderate, overall.

Employment and Wages

The demand for labor strengthened moderately in recent weeks. Staffing firms reported that the volume of worker conversion from temporary to permanent increased modestly. Meanwhile, employers continued to report very tight labor markets and difficulties finding qualified workers, particularly hourly workers. Additionally, firms reported high demand for construction workers, executive assistants, HR professionals, engineers, IT professionals, accounting and finance professionals, plant production workers, mechanics, and truckers. Wage increases remained modest, overall. Meanwhile, many firms reported offering bonuses or relocation assistance to attract and retain talent.

Prices

Price growth remained moderate, overall, since our previous Beige Book report. Manufacturing prices received continued to increase at a moderate rate. Also, input price growth slowed slightly but still outpaced growth in selling prices. Manufacturers noted some price declines for energy, petrochemicals, corrugated boxes, and transportation costs, although several firms continued to report paying higher prices for tariffed raw materials, such as steel and aluminum. Services sector firms indicated that prices paid rose at a slightly faster rate than selling prices, but both remained moderate, overall.

Manufacturing

Fifth District manufacturing activity was mixed in recent weeks. Several firms, including a Virginia furniture manufacturer, continued to struggle to deal with uncertainty surrounding tariff-related cost increases. In addition, a cabinet manufacturer reported strong demand and was able to pass through part of the materials cost increase that resulted from the tariffs. Many firms, such as a Maryland concrete company, attributed a decline in business to intemperate weather. Food manufacturers in Maryland and Virginia reported robust growth despite a drop in sales to D.C. area restaurants during the partial government shutdown.

Ports and Transportation

Ports in the Fifth District saw robust activity in recent weeks. Growth in imports was particularly strong and continued to surpass growth in exports. Ports invested in capital expansion to allow for continued growth but remained concerned about how business in the next several months might be affected by trade policy. One port executive saw business bounce back after weakness at the end of 2018. Another source reported record business to start the year but expected it to slow in the near future. In addition, an airport saw continued growth in both passenger traffic and cargo.

Trucking companies saw demand growth slow to a moderate pace. A North Carolina firm attributed some of the slowing to inclement weather but was cutting back on hiring in anticipation of a slower year. In addition, a Virginia firm saw a softening in retail shipments. A company in the District of Columbia reported trimming discretionary spending as business was expected to slow down. Concerns about a decline in the pace of trade growth in the coming year were also expressed.

Retail, Travel, and Tourism

Travel and tourism in the Fifth District picked up moderately since our last report. A Virginia resort saw strong business, and an executive at a West Virginia hotel reported that warming weather was helping business. In Charleston, South Carolina, tourism remained steady despite the temporary closure of Fort Sumter during the partial government shutdown. Meanwhile, the Washington, D.C., area saw a sharp drop in visitors during the shutdown and a hotel in Asheville, North Carolina, reported lower occupancy.

Fifth District retailers reported mixed conditions in recent weeks. Many retailers saw a drop in business, which resulted from bad weather, while others struggled with continued cost increases due, in part, to tariffs. A West Virginia auto dealer attributed a sharp decline in sales to the government shutdown leaving potential customers without pay; however, a Virginia dealer reported solid business. Meanwhile, a South Carolina retailer invested in new storage to allow for sales growth, and a West Virginia sporting goods retailer reported steady demand.

Real Estate and Construction

Residential real estate contacts indicated modest growth, overall. Home sales rose modestly in recent weeks and buyer traffic was reportedly steady, despite winter storms hitting some areas in the District. Brokers reported that inventories generally remained at low levels. Agents continued to report that lower- to middle-priced homes were absorbed quickly and, in some cases, received multiple offers. District home prices increased slightly, although agents reported slower price growth in homes priced above $800,000. Residential construction was steady in most markets; however, with limited speculative homebuilding.

Commercial real estate leasing rose modestly in recent weeks. District brokers reported increased demand for restaurant, grocery, and industrial space, while retail activity was stable to increasing. Moreover, vacancy rates decreased slightly across all sub-markets, and contacts reported that limited inventory pushed rental rates up slightly in some areas. On the commercial sales side, brokers reported modest increases in prices and volumes. Multi-family leasing remained healthy, although reports on construction activity varied across the District.

Banking and Finance

On the whole, loan volumes increased modestly since our previous report. Residential mortgage demand was generally described as stable to increasing modestly, and bankers reported that deposits were up moderately. Commercial real estate loan demand remained strong. Other business loan demand increased slightly, on balance, while automotive lending was reportedly flat. Loan and deposit interest rates edged higher while credit quality and credit standards remained strong, overall.

Nonfinancial Services

Reports from nonfinancial services firms were mixed in recent weeks. Demand increased for some engineering consultants, law firms, advertising agencies, hospitals, and IT businesses. Meanwhile, several firms noted a decrease in demand, including those engaged in telecommunications, security services, and federal government contractors. Overall, firms indicated that the partial government shutdown resulted in lost revenue, job cuts, and project delays due to lapses in grant and permit approvals. ■

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

Summary of Economic Activity

Sixth District business contacts reported that economic activity continued to advance at a moderate pace over the reporting period and the outlook among contacts remained positive. Labor markets continued to tighten, and some firms noted relocating certain segments of their operations to gain access to larger pools of talent. On balance, firms noted growth in wages since the previous report, along with mounting pressure in a number of hard-to-fill positions. Nonlabor costs continued to rise, particularly for those goods and services impacted by tariffs. Retail sales growth was flat over the reporting period, and vehicle sales were slow. Reports from the hospitality sector were upbeat, with solid growth in business and leisure travel over year earlier levels. The slowdown in residential real estate activity noted in the last report continued, and commercial real estate activity remained steady. Manufacturers reported that new orders were flat; however, production levels increased. Banking contacts indicated that conditions remained stable.

Employment and Wages

Business contacts continued to cite challenges finding and retaining workers, particularly in information technology, construction, food services, medical, finance, manufacturing, and transportation. In response to these challenges, some firms shared that they were considering or had already taken steps to relocate portions of their business, mainly information technology, finance and accounting, customer service, and upper management positions, to larger urban locations with greater access to talent. Several contacts continued to report that their inability to find workers hindered their firm's ability to grow and meet rising demand. Consequently, many cited a renewed focus on productivity enhancements using existing and/or new technology and automated systems.

On average, firms across the District reported wage increases from 2½ to 4 percent. Increases were greater and pressure was described as more acute in urban areas and/or among hard-to-fill positions, including jobs in nursing and other medical fields, engineering, manufacturing, retail, hospitality, and banking and finance. Similar to previous reports, many contacts shared that even after increasing wages, they struggled to attract enough qualified candidates, and thus indicated expanding non-wage offerings, such as additional vacation time, flexible work arrangements, and/or reduced hours for full-time, exempt employees.

Prices

Increases in some nonlabor input costs continued to be reported by business contacts. Rising costs were predominately noted in goods and services impacted by tariffs, as well as in transportation and construction. The Atlanta Fed's Business Inflation Expectations survey showed year-over-year unit costs were up 1.9 percent in February. Survey respondents indicated they expect unit costs to rise 1.9 percent over the next twelve months.

Consumer Spending and Tourism

District retailers reported flat sales growth since the previous report. Automotive dealers reported a slow start to 2019. Retail and automotive contacts expect modest sales growth, on a year-over-year basis, for 2019.

On balance, travel and tourism contacts reported a strong start to 2019 with solid growth in business and leisure travel compared to the same time period last year. The outlook for activity remains positive with healthy advance bookings reported through the first quarter of this year.

Construction and Real Estate

Although affordability remains a challenge for the housing sector, the recent moderation in interest rates alleviated some pressure and led to increasing optimism among sellers and homebuilders as they head into the peak selling season. Existing home sales in 2018 were flat or down in many markets throughout the District compared to the previous year. Inventory levels, though increasing on a year-over-year basis, remained low in most markets. Home price appreciation moderated in many markets as declining sales and rising inventory levels led to less upward pressure on prices.

Commercial real estate leasing and sales activity remained steady across most District markets. Overall, rents grew and vacancies trended downward at a modest pace. Strength remained in the industrial, multifamily, and medical sectors. Office market contacts reported overall persistent strength; however, higher levels of employee densification and greater deliveries of space appeared to be creating pockets of slowing in some local markets.

Manufacturing

Manufacturing contacts described overall business conditions as relatively healthy during the reporting period. While new order levels were somewhat flat, production levels were reported to have increased, along with a small rise in finished inventories. Purchasing managers reported no significant change in wait times for supply deliveries. Expectations for future production levels remained strong, with over one-half of contacts expecting higher production over the next six months.

Transportation

District transportation firms cited mixed results since the previous report. Railroad contacts noted that total rail traffic was up modestly compared with year-earlier levels; however, intermodal shipments declined slightly. Port contacts cited substantial increases in container traffic, bulk and break bulk cargo, and autos. Trucking activity slowed since the previous report, in line with expectations. Most transportation contacts in the District expect higher demand in 2019.

Banking and Finance

Financial institutions remained healthy due in part to sustained earnings growth and a relatively benign credit environment. Increasing interest rates had a positive impact on earnings though funding costs put some pressure on net interest margins for a number of institutions. Loan growth was stable even as overall asset growth slowed due to a declining securities portfolio. Overall, credit quality metrics remained positive with charge-offs and nonaccrual loans still near historical lows.

Energy

New discoveries in the Gulf of Mexico contributed to increased activity in offshore exploration and production. Exports of crude continued to accelerate. Pipeline construction and operations remained strong across the District, particularly among firms planning to export crude from Louisiana ports. Chemical and petrochemical industry contacts reported steady activity and slightly higher levels of capacity utilization over the previous reporting period. While some new refinery and chemical projects were announced, many contacts indicated that activity was in a lull during the first quarter and was expected to pick up later in the year. From the utilities perspective, cold weather created a surge of demand among residential and commercial customers.

Agriculture

Agricultural conditions across the District were mixed. Recent reports showed that most of the District was drought-free, with the exception of small areas in south Florida and coastal Louisiana where conditions were abnormally dry. The February forecast for Florida's orange crops was unchanged from the previous month but remained significantly ahead of last year's production. Since November, weekly cash prices were up for corn, soybeans, beef and broilers, while cotton and rice prices were down. ■

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 increased slightly on balance in January and early February, though contacts expected growth to return to a modest pace over the next 6 to 12 months. Employment and business spending increased slightly; manufacturing and construction and real estate activity were little changed; and consumer spending fell modestly. Wages rose modestly, prices rose slightly, and financial conditions improved modestly. Contacts expected crop incomes to be lower in 2019 than in 2018. Only a small share of contacts indicated that the government shutdown had hurt product demand or affected business decisions.

Employment and Wages

Employment increased slightly over the reporting period and contacts expected a similar-sized increase over the next 6 to 12 months. Hiring was focused on professional and technical, production, and 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 a small decline in billable hours. A number of manufacturing contacts noted that a slowdown in demand had reduced their reliance on overtime and lessened the urgency of filling open positions. Wage growth remained modest overall. Contacts were most likely to report wage increases for managerial, professional and technical, and production workers. Many firms reported growing benefits costs.

Prices

Prices rose slightly in January and early February, though contacts expected price increases to pick up to a modest rate over the next 6 to 12 months. Retail prices were little changed. Producer prices rose modestly, reflecting in part the pass-through of higher labor, materials, and freight costs.

Consumer Spending

Consumer spending fell modestly over the reporting period. Nonauto retail sales decreased modestly, with declines in the furniture, appliances, apparel, and home improvement sectors outweighing increases in the hardware, lawn and garden, and personal services categories. Numerous contacts attributed slower sales to the harsh winter weather that occurred over the reporting period. Light vehicle sales also fell. Dealers believed that bad weather played a role in the decline and noted some improvement in early February compared with January, though some also expressed concern about underlying weakness in demand.

Business Spending

Business spending increased slightly in January and early February. Retail contacts said that inventories were generally at comfortable levels, though some auto dealers reported elevated inventories. Most manufacturers indicated that stocks were at comfortable levels, though heavy-duty truck inventories were low. Capital spending increased slightly, with contacts expecting somewhat faster growth 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 was little changed. Demand for transportation services was flat, but remained at a strong level.

Construction and Real Estate

Construction and real estate activity was little changed over the reporting period. Residential real estate activity slowed some, held back by tight inventories for lower-priced homes and reduced demand for higher-priced homes. One contact noted that while entry-level inventories remained tight, they had risen for the first time in four years. Investor demand for multifamily properties remained strong. Home prices and rents edged higher. Nonresidential construction was unchanged on balance, though one contact noted a pickup in bidding activity. Contacts indicated that shortages of materials and workers were leading to delays in completing projects. Commercial real estate activity was also unchanged, with growth in demand for industrial space offset by declines in demand for big box retail and office space. Contacts noted that in many areas the availability of industrial space was quite limited. Rents and the overall availability of sublease space were flat. Vacancy rates edged higher.

Manufacturing

Manufacturing production was little changed in January and early February, though contacts were generally pleased with the level of activity. Demand for steel increased, but at a slower rate than in most of 2018. Growth in heavy machinery demand was also slower than a year ago, but remained solid across major selling sectors. Heavy truck production was little changed but continued at a strong pace, and one contact noted that large backlogs suggested the level of output would be sustained through much of 2019. Specialty metals manufacturers reported slight increases in order books, 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 improved modestly over the reporting period. Market participants noted a decline in volatility and rising equities prices. Business loan demand rose slightly, led by increased lending to the manufacturing and food and beverage sectors. Loan quality was little changed, though one contact noted increased delinquencies among retailers. Loan standards were little changed. Consumer loan demand decreased slightly, primarily because of lower home loan volumes; loan quality and standards were little changed.

Agriculture

Prices for corn were up a bit over the reporting period, while soybean and wheat prices moved lower. Contacts expected crop incomes to be lower in 2019 compared with 2018, anticipating that prices will stay low and the harvest will be smaller than 2018's bumper crop. They also thought low soybean prices would lead farmers to switch some fields from soybeans to corn. Contacts noted positive reports on trade talks between the U.S. and China—including news that China bought some US soybeans. Livestock prices increased overall, and harsh winter weather required extra feeding expenditures for animals. ■

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

Federal Reserve Bank of St. Louis

Summary of Economic Activity

Economic conditions have been unchanged since our previous report. Labor market conditions remained tight as firms continued to note difficulties finding qualified workers. Wages increased at a moderate pace, and survey respondents reported a slight increase in prices charged to consumers. Reports on consumer spending were mixed. Manufacturing activity continued to improve at a moderate pace. Residential real estate contacts were relatively pessimistic compared with previous reports. District bankers reported a slight decrease in loan demand. Agricultural conditions declined slightly, and contacts expressed concerns over rising input costs and low commodity prices. Overall, the outlook among contacts continued to weaken for the fourth consecutive quarter but remains slightly optimistic. On net, a slightly greater share of contacts expect conditions in 2019 to be better or somewhat better than in 2018.

Employment and Wages

Employment has grown slightly since the previous reporting period. On net, 11 percent of contacts reported that employment was higher than a year ago. Worker shortages continued to restrict hiring. Contacts reported a tight labor market for skilled jobs in construction, healthcare, and manufacturing. One contact in the tech industry noted a shortage of technical workers, citing difficulties finding and retaining migrant workers and temporary employees. Contacts also reported difficulties finding unskilled workers with reliable means of transportation to work. Louisville contacts in higher education noted that enrollments are down as the employee-friendly labor market has led potential students to enter the workforce instead of pursuing a college degree.

Wages have increased moderately since the previous report. On net, 40 percent of contacts reported that wages were higher or slightly higher than a year ago, and 39 percent reported that labor costs increased. Contacts in construction and healthcare indicated that the tight labor market led to pay raises. One construction firm reported raising base salaries for the first time in over a decade. Small business wages throughout the District grew modestly.

Prices

Prices have increased slightly since the previous report. On net, 20 percent of contacts held that consumer prices increased relative to last year, which is a moderately smaller share than three months prior. Nonlabor costs have increased modestly. On net, 30 percent of business contacts reported that nonlabor costs increased from a year ago. Agriculture prices generally decreased across the District. The prices of corn, cotton, and soybeans have all shown slight to modest declines since the previous report. Coal and steel prices likewise decreased modestly, although coal prices remained elevated compared with one year ago.

Consumer Spending

Reports from general retailers, auto dealers, and hoteliers indicate mixed consumer activity since the previous report. January real sales tax collections increased in Kentucky, decreased in Missouri, and were flat in Arkansas and Tennessee relative to a year ago. Retailers in West Tennessee reported mixed activity, and contacts in Missouri indicated that poor weather negatively impacted sales. Surveyed auto dealers were split between sales meeting and falling short of expectations. Multiple dealers expressed concerns over higher interest rates, and there were reports of a shift in demand toward low-end vehicles. Arkansas tourism sales tax revenue was flat year over year.

Manufacturing

Manufacturing activity has increased moderately since our previous report. Contacts reported that production, new orders, and capacity utilization increased in the first quarter relative to one year ago, and they expect this growth to continue into the second quarter. Survey-based indexes also indicated that Arkansas and Missouri manufacturing activity continued to expand from December to January. Several firms announced plans to expand facilities and hire new employees, including manufacturers in the automotive and furniture industries. However, a Memphis medicine manufacturer announced plans to lay off workers by mid-March.

Nonfinancial Services

Activity in the services sector has modestly improved since the previous report. Local contacts indicated that sales midway through the first quarter met or exceeded expectations. On net, 20 percent of contacts reported higher dollar sales than a year ago, and 35 percent predicted continuing improvement over the next quarter. Posted vacancies for nonfinancial service jobs increased across Louisville, Memphis, and St. Louis from December to January. Major transportation firms in the District announced plans to expand full-time and part-time hiring.

Real Estate and Construction

Residential real estate activity has declined slightly since the previous report. On net, 10 percent of respondents reported a decrease in demand for single-family homes compared with a year ago, and about two-thirds of contacts noted that first-quarter sales have fallen short of expectations. Contacts continued to report inventory shortages.

Residential construction activity was flat. Contacts reported no change in construction activity relative to the same time last year. About 10 percent of contacts, on net, expect activity to increase in the second quarter.

Commercial real estate activity was mixed. Survey respondents reported an increase in demand for industrial space year over year but no change in the demand for office buildings and a decrease in demand for retail properties. These contacts expect demand for office and industrial space to increase in the next quarter and the demand for retail properties to continue to decline.

Commercial construction activity improved slightly. Contacts reported increased demand for construction of office and retail property types. One respondent noted that labor shortages are slowing down project construction schedules. Memphis area contacts reported that some companies are choosing to renovate existing facilities rather than build new ones.

Banking and Finance

Banking conditions in the District have weakened slightly since the previous report. Demand for commercial and industry loans decreased relative to a year ago, while demand for mortgages was flat. Bankers expect no change to overall loan demand in the second quarter. Credit standards were generally flat compared with year-ago levels but continued to tighten for commercial and industrial loans. Delinquencies fell on a year-over-year basis but are expected to remain unchanged in the second quarter.

Agriculture and Natural Resources

District agriculture conditions declined slightly from the previous reporting period. The number of acres of winter wheat planted this season decreased slightly from last year's total. Local agriculture contacts continued to express pessimism about the industry in the near term as low commodity prices and rising input costs strain farm incomes.

Natural resource extraction conditions declined modestly from December to January, with seasonally adjusted coal production falling 6 percent. January production increased nearly 5 percent 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 slightly, hampered by tight labor and some signs of weakness. Wage and price pressures were moderate. The District economy showed growth in services, manufacturing, residential construction, commercial real estate, energy, and mining. However, consumer spending and commercial construction were mixed, and agriculture remained weak.

Employment and Wages

Employment rose slightly overall since the last report, with some signs of weakness. Recent job postings data (December or January, depending on the state) were mixed among District states compared with a year earlier. North Dakota and Montana both saw healthy increases in job postings, but declines were seen in Minnesota, South Dakota, and the Upper Peninsula of Michigan. Several January polls of Minnesota businesses by the Minneapolis Fed generally found solid hiring demand. A poll of large employers found moderate hiring at in-state operations, yet more aggressive hiring at operations outside the state. Labor markets continued to be tight. Initial unemployment insurance (UI) claims fell in most District states during the first five weeks of 2019 compared with the same period a year earlier; Minnesota was an exception, seeing a 3 percent increase. Continuing UI claims fell 13 percent across District states over this period. There were also some signs of employment weakness. A Minneapolis-St. Paul staffing contact saw job orders and total hours in December and January fall by the “high single digits.” Two major retailers announced plans to close dozens of stores across the District by this spring. And an eastern North Dakota manufacturer announced that it will close a facility, affecting 300 workers, though a contact there said most workers “should be able to find employment elsewhere.”

Wage pressures rose moderately. A Minnesota staffing contact noted that there was “still a lot of wage pressure,” estimating that wages had risen 5 percent over the past year. Recent polls by the Minneapolis Fed found that annual wage increases continued to average around 3 percent, with variations higher and lower depending on sector and geography. For example, average wage increases reported by South Dakota retailers were lower than those of Minnesota construction firms. However, five polls each revealed expectations that wages for the coming year would rise at a slightly slower rate than the previous year.

Prices

Price pressures were moderate overall since the last report, but input costs increased faster than overall prices. Nearly a third of respondents to a recent survey of large firms reported input price increases of more than 3 percent from a year ago, while a slightly larger share reported increases of 2 percent to 3 percent. The pace of increase in steel prices stabilized recently, according to contacts in manufacturing and utilities. Retail fuel prices in District states as of mid-February increased slightly from the previous reporting period but remained substantially lower than their level a year earlier; natural gas prices remained elevated. Prices received by farmers for corn, wheat, and hay increased in November compared with a year earlier; prices for soybeans, milk, eggs, hogs, cattle, and turkeys decreased.

Consumer Spending

Consumer spending was mixed since the last report. A vehicle dealership with multiple locations in the District said total sales of both new and used vehicles were lower in January compared with a year earlier. A District contact noted that RV sales saw a slowdown in the second half of 2018 and that he anticipated “2019 being down again” by roughly 5 percent due to higher interest rates and higher unit costs. Sales and other consumer taxes in North Dakota were notably higher in December, but flat in January compared with a year earlier. A poll of South Dakota retailers showed flat sales in the fourth quarter compared with a year earlier, with only slightly higher expectations for the first half of 2019. However, District airports generally showed higher enplanements in January; in Bozeman, Mont., January passengers rose 20 percent over a year earlier, and car rentals were also higher. The ski season in northwestern Montana was “going really well,” according to a local source, and lodging sales taxes across the state were higher in January compared with a year earlier. Minnesota hotels saw an up-and-down performance. December occupancy and revenue per available room rose slightly, but January figures declined.

Services

Activity in the services sector increased briskly. Contacts in banking and financial services generally described conditions as strong, with bullish sentiment among corporate clients. Demand for loans was strong even as the cost of credit was increasing. Rail freight demand was solid, according to industry sources. Domestic shipments on the Great Lakes nearly doubled in January relative to a year earlier; total volume for the season was up 4 percent.

Construction and Real Estate

Commercial construction was mixed since the last report. An industry database showed that the cumulative value of construction starts in December rose across the District compared with the same period a year earlier; however, January values declined slightly, possibly influenced by extreme weather. A Minnesota source noted that the pace of projects was moderating, but added, “That’s not a bad thing” given the previous pace. He also noted that the rising pace of construction costs created “a shrinking pool of projects that make economic sense.” Residential construction was slightly higher across the District; a modest increase was seen in Minneapolis-St. Paul in January compared with a year earlier, while Billings, Mont., and Rochester and St. Cloud (Minn.) saw small declines.

Commercial real estate grew moderately since the last report. Industrial property vacancies remained low in the Minneapolis-St. Paul region despite significant new construction, and average price per square foot remained healthy. Office vacancy rates in the region were stable at somewhat elevated levels. Multifamily vacancy rates have stayed low throughout much of the region, while new construction continued. Retail vacancies have risen in many District markets, as major bankruptcies continued to roll through the chain-retail industry. Residential real estate was widely lower. January home sales registered a decline across most of the District’s larger cities, with a number seeing double-digit drops compared with a year earlier.

Manufacturing

District manufacturing activity increased modestly since the last report. An index of manufacturing conditions indicated increased activity in January compared with a month earlier in Minnesota and South Dakota; the index for North Dakota indicated flat to slightly decreased activity. Two small firms began expansions at facilities in Minnesota. In contrast, a supplier of capital equipment reported that customers were cutting back on investments. A filtration plant in Minnesota announced that it was cutting around 100 workers.

Agriculture, Energy, and Natural Resources

District agricultural conditions were stable at low levels. Crop production estimates indicated that 2018 was a strong year throughout the District, with new records in some states. However, producers continued to struggle with low commodity prices and expressed concerns about the effects of trade tensions. Respondents to the Minneapolis Fed’s fourth-quarter (January) survey of agricultural credit conditions indicated that farm income and capital spending decreased relative to a year earlier, with further declines expected for the coming three months. Oil and gas drilling in North Dakota and Montana as of mid-February increased from a month earlier. District iron ore mines continued to operate at near capacity. ■

Summary of Economic Activity

Tenth District economic activity expanded slightly in late January and February, and contacts expected additional gains in the months ahead. Consumer spending expanded slightly, led by modest gains in the auto and tourism sectors. Manufacturing activity also grew at a slight pace despite a decline in new orders for exports. Sales rose in the professional and high-tech, transportation, and wholesale trade sectors, and contacts expected additional gains moving forward. Commercial real estate activity continued to rise slightly, while residential real estate activity declined further. Conditions in the energy sector held steady since the previous survey period, and contacts were optimistic that OPEC production cuts and recent commodity price increases would boost overall activity in the coming months. Farm income continued to decline slightly, although farmland values remained relatively steady. Bankers reported a modest decline in loan demand, but loan quality, credit standards and deposit levels were stable. Overall employment and employee hours held steady across the District, although conditions were mixed across sectors. Wages continued to rise at a modest pace, with additional gains expected moving forward. Input and selling prices rose further, led by higher prices in the retail sector.

Employment and Wages

Overall District employment and employee hours held steady in late January and February, and respondents projected slight gains in the months ahead. Contacts in the wholesale trade, real estate, health services, restaurant, and tourism sectors noted steady-to-modestly higher levels of employment, while those in the retail trade, auto sales, transportation, and professional and high-tech services noted a decline. Employee hours were mixed across sectors since the previous survey, but hours in all sectors were steady-to-modestly higher than year-ago levels.

A majority of respondents continued to report labor shortages for low- and medium-skill workers, including positions for truck drivers, all retail store positions, skilled technicians, and specialty-trade construction workers. A few contacts also noted shortages for high-skilled positions such as those in information technology, engineering, and finance. Wages continued to expand at a modest pace since the previous survey period and were strongly above year-ago levels. Additional modest wage gains were projected for the months ahead.

Prices

Contacts in a majority of sectors reported rising input and selling prices, with overall input prices up moderately and selling prices up modestly. In addition, contacts expected prices to increase further in the months ahead. Input prices in the retail sector grew at a strong pace since the last survey, while input prices in the restaurant sector rose modestly. Contacts in both sectors noted steady selling prices and expected growth of input prices to continue to outpace that of selling prices moving forward. Input prices in the construction supply sector fell since the previous survey period, while transportation respondents noted steady input prices. Both sectors reported moderately higher input prices over year-ago levels. Manufacturers reported a modest increase in the prices of finished products and raw materials, and both were projected to expand further in the coming months.

Consumer Spending

Consumer spending expanded slightly compared to the previous survey, and contacts expected modest gains in the months ahead. Retail sales increased slightly in late January and February and were moderately above year-ago levels. Respondents expected retail sales to increase modestly in the next few months. Auto sales grew modestly since the last survey period as well as compared to year-ago levels. SUVs and trucks sold well, while sedans sold poorly. Auto contacts expected strong increases in capital spending in the months ahead despite many contacts noting increases in the cost of credit. Restaurant sales rose slightly, and contacts expected sales to increase in the coming months. Tourism activity increased modestly compared to the previous survey period, and contacts anticipated slight sales increases in the months ahead.

Manufacturing and Other Business Activity

Manufacturing activity grew slightly since the previous survey period, and business contacts in wholesale trade, transportation, and professional and high-tech sectors also reported rising sales. Factory activity increased at both durable and nondurable goods plants, with faster growth at durable goods plants due primarily to increases in electrical equipment and appliances, and furniture manufacturing. Production, shipments, and new orders each ticked down compared to the previous survey period, but remained above year-ago levels. Contacts reported slightly lower new orders for exports compared to both the previous survey period and year-ago levels.

Outside of manufacturing, firms in the wholesale trade and professional and high-tech sectors experienced moderate growth in sales, while sales rose slightly at transportation firms compared to the previous survey period. In the coming months, wholesale trade, transportation, and professional and high-tech contacts anticipated moderate sales growth.

Real Estate and Construction

District real estate activity remained mixed as residential real estate activity declined modestly while commercial real estate activity rose slightly. However, contacts in both commercial and residential real estate projected gains in the months ahead. Residential home sales fell at a modest pace in late January and February, although they remained moderately above year-ago levels. Residential inventories held steady, and selling prices rose moderately. Residential home sales, inventories, and prices were expected to rise in the coming months. Sales of low- and medium-priced homes continued to outpace sales of higher-priced homes. Residential construction activity declined modestly including fewer housing starts, less potential buyer traffic, and lower construction supply sales. Respondents in the residential construction sector expected activity to rise in the months ahead. Commercial real estate activity continued to expand slightly as sales and absorption rose, and vacancy rates declined slightly. Commercial real estate contacts expected a similar pace of growth moving forward.

Banking

Bankers reported a modest decrease in overall loan demand including moderate decreases in the demand for commercial real estate loans, and slight-to-modest decreases in the demand for commercial and industrial loans, residential real estate loans, consumer installment, and agricultural loans. Loan quality remained unchanged compared to a year ago, but bankers expected a modest decline in loan quality over the next six months. Credit standards also remained largely unchanged in all major loan categories, and deposit levels were stable.

Energy

District energy activity was generally steady compared with the previous survey period. The number of active oil rigs fell across the District, primarily in Oklahoma and Kansas, and the natural gas rig count was also down slightly. However, production of oil and natural gas remained at high levels, and overall rig productivity continued to improve. Regional energy firms expected the expansion of LNG pipeline capacity later this year to help accommodate increased production. Oil prices rose modestly after dropping in late 2018, but remained below year-ago levels. Additional OPEC production cuts and price increases have buoyed expectations among District contacts for future energy activity.

Agriculture

Farm income continued to decline slightly, but farmland values remained relatively stable in the Tenth District. Farm income decreased throughout the region in the last survey period according to District representatives, but modest increases in both crop and livestock prices could improve revenues for some farm operations moving forward. Demand for agricultural loans remained strong, and contacts reported a slight reduction in funding availability. Additionally, repayment rates on agricultural loans slowed modestly, and interest rates on farm loans increased slightly. Despite persistent weaknesses in farm finances and higher interest rates, farmland values remained relatively stable. However, a majority of contacts expected farmland values to decline moderately in 2019. However, District contacts indicated that demand for farmland remained high, and the volume of farmland sales compared to last year increased modestly in Nebraska and Kansas. ■

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

Summary of Economic Activity

The Eleventh District economy expanded at a moderate pace. Activity in the manufacturing, housing, and nonfinancial services sectors improved. Loan volumes ticked up, and retail sales grew modestly. Abundant soil moisture boosted outlooks in the agricultural sector. Drilling activity declined. Employment expanded moderately, despite a tight labor market. Wage growth remained elevated, while price growth eased. Outlooks improved; however, some contacts reported weaker-than-expected output/revenue growth over the reporting period and mentioned factors such as tariffs, slower activity in the energy sector, increased uncertainty, weaker global economy, and labor constraints.

Employment and Wages

Employment grew moderately during the reporting period. A lack of qualified candidates continued to challenge businesses across sectors and skill levels, but shortages remained most severe for mid-skilled positions such as nurse aides, heavy equipment technicians, auto mechanics, construction personnel, and factory floor workers. There were multiple mentions of restaurant worker shortages, and one commercial landscape management firm said they were looking to fill 75-100 entry-level positions.

Wage pressures generally remained elevated. One staffing firm noted that employers were especially willing to raise wages for jobs paying less than $15 per hour. A durable goods manufacturer said raising starting hourly pay by at least 15 percent had helped draw in more and better-qualified applicants.

Looking ahead, firms were bullish on their hiring plans. Forty-eight percent of the 384 firms responding to supplemental questions in the February Texas Business Outlook Surveys said they expect to increase their employment over the next six to twelve months while only 8 percent said they expected to decrease jobs.

Prices

Input price growth moderated, particularly in the retail sector. Homebuilders generally cited stable material costs, but lower fuel prices were mentioned by transportation service contacts. Selling price growth was slight in the construction and manufacturing sectors but moderate in service-providing industries. Passing on cost increases to customers was becoming more difficult, and contacts from various industries mentioned that margins continued to be under pressure from high costs and/or increased competition. Conversely, two staffing firms said they were able to raise bill rates as planned.

Manufacturing

Overall output growth improved slightly during the reporting period, led by an increase in fabricated metals and transportation equipment manufacturing. Outlooks among manufacturers improved compared with the previous reporting period, but trade issues, labor constraints, the rising cost of credit, and political uncertainty were cited as factors damping outlooks.

Gulf Coast refinery operating rates remained healthy in January, but contacts said that an oversupplied gasoline market will drive utilization rates lower. Outlooks were less optimistic, with demand growth projected to be soft, particularly in Mexico—a major export market.

Retail Sales

Reports on retail spending were mixed, though overall, sales expanded modestly. Some retailers noted a slight uptick in sales activity following the end of the government shutdown. By contrast, others said unfavorable weather conditions and a higher cost of credit slowed sales. Growth in online sales was softer than in the last reporting period, and auto sales weakened. Outlooks improved slightly, although two contacts said that any new auto-related tariffs would hurt future sales and/or business activity.

Nonfinancial Services

Activity in the nonfinancial services sector accelerated in the reporting period. The increase was widespread and led by growth in the professional, scientific and technical services sector. Demand for staffing services strengthened after a deceleration in activity at yearend 2018, and growth was broad-based geographically and across industries. Revenues rose in the health care and administrative support services industries. Reports from transportation services firms were mixed, with rail shipments down year over year, but air and sea cargo volumes up significantly over the same period. Airlines, accommodation, and food services firms saw slower activity in the earlier part of the reporting period partly because of the government shutdown, but demand/revenues in both industries have firmed up since then.

Uncertainty continued to cloud many contacts' outlooks in the service sector, and trade policy issues with China and Brexit were cited as significant potential headwinds.

Construction and Real Estate

Activity in the housing market improved. Contacts noted an uptick in traffic and new home sales since the start of the year, following a slowdown at yearend 2018. Builders remained selective in signing new deals, and housing starts were expected to be relatively flat in 2019. Outlooks were more optimistic than in the last report, though a few contacts said it was too early to tell whether the recent uptick would translate into a good spring market.

Conditions were stable in the apartment market, and the expectation was for rent growth to remain solid in Austin and Fort Worth and to firm up in Houston. Industrial activity generally remained solid, and reports on the office market indicated that leasing was most active for new or recently renovated class A space.

Financial Services

Loan volumes increased slightly over the reporting period, led by higher commercial real estate lending. Consumer lending ticked up, which one contact attributed to loan requests from workers affected by the recent government shutdown. Commercial and industrial and residential real estate loan volumes dipped. Loan pricing remained competitive, while deposit volumes declined notably. Outlooks were slightly more optimistic than they were six weeks ago; however, bankers remained concerned about the lending impact of uncertainty in U.S. and global markets.

Energy

Drilling activity in the Eleventh District slowed, with the rig count declining during the reporting period. Availability of additional pipeline capacity in the Permian Basin, as early as the end of February, pushed up crude oil prices in West Texas relative to the Gulf Coast. Firms were more conservative in their capital spending plans than in the last report, with most noting that they had revised down their capital budgets based on WTI crude priced between $50 and $55. Contacts noted significantly higher uncertainty stemming from U.S.-Iran and U.S.-Venezuela policies, softening global demand, and trepidation about OPEC's willingness to maintain production cuts.

Agriculture

Prospects for 2019 crops heading into the spring planting season were strong thanks to favorable soil moisture conditions. Producers were behind in field preparation work because of soil saturation, with planting expected to be delayed in some regions. Overall, contacts expect average to above-average crop yields this year but noted the financial situation of many producers continued to be a concern due to generally low crop prices. On the livestock side, grazing conditions were looking better this year than last and beef demand remained strong. ■

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 January through mid-February. Conditions in the labor market remained tight, and wage growth was moderate. Price inflation was unchanged. Sales of retail goods expanded modestly, while activity in consumer and business services was strong. Conditions in the manufacturing sector strengthened moderately, and conditions in agriculture deteriorated modestly. On balance, contacts reported that residential and commercial real estate market activity expanded moderately. Overall lending activity was flat.

Employment and Wages

Conditions in the labor market remained tight, with persistent worker shortages reported across many industries and skill levels. Hiring picked up moderately on balance. Employment at a large San Francisco software and consulting company grew notably as demand for its services increased. A cattle ranching company in Arizona also increased employment to meet growing demand. In the Mountain West, a regional bank noted that its hiring was limited only by a shortage of qualified labor. The bank hoped to be able to increase employment further when it expands its lending business later this year. A steel manufacturer in Oregon reported that hiring activity was flat. A fruit grower in the Pacific Northwest noted that weaker profit potential stemming from lower market prices resulted in excess labor capacity in the industry and could lead to layoffs.

Wage growth continued to increase moderately across most sectors due to continued brisk labor demand amidst persistent shortages of qualified workers. Contacts emphasized that wage growth was especially noticeable for higher-skilled workers. Demand for high-skilled warehouse workers and truck drivers picked up in the Mountain West, resulting in wage pressures. Employers continued to raise starting salaries for most information technology and cybersecurity positions. A community bank in Central California enhanced its bonus structure and increased its retirement benefits to better retain and attract experienced loan officers.

Prices

Overall, price inflation was unchanged over the reporting period. A contact in Seattle noted somewhat higher prices at grocery stores and restaurants due to the robust local economy. A contact in the California utility sector observed modest upward pricing pressures for electricity rates due mainly to higher financing costs following recent wildfires. A contact in Central California saw slightly higher crop prices, due in part to lower inventories, while elsewhere in the District, pricing pressures for fruit and dairy remained subdued. A contact in the Mountain West observed that fuel prices fell further. Lumber prices were stable, but at a noticeably lower level than last year, and contacts in California and Oregon reported that price inflation of other building materials was weak.

Retail Trade and Services

Sales of retail goods expanded modestly. Contacts in the Mountain West reported that retail sales activity beat expectations for a moderation following the holiday season and against the backdrop of the government shutdown. A contact in the home goods retail sector in Arizona noted solid sales activity. One contact in the Mountain West reported that retailers are attentive to ongoing trade negotiations, as certain product supply chains depend on inputs from China and could be negatively impacted if no resolution is reached in the coming months.

Activity in the consumer and business services sectors was strong. Demand for software products and consulting services expanded solidly in Northern California, and one contact noted that, with IPO activity expected to pick up in the coming year, the outlook for most technology consulting and financial services businesses was optimistic. A major shipping and logistics business reported plans to increase investment in automation to meet growing consumer and business demand more efficiently.

Manufacturing

Conditions in the manufacturing sector strengthened moderately overall. A steel manufacturer in Oregon noted strong activity in the industry due to lower competition from abroad arising from trade policy actions. A contact in Northern California reported that activity in the semiconductor industry continued on solid footing. Deliveries of commercial aircraft were flat from the same period last year, while new orders increased significantly. A contact in the Pacific Northwest observed that activity at sawmills ticked down, due in part to poor weather affecting raw material deliveries and slower growth in the national housing market. The outlook in the manufactured lumber sector was for solid building activity as weather conditions improve.

Agriculture and Resource-Related Industries

Conditions in the agriculture sector deteriorated modestly. Many contacts continued to cite trade policy changes as a source of weaker sales abroad and general uncertainty, though factors such as a stronger dollar and the moderation in the housing market also played a role. A contact in Eastern Washington observed that demand from China for fruit crops declined, and a contact in California noted that walnut exports declined. A raw lumber producer in Oregon reported that sales were significantly lower on a year-over-year basis, due to moderating construction activity and lower demand from China. Oversupply in dairy markets persisted, hurting profitability and forcing some producers in the Mountain West to exit the market. In Idaho, profitability at beef producers picked up, though it was still below levels seen a year ago. A California contact noted that the outlooks for crop yields and inventories improved further after rainfall beat expectations over the reporting period.

Real Estate and Construction

Real estate markets expanded moderately on balance. While most contacts continued to acknowledge slower activity over the past several months, they did not notice any significant deterioration over the reporting period. Contacts in the Pacific Northwest and Mountain West generally noted stable to slightly improved residential construction activity. A contact in Oregon reported a modest increase in building and selling activity due in part to lower mortgage rates, though a few other contacts observed a slight decline in building activity in some areas due to softer demand. A contact in Central California observed tepid selling activity, while contacts in Southern California and Idaho saw solid demand supporting still-elevated home prices. Contacts generally noted that residential inventories and time-on-market had risen slightly but were still low by historical standards.

In the commercial real estate market, contacts reported stable construction activity. Contacts in the Pacific Northwest generally noted that construction activity has not deviated noticeably from its solid trend. However, in Oregon, a contact observed that building activity was down slightly on a year-over-year basis. A contact in Central California saw commercial leasing and sales activity slow modestly.

Financial Institutions

Lending activity was generally flat over the reporting period. A contact at a national small business lending service based in California reported that loan demand significantly beat expectations. However, contacts in the Mountain West noted that while most business borrowers renewed loans at existing levels, a few reduced credit lines due to lower demand for their products. Contacts at community banks in Oregon and Central California noted that loan growth slowed slightly, while competition between lenders was brisk. Most contacts reported that credit quality remained healthy. However, a contact in the Mountain West reported that the balance sheets of dairy producers weakened as profitability declined in that market. ■