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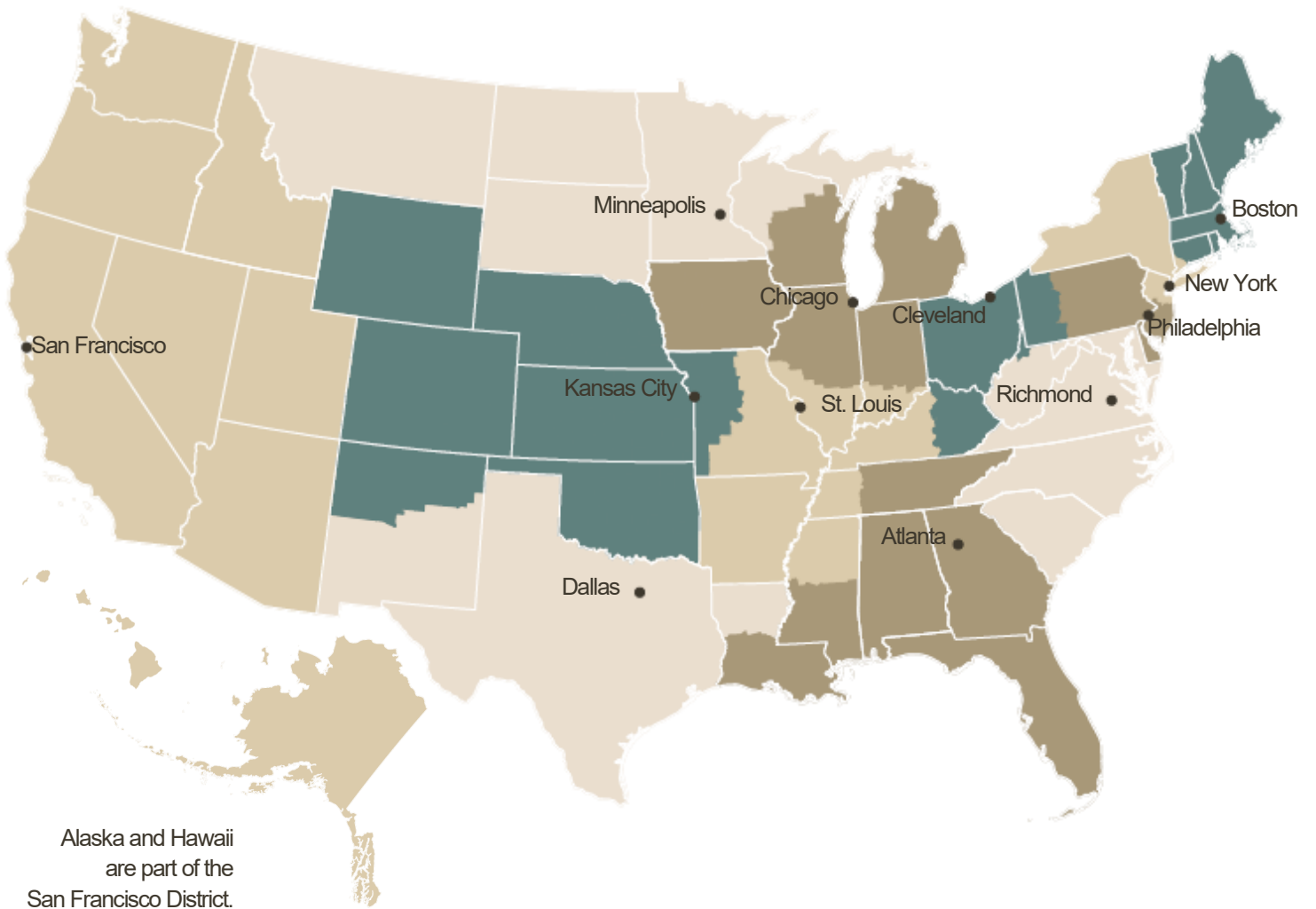
The Beige Book

Summary of Commentary on Current Economic Conditions

By Federal Reserve District

April 2019

Federal Reserve Districts



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

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What is The Beige Book?

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

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

How is the information collected?

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

How is the information used?

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

This report was prepared at the Federal Reserve Bank of St. Louis based on information collected on or before April 8, 2019. This document summarizes comments received from contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.



National Summary

The Beige Book ■ April 2019

Overall Economic Activity

Economic activity expanded at a slight-to-moderate pace in March and early April. While most Districts reported that growth continued at a similar pace as the previous report, a few Districts reported some strengthening. There was little change in the outlook among contacts in reporting Districts, with those expecting slight-to-modest growth in the months ahead. Reports on consumer spending were mixed but suggested sluggish sales for both general retailers and auto dealers. Reports on tourism were generally more upbeat. Reports on loan demand were mixed, but indicated steady growth. Reports on manufacturing activity were favorable, although contacts in many Districts noted trade-related uncertainty. Most Districts reported stronger home sales, although some Districts noted low demand for higher-priced homes. Among reporting Districts, agricultural conditions remained weak, with contacts expressing concerns over the impact of current and future rainfall and flooding.

Employment and Wages

Employment continued to increase nationwide, with nine Districts reporting modest or moderate growth and the other three reporting slight growth. While contacts reported gains across a variety of industries, employment increases were most highly concentrated in high-skilled jobs. However, labor markets remained tight, restraining the rate of growth. A majority of Districts cited shortages of skilled laborers, most commonly in manufacturing and construction. Contacts also reported some difficulties finding qualified workers for technical and professional positions. Many Districts reported that firms have offered perks such as bonuses and expanded benefits packages in order to attract and retain employees. This tight labor market also led to continued wage pressures, as most Districts reported moderate wage growth. Wages for both skilled and unskilled positions generally grew at about the same pace as earlier this year.

Prices

On balance, prices have risen modestly since the previous report. Input costs increased in the modest-to-moderate range. Tariffs, freight costs, and rising wages were often cited as key factors driving this trend. The ability of firms to pass increased input costs on to consumers was mixed. Changes in material costs were likewise mixed, with several Districts noting increases in metal prices and decreases in lumber prices. Construction firms across most Districts nevertheless reported net increases in material costs, with several also reporting passing those costs on to their customers. Some Districts noted increasing fuel prices, while others noted increasing oil prices and decreasing natural gas prices. Crop price pressures generally remain historically low, but price changes since the last report have varied by commodity.

Highlights by Federal Reserve District

Boston

Economic activity continued to expand, although manufacturers cited a slowing pace. Even as labor markets remained tight, wage increases were moderate. Price increases were mostly modest, although some contacts said they continued to fear the impact of tariffs. Aside from manufacturers, outlooks remained positive.

New York

Economic activity grew slightly in the latest reporting period. Labor markets remained exceptionally tight and wage growth was steady. The pace of both input price and selling price increases slowed considerably. Consumer spending and tourism were somewhat weaker. Rental markets for both residential and commercial real estate picked up. Banks reported somewhat stronger loan demand and no change in delinquency rates.

Philadelphia

On balance, business activity resumed a slight pace of growth during the current Beige Book period following a brief pause in the prior period. Weak global demand and trade uncertainty constrained expansions, while a tight labor market constrained hiring and spurred wage increases. Inflation remained modest, and firms remained positive about the six-month outlook.

Cleveland

Economic activity in the District increased modestly. Residential and nonresidential construction and professional and business services firms saw the greatest demand growth. Other sectors saw muted demand change. Firms expanded employment moderately. Wages climbed moderately for a wide range of industries and occupations. Selling prices rose moderately despite a deceleration of materials cost increases.

Richmond

The regional economy grew moderately, overall, with expansion reported across most industry sectors. Trucking companies saw demand return to a strong level after a slow start to the year. On the whole, manufacturing and nonfinancial service firms saw modest growth. Tourism was strong in recent weeks; however, some retailers reported sluggish conditions.

Atlanta

Economic activity in the District grew modestly. The labor market remained tight and wages increased, on balance. Nonlabor input costs were mostly subdued. Retail sales grew slightly, and tourism remained robust. Home sales improved, and commercial real estate activity accelerated. Manufacturers noted increases in new orders, and production and inventories improved. Banking activity was stable.

Chicago

Economic activity increased slightly on balance. Employment increased modestly; business spending and construction and real estate increased slightly; and consumer spending and manufacturing were little changed on balance. Wages and prices rose modestly, and financial conditions improved slightly. Farmers continued to be challenged by low crop prices.

St. Louis

Economic activity has improved slightly since the previous report. Reports from District bankers indicated a moderate increase in loan volumes. Retailers noted increasing price pressures that they expect to pass along to their customers. Farmers expressed concerns over recent flooding of the Mississippi Valley.

Minneapolis

Ninth District economic activity grew modestly, with many sectors hampered by worse-than-normal winter weather. Labor demand remained healthy, but signs of weakness surfaced. Residential construction and real estate were soft, but were expected to rebound with warmer weather and declining interest rates. However, flooding in parts of the District was a concern for an already weak farming sector.

Kansas City

Economic activity continued to expand slightly, and contacts expected additional growth in the months ahead. Consumer spending was little changed, manufacturing activity rose modestly, and real estate activity expanded slightly. Energy activity held steady, while District farm conditions weakened in part due to severe weather. Bankers noted lower overall loan demand, although residential loan demand rose.

Dallas

Economic activity expanded moderately, with a pickup in demand seen in the housing and financial services sectors. Retail sales were flat, and growth in nonfinancial services slowed. Hiring continued at a moderate pace, and wage pressures remained elevated. Outlooks stayed positive or improved except for the nonfinancial services sector.

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 on balance. Sales of retail goods increased modestly, and activity in the consumer and business services sectors increased moderately. Conditions in the manufacturing sector improved modestly. Activity in residential real estate markets expanded moderately, and commercial activity was robust. Lending activity was mixed.



Summary of Economic Activity

Similar to the last report, most First District business contacts cited modest to moderate growth, with some slowing in manufacturing. Non-auto retailers reported moderate growth in sales; an automotive respondent said dealerships saw activity decline. Manufacturers again reported that revenues had either increased or stayed the same; most mentioned slowdowns in activity. Software and information technology services firms reported slow to moderate growth. Commercial real estate markets were mixed, with metro Boston remaining strong. Residential real estate markets saw home price increases and robust demand; several contacts said inventories were improving. Some manufacturers downgraded their outlooks, while retailers and software and IT services firms retained positive outlooks.

Employment and Wages

Hiring by manufacturers and retailers remained muted, while software and IT services firms expanded employment steadily. Wage increases were moderate. One retailer reported that merit pay increases for 2019 would average 3 percent. Other retail firms enhanced benefit policies to reward productivity gains and to retain current workers. Aside from offsetting attrition (notably of store associates and warehouse workers lured away by other employers), hiring plans were flat for most retail firms. An automotive contact cited a labor shortage of certified mechanics, which with computer technology are now highly skilled and well-paying jobs requiring technical expertise, but not a four-year college degree. No manufacturing contacts reported significant increases or reductions in staffing. A manufacturer of electrical components said that the tight labor market had led them to invest heavily in automation. No manufacturing contacts complained of wage pressures. Software and IT services contacts indicated that headcounts were growing steadily at a slow-to-moderate pace with no changes in the turnover rate. These contacts reported raising wages approximately 3 percent to 5 percent over last year.

Prices

Prices were generally stable or rose modestly. One retailer said that its spring selling prices were up by 1 percent to 2 percent from a year earlier. Manufacturing contacts said inflationary pressures were generally muted but some said that tariffs continued to drive up prices.

Most respondents directly affected by tariffs said they were able to pass the costs on to buyers and, in some cases, they expected to retain the higher prices even if the tariffs were removed. One exception—a producer of frozen fish who has the fish processed in China—was unable to pass higher costs on to consumers.

Retail and Tourism

All retail contacts for this round, covering late February through early April, reported that same-store sales grew by low- to mid-single digits on a year-over-year basis, indicating that “consumers were in a buying mood.” Capital spending plans were moderate, though one firm noted that it was deferring some discretionary maintenance because construction costs were up 20 percent. Although one respondent continues to be uncertain, the 2019 retail outlook was for generally positive growth.

An automotive industry contact reported that sales in 2019:Q1 were lower than 2018:Q4; the year-over-year comparison was also negative, as sales during the Presidents’ Day weekend were down compared to last year’s Presidents’ weekend. Dealers were reportedly a bit nervous about the outlook, citing recent threats to raise tariffs on automobiles.

As of the end of February, domestic air travel to Boston was up 3.6 percent year-over-year, while international traffic was up 10.1 percent year-over-year.

Manufacturing and Related Services

The news from manufacturing contacts was again mixed. None of the nine respondents reported falling sales but many reported no growth or substantial slowdowns. A manufacturer of filtration materials said that actual 2018 sales growth was 6.5 percent and they expected 3 percent to 5 percent for 2019, both figures down markedly from their expectations last August. A maker of mechanical components for machinery saw 3.5 percent growth in 2018 but expects 1.5 growth for 2019. A manufacturer of furniture said demand had risen, but only after he cut prices. A manufacturer of cardboard boxes said that growth was flat after many quarters of very strong growth. A toy maker said the failure of a major toy retailer in 2018 continued to have dramatic negative effects this year. Only one contact reported significant revisions to capital expenditure plans, saying they were cutting them by 15 percent to conserve cash.

The outlook was unchanged or down; several contacts downgraded their growth expectations substantially. Only one, however, noted the possibility of a recession.

Software and Information Technology Services

Software and IT firms reported slow-to-moderate growth in the first quarter. The majority of contacts noted positive revenue increases in the low- to mid-single digits, with demand especially strong for newer, more innovative product lines. Two contacts mentioned that their first-quarter growth exceeded expectations, which they attributed to a favorable demand environment as well as to recent restructuring efforts aimed at improving efficiency. Two technology contacts mentioned seeing evidence of unexpectedly high demand for office space in metro Boston, including one who received an unsolicited offer of twice the original purchase price for a building in a major tech corridor. Overall, contacts were largely more optimistic than last quarter and anticipated positive growth throughout 2019.

Commercial Real Estate

Commercial real estate contacts in the First District offered mixed reports. In Hartford the office leasing market was described as sluggish, with activity limited to short-term renewals. Providence has seen rising vacancies in the class A office market recently, which is expected to blunt or halt the growth of office rents there. The Boston office market was characterized as historically strong, with robust leasing activity dominated by the life sciences and high-tech sectors. Very low vacancy rates in Boston have boosted speculative office construction in recent months, but significant amounts of new space will not come on line for several years. Construction activity in Connecticut was still largely limited to

the multifamily housing market. Demand for industrial property, for lease and for purchase, remained very strong in greater Boston and continued to moderate in Connecticut. In Rhode Island, industrial property values and rents increased noticeably in the past year amid strong demand and tight supply, although the volume of sales transactions was restricted by low inventories. Investment sales markets were described as stable around the region, and demand for commercial real estate mortgages remained high in greater Boston and southern New Hampshire.

The outlook remained pessimistic for Connecticut, where a contact expected conditions to remain flat or slow further in 2019. The outlook for Providence was for stable, modest activity in the near-term and a possible slowdown in 2020. Boston contacts were cautiously optimistic that the good times would continue, although one expressed increasing nervousness about the potential vulnerability of the commercial real estate market to a bust in the high-tech sector.

Residential Real Estate

Residential real estate markets in the First District displayed signs of improvement and robust demand in February. (Most areas reported year-over-year changes from February 2018 to February 2019, Vermont reported through January 2019, and Connecticut data continued to be unavailable.) For single family homes, closed sales increased substantially over the year in Massachusetts, Boston, and New Hampshire, while decreasing a small amount in Maine and moderately in Rhode Island. Single-family median sales prices were up in all reporting areas. For condos, sales rose in Rhode Island, Massachusetts, and Boston but declined in New Hampshire. Median condo sales prices decreased in Rhode Island, Massachusetts, and Boston while increasing in New Hampshire. Vermont, reporting on single family homes and condos combined, cited a drop in sales and an increase in the median sales price.

Most First District respondents said the recent improvement in market conditions included pick-ups in pending sales and/or inventories. Contacts expressed generally positive outlooks tempered with caution . ■

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



Summary of Economic Activity

Economic activity in the Second District expanded slightly since the last report. The labor market has remained exceptionally tight, while wage growth has been steady. The pace of both input price increases and selling price increases slowed considerably. Manufacturing and distribution activity expanded, while business was generally steady in the service sector. Consumer spending has been somewhat weaker, on balance, and tourism has tapered off a bit. Housing markets were mixed, with sales markets steady to softer but rental markets strengthening. Commercial real estate markets have been steady to slightly firmer. Finally, banks reported steady to somewhat stronger loan demand and no change in delinquency rates.

Employment and Wages

The labor market has remained exceptionally tight across the District, with employers reporting ongoing difficulties finding workers of all skill levels. Businesses continued to report that employment was flat to up slightly, on balance, so far this year. Firms in wholesale, real estate & construction, and transportation noted modest net gains in staffing levels, while contacts in the retail and leisure & hospitality sectors noted modest declines. New York City employment agencies reported strong hiring from nonprofits, legal, consulting, and accounting firms, as well as small to medium-sized finance companies.

With tight labor markets, wage growth has been steady in recent months. One major employment agency in New York City noted that salaries have not risen as much as one would expect given the tightness of the labor market. Two employment agency contacts noted a large and widening gap between salary demands and salary offers, noting that this has led some employers to miss out on good candidates. Manufacturers, in particular, were said to be holding the line on wages, while service firms have become somewhat more flexible.

Prices

Businesses reported that both input price increases and

selling price increases slowed considerably in the latest reporting period. Input cost pressures tended to be most widespread in the wholesale & retail trade, education & health, and business & professional services sectors. Contacts across most industry sectors reported steady to modestly rising selling prices, with the most widespread rises reported in the wholesale trade and real estate & construction sectors.

Retailers generally indicated that selling prices have been essentially flat. One major chain reports somewhat steeper discounting to clear out excess inventories, but another contact notes less seasonal discounting than in years past. Nightly rates for New York City hotel rooms and prices for Broadway theatre admissions have slipped in recent weeks and were down roughly 10 percent from a year earlier.

Consumer Spending

Retail sales picked up modestly in March. A major retail chain noted that sales in the region were up slightly from a year ago in March and above plan, led by New York City stores. With the change in seasons, retailers in upstate New York generally reported fairly solid shopper traffic and ongoing modest growth in sales activity. Inventories were generally said to be at or modestly above desired levels.

New vehicle sales remained quite weak through March, according to dealers in upstate New York, falling well below year-ago levels. With this slowdown, new vehicle inventories have grown above desired levels. Sales of used vehicles were said to be steady to down slightly in recent months. Dealers indicated that consumer credit has remained widely available.

Consumer confidence in the Middle Atlantic states (NY, NJ, PA), which had been at or near record levels for most of the past year, fell to a 14-month low in March, based on the Conference Board's monthly survey.

Manufacturing and Distribution

The manufacturing and distribution sectors continued to expand in the latest reporting period. Manufacturers reported slight increases in activity in recent months, while wholesale distributors and transportation firms continued to report fairly brisk growth.

Looking ahead, contacts in the manufacturing and distribution sectors have become less optimistic about future business conditions. A number of contacts continued to express concern about trade uncertainty, tariffs, and the recent increase in New York State's minimum wage.

Services

Overall, service-sector business was characterized as flat in the latest reporting period. Contacts in the business & professional services sectors reported some deceleration in activity, while information-related businesses noted a slight decline in activity.

Leisure & hospitality businesses reported little or no growth in recent months. Tourism to New York City has softened noticeably, particularly in the last couple of weeks. Hotel occupancy rates and revenues weakened in the latter part of March, slipping well below comparable 2018 levels. Likewise, Broadway theaters reported that attendance and especially revenues became progressively weaker during March, slipping below year-ago levels. Part of this apparent softening may be attributable to unseasonably cold weather and a later Easter.

Real Estate and Construction

Housing markets across the District have been mixed since the last report, with home sales and prices flat, on balance, but rental markets strengthening. Homes sales in upstate New York have picked up seasonally, and persistently low inventories of unsold homes have continued to boost prices. In New York City, in contrast, the inventory of unsold homes climbed further in the first quarter, prices were flat to down slightly, and the volume

of transactions fell to its lowest level in a decade. The market for newly-constructed condos has been particularly weak. There has been some concern about the federal tax changes, which greatly limit the tax-deductibility of homeowner expenses, and also about a hike in New York State's transfer tax on high-end properties.

Residential rents across the District have risen modestly since the last report and are up from a year earlier. In New York City, rents have resumed a modest upward trend as rental vacancy rates have declined from already low levels and landlord concessions, though still prevalent, have receded gradually.

Commercial real estate markets have been steady to slightly firmer in the latest reporting period. Office availability rates and asking rents have been steady overall. The market for retail space has been mixed, with rents edging down across the New York City area but rising modestly across most of upstate New York. Retail vacancy rates have been mostly flat. Industrial markets, on the other hand, have continued to strengthen: rents have continued to climb at a moderate rate, while availability rates have held steady at fairly low levels.

New multi-family construction starts remained sluggish, but there continues to be a sizable volume of residential space under construction in and around New York City. In New York City, office construction has picked up, and there continues to be a high volume of office development in progress, with a large amount of space scheduled to come on-line over the remainder of 2019.

Banking and Finance

Small to medium-sized banks in the District reported somewhat higher demand for consumer loans and residential mortgages, but no change in demand for commercial and industrial (C&I) loans or commercial mortgages. Refinancing activity remained little changed. Bankers noted higher credit standards for commercial mortgages and C&I loans, and no change in standards for other types of loans. Lower loan spreads were reported for consumer loans and residential mortgages, while spreads were steady for all other categories. The average deposit rate was reported to be up fairly sharply. Finally, banks reported that delinquency rates held steady across all loan categories. ■

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



Summary of Economic Activity

On balance, aggregate Third District business activity resumed a slight pace of growth during the current Beige Book period following a brief pause in the prior period. Nonfinancial services accelerated a bit to a modest pace of growth, while manufacturing, homebuilding, and tourism resumed a slight pace of growth. Consumer spending continued to grow slightly for nonauto retail goods and held steady for autos. Weak global demand and trade uncertainty continued to constrain firm growth and prompt inventory adjustments. Labor demand continued to exceed supply in most sectors, which constrained employment growth to a modest pace, increased search times, and spurred moderate wage increases. Overall, price pressures remained modest. The firms' outlook for growth over the next six months remained positive but edged lower overall, with about half of all firms anticipating increases in general activity and a third expecting no change.

Employment and Wages

Employment growth continued at a modest pace during the current Beige Book period. Just one-fifth of the manufacturing firms reported an increase in staff, while about two-fifths of nonmanufacturing firms noted increases. Average hours appeared to expand somewhat among most firms.

Contacts continued to report that tight labor market conditions were constraining growth. One staffing firm noted that firms struggled to staff extra shifts. Another contact reported that restaurants had lost workers who had returned to their home countries. While most manufacturing firms also noted difficulty in finding labor, two firms said it "just takes longer," two more reported successfully attracting employees and reducing turnover by increasing wages and other benefits, and another firm noted that Pennsylvania has good labor availability.

Wage growth continued at a moderate pace, with reports of wage and benefit cost increases averaging about 3 percent. The share of nonmanufacturing contacts who reported increases in wage and benefit costs edged up to 45 percent. However, several contacts noted that the pace of wage growth had slacked off a bit.

Prices

Price increases remained modest for most firms. The share of manufacturing firms reporting increases in prices paid and prices received edged lower to about 25 percent; however, the share of nonmanufacturing firms reporting increases rose. Most banking contacts continued to note few signs of inflation.

Looking ahead six months, the percentage of manufacturing firms that expect to pay higher prices for inputs rebounded to 55, and the share of firms expecting to receive higher prices for their own goods rose to nearly 40 percent.

Manufacturing

On balance, manufacturers reported a slight increase in activity after noting no change in the prior period. The percentage of firms that reported increased shipments rose, easily outpacing the percentage reporting decreases. However, the percentage of firms that reported increased new orders was only a tad higher than the percentage reporting decreases.

The makers of primary and fabricated metal products and of industrial equipment tended to note gains in new orders and shipments; the makers of chemicals, paper

products, and electronic products noted some weakness or declines since the prior period. Overall, the majority of these sectoral trends for this period were weaker than those reported for the same period last year.

Comments on current business conditions were mainly negative and often cited decreased global demand. One firm noted that customers were taking longer to pay. One large firm reported that its input costs continue to rise as more and more suppliers pass on their tariff costs. In addition, this firm noted that it has cut back on hiring because of tariff uncertainty. Another contact noted that one small builder had stockpiled a three-year supply of nails.

Manufacturers continued to expect general activity to increase over the next six months. However, expectations were somewhat lower this period, as were expectations of shipments, new orders, and planned capital expenditures. Expectations of future employment held steady. On balance, expectations for each of these indicators were below their historic nonrecession averages, except for capital expenditures, which remained on par.

Consumer Spending

On balance, nonauto retailers continued to report slight growth. Store traffic was much better in March than in February on a year-over-year basis, although several winter storms had reduced March sales in 2018. Contacts noted that leasing activity seems stable and reasonable.

Auto sales continued at high levels, but reports were mixed. In Pennsylvania, dealers reported strong year-over-year growth for March and for the first quarter, but they had reported comparable declines for the same periods last year. New Jersey dealers reported declining sales for March, but sales were flat for the first quarter.

Tourism activity picked up slightly as the winter season drew to a close. One contact noted that a late winter snowstorm had moved ski resorts above budget, while a high-end shore hotel had its best February ever. Most contacts were optimistic for the coming summer season.

Nonfinancial Services

On balance, activity at service-sector firms picked up to a modest pace of growth, with a rise in the percentage of firms reporting increased current revenues. However, the share of firms reporting an increase in new orders changed little. One large firm continued to report no sign of deterioration in its accounts receivable. Although the

percentage fell, more than half of the firms still expect future growth.

Financial Services

Financial firms reported an uptick to a moderate pace of growth in overall loan volumes (excluding credit cards) on a year-over-year basis, but a continuation of modest growth in credit card lending.

During the current period (reported without seasonal adjustments), volumes grew robustly in commercial real estate loans and in commercial and industrial lending. Loans grew slightly for homes and autos. Home equity lines and other consumer loans (not elsewhere classified) declined.

A few contacts voiced concerns about looser lending standards; more noted overly aggressive pricing, especially on commercial loans. Overall, contacts continued to note few problems with credit quality. Bankers reported that they and their customers remained largely optimistic for the remainder of 2019.

Real Estate and Construction

Homebuilders reported an uptick in contract signings for March, putting them back on pace to nearly match 2018 levels of activity. Demand remains greatest for more affordable units. Builders noted that margins remain very thin and that land availability remains a constraint.

Existing home sales continued to decline moderately across most local markets. Sellers remain sidelined, and extremely low inventories continue to constrain sales.

On balance, commercial real estate construction and leasing activity continued to edge down slightly from relatively high levels. Contractors noted that activity was about the same, but the backlog is smaller, and design firms are less busy. Demand remained strong for industrial and warehouse space; however, absorption has become difficult in smaller markets with an insufficient supply of labor. ■

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 has risen modestly since our prior report. Residential and nonresidential construction and professional and business services drove the majority of growth over the period. Growth in non-auto retail and in banking was restrained by seasonal factors, but contacts in these sectors were optimistic that underlying demand remained resilient. Manufacturers' reports were mixed. Freight haulers reported flat demand. District firms across most industries increased staffing levels moderately. Wages strengthened moderately for a wide range of industries and education levels. Companies expressed concern about employee retention in the face of increased competition for labor. Selling prices increased moderately overall across the District. Some goods producers reported some relief from materials cost increases, but they continued raising selling prices to cover prior increases in their input costs. Retailers reported improved pricing power. Professional and business services firms reported limited pricing power despite demand growth.

Employment and Wages

Hiring in the Fourth District strengthened back to a moderate overall pace after a brief softening in the prior period. Most industry sectors reported job growth but also difficulty finding new, qualified workers. Staffing agencies noted that more companies were struggling to hire on their own and that clients were increasingly contracting staffing firms to assist with permanent placements. Bankers reported adding staff to run new programs and to develop a talent pipeline in anticipation of near-term retirements. Nonresidential builders rehired staff that had been laid off for seasonal reasons during the winter months, and they further increased payrolls when possible. In contrast, residential builders held staff levels steady, citing uncertainty about overall demand through 2019. Trucking companies added drivers in preparation for their busy season, but they expressed difficulty finding qualified drivers. Manufacturing jobs increased overall, as the manufacturers who saw improved demand over the period added staff while those who saw slowed demand held staff numbers steady. Professional and business services firms continued to grow. Retail staffing levels were stable.

Wages increased moderately across industry sectors and education levels. Retailers increased wages for both store and warehouse employees, citing increased competition for both. Manufacturers and freight haulers increased wages for their hourly staff to aid retention efforts, pointing to wage increases by competitors. A contact in robotics development noted that he had lost out on several candidates for new hires because competitors offered higher salaries, so he has increased his offer in turn. Construction companies preemptively offered bonuses and raises to certain office staff members, such as key engineers, for the purpose of retention. Staffing agencies noted their clients were offering higher pay for temporary and permanent hires.

Prices

Selling prices rose moderately in the District at a pace similar to that of the prior period. Manufacturers and some nonresidential builders reported a deceleration of materials cost inflation. Some manufacturers even reported materials cost declines, especially for steel, after a run-up last summer. However, these firms still reported raising selling prices in this period for the purpose of covering the materials cost increases that they had seen throughout 2018. Prices of new homes have risen to cover recent input cost increases, especially from in-

created subcontractor rates and higher costs for manufactured products such as cabinets. Freight haulers continued to raise prices, and, in turn, retailers reported freight prices as a cost driver. Retailers reported improved ability to raise prices. Auto retailers reported transaction price increases for new vehicles, and a department store reported offering fewer discounts on items. Most professional and business services firms reported limited pricing power because of strong competition, but some specialized firms were able to raise selling prices.

Consumer Spending

Activity in the retail sector was slightly up during the reporting period. Several retailers noted that the strengthening of the economy late last year had continued into 2019, but other firms reported that colder weather toward the end of the quarter curbed foot traffic to their stores. Auto retailers reported stable demand and increased inventories for new cars. Auto retailers also reported higher prices as interest rates rose. Several retailers noted signs of increasing consumer demand and confidence, and they expect conditions to improve going into the second quarter because of warmer weather, plant sales, and several holidays.

Manufacturing

Reports from the manufacturing sector remained mixed, with little indication that conditions have changed from those of the prior period. Some contacts reported that demand for their products improved as a result of strong economic conditions and organic growth. Others attributed an increase in activity to more transient factors: falling retail prices (driven by falling input costs) and a seasonal upswing coming off the slow winter months. However, some reports suggested that demand has slowed, possibly because of trade tensions and the slowing of industrial activity in China. Some contacts reported that their finished goods inventories have increased because of capacity constraints and longer lead times. Despite some reports of slower growth in demand compared with that of recent months, many manufacturers continue to report strong backlogs and normal levels of capacity utilization.

Real Estate and Construction

Construction activity in the District increased moderately over the period, while real estate activity remained stable. In the current period, growth in nonresidential construction has rebounded to the moderate pace seen before the typical winter slowdown in the prior survey period. Education, warehousing, and industrial projects especially picked up over the period. Nonresidential backlogs increased. Homebuilders pointed to lower

mortgage rates, urgency caused by increasing home prices, and the spring selling season as spurring improved demand. Contacts reported that lower-priced homes outsold more expensive homes. Real estate agents reported stable sales. Nonresidential builders expect demand to remain strong, but homebuilders are more uncertain about 2019 overall and are therefore holding off on hiring and capital expenditures.

Financial Services

Consumer lending declined slightly, as it typically does during this time of the year. Consumers paid off credit card balances during the first quarter, and mortgage lending was soft because of the winter weather. Bankers reported that they expect the second quarter to be stronger than the first. Core deposits increased somewhat as consumers received refunds from income taxes, but competition for deposits continues. Commercial lending firmed some, and bankers were optimistic about continued growth in inquiries from business clients. One contact cited an uptick in credit requests for debt restructuring, capital expenditures, and acquisition financing.

Nonfinancial Services

Professional and business services firms reported a solid first quarter, citing increased demand for specialized services because of clients' budget increases. One risk consulting firm stated that global security concerns were driving increasing demand for particular services. In contrast, freight contacts had a softer first quarter, reporting that demand was mostly flat. One freight contact indicated that while meat shipments in February and March are typically down because of Lent, this year's meat shipments were particularly weak. Overall, professional and business services firms indicated they expect strong demand to continue through the next quarter, while freight firms expect demand to be flat. ■

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



Summary of Economic Activity

Since our previous Beige Book report, the Fifth District economy grew moderately. Manufacturing activity picked up modestly as firms experienced steady growth in shipments and new orders. Ports continued to report robust business, with import volumes exceeding exports. Meanwhile, trucking companies saw demand pick back up to a strong level after a slow start to the year. Travel and tourism strengthened across most of the Fifth District. Most of the contacted retailers reported sluggish conditions with softness noted in apparel and auto sales. Reports from nonfinancial services firms were mostly positive with increased demand for staffing and recruiting, administrative services, engineering, legal services, and health care. Residential home sales increased modestly in recent weeks while inventories remained low. Commercial real estate leasing and sales rose modestly, overall, with notable strength in industrial markets. Banks generally reported stable to modest growth in real estate lending, strong and increasing deposits, and solid business lending. On the whole, the demand for workers increased, labor markets remained tight, and wages rose modestly. Prices continued to grow at a moderate rate, overall.

Employment and Wages

Labor demand continued to strengthen moderately in recent weeks, while labor markets remained tight across industry sectors. Employment agencies noted a slight increase in the level of new job openings. Employers reported difficulty filling positions for accounting and finance professionals, IT professionals, engineers, health care providers, and construction workers. Firms continued to report increased use of retention tools and high levels of employee turnover, particularly for truck drivers, production workers, mechanics, salespeople, and temporary workers. Wage increases remained modest across sectors, though firms reported that wage growth was picking up.

Prices

On balance, price growth remained moderate since our previous Beige Book report. Manufacturers indicated that prices received grew at a moderate rate but continued to lag input price growth. Some raw materials price increases were reported for specialized chemicals and metals, while some easing of prices was cited for freight, lumber, resin, and natural gas. Overall, services firms saw prices paid increase at a faster rate than selling prices, with both remaining within a moderate range.

Manufacturing

Overall, manufacturing activity picked up modestly since our last report. Contacts reported steady growth in shipments and new orders, overall. However, several manufacturers continued to face higher costs of raw materials due at least in part to tariffs. A North Carolina furniture manufacturer said that price increases were difficult to pass through to customers, but a Maryland company was able to pass them through. A few contacts, such as a Virginia window manufacturer, reported that recent bad weather led to weak business.

Ports and Transportation

Fifth District ports saw robust growth in recent weeks. Imports remained strong and continued to outpace exports. Contacts reported a slight decrease in exports, particularly for agricultural goods to China. An airport planned to add new international flights as both cargo and passenger business grew. Contacts also reported being able to process imports and ship them domestically more efficiently. However, port executives remained cautious about investment decisions because of lingering uncertainty over tariffs.

Fifth District trucking companies saw strong growth in recent weeks. Contacts reported an increase in business

after a slow start to the year with growth in shipments of most goods. One firm noted a strong increase in food shipments but a softening of government business. A North Carolina company was overbooked heading into the busy spring season. Similarly, a Virginia firm reported capacity constraints, with more freight than trucks, although all the firm's trucks had enough drivers. However, one contact reported a drop in volumes but still maintained good profit margins and revenue growth.

Retail, Travel, and Tourism

Fifth District travel and tourism were strong in recent weeks. The Asheville, North Carolina area saw tourism revenue grow, particularly for short-term rentals. A new hotel in Charleston, South Carolina was unable to open many rooms because of an inability to find staff. However, a Greenville, South Carolina hotel credited low revenues to an increase in supply in the area, as well as softening demand. A zoo reported raising prices amid confidence that business would remain strong.

On the whole, retailers experienced sluggish conditions since our last report. Several contacts attributed poor sales to bad weather. A Virginia high-end clothing store reported that sales have been persistently bad since November. A contact at a Virginia furniture store attributed business swings to unstable consumer confidence. Meanwhile, a North Carolina auto dealer reported low sales, resulting in a build-up of inventory. On a positive note, a regional hardware store had strong sales in March and most retailers remained optimistic about 2019.

Real Estate and Construction

Home sales increased modestly in recent weeks. District Realtors reported that single family inventories remained low, new listings continued to sell quickly, and buyer traffic was steady at open houses and showings. Brokers also reported that home prices rose modestly. Agents reported that new home sales and construction were steady, although construction of lower priced homes remained limited. Meanwhile, some District homebuilders reduced their planned production numbers for the rest of 2019.

Commercial real estate leasing rose modestly in recent weeks. Brokers reported strong demand for industrial space and office leasing was reportedly flat to increasing modestly in some markets; however, retail leasing slowed across markets. Vacancy rates increased slightly for some office and retail markets. Meanwhile, rental rates were reportedly stable to increasing modestly.

Commercial sales rose modestly, according to a few brokers, with warehouse and industrial building sites representing the majority of transactions. Commercial construction increased modestly in some regions. Multi-family leasing remained healthy in most markets, while multifamily construction remained steady.

Banking and Finance

On the whole, loan demand increased modestly since our previous report. Residential mortgage demand varied by location but was generally described as stable to increasing modestly. The demand for commercial real estate loans remained modest. Corporate lending was reportedly strong and small business lending was solid. Overall, deposits were increasing. Credit quality remained high while credit standards were generally unchanged. Bankers continued to report strong competition among banks, credit unions, and financial technology firms.

Nonfinancial Services

On balance, nonfinancial services firms reported modest growth in recent weeks. Increased demand was reported by businesses engaged in staffing and recruiting, engineering, administrative support, law, and health care. However, several firms reported profit margin compression with limited ability to pass along rising input costs to customers. A few federal government contractors said that business was starting to return to normal after sustaining negative impacts from the shutdown, although one contractor noted a slowdown in spending by some federal agencies. ■

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



Summary of Economic Activity

Sixth District business contacts indicated that economic conditions improved, albeit at a modest pace, from the previous report. The majority of contacts expect growth to continue at relatively the same pace over the next few months. While the labor market remained tight, wage growth remained subdued for most jobs, with the exception of in-demand or hard-to-fill positions. Most firms noted that nonlabor input cost pressures were muted, though some observed increases related to tariffs, freight, and construction costs. Overall, retail sales grew slightly and automotive dealers remarked that demand for vehicles weakened since the previous report. Hospitality contacts reported solid activity. Residential real estate contacts indicated an improvement in home sales as increased supply reduced price pressures since the end of last year. On balance, commercial real estate conditions continued to advance. Manufacturers cited increases in new orders and production levels. District bankers noted banking activity remained steady.

Employment and Wages

While District business contacts maintained that they continued to add to staffing levels, several contacts communicated that hiring remained limited by tight labor markets. Some firms mentioned setting up satellite locations in larger, metropolitan cities or moving to more populated suburban areas to find workers. In addition, businesses continued investing more heavily in training and development and viewed such expenditures as providing a competitive advantage in both recruiting and retention. More broadly, businesses continued to fine tune their suite of tools used to attract and retain workers through enhanced benefits, renewed focus on culture, visas to employ immigrants, tuition reimbursement, and increased compensation. Reports also indicated that firms continued to invest in automation to offset labor costs.

District firms noted that annual wage increases, on average, remained around 3 percent, though much higher for in-demand and difficult-to-fill positions (e.g., medical professionals, engineers, drivers, skilled laborers, IT professionals, and executives). Some employers shared that although wage growth had successfully helped secure staff, there was little appetite for significant upward movement in 2019.

Prices

Firms across the District noted little change in pricing

pressure since the last report. Those impacted by tariffs, freight, and construction costs continued to experience price increases. The Atlanta Fed's Business Inflation Expectations survey showed year-over-year unit costs were up 2.0 percent in March. Survey respondents also indicated that they expect unit costs to rise 1.9 percent over the next twelve months.

Consumer Spending and Tourism

District retailers reported softening sales growth in February followed by an uptick in sales growth during the first two weeks of March. Automotive dealers reported a decline in demand for February compared to the same period last year. Most retailers expect similar levels of activity over the coming months.

Tourism contacts across the District noted overall activity was good. Advance bookings for 2019 were strong. Contacts noted that demand for hotel rooms continued to be robust even though the window for bookings has become shorter as a result of the increased usage of smartphone travel apps where travelers can take advantage of lower room rates for last minute travel plans. On balance, business sentiment among travel and hospitality contacts is cautiously optimistic for 2019.

Construction and Real Estate

Reports from District brokers and homebuilders came in slightly more optimistic than the previous report as activity moved into the early stages of the spring selling sea-

son. The recent moderation in mortgage rates was cited as helping to alleviate some of the pressure on housing affordability in the District. Though still flat or down from a year ago, existing home sales in many markets across the District improved at the start of 2019 from lows experienced at the close of 2018. Inventory levels, albeit increasing on a year-over-year basis, remained low in most markets. Home price appreciation continued to moderate as weaker year-over-year sales and slightly rising inventory levels created less upward pressure on prices. As a result of the spring selling season, the near term outlook among real estate contacts remains positive.

Overall economic growth continued to positively influence and propel commercial real estate fundamentals in most District markets and property sectors. Multifamily occupancies remained tight, and overall rents grew at a more robust pace compared with a year ago. Industrial sector dynamics remained robust, while office fundamentals accelerated. Contacts noted that moderating interest rates may encourage some commercial buyers back into the market.

Manufacturing

District manufacturing contacts indicated that overall business conditions remained solid over the reporting period. New orders and production levels continued to rise, albeit at a slightly slower pace than the previous report. Supply delivery times were reportedly longer, while finished inventory levels increased moderately. Purchasing managers' expectations for future production levels remained generally positive, with nearly half of contacts expecting higher production levels over the next six months.

Transportation

Transportation activity across the District was largely unchanged since the last report. Ports cited continued growth in containerized cargo, and logistics contacts reported further expansion of e-commerce activity. Demand for warehouse space increased. On a year-over-year basis, however, overall railroad traffic slowed since the previous report, driven primarily by significant declines in farm products, excluding grain, and metallic ores, which were somewhat offset by double-digit increases in grain and primary forest products; intermodal volumes fell substantially over the reporting period.

Banking and Finance

Conditions at financial institutions in the District were stable. Earnings improved due in part to the effects of tax reform changes and the positive impact of increasing interest rates. Overall loan growth was stable although borrowing levels in the consumer portfolio started to

decline. Asset quality metrics at financial institutions were strong. Despite the increased competition for deposits, which increased funding costs, transaction accounts remained a significant portion of the deposit base and provided the majority of funding.

Energy

Energy sector contacts described District activity as steady to up from the previous report. Offshore exploration and production increased gradually in the Gulf of Mexico, while onshore shale drilling remained robust. Contacts described petrochemical refining and chemical processing plant expansion activity as balanced from the prior period, yet many expect an uptick in activity in subsequent quarters. Crude oil export terminal project planning and development continued along the Gulf Coast, as businesses aim to capitalize on growing crude oil exports. Firms engaged in natural gas and crude oil pipeline projects noted that construction remained very active. Utilities demand increased across residential, commercial, and industrial sectors, due to the cold weather and an uptick in industrial activity. Utilities contacts shared they were initiating planning for power transmission and distribution projects. Renewables industry contacts also mentioned that various new projects were in the planning stage, particularly construction of wind and solar systems across the U.S.

Agriculture

Agricultural conditions across the District were mixed. Recent reports showed that much of the District was drought-free although some areas experienced abnormally dry to moderate drought conditions. In early March, tornadoes in Alabama damaged several thousand acres of timber. In late-March, weekly cash prices were up for corn and beef, while cotton, rice, soybean, broiler and egg prices were down from a year ago. ■

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 late February and March, though contact expected growth to pick up to a modest pace over the next 6 to 12 months. Employment increased modestly; business spending and construction and real estate increased slightly; and consumer spending and manufacturing were little changed on balance. Wages and prices rose modestly, and financial conditions improved slightly. Farmers continued to be challenged by low crop prices.

Employment and Wages

Employment increased modestly 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, sales, and production workers, though there was a noticeable decline in the number of contacts hiring production 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. Contacts reported higher job turnover, particularly for lower-skilled workers, and an increased willingness to hire and keep workers who had failed drug tests. Many manufacturing contacts said that difficulty in finding labor was the primary factor preventing them from increasing output. Wage growth remained modest overall. Contacts were most likely to report wage increases for professional and technical, administrative, and production workers. Many firms reported growing benefits costs.

Prices

Prices rose modestly in late February and March, and contacts expected prices to continue to rise at that rate over the next 6 to 12 months. Retail prices increased modestly. Producer prices also rose modestly, reflecting in part the pass-through of higher labor, materials, and freight costs.

Consumer Spending

Consumer spending was little changed over the reporting period. Nonauto retail sales were flat on balance, with strength in the hardware, general merchandise, and personal services segments offset by weakness in the jewelry, lawn and garden, building materials, furniture, and apparel sectors. Contacts noted that e-commerce continued to grow at the expense of brick and mortar stores. Light vehicle sales were little changed overall, with contacts indicating that higher used car sales balanced out lower new car sales. Many noted that new car incentives were less generous than during the previous reporting period.

Business Spending

Business spending increased slightly in late February and March. Retail contacts said that inventories were generally at comfortable levels, though one auto dealer reported elevated new vehicle inventories. Most manufacturers indicated that stocks were at comfortable levels. A heavy machinery dealer said that long lead times over the last couple of years had led them to build inventories more than usual in anticipation of the spring buying season. Capital spending moved up only a little, though contacts expected 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 increased slightly on balance over the reporting period. Residential construction increased slightly, with contacts indicating that labor and material cost pressures continued to hold back growth. Residential real estate activity increased modestly, as increased sales of homes under \$300,000 offset declines in sales of homes over \$1 million. Contacts indicated that lower mortgage rates and an increase in inventories had spurred sales, though inventories remained below historical norms. Nonresidential construction increased slightly on top of a strong level, and contacts in some parts of the District reported rising backlogs. Commercial real estate activity was little changed. Rents and the availability of sublease space were flat, though vacancies edged up.

Manufacturing

Manufacturing production was little changed overall in late February and March, though contacts were generally pleased with the level of activity. Demand for steel was flat, with growth in the energy and heavy machinery sectors offset by declines elsewhere. Auto production was unchanged as well, but remained at a solid level. Specialty metals manufacturers reported little change in order books overall, as increased demand from the energy and defense sectors was balanced by decreased demand from the auto industry. Heavy machinery demand increased moderately, led by increased sales to the commercial construction sector; growth in commercial construction also led to a small increase in shipments by manufacturers of construction materials.

Banking and Finance

Financial conditions improved slightly over the reporting period. Market participants noted steady growth in equities prices and relatively low volatility, but expressed concerns about the slope of the yield curve. Business loan demand increased slightly, led by stronger demand from logistics companies. Loan quality was little changed, though one contact noted deteriorating quality among agricultural loans. Consumer loan demand was flat on balance, with reports of increased mortgage activity but decreases in auto and home equity lending. Loan standards and quality were little changed.

Agriculture

Farmers continued to be challenged by low corn and soybean prices. Flooding—primarily in the far western parts of the District—destroyed some farmers' stored crops and was likely to delay fieldwork. Contacts said they were hopeful for a resolution to trade disputes with China and a subsequent pickup in exports. Expectations of a future price rally led many farmers to continue to hold on to crops from last year's harvest and to delay entering into contracts for this year's harvest. Contacts expected particularly low soybean prices to push the corn-soybean mix closer to its typical 50-50 split following an increase in soybean acres last year. Livestock prices, especially for hogs, moved up in response to China's decision to include livestock purchases in the trade negotiations and because of a considerable decline in China's hog herd due to disease. ■



Summary of Economic Activity

Reports from contacts suggest economic conditions have improved slightly since our previous report. Labor market conditions remained tight: Employment grew slightly while wages continued to increase at a moderate rate. Price pressures strengthened modestly, with many contacts citing tariffs as a contributing factor to higher input prices. Most retailers expect to pass along increased costs to their customers. Reports on consumer spending activity remained mixed. Manufacturing activity continued to improve at a moderate pace. Residential real estate activity increased modestly while residential construction activity was unchanged. District bankers reported a moderate increase in loan demand. Agriculture conditions declined modestly, as some farmers expressed concerns over recent flooding.

Employment and Wages

Employment has increased slightly since the previous report. Contacts throughout the District continued to note a tight labor market in a variety of industries, including construction, health care, manufacturing, and information technology. Companies have used a myriad of strategies to attract and retain workers, such as signing bonuses and paid time off. A contact in the trucking industry reported that insurance policies have prevented firms from hiring less-experienced drivers. Contacts in the agriculture industry near Memphis reported filling vacancies with temporary workers through the H-2A visa program.

Wages increased moderately, as the tight labor market has led to higher wages in several sectors. Contacts reported that raises for entry-level workers resulted in pay increases for experienced workers as well. Upward wage pressures for technical workers were especially strong. Small business wages increased modestly, with several contacts reporting that they could not afford to raise wages as much as larger firms could.

Prices

Prices have increased modestly since the previous report. Retailers cited Chinese tariffs as a major factor driving up input prices, along with rising wages and freight costs. Most expect to pass along these costs to their customers, with the exception of a regional grocer

who noted that competition limits their ability to raise prices. Construction contacts similarly lamented increased costs from tariffs, wage pressures, and rising material prices. Metal prices have increased modestly since the previous report.

Healthcare contacts reported that there has been continuing robust growth in drug prices in the range of 8 to 15 percent annually, straining hospitals. However, consumers have been largely sheltered from these changes by insurance companies, experiencing only slight increases in deductibles and out-of-pocket maximums and actual decreases in premiums.

Agricultural commodity price changes have been mixed, although prices remain historically low. Cotton prices have experienced moderate growth since the previous report, while corn and soybean prices both declined.

Consumer Spending

Reports from general retailers, auto dealers, and hoteliers indicated mixed consumer spending activity. Retailers in Missouri reported that bad winter weather negatively affected sales. Furthermore they expect weaker growth in 2019 compared with last year. Reports indicate that retail sales were mixed in northwest Mississippi. Consumers in West Tennessee expect to spend slightly more this year than they did last year and have an improved outlook relative to three months ago. A grocer

reported a shift in consumer demand away from products in the middle of the price spectrum toward both high- and low-end products. Multiple hospitality contacts reported flat tourism growth in Missouri from the same time last year.

Auto dealers reported mixed sales activity across the District. Some contacts conjectured that delayed or lower tax refunds reduced sales earlier in the year. Multiple dealers reported a decline in the credit ratings of buyers and increased demand for used vehicles. One dealer suggested that the latter trend may be due to higher financing costs for new vehicles rather than changing consumer preferences. Demand for electric vehicles has softened due to lower gas prices.

Manufacturing

Manufacturing activity has increased moderately since our previous report. Overall manufacturing activity was stronger than one month earlier in both Arkansas and Missouri, and the pace of growth increased. New orders and production also increased in both states, each at a similar rate as in the prior month. Several companies across a variety of industries announced new capital expenditure and hiring plans, including firms that manufacture auto parts, primary metals, chemical products, and furniture.

Nonfinancial Services

Activity in the services sector has slightly improved since the previous report. Contacts reported increased demand for barge, rail, and especially trucking transportation. However, growth in rail transportation has been muted due to flooding and lower exports of grain to China. In general, contacts indicated that a lack of recruits and high employee turnover have negatively affected their businesses.

Real Estate and Construction

Residential real estate activity has improved modestly since the previous report. Seasonally adjusted home sales increased slightly in February across the District's largest MSAs. Contacts reported a dichotomy in the market: There is strong demand for lower-priced houses, while housing inventory comprises mostly higher-priced homes.

Residential construction activity remained unchanged. February permit activity was mixed. Contacts continued to report that labor shortages and high input costs have limited new construction.

Commercial real estate activity was mixed. Contacts reported a healthy market for office space in Memphis. Contacts in Memphis and Little Rock reported robust

demand for multifamily units. Demand for retail space decreased modestly across the District.

Commercial construction activity declined slightly. Contacts in Memphis and Little Rock noted healthy levels of activity, but mostly in the form of renovations rather than new projects. Contacts reported that shortages of labor, combined with inclement weather, have limited new construction.

Banking and Finance

Banking conditions in the District have improved moderately since the previous report. Outstanding loan volumes grew by 5 percent relative to year-ago levels in the first quarter, which was a slight increase from the fourth quarter of 2018. The rate of loan growth increased for the first time since the end of 2016. Commercial and industrial lending continued to be robust, growing by 9 percent year over year. Growth in residential real estate lending ticked up from the previous quarter and is now in line with the national rate. Bankers reported a sharp increase in deposits growth.

Agriculture and Natural Resources

District agriculture conditions have declined modestly since the previous reporting period and the same time last year. District cotton and corn acreages are expected to increase from last year by 12 percent and 4 percent, respectively, while rice and soybean acreages are expected to decrease by 1 percent and 6 percent, respectively. This reflects reports by contacts that continued trade conflict with China has caused growers to shift production from soybeans to other crops. Overall, acreage for the four main crops is expected to decline by 1 percent from last year. Contacts have reported that the flooding of the Mississippi Valley is a major concern for growers and is expected to negatively impact timing and yields of crops this year.

Natural resource extraction conditions declined modestly from the previous reporting period, with seasonally adjusted coal production declining 3 percent from February to March. Additionally, District coal production declined nearly 8 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 modestly, while wage pressures rose moderately and price pressures were modest. The District economy saw growth in professional services, commercial construction and real estate, manufacturing, energy, and mining. However, consumer spending was mixed, while residential construction and real estate saw small declines, and agriculture remained weak.

Employment and Wages

Employment grew modestly since the last report. Ad hoc surveys by the Minneapolis Fed found varying demand for labor. In Montana, 30 percent of employers polled said they were hiring to add head count; a survey of human resources professionals in central Minnesota found that more than half were trying to increase head count. A poll of 20 Minnesota staffing firms, most of them in Minneapolis-St. Paul, found that recent job orders were modestly higher over the same period last year, while hours booked were lower and unfilled job orders somewhat higher as a result of continued tight labor supply. Expectations for job orders in the second quarter were also notably higher. A central Minnesota banker said some companies have money to expand but were fearful that they won't be able to fill the jobs they create. A North Dakota staffing contact said, "We have to be careful who we tell we have workers for." Yet some signs of weakness were present. Initial unemployment claims rose significantly in Montana over the most recent six-week period (through mid-March) compared with a year earlier, and a modest increase was also seen in South Dakota. Layoffs in retail continued, and a Minnesota financial services firm announced a layoff of 210 workers. February job postings fell notably over a year earlier in Minnesota (8 percent), Michigan's Upper Peninsula (12 percent), and Montana (17 percent); job postings in the Dakotas were mostly flat. Widespread spring flooding was also likely to hamper hiring.

Wage pressures rose moderately. A major retailer publicly announced a one-dollar increase to base pay, to \$13 an hour, starting in June. Staffing contacts in Michigan's U.P. and western South Dakota noted that pay rates have risen 5 percent and 8 percent, respectively, over the past 12 months. Two ad hoc polls by the Minneapolis Fed (one in Minnesota, one District-wide) found that wages have risen by more than 3 percent over last year. However, a majority of respondents to three other ad hoc polls (one in Montana and two in Minnesota) pegged recent wage increases below 3 percent; they also expected roughly the same level of wage pressure going forward.

Prices

Price pressures increased modestly. A Minneapolis Fed business survey indicated that a slight majority of firms increased output prices in the first quarter of 2019 relative to the same period a year earlier; a similar proportion planned price increases in the second quarter. A larger share of firms reported input price increases. Contacts reported that tariffs continued to create significant uncertainty about the outlook for raw materials, notably for metals. Retail fuel prices in District states in early April were substantially higher relative to the previous reporting period. Prices received by farmers in February increased from a year earlier for corn, wheat, hay, milk, and turkeys; prices for soybeans, eggs, chickens, cattle, and hogs decreased.

Consumer Spending

Consumer spending was mixed across the District since the last report. February sales tax collections fell 4 percent in Minnesota compared with a year earlier, and hotel demand was also lower. However, in North Dakota, February motor vehicle excise and other sales taxes were higher over the same period. Total gaming receipts in South Dakota were about 2 percent higher in the first two months of the year compared with last year, and statewide taxable sales were also 4 percent higher over this period. New and used auto sales slumped in the western portion of the District in February compared with a year earlier, but March sales saw a solid rebound. Sales of recreational vehicles were also lower over the first two months of the year compared with a year earlier, especially in Minnesota. Montana's ski season was strong in the first quarter compared with a year earlier, and lodging sales taxes in the state were about 15 percent higher. But some regions were hurt by widespread snowfall; a contact in Michigan's U.P. noted that snowmobile tourism was down there because other regions had their own snow; February traffic across the Mackinac Bridge (a gateway to winter tourism in the U.P.) was down 10 percent over last year.

Services

Activity in the professional services sector grew modestly overall. Contacts in the trucking industry reported that extreme winter cold and heavy snows led to delays and a reduction in activity, but sources predicted a rebound due to pent-up demand. An ad hoc poll of accountants in Minneapolis-St. Paul found that half saw increased activity in the first quarter, while one-quarter saw a decline. The group also was slightly more positive about activity over the coming two quarters. A survey of job openings found that statewide STEM openings rose by 15 percent in February over a year earlier.

Construction and Real Estate

Commercial construction rose modestly since the last report. An industry database showed that the value of total construction starts in the first two months of the year was lower in District states compared with a year earlier, but likely due in part to extreme weather. Industry contacts said project pipelines were healthy heading into the spring building season, and a second database showed that the number of total continuing projects (as of late March) were at levels similar to last year over the same period. For larger cities in the District with available first-quarter data, Billings, Mont., Fargo and Bismarck (N.D.), and Sioux Falls, S.D., saw growth in

commercial permitting over last year, while Rapid City, S.D., experienced a decline. Residential construction was lower. Total permitted housing units in the first quarter were down significantly from last year in Minneapolis-St. Paul and Sioux Falls, while Bismarck was up modestly and Fargo and Billings were mostly flat. Extreme winter weather was again cited for the decline, and industry contacts expected activity to rebound with the return of warmer weather and a recent decline in mortgage rates.

Commercial real estate grew modestly since the last report. In Minneapolis-St. Paul, multifamily permitting slowed down in the first quarter, but new-unit deliveries this year were expected to remain strong and vacancy rates tight. New office construction in the region has fallen, but a significant amount of renovated space was scheduled to re-enter the market this year. Industrial vacancy rates remained low. In Sioux Falls, multifamily development has slowed and vacancy rates have risen to about 10 percent. Retail vacancy was high in the city's busiest retail corridor, but activity was reported to be stronger in other, outlying areas of the region. Residential real estate in the District was lower compared with the same period a year ago. February home sales were mixed compared with a year ago, rising modestly across Minnesota, but falling in many other markets. However, preliminary March data suggested home sales fell in Billings, Sioux Falls, and Minneapolis-St. Paul. Sources expected a rebound in home sales in the near term.

Manufacturing

District manufacturing activity increased briskly. An index of manufacturing conditions indicated increased activity in March compared with a month earlier in Minnesota and the Dakotas. Demand for capital equipment remained strong, according to contacts. Agricultural machinery producers reported solid sales, with domestic weakness more than offset by strong export activity. Officials approved plans for a \$54-million compressed gas plant in Minnesota.

Agriculture, Energy, and Natural Resources

District agricultural conditions remained weak. Heavy snows and resultant early spring flooding were likely to delay planting in many areas. In South Dakota and southern Minnesota, where flooding was most severe, the impact could be considerable. District oil and gas exploration activity as of early April increased relative to the previous report. District iron ore mines continued to operate at near capacity. ■



Summary of Economic Activity

Tenth District economic activity continued to expand slightly in March, and contacts expected additional growth in the months ahead. Consumer spending was little changed, but contacts expected modest increases moving into the summer months. Manufacturing activity expanded modestly, and capital spending plans rose moderately as manufacturers expected rising sales and high capacity utilization moving forward. District real estate activity rose slightly. Energy activity held steady since the previous survey period, but respondents' expectations were positive due to higher oil prices. District agricultural conditions weakened slightly, and recent severe weather could stress farm operations in the months ahead. Bankers reported a decline in loan demand for a majority of categories. Employment levels edged higher, and a majority of contacts expected employment to rise in the months ahead. Wages continued to rise at a modest pace since the previous survey period and were strongly above year-ago levels. Input and selling prices were mostly higher across sectors, and additional gains were expected.

Employment and Wages

Employment across the District edged higher in March as slight decreases in the overall services sector were offset by modest gains in the manufacturing and energy sectors. Contacts in the auto sales, transportation, professional and high-tech services, real estate, health services, and tourism and hotels sectors noted declines in employment since the previous survey period, while the retail trade, wholesale trade, restaurant, manufacturing, and energy sectors reported rising employment levels. However, a majority of contacts from both services and manufacturing sectors noted higher levels of employment compared to year-ago levels and expected additional growth moving forward. Employee hours fell across most services sectors, but respondents in the manufacturing and energy sectors noted slightly higher average employee workweeks.

A majority of respondents continued to report labor shortages for low- and medium-skill workers, including auto technicians, truck drivers, and all positions for retail stores and restaurants. A few respondents also noted shortages in high-skill positions such as accountants, pilots, and pharmacists. Wages continued to expand at a modest pace since the previous survey period and were strongly above year-ago levels. Moderate wage gains were anticipated in the months ahead.

Prices

District input and selling prices were mostly higher across sectors, with growth in input prices outpacing that of selling prices. Contacts expected an acceleration in the pace of growth of input and selling prices in the months ahead. Respondents in the retail sector reported strong growth in input prices and moderately higher selling prices since the previous survey period. Input prices in the restaurant and transportation sectors grew modestly and restaurant selling prices were slightly higher while transportation selling prices were flat. Contacts in both industries expected input and selling prices to grow strongly moving forward. Construction supply respondents noted steady prices since the previous survey period but expected moderate increases in the coming months. Manufacturers reported that prices of finished products edged up, while prices of raw materials grew modestly.

Consumer Spending

Consumer spending was little changed compared to the previous survey period, but contacts expected modest increases in sales in the months ahead. Retail sales dropped slightly and auto sales were flat compared to the previous survey period, but each remained above year-ago levels. Retail contacts noted lower-priced items and seasonal goods sold well, while higher-priced items sold poorly. Auto contacts reported that inventory levels

were well above both month-ago and year-ago levels. Restaurant sales were flat compared to the previous survey period, and one contact attributed weak sales to harsh weather conditions. Tourism sales rose slightly in March, and contacts anticipated increases in sales in the months ahead.

Manufacturing and Other Business Activity

Manufacturing activity grew modestly since the previous survey period, and business contacts in wholesale trade, transportation, and professional and high-tech sectors reported mixed sales. Factory activity increased at both durable and nondurable goods plants due primarily to increases in food and beverage products and wood, paper, and printing manufacturing. Production, shipments, and new orders were above year-ago levels in the manufacturing sector, with additional gains expected in the coming months. Manufacturing contacts anticipated moderate increases in capital spending in the next few months, with many contacts noting high levels of expected sales growth and capacity utilization as reasons for increased capital spending plans.

Outside of manufacturing, firms in the wholesale trade and transportation sectors experienced modestly lower sales compared to the previous survey period, while contacts in the professional and high-tech sector reported a slight increase. Contacts in both wholesale trade and professional and high-tech services expected sales to increase moderately in the months ahead, while transportation sector contacts anticipated modest sales growth.

Real Estate and Construction

District real estate activity expanded slightly in March, and contacts expected additional growth in the coming months. Residential home sales were flat compared to the previous survey period and moderately lower than year-ago levels. Sales of low- and medium-priced homes continued to outpace sales of higher-priced homes. Despite significantly higher residential inventory levels, home prices rose slightly higher. Residential sales, inventories, and selling prices were expected to rise in the months ahead. Residential construction activity was modestly higher than year-ago levels as housing starts, traffic of potential buyers, and sales rose. Contacts expected additional gains in residential construction activity in the months ahead. Commercial real estate activity edged up since the previous survey period as sales, absorption, construction underway, completions, and prices rose while vacancies fell. Respondents in the commercial real estate sector projected an acceleration in activity moving forward.

Banking

Bankers reported a slight decrease in overall loan demand since the previous survey period, most notably for commercial real estate, commercial and industrial, consumer installment, and agricultural loans. However, demand for residential real estate loans increased from previous survey levels. Bankers indicated a modest improvement in loan quality compared to a year ago and expected a slight decline in loan quality over the next six months. Credit standards remained largely unchanged in all major loan categories, and deposit levels increased.

Energy

Energy activity held steady compared to the previous survey period, but expectations for future activity were positive as the price of oil has continued to rebound. Although oil prices were lower than a year ago, they were still higher than most firms' average price needed to be profitable. Across the District, the number of active oil and gas rigs continued to decline, especially in Oklahoma, New Mexico, and Colorado. However, production per rig continued to increase and overall oil and gas production remained at high levels due to continued productivity gains. In addition, more than half of District energy contacts expected pipeline capacity to increase in the next year.

Agriculture

The farm economy in the Tenth District weakened slightly from the prior reporting period, and severe weather conditions could weigh on the outlook moving forward. Across the region, corn and wheat inventories were slightly higher than a year ago, and prices for corn and wheat were slightly lower. Soybean inventories in the District were significantly higher than a year ago, with prices moderately lower. In the livestock sector, a slight increase in cattle prices and a sharp increase in hog prices provided some support for revenues. However, recent severe flooding and blizzards throughout the District resulted in losses of cattle and stored crops as well as damage to roads, fields, and other infrastructure. Although the total impacts of the floods remained unknown as recovery ensues, conditions could put additional stress on some farm operations in the coming months. ■

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



Summary of Economic Activity

Moderate expansion continued in the Eleventh District economy. Manufacturing output increased. Retail sales were flat, and growth in the nonfinancial services sector softened. Loan volumes expanded led by growth in commercial real estate lending, and home sales rose, further boosting optimism in outlooks. Soil moisture was mostly adequate, though rains delayed crop planting in some areas. Activity in the energy sector expanded. Employment rose moderately, despite a tight labor market. Wage growth remained elevated, while price growth was mixed. Outlooks stayed positive or improved in most sectors with the exception of nonfinancial services.

Employment and Wages

Employment expanded moderately during the reporting period. A lack of qualified job candidates continued to challenge businesses across sectors and skill levels, but shortages appeared to be most severe for mid-skilled positions such as construction personnel and truck drivers. Airlines said they continued to hire pilots and flight attendants, and staffing firms reported ongoing hiring. Multiple firms in the energy sector said they expected to hold head counts steady this year.

Wage pressures generally remained elevated, and one energy sector contact noted that they were having to pay hot oil truck drivers \$130,000 annually to retain them.

Prices

Input price pressures accelerated slightly in the service sector but were stable in manufacturing. Transportation service firms mentioned higher fuel costs and fees, and retailers noted rising cost pressures. One retailer said that tariffs and labor shortages throughout their supply chain were putting upward pressure on costs. Homebuilders generally cited stable but elevated material costs. Selling price growth was modest to moderate, and passing on cost increases to customers remained difficult. Energy firms reported that breakeven prices for new wells were roughly flat to down year over year in part due to lower costs and/or higher efficiency. A staffing

firm, who had let go several clients because they were unable to negotiate higher bill rates with them, said that one of these clients had returned after accepting higher rates.

Manufacturing

Expansion in the manufacturing sector continued at a moderate pace. Output growth picked up for nondurables, and remained positive for durables, particularly for construction-related products, transportation equipment, and computer and electronic product manufacturing. Outlooks stayed positive, and a few firms said the recent progress made on U.S. trade deals and the pause in short-term interest rate hikes have helped stabilize the outlook.

Gulf Coast refinery operating rates remained healthy in February. Margins firmed up during the reporting period; however, higher prices for heavy crudes have eroded the outlook for margins over the medium term.

Retail Sales

Retail sales were flat in March, with multiple contacts noting slower demand. Online-sales growth remained weak. Reports on auto sales were mixed; solid in Central and South Texas but soft in Houston. Outlooks worsened, and a few contacts cited supply chain uncertainty or weakening business confidence as factors affecting expectations.

Nonfinancial Services

Growth in nonfinancial services activity slowed slightly, but remained positive and widespread across industries. Revenue growth was solid among professional and business services and accommodation and food services. Staffing services firms cited double-digit year-over-year growth in demand, with increases continuing to be broad-based geographically and across industries. Overall, revenues rose in the transportation services industry, but reports were mixed. Rail and air shipping volumes were down year over year, but sea cargo rose significantly due to strength in steel and container shipments over the same period. Airlines noted steady passenger demand for domestic travel, but demand for international travel was weak. Service-sector outlooks were markedly weaker than the last report, with political uncertainty, trade policy issues, and health of the global economy cited as potential headwinds.

Construction and Real Estate

Activity in the housing market improved further, with multiple contacts citing the recent drop in mortgage rates as a factor boosting growth. Contacts reported a noticeable pickup in foot traffic and home sales starting in mid-February through March, but sales were generally flat relative to year-ago levels. Activity in Austin, Fort Worth, and Houston was stronger than in Dallas and San Antonio. Outlooks stayed optimistic, and builders were generally on plan for 2019.

Apartment demand was seasonally slow during the first quarter. Rent growth accelerated in Austin, Dallas, and San Antonio, remained solid in Fort Worth, but rents were flat in Houston. Multifamily construction remained active, and investment activity was stable in the first quarter.

Industrial leasing was solid in Austin and Dallas–Fort Worth but slowed in Houston in the first quarter. Solid job growth and limited new supply is supporting absorption in the Houston office market, although overall conditions remain soft. Office leasing slowed in Dallas–Fort Worth in the first quarter.

Financial Services

Loan volumes increased over the reporting period, led by growth in commercial real estate lending, while residential real estate volumes also rose. However, consumer and commercial and industrial loan volumes dipped. Loan pricing remained competitive, and net interest margins declined. Deposit volumes rose, while credit standards eased moderately. Outlooks remained optimistic, but the cost of regulatory compliance and an increasingly competitive lending environment were cited

as concerns by banking contacts.

Energy

Energy activity grew modestly, and outlooks improved. Production rose at a slow pace, but drilling activity continued to slide as firms reined in spending, including orders for new equipment. Oilfield services firms and equipment suppliers noted surplus capacity for fracking services and slim margins. Availability of additional pipeline capacity out of the Permian Basin has propped up crude oil priced in West Texas relative to the Gulf Coast. Firms responding to the first-quarter Dallas Fed Energy Survey, on average, expect the WTI oil price to be around \$60 per barrel at yearend 2019—above the reported average breakeven price to profitably drill new wells. Uncertainty in price outlooks declined partly because contacts were more confident that OPEC would sustain production cuts in the second half of the year.

Agriculture

Soil moisture was mostly adequate, and there was a surplus in some areas, particularly the eastern part of the state. Some row crop plantings were delayed as a result of wet fields, but overall production prospects remained quite bullish. The wheat crop was in far better condition than last year thanks to favorable weather, but prices remained low leading some producers to consider harvesting the wheat for hay or silage, or grazing cattle on it. A large U.S. cotton crop was expected, which could depress prices, and there is still much uncertainty regarding tariffs. ■

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



Summary of Economic Activity

Economic activity in the Twelfth District continued to expand at a moderate pace during the reporting period of mid-February through March. Conditions in the labor market remained tight, hiring activity remained generally stable, and wage growth was moderate. Price inflation was unchanged on balance. Sales of retail goods increased modestly, while activity in consumer and business services increased moderately. Conditions in the manufacturing sector improved modestly, and conditions in agriculture deteriorated somewhat. Contacts reported that residential real estate market activity expanded moderately and commercial activity was robust. Lending activity was mixed.

Employment and Wages

Conditions in the labor market remained tight, and hiring activity remained generally stable over the reporting period. Across the District, contacts reported an increase in competition for workers and a shrinking pool of qualified applicants across industries and skill levels. A large San Francisco software and consulting company reported searching for candidates outside the District and even abroad in order to fill its vacancies. In the Mountain West, contacts in the retail and financial services sectors reported failing to fill positions over extended periods, as well as difficulties in retaining qualified workers. Elsewhere, contacts in the manufacturing, utilities, and financial sectors reported a flat hiring rate. A quick service restaurant chain in the Pacific Northwest also noted that employment levels remained unchanged. In California, a few contacts in the hospitality and banking sectors anticipated slower hiring activity later in the year.

Wage growth continued to pick up broadly. Contacts across the District noted persistent upward compensation pressures due to brisk labor demand and labor shortages. Contacts emphasized that wage growth was stronger for higher-skilled workers, though the higher minimum wages in California and Oregon continued to put upward pressures on wages for lower-skilled workers. Contacts continued to report enhanced bonus structures and benefit offerings to better attract and retain experienced workers. A labor union representative high-

lighted the potential for downward wage pressures within the entertainment industry following recent large mergers and worker layoffs.

Prices

Price inflation was unchanged on balance over the reporting period. Contacts in the construction sector mentioned price increases for most building materials, except lumber. Contacts in the banking, food, and transportation sectors generally reported being able to pass increased labor costs to final consumers, resulting in modest price inflation in those sectors. A contact in the California utility sector observed that price inflation in that sector remained damped as fuel costs did not rise, and excess capacity persisted. Contacts in the agriculture sector noted subdued market prices overall. Oversupply and weak export demand depressed prices for dairy and nut products. One contact observed that some crop prices in the Central Valley of California increased. A contact in California mentioned that high inventory levels suppressed price increases in the semiconductor sector.

Retail Trade and Services

Sales of retail goods increased modestly. Contacts across the District reported higher-than-anticipated retail sales following the conclusion of the partial government shutdown. A contact in the Mountain West noted that rebounding consumer confidence also contributed to higher-than-expected retail sales. A contact in Southern

California reported higher consumer spending at airports.

Activity in the consumer and business services sectors increased moderately on balance. Demand for passenger and cargo air transportation expanded solidly. Activity in the quick service restaurant segment was slightly stronger on a year-over-year basis. A contact in the hospitality sector in Southern California noted that hotel bookings declined noticeably, driven by fewer reservations at more affordable properties.

Manufacturing

Conditions in the manufacturing sector improved modestly. A steel manufacturer in Oregon continued to note elevated capacity utilization relative to historical averages, due to lower competition from abroad. A contact in Arizona who provides transportation services to the oil and asphalt sector noted solid demand from producers in that sector. Deliveries of commercial aircraft were flat from the same period last year, while new orders fell a notch. A contact in Northern California reported that demand in the semiconductor industry fell modestly in the beginning of the year.

Agriculture and Resource-Related Industries

Conditions in the agriculture sector deteriorated somewhat. Many contacts continued to report that trade policy tensions and a stronger dollar constrained sales to export markets. A contact in Idaho noted that crop inventories rose to record levels as farmers waited for a resolution to trade negotiations and a recovery in various market prices. In addition, domestic demand for agricultural goods was mixed, increasing only slightly on balance. Oversupply in dairy markets persisted, hurting profitability and forcing some producers in the Mountain West to sell below break-even prices. Contacts reported that higher-than-expected rainfall since the beginning of the year positively affected agricultural production, but raised concerns that continued heavy rainfall could depress output ahead. In the utilities sector, activity remained mostly flat.

Real Estate and Construction

Real estate markets expanded moderately. Most contacts reported increased activity over the reporting period, following a relatively soft period at the beginning of the year. Contacts noted that declines in mortgage rates spurred demand for both single- and multi-family housing, but that inventory for both remained low, leading to a slight pickup in prices. Contacts in the Pacific Northwest and Mountain West generally noted stable to slightly increased residential construction activity, while a contact in Southern California mentioned that construction spending tapered. A contact in the Mountain West observed that some homebuilders opted to relocate to lower-cost markets outside the Twelfth District. Contacts in Idaho and Arizona reported that rental market activity was robust, partly due to a limited supply of starter homes and elevated home prices. Contacts generally noted that time-on-market had risen slightly but was still low by historical standards.

In the commercial real estate market, contacts reported robust activity. Across the District, contacts generally noted that construction activity continued to follow a strong trend. Contacts noted that rents for industrial spaces increased moderately. In California, a contact observed that building activity slowed somewhat after the completion of several large projects.

Financial Institutions

Lending activity was mixed over the reporting period. A few contacts in Central California and Idaho highlighted strong lending activity. Elsewhere in the District, contacts reported a slowdown in loan demand. Contacts at community banks in Oregon and Central California noted that competition between lenders remained brisk, especially for high quality loans. In general, loan quality remained high, though some contacts observed a modest deterioration in commercial creditworthiness. A contact in the Mountain West noted that the balance sheets of certain agricultural producers weakened notably due to low market prices and weak export demand. ■



