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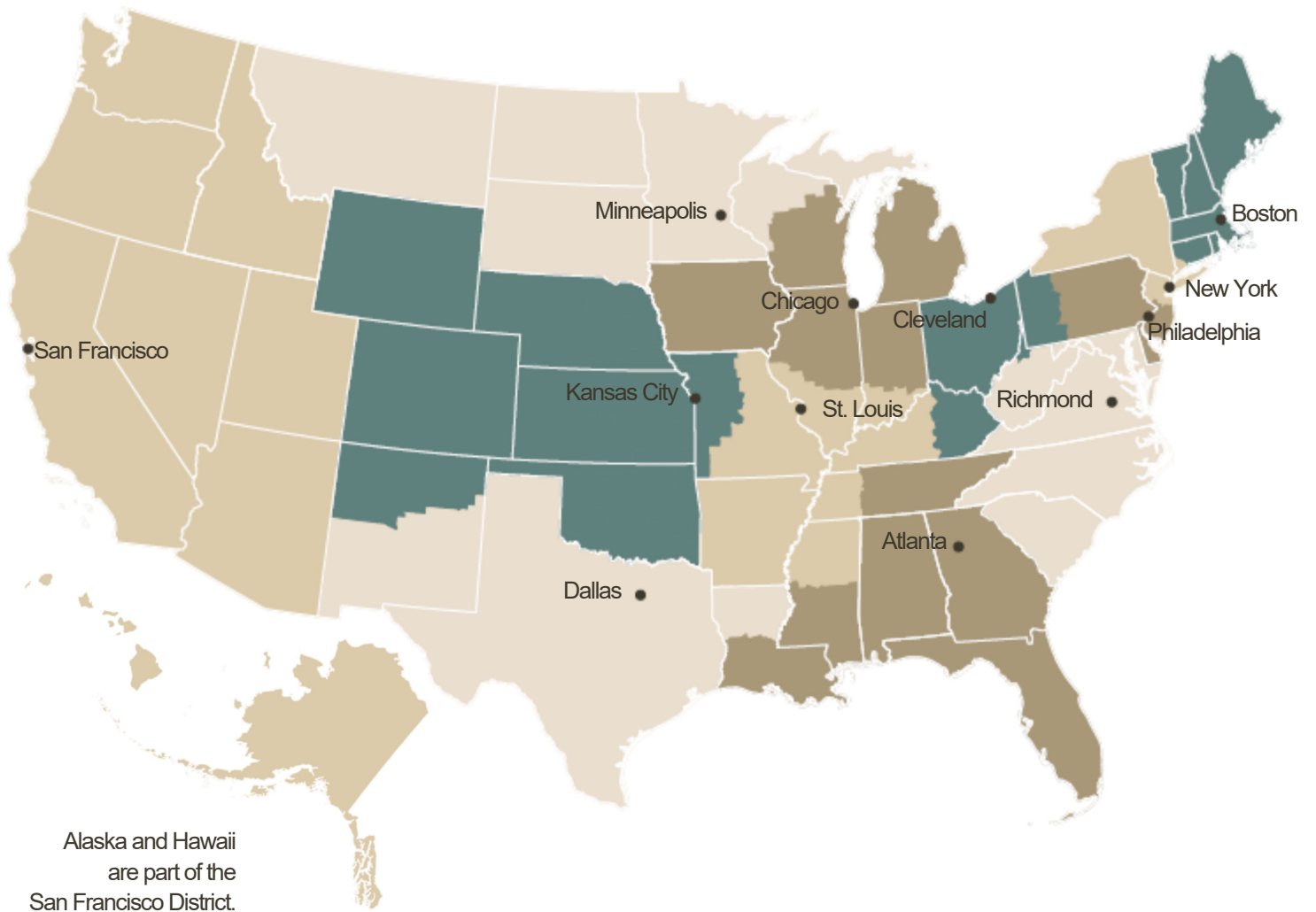
The Beige Book

Summary of Commentary on Current Economic Conditions

By Federal Reserve District

October 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 Cleveland based on information collected on or before October 7, 2019. This document summarizes comments received from contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.



National Summary

The Beige Book ■ October 2019

Overall Economic Activity

The U.S. economy expanded at a slight to modest pace since the prior report as business activity varied across the country. Reports from Districts representing states in the southern and western U.S. generally were more upbeat than Districts representing the Midwest and Great Plains. Household spending was solid on balance: nonauto retail sales increased modestly, while light vehicle sales were generally robust. Tourism and travel-related spending was up modestly. Housing market conditions changed little. On the business spending side, nonresidential construction increased at a slightly slower yet still modest pace, while leasing activity advanced at a slow but steady rate. Manufacturing activity continued to edge lower. Contacts in some Districts suggested that persistent trade tensions and slower global growth weighed on activity. The early impact of a recent auto strike was limited. Freight shipments stabilized after falling during the previous reporting period. Bankers in many Districts reported moderately rising loan volumes, while activity in nonfinancial services increased solidly. Agricultural conditions deteriorated further due to the ongoing impacts of adverse weather, weak commodity prices, and trade disruptions. Business contacts mostly expect the economic expansion to continue; however, many lowered their outlooks for growth in the coming 6 to 12 months.

Employment and Wages

On balance, employment rose slightly amid reports of persistent worker shortages. Labor market tightness across skill levels and occupations was widely cited as a factor restraining hiring. Districts often reported relatively stronger demand for workers in the professional services and information technology industries. By contrast, hiring in freight and manufacturing was weak. A number of Districts reported that manufacturers reduced their headcounts because orders were soft. However, some firms were more concerned about the longer-term availability of workers and subsequently chose to reduce hours rather than staff levels. Wages rose moderately in most Districts, with upward pressure noted for lower-skill workers in the retail and hospitality industries and for higher-skill professional and technical workers. A number of smaller firms reported difficulty matching pay offers from larger firms. Broadly, employers continued to use non-wage approaches such as bonuses and benefits to attract and retain talent.

Prices

Most Districts characterized the recent pace of price increases as modest. Both retailers and manufacturers noted rising input costs, often for items subject to new tariffs, but retailers had relatively more success passing through these cost increases to their customers. Despite a recent increase in fuel costs, some reports suggested that shipping rates remained lower than they were earlier this year because of excess capacity in the industry.

Highlights by Federal Reserve District

Boston

Signs of slowing have become more widespread in recent weeks, although software and IT services firms reported results that exceeded expectations and real estate markets have not weakened. Outlooks have softened; contacts attribute some of the softening to increased uncertainty, not poorer current results.

New York

Regional economic growth slowed to a subdued pace. Job creation remained sluggish, largely reflecting a shortage of available workers, as labor markets remained very tight and wage growth picked up. Prices continued to rise modestly. Service sector activity weakened noticeably, and real estate markets softened somewhat.

Philadelphia

On balance, business activity continued at a modest pace of growth during the current Beige Book period. Further labor market tightening caused “acute pressure,” described as increased hiring difficulty, constrained growth, and higher wages. Still, wages grew moderately and prices rose modestly overall. Most firms expressed a positive outlook, with ongoing caution amid heightened uncertainty.

Cleveland

District activity was stable on balance. Professional and business services, auto sales, and home sales rose while residential construction and freight fell. Manufacturing activity stabilized after a couple periods of decline. Employment was stable overall, though there were some scattered reports of softening. Wages increased modestly because of tight labor markets. Selling prices rose modestly.

Richmond

The Fifth District economy continued to grow at a modest rate. Manufacturers saw declines in shipments and new orders; however, port and trucking activity rose. Retail, tourism, and nonfinancial service firms generally experienced slight to moderate growth. Residential and commercial real estate sales, leasing, and construction picked up, overall. Labor markets remained tight. Wages and prices rose moderately.

Atlanta

The economy expanded at a modest pace. Labor markets remained tight, and reports of wage pressures were more widespread among low-skilled positions. Nonlabor input costs rose for some contacts. Overall retail sales were mixed. Residential real estate activity improved, while nonresidential activity was stable. Manufacturing activity rebounded since the previous report.

Chicago

Economic activity increased slightly overall. Employment, consumer spending, business spending, and construction and real estate all increased slightly. Manufacturing production declined a bit. Wages and prices rose slightly and financial conditions improved modestly. The crop harvest got off to a slow start, as rains delayed fieldwork.

St. Louis

Economic conditions have improved slightly since the previous report. Contacts from multiple industries noted a heightened sense of economic uncertainty. Consumer spending activity ticked up. Local bankers reported growth in outstanding loan volumes. However, manufacturing activity contracted slightly, and row crop production levels are expected to be well below 2018 levels.

Minneapolis

Ninth District activity grew at a slight pace. Employment was flat. Labor demand remained healthy with some signs of softness. Manufacturing activity decreased slightly, with some contacts expecting a further slowdown in the final quarter of 2019. Consumer spending was mixed, but late-summer tourism was solid. Commercial construction and real estate increased, but residential was mixed. Oil drilling increased slightly.

Kansas City

Economic activity expanded slightly in late August and September. Consumer spending rose modestly, and sales in the transportation, professional and high-tech services, and wholesale trade sectors were solid. Real estate activity increased, but residential construction activity slowed. However, energy and manufacturing activity declined, and agricultural conditions remained weak.

Dallas

Economic activity continued to expand moderately. Energy activity declined, but growth remained solid in manufacturing and services. Home sales increased and loan demand accelerated. Selling prices were largely flat, as firms’ ability to pass through cost increases remained limited. Hiring continued at a steady pace. Outlooks were mixed and uncertainty remained elevated.

San Francisco

Economic activity in the Twelfth District expanded at a modest pace. The labor market remained tight, and wage growth was moderate. Reports on price inflation were mixed. Sales of retail goods increased modestly, and consumer and business services activity expanded slightly. The pace of commerce in the manufacturing sector was little changed, and the agriculture sector slowed further. Activity in residential and commercial real estate markets was solid, and lending grew further.



Summary of Economic Activity

Business activity showed signs of slowing in the First District. Retail results were mixed, while restaurants and tourism contacts cited recent signs of softening. Few manufacturers provided positive reports. By contrast, software and information technology services firms said revenues were up, some strongly. Commercial real estate activity remained strong in the Boston and Portland metro areas and picked up in Providence. Housing prices across the region continued to rise. Except for software and IT services, most responding firms had downgraded their outlooks since the last round.

Employment and Wages

Labor markets remained tight even as a couple of firms began layoffs. Retailers said the labor market was tight. Among manufacturers, however, no contact reported increasing headcount and two – which supply industrial customers – reported significant layoffs, about 5 percent of their staff. One also instituted furloughs and shortened workweeks; another respondent reported a marked increase in unsolicited resumes for skilled machinists. By contrast, two manufacturing contacts reported that they still have difficulty finding qualified employees. Software and IT services contacts indicated that while headcount and turnover were largely unchanged, most planned to hire more front-facing sales roles in addition to technical and R&D staff.

Prices

Diverse influences across markets led to varied price pressures. Retailers reported prices were fairly steady while Massachusetts restaurants cited an average 3 percent increase in menu prices year-over-year. Manufacturers indicated that price changes were mixed. On one hand, declines in activity have reduced pricing pressure. Two contacts noted significant drops in paper and pulp pricing due to reduced demand from China. Three contacts said that price and availability of trucking services improved considerably since last year. On the other hand, tariffs have raised costs for several manufacturers. A producer of frozen fish said that tariffs had driven up

prices. Software and IT services respondents reported no price increases and no plans to raise prices in the near future.

Retail and Tourism

Responding retailers reported sales ranging from down about 6 percent to up about 2 percent year-over-year; the outlook was less optimistic than in the last few rounds. One retailer noted that while the upcoming holiday season may provide a boost, expectations were that sales growth for 2019 and into 2020 would be pretty flat.

Massachusetts restaurant sales were up 5.5 percent for the year ending June 30. Much of the overall increase was driven by sales in the last half of 2018. The slower first-half trend continued into July and August, as sales in both months were down year-over-year. A surge in home delivery services reportedly ate into restaurant profit margins already under pressure from ongoing increases in operating costs and more competition from an over-supply of restaurants relative to the customer base. These factors combined to make the outlook uncertain.

Cape Cod had an unexpectedly challenging summer tourist season. Bookings for overnight accommodations were down, though day travel to the Cape was up, judged by an increase in passenger traffic on the bridges and weekend train service. One theory was that the strong US dollar prompted more Americans to vacation abroad this summer. Media attention was “overly” focused on increased shark sightings and (rare) tornados.

Autumn business on Cape Cod was shaping up to be good, but a contact worried that tourism may be entering a slower pattern compared to 2017 and 2018, when tourist activity reached historic highs.

Manufacturing and Related Services

Reports from manufacturers were mostly negative. Four of the seven respondents reported lower sales versus the same period last year, two reported flat sales and only one firm, a defense contractor, reported higher sales. Several contacts attributed declines to trade issues; a manufacturer of filtration membranes said that chip manufacturers were delaying new plant construction due to uncertainty about trade policy. The farm-sector recession reduced demand for heavy equipment.

No contacts reported positive revisions to capital spending plans and two reported significant cuts. An industrial supplier planned to cut capital expenditures versus last year by as much as 25 percent versus a previously-planned 5 percent increase.

Five of seven contacts reported downward revisions to their 2020 outlook. Three of those remained positive but less positive than earlier. One industrial firm expected a recovery to start in the second half of 2020. Several compared now to 2015 when industrial demand slowed markedly but the economy as a whole did not.

Software and Information Technology Services

Growth in demand in the past quarter exceeded expectations for the majority of New England software and IT services sector respondents. All three contacts experienced positive demand growth. Two noted that market interest in subscription and cloud-based offerings had picked up month-to-month. Revenue growth remained positive and ranged from 2 percent to 24 percent year-over-year. For most firms, capital expenditures were unchanged, but one mentioned considering a switch from housing their own servers to migrating their operations onto the cloud, which would significantly change the structure of their capital expenses. All in all, contacts were upbeat in light of a third quarter that exceeded expectations, but many remained wary of political and macroeconomic uncertainty in the longer-term.

Commercial Real Estate

Commercial real estate activity in the First District continued to strengthen overall, but with inconsistencies in performance across geographic submarkets. Boston's leasing market continued to be strong as all contacts described low vacancy and high absorption. Asking rents in prime Boston locations increased by 20 percent in the last 9 to 12 months according to one contact. Construction activity in Boston was robust. The investment sales

market in Boston was also strong, with high loan volume and low interest rates. In the Greater Portland area, both construction and leasing activity in office, industrial, and retail markets were up. In the leasing market, vacancies were low and the average rent rose about 5 percent over the past year. The investment sales market was also strong. The outlook remained positive for Boston and was optimistic for Portland.

In the Providence area, the office leasing market picked up as the summer season ended, but demand still remained tepid. Demand for buying industrial buildings was strong, but supply was limited. As a result, office rents increased moderately, while industrial rents rose faster. Market activity was expected to grow in October and early November. Transaction volume in the Providence investment sales market was limited. According to a contact, people were hesitant to commit to new construction and investment projects because of uncertainty about the next recession. In Greater Hartford, leasing activity as well as construction activity stayed low. The industrial leasing market flattened as companies gave up space, and the investment sales market slowed slightly. The outlook for Connecticut was less upbeat than outlooks for other New England states.

Residential Real Estate

Residential real estate markets in the First District continued to moderate in August. For single family homes, closed sales decreased moderately from August 2018 to August 2019 in Rhode Island, Massachusetts, Boston, and New Hampshire. Median sales prices rose in all four reporting areas. Massachusetts, Boston, and New Hampshire experienced double-digit drops in inventory. For condos, sales were down in Massachusetts, Boston, and New Hampshire and up in Rhode Island. Median sales prices for condos were up in all reporting areas but Boston. Vermont and Maine – reporting combined statistics for single family homes and condos – cited moderate price increases, slight drops in closed sales in Vermont, and modest sales increases in Maine.

The ongoing shortage of active listings drew attention from many respondents. According to the Rhode Island contact, "Regardless of what happens to interest rates over the next year, we can't sell what we don't have available for sale." ■

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



Summary of Economic Activity

Growth in the Second District economy was subdued in the latest reporting period. The labor market remained very tight, as employment levels were flat, and wage growth picked up slightly. Input price pressures have remained moderate, while selling prices have risen modestly. Manufacturing activity was up marginally, and transportation business rebounded, while business was reported to be weaker in most service industries. Business contacts generally expressed considerably less optimism about the near-term outlook. Consumer spending was mixed, with strength in auto sales but weakness in other areas. Tourism has remained fairly robust. Housing markets have been softer, on balance, though the residential rental market has continued to firm. Commercial real estate markets have been steady to softer, and new commercial construction has tapered off somewhat. Finally, banks reported a pickup in loan demand from the household sector, though the financial sector overall showed further signs of weakening.

Employment and Wages

The labor market has remained stable and very tight across the District, but hiring has been subdued. Business contacts have continued to report trouble finding workers to fill a wide range of jobs such as construction contractors, truck drivers, auto mechanics, IT professionals, accountants, retail clerks, and nursing home attendants. A major New York City employment agency noted that almost all job candidates are merely jumping from other jobs. However, an upstate contact maintains that there has been a decrease in job-hopping.

Businesses overall continued to report little change in staffing levels. Contacts in real estate, education & health, and leisure & hospitality reported continued modest net hiring, while those in manufacturing, wholesale trade, transportation, and information reported modest declines in employment, on balance. Looking ahead to the next six months, businesses in manufacturing and most service sectors still plan on adding to staff; however, wholesale trade and information businesses anticipate modest declines in employment.

While businesses generally report that wage growth has remained moderate, there has been more widespread escalation in some lower-wage industries such as retail trade and leisure & hospitality. A large New York City

employment agency notes that finance-sector firms are largely holding the line on salary increases, and there is a wide gap between salary offers and job-seekers' demands.

Prices

Businesses in most sectors indicated continued moderate increases in input costs and modest growth in selling prices. However, retailers have been reporting increasingly widespread hikes in the prices they pay, and, to a somewhat lesser extent, in the prices they charge. One contact at a major chain noted that tariffs were raising costs, particularly on home goods, but that consumers were resistant to price increases on such merchandise. Contacts in the leisure & hospitality sector, however, have held prices steady and, in some cases, lowered prices. For example, rates on New York City hotel rooms and Broadway theater tickets have receded.

Looking ahead, contacts in retail, wholesale, transportation, and manufacturing expressed a greater inclination to raise prices than others. Manufacturers and wholesalers anticipated the most widespread hikes in prices paid.

Consumer Spending

Retail sales have softened in recent weeks and were mostly little changed from a year earlier. A major retail

chain noted that sales were down and somewhat below plan in September, partly reflecting weak demand for home goods. On a more positive note, some upstate New York retailers reported continued modest growth in both sales activity and shopper traffic. In general, inventories were said to be near desired levels, helped by increased discounting over the summer.

Sales of both new and used vehicles have remained solid in recent weeks, according to dealers in upstate New York. Inventories of new vehicles remained somewhat above desired levels, but there is some concern about maintaining ample inventories (especially of parts) if the GM strike drags out. Dealers indicated that service departments have remained busy and characterized consumer credit conditions as being in good shape.

Manufacturing and Distribution

Manufacturers reported steady to slightly rising business activity. On the distribution side, transportation contacts indicated a modest pickup in activity, while wholesalers noted a significant drop-off in business.

Looking ahead, manufacturers and wholesalers have grown less optimistic about the near-term outlook, while transportation firms have become somewhat more optimistic. Contacts in all these sectors have expressed ongoing concern about tariffs and trade tensions and the related uncertainty going forward.

Services

Businesses across almost all service industries reported some weakening in activity, on balance, since the last report. However, contacts in leisure & hospitality noted a leveling off in activity, following a substantial pickup in the last report. Broadway theaters reported that attendance and revenues picked up noticeably in the second half of September, following a sluggish spell in August and early September. Hotel occupancy remained solid across most of the District.

Other service industries reported softening activity—particularly those engaged in information services. Finance and real estate firms reported notable weakening, while professional & business and education & health service firms reported flat to modestly declining activity. Service firms, in general, have grown somewhat less optimistic about the near-term outlook.

Real Estate and Construction

Housing markets across the District have been mixed but, on balance, softer since the last report. The home sales market has weakened, especially in New York

City, whereas rental markets have continued to strengthen moderately.

Prices of New York City condos and co-ops, which had been fairly steady through mid-year, slipped noticeably in the third quarter—most sharply in Manhattan. A local real estate expert noted that, while the city’s “mansion tax” (effective July 1) has curtailed high end sales, the price declines have occurred across the spectrum. Moreover, the inventory of resale inventories has risen noticeably. In contrast, home prices in the suburbs north of New York City have continued to rise slightly, while sales volume and inventory levels have been steady.

The rental market has continued to trend stronger. Residential rents have continued to rise at a 3-5 percent pace, and the high end of the market has out-performed in recent months. Rental vacancy rates have declined further in New York City, and landlord concessions have continued to recede, though they remain fairly prevalent.

Commercial real estate markets across the District have generally been steady to slightly softer. Office rents have been mostly flat, while availability rates have been mixed but up slightly, on balance, while leasing activity has slowed. Industrial markets have shown some signs of softening: rents have continued to rise but at a slower pace, while availability rates have begun to trend up. The market for retail space has remained soft.

New multi-family construction starts have weakened noticeably across the New York City area, though there has been a modest pickup in upstate New York. Ongoing multi-family construction has remained fairly brisk. New office and industrial construction has weakened slightly across the District.

Banking and Finance

Small to medium sized banks in the District reported a rise in demand for consumer loans and residential mortgages but steady demand for commercial mortgages and C&I loans. Bankers reported higher refinancing activity. Banks reported unchanged credit standards and narrowing spreads across all loan categories. Contacts also reported widespread decreases in the average deposit rate. Finally, banks reported lower delinquency rates for consumer loans, but stable delinquencies across other categories. ■

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



Summary of Economic Activity

Aggregate Third District business activity continued at a modest pace of growth during the current Beige Book period. Nonauto retail sales accelerated to a moderate pace of growth, and manufacturing continued to grow moderately. Non-manufacturing and tourism continued at a modest pace of growth. Construction activity for residential and nonresidential buildings appeared to hold steady this period, as did commercial leasing activity; these three sectors had declined in the prior period. Sales of new autos and of existing homes continued to decline – at a slight and a moderate pace, respectively. Labor markets tightened further throughout the District, and wages continued to grow moderately. Overall, price pressures remained modest. The firms’ outlook for growth over the next six months remained positive but softened, with less than half of all firms anticipating increases in general activity. Contacts frequently noted ongoing caution in the business plans of their clients and themselves, but most expected current business conditions to continue.

Employment and Wages

Employment growth continued at a modest pace during the current Beige Book period. About two-thirds of non-manufacturing firms reported increases in staff – a bit higher than in the prior period – while the share of manufacturers reporting increases held steady at about one-fourth. Average work hours have edged down since the prior period.

Tight labor market conditions continued to be cited as a factor in slow hiring by nearly all firms. Staffing firm contacts described “acute pressure” in recent months, which has resulted in still fewer job applicants, more difficulty signing prospective job candidates and retaining current employees, and ongoing wage pressures.

Wage growth continued at a moderate pace, with contacts reporting wage increases ranging from above 3 percent to 6 percent on a year-over-year basis. Reports were further mixed, with some contacts noting that wage growth had steadied and others noting an acceleration. The share of nonmanufacturing contacts who reported increases in wage and benefit costs edged down further to 40 percent; only 4 percent reported decreases.

Prices

The firms reported overall modest increases for both input prices and prices received for their own goods and

services. The share of nonmanufacturing firms reporting increases in prices edged lower, while the share of manufacturing firms reporting increases rose. Roughly one-half to two-thirds of the firms reported no change in prices over the period. Most banking contacts continued to note no signs of inflation.

Looking ahead six months, the anticipation of higher prices broadened further among manufacturers. The percentage of manufacturing firms that expect to pay higher prices for inputs rose to above 50 percent, and the share expecting to receive higher prices for their own goods increased to almost 45 percent.

Manufacturing

On balance, manufacturers continued to report moderate growth in activity. Although nearly half of all the firms reported no change in shipments and in new orders, the percentage of firms noting increases significantly outstripped those noting decreases for each metric.

The makers of lumber products, paper products, chemicals, fabricated metal products, and industrial machinery tended to note gains in new orders and shipments. Electronics producers reported little change, and the makers of primary metal products reported mixed results. Overall, these trends are not substantially different compared with the same period one year ago.

Comments have been mixed. Several firms noted slowing activity, heightened uncertainty, and ongoing concerns over tariffs; a primary metals producer noted that “customers were hesitant.” However, others noted product segments with strong demand and mixed effects from tariffs.

Manufacturers’ expectations of activity over the next six months were mostly unchanged. Expectations of shipments and of new orders edged lower but remained above long-term nonrecession averages. Expectations of future employment and planned capital spending also remained above average but rose a bit.

Consumer Spending

Contacts for malls and convenience stores reported moderate growth in nonauto retail sales – a somewhat faster pace than during the prior period. Mall store operators noted “solid traffic” and moderate year-over-year growth during the back-to-school season. Convenience store contacts continued to report strong sales – boosted by job stability among consumers and great weather.

Auto sales edged lower but remained near high levels – sustained by fleet sales, even as consumer demand continued to decline, according to contacts. Pennsylvania dealers noted that year-over-year sales had started to slow, while New Jersey dealers reported lower August and September combined sales. However, year-over-year sales growth through September year to date remained positive in both states.

Tourism activity continued to grow at a modest pace. A Delaware shore contact reported strong visitor traffic, aided by excellent weather, and noted record levels of spending at local shops and restaurants, even as three new restaurants opened. Atlantic City casino revenues continued growing modestly.

Nonfinancial Services

On balance, activity at service-sector firms continued at a modest pace of growth. The percentage of firms reporting increases in current revenues and in new orders remained positive but edged lower. One large firm noted continued improvement in the already low delinquent accounts receivables of its consumer base. This improvement was observed throughout the Third District and the country. Nearly one-half of the firms – slightly less than in the prior period – expect growth over the next six months.

Financial Services

Financial firms reported continued moderate growth in overall loan volumes (excluding credit cards) on a year-over-year basis, although the rate seemed to strengthen

somewhat. Meanwhile, credit card lending also continued at a moderate pace but appeared to edge slower.

During the current period (reported without seasonal adjustments), volumes appeared to grow robustly in home mortgages, commercial real estate loans, and other consumer loans (not elsewhere classified). Home equity lines and auto lending grew moderately, while commercial and industrial loans grew modestly.

Most banking contacts described incremental growth of the overall economy, constrained by a tight labor market and low housing inventories, with little shift in low delinquency rates. Banking contacts noted ongoing uncertainty and more widespread talk of a (mild) recession risk in 2020. However, most indicated that they and their clients felt that the U.S. economy was fundamentally sound and that they were planning (cautiously) for ongoing growth next year.

Real Estate and Construction

Homebuilders reported no change in contract signings in the current period, on balance, although reports ranged somewhat from “continued strength” to “slightly off” from the prior period. To varying degrees, builders are shifting their product offerings to capture lower price points; however, production costs remain a challenge.

Existing home sales continued to decline moderately on a year-over-year basis across most local markets, as exceedingly low inventories continued to constrain sales. A large Philadelphia-area broker noted that the trend continued through September and is not expected to shift much in 2020.

On balance, commercial real estate construction and leasing activity seemed to hold steady at relatively high levels. Most contacts were bullish about current activity and noted that while the project pipeline has thinned, groundbreakings, project planning, and new inquiries remained relatively steady. One design firm noted it is struggling to keep pace with demand. Management firms noted positive net absorption, falling vacancy rates, and rising rents in many office and industrial segments. ■

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



Summary of Economic Activity

Overall economic activity in the District was stable on balance, though reports varied by sector. A still favorable economic environment continued to boost demand for professional and business services generally, but some firms indicated that heightened uncertainty also contributed to the increase as customers sought more consulting services. Home sales and auto sales rose over the period, while consumer spending on nondurable goods was flat. Slowing global growth and trade tensions continued to weigh on manufacturing, but output stabilized as some customers rebuilt inventories after allowing them to run too low. Lenders suggested that overall loan demand was unchanged, even as lower interest rates boosted lending for homes and autos. Nonresidential construction remained strong, while residential construction softened modestly. Freight activity continued to fall. Employment was stable on balance, though reports by sector were mixed. Still, wages rose modestly because of persistently tight labor markets. Selling prices increased modestly on balance as firms sought to compensate for higher labor costs as well as increased pressure from rising nonlabor costs.

Employment and Wages

Employment was generally stable in the Fourth District, although there were scattered reports of softer demand for labor. Firms in the professional and business services sector continued to add staff in response to robust demand. Most apparel and general merchandise stores held headcounts steady, as did construction contractors. Some bankers curbed hiring to focus on operational efficiencies and to reduce expenses. By contrast, some firms reduced employment levels as a direct result of softer demand for goods and services. Specifically, some manufacturers froze hiring and reduced hours, and planned to keep payrolls and hours at lower levels until product demand picked up again. Freight haulers (both trucking and rail) reduced headcounts to “align [human] resources to reduced volume levels.”

Wages grew modestly on the whole in the Fourth District. Manufacturers continued to increase wages and enhance benefits offerings amid persistently tight labor markets. Higher wages were also reported by general merchandise and auto retailers. Retailers cited difficulty finding qualified workers and heightened competition for labor from distribution centers as contributing factors. Some professional and business services firms increased skill requirements for new hires and therefore

raised starting pay relative to wages of existing staff. Many real estate firms increased wages, citing a “war for talent.” By contrast, most construction contractors did not raise wages in this period, nor did most freight haulers.

Prices

On balance, selling prices rose modestly. Most changes in this period resulted from firms’ adjusting output prices to account for changes in input prices rather than from firms’ trying to increase their margins. Apparel and general merchandise retailers reported upward pressure on clothes and food costs, pressure which was exacerbated by the September 1 tariff increases. Most retailers passed through these higher costs to consumers, although a couple of retailers absorbed them into their margins, rather than raising prices, to preserve market share. Many trucking companies reported recent cost increases because geopolitical factors and new diesel taxes have increased prices at the pump. Some freight haulers were able to negotiate higher rates to account for these costs, but others remarked that the freight market was not robust enough to be able to push for higher rates. Manufacturers’ prices, which had been falling in the past couple of periods, stabilized in this period. Most construction contractors held prices steady because costs for construction materials were relatively

stable. Professional and business services firms held pricing steady, as well, because stiff competition limited individual firms' ability to raise prices.

Consumer Spending

Retailers' reports on consumer spending were mixed. Reports from auto dealers were generally more upbeat than those from other segments. Some auto dealers reported that light vehicle sales were up substantially, while others indicated that sales were flat. Apparel spending was relatively flat, and merchants noted that unseasonable weather adversely impacted sales. Contacts in the restaurant industry reported that sales were down in this period because of increased competition from new restaurants.

Manufacturing

Overall manufacturing conditions appeared to stabilize following a few periods of slowing, although reports from contacts varied. A few manufacturers suggested that their customers let inventories run too low in anticipation of a more significant manufacturing slowdown than has materialized. As a result of the need to restock, demand for these manufacturers' products picked up in recent months. Other manufacturers reported that demand continued to soften, citing a global slowdown in industrial activity and persistent trade-related uncertainties. Two-thirds of contacts reported that capacity utilization was within a normal range, although several noted that labor shortages persist. Some manufacturers had existing capacity that was going unused for lack of workers, a situation which damped plans for further capital spending.

Real Estate and Construction

Nonresidential construction and real estate saw strong, steady demand over the period. Some nonresidential contractors noted an uptick in contracts for office and healthcare-related buildings. Most nonresidential contractors expected construction to remain strong excepting winter slowdowns. However, some commercial real estate contacts expressed concern about slower demand in the near future; one remarked that he would "expect increased trepidation as the election draws near."

Residential real estate agents reported moderately higher home sales and expected demand to continue to increase modestly in the near future. Real estate agents pointed to lower interest rates as the primary factor spurring stronger sales. Real estate agents also remarked on growth in the first-time homebuyer segment and in the ratio of homeowners to renters as lower interest rates helped younger adults become homeowners.

By contrast, homebuilders reported softening demand, which may suggest that households are uncertain about the medium-run economic outlook.

Financial Services

Loan demand was relatively unchanged. Lower interest rates spurred an increase in demand for auto loans, home mortgage originations, and loan refinancings. Some bankers noted that the pipeline for commercial loans remained strong, while others had noticed a slight softening. Core deposits ticked down, mostly as a result of falling interest rates, although one banker commented that competition had decreased because most banks are facing "not enough loan demand to go after deposits."

Professional and Business Services

Activity in professional and business services strengthened. Contacts reported an increase in demand for a variety of products and services, pointing to strong business conditions for their customers. Firms in consulting services suggested that global issues such as international security concerns and worries of future economic volatility have increased demand for their services. The majority of professional and business services contacts anticipate that favorable economic conditions will carry into the first quarter of next year, although a few expect growth to slow.

Freight

Freight activity softened further since the last report. Most contacts reported flat or lower demand for freight services. Contacts cited as contributing to lower freight volumes declines in manufacturing activity, lower volumes of coal shipments, and structural changes to trans-pacific shipping supply chains. One freight executive summarized the situation as "our customers have informed us they front-loaded much of their business to Q1 2019 due to perceived or impending tariffs placed on goods to and from China." Despite the recent softness, contacts were more optimistic than during last period that freight volumes will pick up in the near future. ■

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



Summary of Economic Activity

On balance, the Fifth District economy grew modestly in recent weeks. Manufacturers saw a modest decline in shipments and new orders, overall, as trade policies continued to reduce sales and raise raw materials costs. Port activity grew robustly in recent weeks, particularly import volumes. Trucking companies reported a modest increase in demand and a rail company saw continued strength in auto and construction-related shipments. Travel and tourism picked up modestly despite some disruptions from hurricane evacuations in North and South Carolina. Retail sales rose moderately, overall, but some retailers expressed concerns that economic uncertainty could hamper fourth quarter sales. Home sales, although hampered by low inventories, rose modestly. Meanwhile, shortages of labor and buildable lots restrained new home construction. Commercial real estate leasing, sales, and construction picked up, although some softness was reported in retail and office construction. Loan demand picked up for real estate purchases and refinancing, but was flat for business and auto lending. Nonfinancial services firms saw a slight increase in demand in recent weeks and remained cautiously optimistic about future growth. Labor markets remained tight and wages increased at a moderate rate. Overall, price growth remained moderate.

Employment and Wages

The demand for labor strengthened moderately in recent weeks. Employment agencies reported a seasonal pick-up in new job openings. Also, employers continued to report very tight labor markets and difficulties finding qualified workers. In particular, firms reported shortages of construction workers, engineers, IT professionals, accounting and finance professionals, manufacturing plant workers, mechanics, and truckers. Wages increased moderately, overall, with some larger increases reported for jobs in high demand. Some employers said they were using non-wage compensation, such as sign-on and stay-on bonuses, to attract and retain workers.

Prices

Price growth remained moderate overall since our previous report. Manufacturers indicated that growth in prices paid was little changed in recent weeks and remained slightly above growth in selling prices. Raw materials prices rose for steel plates, scrap metal, and electricity and remained elevated for some tariffed goods, while other materials prices were generally flat to down slightly. Service sector firms also reported moderate growth in prices paid that outpaced growth in selling prices.

Manufacturing

Fifth District manufacturers reported a modest decline in shipment and new orders. Several firms indicated that trade policy was reducing their foreign sales and raising raw materials costs. An electrical equipment manufacturer reported raising prices to cover tariff-related cost increases, while another firm looked to cut costs in other areas of the supply chain. A Virginia furniture manufacturer said that trade issues could lead to jobs losses if not resolved. Meanwhile, a food manufacturer cited the rapidly rising price of chicken as a concern, and a Virginia manufacturer reported looking for new suppliers over concerns about the possible effects of Brexit.

Ports and Transportation

Ports in the Fifth District saw robust growth since our last report. Import volumes continued to exceed export volumes, but both showed healthy growth. Multiple ports saw record volumes in recent weeks. One executive reported an increase in vehicles going to Thailand and Russia for assembly to avoid Chinese tariffs. A Fifth District airport reported that cargo volumes continued to increase, although at a somewhat slower rate. Ports continued to hire and make new investments for expansion.

Fifth District trucking demand increased modestly, after softening in the previous months. One executive reported turning away some business but not as much as a

year ago, while another reported having some excess capacity. Both were fairly content with the current level of demand. Another contact reported a slight disruption from Hurricane Dorian but business remained solid, overall. Meanwhile, a rail company saw some shipments move back to trucks but noted that auto and construction-related shipments remained strong. Some transportation contacts delayed investments over concerns about economic uncertainty.

Retail, Travel, and Tourism

Travel and tourism in the Fifth District were modest since our last report. On the outer banks of North Carolina, hotels and restaurants saw strong business and increased receipts despite a temporary disruption from Hurricane Dorian evacuations. However, some restaurants had to close an extra day a week because of labor shortages when students went back to school. Charleston, South Carolina, also saw fairly solid tourism despite a hurricane evacuation. Meanwhile, hotels in the District of Columbia reported a decline in rates and occupancy in recent weeks.

On balance, retail sales rose moderately in recent weeks. A Virginia auto dealer reported strong sales of trucks and SUVs. However, a few firms reported declines. A North Carolina home furnishing store reported a drop in sales instead of the normal seasonal uptick. Meanwhile, a hardware store said that lumber mills recently reduced production, which affected availability and prices. Several retailers said that they planned to reduce inventories and scale back capital spending over concerns that economic uncertainty could limit consumer spending in the fourth quarter.

Real Estate and Construction

Home sales rose modestly in recent weeks and buyer traffic was steady, although inventories remained low. Most agents continued to see multiple offers in specific areas, especially for homes selling in the \$250,000 to \$400,000 price range. District home prices increased slightly, while average days on the market remained low. New home construction remained limited and was constrained by labor shortages and lot availability.

Commercial real estate leasing rose moderately in recent weeks. District brokers continued to report strong demand for industrial space and office leasing was described as healthy in most locations. Reports on retail leasing were mixed, as demand for smaller inline spaces remained steady, but demand for larger spaces declined. Multifamily leasing remained healthy. Overall, industrial construction remained strong, while retail and office construction slowed. Vacancy rates remained low

across most sub-markets, although some slight increases in retail were reported. Contacts reported that rental rates were flat to increasing slightly. On the commercial sales side, brokers reported modest increases in prices and sales.

Banking and Finance

Loan demand rose moderately in recent weeks. Residential mortgage demand was generally described as stable to increasing modestly. On the commercial side, real estate loan demand strengthened modestly. Business and automotive lending were flat, on balance. Bankers noted an uptick in residential and commercial refinancing due to lower interest rates. Deposits grew moderately since our last report and bankers continued to report heightened rate competition. Measures of credit quality remained stable at high levels.

Nonfinancial Services

On balance, demand for nonfinancial services picked up slightly in recent weeks. Many service providers continued to report difficulties finding workers and rising labor costs, particularly for health insurance. In some cases, those firms faced profit margin compression since they were not able to pass along cost increases to customers. Overall, businesses remained cautiously optimistic about growth prospects over the next several months. There were several remarks about investing in software and technology. A few firms, on the other hand, were holding back on capital spending due to uncertainties around labor constraints and trade. ■

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



Summary of Economic Activity

Reports from Sixth District business contacts indicated that economic activity expanded modestly from mid-August through September, and most contacts expect a similar pace to continue for the remainder of the year. The labor market remained tight, and a growing number of contacts shared reports of wage pressures increasing among lower-skilled positions. Some firms noted rising nonlabor costs and several contacts impacted by tariffs reported the ability to pass along price increases. Retail sales levels remained unchanged since the previous report and automobile dealers noted sales were up for trucks and SUVs. Tourism activity was reported as mixed heading into the fall season. Residential real estate market activity improved since the previous report, and commercial real estate activity was stable. Manufacturing activity improved with purchasing managers noting increased new orders and production since the previous report. Bankers indicated that activity was steady, on balance.

Employment and Wages

Most firms reported that staffing levels were in line with expectations for flat to slightly higher growth in payrolls compared with the prior year. Exceptions emerged in industry sectors directly related to export logistics and freight, where some labor force reductions were noted. Overall, however, business contacts continued to observe tightening in several labor market segments, sharing that many positions remained unfilled for long periods of time, encouraging some employers to lower hiring standards. Labor availability challenges were broadly viewed as firms' biggest constraint to growth. As a result, firms continued to explore recruiting and retention options.

Annual wage increases, on average, remained in the 3-4 percent range; however, wage growth continued to accelerate for lower-skill positions. Across industry sectors, there was growing dialog about increasing minimum hourly wages to \$15 per hour.

Prices

Some firms reported rising nonlabor input costs, particularly for products impacted by tariffs. Overall pricing power remained limited and some businesses were considering alternative approaches to maintaining margins. However, several contacts impacted by tariffs were more successful in passing along increases. The Atlanta Fed's Business Inflation Expectations survey showed

year-over-year unit costs were up 1.9 percent in September. Survey respondents indicated they expect unit costs to rise 2.0 percent over the next twelve months.

Consumer Spending and Tourism

District retail sales levels were unchanged since the previous report. Retailers remained concerned that heightened uncertainty among consumers due to the geo-political environment would negatively impact consumer confidence and spending behavior during the upcoming holiday season. Light trucks and SUV units drove the month-over-month increase in new vehicles sales in August while sales of used vehicles also rose.

District tourism activity remained mixed, and uncertainty remained elevated since the last report. On balance, the start of the fall season was softer than expected with a year-over-year decline in hotel occupancy and average daily rates in Louisiana and Florida. Strong leisure travel and business conference bookings were reported in Alabama and Georgia.

Construction and Real Estate

Low mortgage rates improved housing affordability and led to increased demand for housing throughout the District. Overall, home sales increased on a month-over-month and a year-over-year basis. Demand remained strongest in the more affordable price segments, where inventory remained limited. Declining inventory levels led

to strong upward pressure on home prices. New home sales improved as builders sought to ramp up construction levels while offering incentives and discounts to increase sales traffic.

Overall, the pace of activity in the commercial sector remained steady during the reporting period. Most sectors experienced positive dynamics as vacancies continued to trend downward. Despite growing construction costs, contacts reported healthy construction activity. A robust amount of concentrated new multifamily construction continued to dominate specific metro submarkets leading to increased concerns of possible oversupply. Industry participants noted continuing strength in the industrial sector. Contacts reported capital was readily available, and that greater amounts of financing along with loosening underwriting standards were creating strong tailwinds and risks for some projects.

Manufacturing

District manufacturing contacts reported a moderate rebound in overall business activity since the last reporting period. New orders and production levels increased notably and purchasing managers indicated that supply delivery times were slightly longer. Finished inventory levels were reported to have increased somewhat, while optimism for future production was unchanged, with close to one-third of contacts expecting higher levels of production over the next six months.

Transportation

On balance, transportation activity was little changed since the previous report. Total rail traffic fell, and intermodal volumes declined substantially. Trucking companies saw decreased shipments compared with year-earlier levels. Air cargo contacts reported weakness in international freight volumes. Port contacts continued to report record levels of growth in container traffic.

Banking and Finance

Conditions at financial institutions were steady. Margins at banks were stable as higher loan yields offset increased funding costs. Total loan growth was positive but slowing, especially for smaller community banks. Asset quality remained strong with fewer loans transitioning from 30-89 days delinquent to 90 days or more.

Energy

Energy manufacturing continued to expand across the District in order to meet growing domestic and global demand for chemicals, natural gas, and refined products. Business contacts reported continued investment in pipeline infrastructure, as demand for transportation outlets for products to be processed remained elevated. Investment persisted in utilities, where growth in refining

and chemical processing segments has necessitated additional power plants and transmission lines. Utilities contacts described growing investment in natural gas pipeline infrastructure. Renewables activity was steady from the prior reporting period, as solar energy facility installations continued across Florida.

Agriculture

Agricultural conditions remained mixed. Reports indicated much of the District was drought-free, although parts of Alabama, Georgia, the Florida panhandle, and Tennessee continued to experience abnormally dry to moderate drought conditions. The USDA designated several counties within the District as natural disaster areas due to damages and losses attributed to several inclement weather events this year. Cotton, corn, and peanut production forecasts were ahead of last year's production while rice and soybean production forecasts were below. On a year-over-year basis, prices paid to farmers in July were up for corn and beef but down for cotton, rice, soybeans, broilers, and eggs. However, on a month-over-month basis, prices increased for corn, cotton, rice, and soybeans but declined for beef, broilers and eggs. ■

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 overall in late August and September, and contacts expected growth to continue at a similar pace over the next 12 months. Employment, consumer spending, business spending, and construction and real estate all increased slightly. Manufacturing production declined a bit. Wages and prices rose slightly and financial conditions improved modestly. The crop harvest got off to a slow start, as rains delayed fieldwork.

Employment and Wages

Employment increased slightly over the reporting period and contacts expected a similar-sized increase over the next 12 months. Hiring continued to be focused on professional and technical, sales, and production workers. As they have for some time, contacts indicated that the labor market was tight and that it was difficult to fill positions at all skill levels. One auto supplier facing a decline in sales due to the GM strike planned to cut workers' hours rather than making layoffs because he felt that in the tight labor market, it would be too difficult to find new workers after the strike ended. A staffing firm reported little change in billable hours. Wages increased slightly overall. Contacts were most likely to report wage increases for professional and technical, administrative, and production workers. Many firms reported rising benefits costs.

Prices

Prices rose slightly in late August and September, though contacts expected prices to rise somewhat faster over the next 12 months. Retail prices moved up slightly, with reports of increases related to both realized and potentially higher tariffs. Producer prices edged up, with contacts reporting stable freight costs and slower increases in labor and materials costs.

Consumer Spending

Consumer spending increased slightly on balance over the reporting period. Nonauto retail sales moved up a bit, with reports of gains in the appliances, outdoor, and lawn and garden sectors, but declines in apparel. Contacts expected holiday spending to be similar to or slightly higher than last year. Contacts reported lower tourism volumes. New light vehicle sales increased at a moderate pace and dealers reported that margins on new vehicles continued to shrink. Used vehicle sales remained at a strong level, surprising some dealers. Contacts said that the strike at GM hadn't yet hurt new vehicle sales, but believed that it would if the strike continued into November. The strike had created parts shortages though, which resulted in extended wait times for some repairs. In addition, there were reports of dealers providing only basic services for GM vehicles such as oil changes and tire rotations.

Business Spending

Business spending increased slightly in late August and September. Retail inventories were a little high overall, with reports that sales of fall merchandise were below expectations. Contacts said that the strike at GM was slowly depleting inventories of GM vehicles, but that inventories at GM suppliers were expected to keep growing until the strike ends. Most manufacturers reported

comfortable inventory levels, though there were reports of shortages of stainless steel. Capital spending moved up slightly, and contacts expected that pace to continue over the next 12 months. Outlays were primarily for replacing industrial and IT equipment and renovating structures. Contacts continued to note that elevated uncertainty about international trade policy was holding back investment and spurring efforts to diversify supply chains. Demand for transportation services declined modestly. Commercial and industrial energy demand was little changed, with increases in commercial consumption offset by declines in industrial consumption.

Construction and Real Estate

Construction and real estate activity increased slightly over the reporting period. Residential construction rose modestly, with increased starter home construction outweighing lower high-end homebuilding. Contacts indicated that rising costs continued to put a damper on building. Residential real estate activity was little changed on balance, with higher sales of low- and moderately-priced homes offset by fewer sales of high-priced homes. Overall, home values rose slightly. Nonresidential construction activity was little changed. Nonresidential builders also noted that rising costs were slowing activity. Commercial real estate activity increased slightly. Contacts reported that demand from investors for buildings with tenants already in place continued to be strong. Rents, vacancies, and the availability of sublease space were little changed.

Manufacturing

Manufacturing production decreased slightly in late August and September. Demand in the automotive industry decreased some, but remained at a solid level. Contacts noted that the halt in production at GM plants due to the strike was starting to affect auto suppliers' order books. Demand for steel decreased slightly. Heavy machinery manufacturers also reported a slight drop in orders, led by declines in demand from the oil and gas sector. Orders fell for specialty metals manufacturers as well, driven by decreased demand from the auto industry. Demand for heavy trucks increased, though contacts expected demand to slow through the rest of the year.

Banking and Finance

Overall, financial conditions improved modestly over the reporting period. Participants in the equity and bond markets reported a slight improvement in conditions. Business loan demand rose modestly, with growth spread across sectors. There were numerous reports of increased refinancing volumes for commercial real estate loans. Loan quality remained solid across most sectors. Contacts again said that lending standards were

little changed, but noted that strong competition was creating pressure to loosen them. Consumer loan demand increased modestly, with reports of higher mortgage refinancing and home purchasing volumes. Loan quality and standards were little changed.

Agriculture

The corn and soybean harvest got off to a slow start in the District, as rains delayed fieldwork. In addition, the harvest started later than usual because heavy spring rains had delayed planting and crops were up to a month behind in maturity. Contacts had mounting concerns about how much of this year's crop would be able to fully mature before a hard frost hits. Overall, contacts expected the harvest to be well below those of recent years. Corn and soybean prices moved higher, especially toward the end of the reporting period. Egg and dairy prices were up, but hog and cattle prices drifted down. Contacts noted that although there was still uncertainty about the size of China's purchases of agricultural products, there was positive news for farmers in the newly announced trade deal with Japan and in recent adjustments to the implementation of the Renewable Fuels Standard that will support demand for biofuels. ■

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



Summary of Economic Activity

Reports from contacts suggest economic conditions have improved slightly since our previous report. Contacts from multiple industries noted a heightened sense of economic uncertainty. Labor market conditions remained tight, although there were indications of declines in manufacturing employment. Contacts noted a strengthening of price pressures, but remained mixed as to their ability to pass higher costs on to their customers. Consumer spending activity increased slightly. Outstanding loan volumes at District banks continued to expand, but growth slowed compared with three months ago. Row crop conditions remained poor; production levels are expected to be well below those of last year.

Employment and Wages

Employment conditions have been mixed since the previous report. The number of posted job vacancies for nonfinancial services occupations increased from July to August. Contacts continued to report labor market tightness and difficulty hiring and retaining qualified employees; one St. Louis area hospitality firm reported that some candidates were not even showing up for scheduled interviews. Several firms reported taking additional steps to compete for workers, such as increasing benefits, relaxing hiring standards, and increasing outreach. Other firms described creative attempts to adapt their business practices to a worker shortage, such as retraining existing employees to work other positions. Conversely, survey-based measures of employment showed declines in some sectors, particularly manufacturing. An Arkansas grocer reported that the state's increase in the minimum wage has forced them to rethink the number of employees they can deploy per store.

Wages have grown moderately since the previous report, in part due to continued upward pressure from the tight labor market. Wage growth at smaller firms has been more modest. Several local contacts at such companies reported struggling to match wage increases offered by larger firms.

Prices

Price pressures have increased modestly since the previous report. Business contacts largely noted positive growth in nonlabor input costs. Construction contacts, in particular, reported moderate growth, with some of these price increases attributed to new tariffs. This trend comes despite recent declines in steel prices, which have fallen 8 percent since the previous report and 33 percent from one year ago. The ability of firms to pass higher input costs on to consumers was mixed. Contacts generally reported increasing prices charged to consumers, but some cited difficulties doing so due to price competition from online competitors and inflexible pricing agreements with large buyers.

Consumer Spending

Reports from general retailers, auto dealers, and hospitality contacts indicate that consumer spending activity has increased slightly since our previous report. August real sales tax collections increased in Missouri, Arkansas, Tennessee, and Kentucky relative to a year ago. Consumer sentiment in West Tennessee has increased since June, but future expectations about the economy six months from now have declined. Auto dealers in Arkansas reported stronger sales in the past few months compared with earlier in the year, especially for used vehicles. Hospitality contacts in the St. Louis region

remained optimistic about tourism growth in the coming months despite some uncertainty and downside risk.

Manufacturing

Overall manufacturing activity has declined slightly since our previous report. Survey-based indexes suggested that manufacturing activity decreased slightly in both Arkansas and Missouri from August to September. Production levels were down slightly in Missouri but relatively unchanged in Arkansas. New orders fell in both states. Several companies announced new capital expenditures and hiring plans, but others announced operation reductions or facility closures.

Nonfinancial Services

Activity in the transportation sector has improved modestly since the previous report. Barge activity along the Arkansas and Mississippi rivers continued to recover from the slowdowns caused by months of high water conditions earlier in the year. Passenger traffic at District airports remained above year-ago levels while cargo traffic declined slightly. Contacts in Arkansas reported that commercial trucks and rail cars are in good supply. Logistics firms announced plans to expand operations and increase their workforce within the District.

Real Estate and Construction

Residential sales activity has been unchanged since the previous report. Seasonally adjusted home sales increased slightly in Little Rock but were unchanged in Louisville, Memphis, and St. Louis. Inventory levels in the District continued to be depressed.

Residential construction activity increased slightly. There was a slight uptick in August permit activity across District MSAs relative to the previous month. Contacts from Louisville and Little Rock reported that landlords have become less inclined to renovate older buildings because of rising labor and material costs.

Commercial construction activity was mixed. The number of commercial construction projects fell slightly from July to August across most of the states in the District. Multiple contacts reported increased uncertainty surrounding projects due to the ongoing trade dispute with China. A contact from Little Rock reported that rising costs have limited speculative construction. However, there were multiple reports of healthy demand for commercial construction and infrastructure development in the District, and local contacts continued to note labor shortages.

Banking and Finance

Banking conditions in the District have improved modestly since the previous report. Outstanding loan volumes at District banks grew by 3 percent in the third quarter relative to year-ago levels, which was a slight decrease from the second quarter of 2019. This slowdown continued the nearly steady downward trend in loan growth since the end of 2016. District growth remained slower than the national rate for the fourth consecutive quarter. Commercial and industrial lending maintained a positive growth rate, growing by 2 percent year over year, although growth has slowed significantly in this category over the past two quarters. Commercial real estate lending grew at the same rate as the prior quarter. However, residential real estate lending contracted slightly.

Agriculture and Natural Resources

District agriculture conditions have declined modestly compared with the previous report. Production and yield forecasts fell for corn and soybeans from August to September but improved for cotton. Expected rice production also declined over the same period, but expected yields ticked up. Relative to 2018, corn, rice, and soybean production levels are projected to decrease sharply, largely due to the unusually wet weather and flooding during the planting season. However, cotton production levels are expected to improve compared with last year. The outlook among contacts remained relatively pessimistic due to depressed commodity prices and trade uncertainty. Farmers in southern Indiana also expressed concern over the recent lack of rain.

Natural resource extraction conditions have declined slightly from July to August, with seasonally adjusted coal production decreasing about 1 percent. August coal production was nearly 2 percent higher than a year ago.

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



Summary of Economic Activity

The Ninth District economy grew at a slight pace since the last report. Employment was flat, while wage pressures were moderate overall and price pressures remained modest. The District economy saw growth in tourism, services, commercial construction and real estate, and energy. Consumer spending and residential construction and real estate were mixed. Manufacturing decreased slightly, while agricultural conditions remained weak.

Employment and Wages

Employment was flat since the last report. August employment rose over the previous month in three District states, but fell in two others. Hiring demand remained healthy, but there were some signs of softness. Separate polls of human resources contacts in Minnesota and Montana showed that the large majority of firms were hiring, and virtually none were cutting staff. Construction firms in Minnesota reported strong demand for skilled trades workers, but lower demand for other staffing needs. Staffing contacts in Minnesota saw slight growth in job orders overall in the third quarter compared with last year, but several reported significant decreases. Expectations for the fourth quarter were mostly flat, with many expecting an increase in unfilled job orders due to very tight labor conditions. A strong majority of respondents to a survey of Ninth District firms indicated that they planned to leave employment unchanged or increase it slightly over the coming three months. August job postings were lower in Minnesota, Montana, and North Dakota; flat in Michigan's Upper Peninsula; and up slightly in South Dakota. Hiring sentiment in two regional indexes fell notably for respondents in Minnesota and the Dakotas; one index fell into contraction for all three states. Initial unemployment claims rose slightly overall among District states over the most recent six-week period (ending mid-September) compared with a year earlier, with Wisconsin and the Dakotas seeing the largest increases.

Wage pressures were moderate overall. A solid majority of human resources poll respondents in Minnesota and Montana said that wages rose by 3 percent or less over the past 12 months, and wage expectations for the coming 12 months were softer. Wage growth was stronger among construction and staffing contacts in Minnesota, but each group also expected wage pressure to lessen somewhat in the coming year. A staffing contact in Montana said wages for entry-level positions continued to rise, and those who raised wages last year to stay competitive were re-evaluating additional increases. A North Dakota staffing contact noted that while wages were rising overall, some clients were intentionally not raising wages for unskilled labor because it "does not make much difference" in the workers they attract or retain, "unless they raise pay scales significantly."

Prices

Since the previous report, price pressures remained modest. Most respondents to a survey of firms across the Ninth District indicated only flat or slight increases in input costs over the previous quarter, with a similarly subdued outlook for the final three months of the year. However, firms continued to note faster growth in health insurance premiums. Retail fuel prices in District states as of early October were roughly unchanged relative to the previous reporting period. Prices received by farmers in August increased from a year earlier for corn,

potatoes, hogs, cattle, milk, and turkeys, while prices for wheat, soybeans, hay, eggs, and chickens decreased.

Consumer Spending

Consumer spending was mixed since the last report. South Dakota gross sales in August grew by 5 percent compared with a year ago, and the state's gaming handle was almost 4 percent higher. Conversely, gross sales in Wisconsin were flat, and North Dakota sales tax collections were 5 percent lower than a year earlier. Assisted by good weather, the Minnesota State Fair in late August and early September saw record attendance. A vehicle dealership with multiple outlets in the western Dakotas and Montana saw new-vehicle sales grow by 4 percent in August, while used cars fell by 4 percent. Another dealership with outlets across the eastern portion of the District saw strong sales over the summer, including August and September, with sales slightly stronger in used versus new vehicles. According to industry sources, marine and recreational vehicle sales in District states have been lower this summer compared with last year, but powersport sales have been on par.

Tourism saw growth overall in the most recent period. In northern Wisconsin, tourism businesses reported strong activity at the end of the summer, with lodging facilities seeing solid bookings through mid-September. A large campground in the region reported modestly more summer bookings and higher average customer spending. Hotel occupancy rates in Minnesota were slightly higher in August compared with a year earlier, and revenue per room was 3 percent higher. Total passengers at District airports increased compared with a year earlier: August passengers through Minneapolis-St. Paul were up 3 percent, and seven other regional airports saw increases ranging from 4 percent to 20 percent. However, among nine major national parks in District states, only two registered an increase in August visitors compared with a year earlier.

Services

Activity in the professional services sector increased moderately. Several engineering firms reported large backlogs of work. Regional hospital systems and clinics continued to plan large capital expenditures for expansions over the medium term. In contrast, contacts in the trucking and rail transportation sector reported a slowdown in freight volumes.

Construction and Real Estate

Commercial construction rose moderately since the last report. A construction database showed that August construction starts in the District were higher than a year earlier. A second industry database showed that new

and active projects in the District over the most recent six-week period (ending September 27) were roughly on par with the same period a year earlier. A number of subcontractors in Minnesota reported large backlogs. Industry contacts in Montana also reported healthy activity. Residential permitting for single-family units in August was flat or lower across the large majority of metros in the District compared with a year earlier. While single-family construction lagged, however, some regions continued to see strong multifamily permitting, including Minneapolis-St. Paul.

Commercial real estate grew modestly since the last report. Despite steady delivery of new units, multifamily housing vacancy rates in Minneapolis-St. Paul remained among the lowest in the country for major metropolitan regions, leading to rent increases. Industrial space in the region continued to see low vacancy rates and healthy expansion. New retail construction in Minneapolis-St. Paul has declined, although grocery has continued its expansion in the region, and vacancy rates remained fairly stable. Residential real estate was mixed. Closed home sales in August fell compared with a year earlier across Minnesota, as well as in Missoula, Mont., Sioux Falls, S.D., Grand Forks, N.D., and northern Wisconsin. However, closed sales rose in Bozeman and Helena, Mont., Fargo, N.D., and western Wisconsin.

Manufacturing

District manufacturing activity decreased slightly relative to the previous report. An index of manufacturing conditions indicated decreased activity in September compared with a month earlier in Minnesota and South Dakota and flat activity in North Dakota. Multiple contacts in custom manufacturing and metal fabrication reported a slowdown in new orders, and several said they expect a slower fourth quarter. In contrast, producers of heavy equipment and building materials noted increased demand from the construction sector.

Agriculture, Energy, and Natural Resources

District agricultural conditions remained weak. Heavy rains that hampered crop planting this season have persisted into the fall and may complicate harvests in some areas, according to sources. Recent forecasts indicated that corn and soybean production in District states may decrease 10 percent and 20 percent, respectively, in 2019 compared with last year. District oil and gas exploration activity increased moderately relative to the previous report. The number of active drilling rigs rose as of September from a month earlier, but industry contacts reported that demand for workers and materials was little changed. District iron ore mines continued to operate at near capacity. ■



Summary of Economic Activity

Economic activity in the Tenth District rose slightly in late August and September, with gains in consumer spending, professional and high-tech services, transportation and wholesale trade driving overall growth. Consumer spending rose modestly, led by solid retail and auto sales. Manufacturing activity edged down, driven by continued declines in durable goods plants, but was expected to expand slightly in the coming months. District real estate activity increased, but contacts expected conditions to soften this fall. Energy activity declined in the District as the number of active rigs fell and oil and gas production levels also eased. The agriculture sector remained weak, while crop and cattle prices remained relatively stable. Bankers reported modestly higher loan demand and an improvement in loan quality. Employment levels rose in most services sectors, but contacts in the energy and manufacturing sectors noted a decline. District manufacturing and services firms expected employment to increase by 3 percent on average in 2020. Wages grew modestly, and the pace of gains was anticipated to accelerate in the months ahead. District input and selling prices also rose modestly since the previous survey period.

Employment and Wages

District employment rose since the last survey as a majority of services sector contacts noted increasing employment levels, while contacts in the manufacturing and energy sectors reported a slight decline. Employment levels were above year-ago levels in both the services and manufacturing sectors, but slightly below in the energy sector. Expectations for employment growth were positive across most sectors, and survey respondents in the manufacturing and services sectors expected employment in their firms to rise by 3 percent on average in 2020.

A majority of contacts continued to report labor shortages across all skill levels. Specifically, contacts noted shortages for truck drivers, hourly retail and food-services positions, auto-technicians, pilots, IT personnel, nurses, and skilled construction workers. Wages were modestly higher than the previous survey period, and wage gains were expected to accelerate at a faster pace moving forward.

Prices

District selling and input prices increased modestly in late August and September and were moderately above year-ago levels. Contacts expected additional gains in the coming months. Retail input and selling prices were strongly above levels from both the previous survey

period and the same period one year-ago, and expectations were for similar increases moving forward. In contrast, restaurants reported steady input and selling prices compared to the previous survey period, although both were moderately above year-ago levels. Respondents in the manufacturing and transportation sectors reported modestly higher input and selling prices compared to a year ago and anticipated similar gains in the months ahead. Selling prices in the construction supply sector rose modestly since the previous survey but remained modestly lower than year-ago levels.

Consumer Spending

Consumer spending climbed modestly compared to the previous survey period, and contacts anticipated additional sales growth heading into the winter months. Retail sales rose modestly since the previous survey period, and expectations were for sales to rise in the next few months but at a slower pace. Lower-priced items continued to sell well, while sales of higher-priced items lagged. Auto sales expanded robustly compared to the previous survey period and year-ago levels, and contacts anticipated modest increases in the coming months. Unlike retail and auto contacts, restaurant contacts reported a strong decline in sales in late August and September. However, restaurant sales remained slightly above year-ago levels and were expected to hold steady in the months ahead. Tourism sales were flat

compared to the previous survey period, and contacts anticipated a modest decline in the coming months.

Manufacturing and Other Business Activity

Manufacturing activity edged lower compared to the previous survey and year-ago levels, driven by continued declines at durable goods plants. Manufacturers expected activity to expand slightly in the months ahead. New orders and the backlog of orders declined, while factory production and shipments increased slightly. Factory production, shipments, and volume of new orders were expected to increase moving forward. Capital spending remained modestly above year-ago levels, but contacts anticipated much slower growth in the months ahead. One contact attributed delayed capital spending to high tariffs that could not be passed along to customers.

Outside of manufacturing, firms in the transportation sector experienced moderately higher sales, while sales increased strongly in both the wholesale trade sector and professional and high-tech services sector. Expectations for all three sectors were for strong growth moving forward.

Real Estate and Construction

District real estate activity increased since the last survey, but residential construction activity declined and contacts expected a slower pace of overall real estate activity moving forward. Contacts in the residential real estate sector reported modestly higher home sales and inventories since the previous survey, and inventories were projected to hold steady in the months ahead. Residential real estate respondents continued to note that sales of low- and medium-priced homes outpaced sales of higher-priced homes. Residential construction activity fell modestly in late August and September and was projected to decline further this fall. Commercial real estate activity rose slightly as sales increased, construction underway was flat, and vacancy rates fell. Commercial real estate contacts projected activity to continue to expand but at a slightly slower pace in the next few months.

Banking

Bankers reported a modest increase in overall loan demand across several categories. Respondents indicated a modest increase in demand for residential real estate loans. Demand for agricultural and consumer installment loans increased slightly from previous levels, while the demand for commercial real estate and commercial and industrial loans declined slightly. Bankers indicated modest improvement in loan quality compared to a year ago, but expected a slight decrease in loan

quality over the next six months. Credit standards remained largely unchanged in all major loan categories, and deposit levels were stable.

Energy

District energy activity decreased since the previous survey period, and expectations for future drilling and business activity also declined. The number of active rigs continued to fall across most District states in both the oil and gas sectors. Oil and gas production levels also eased in the third quarter, and District energy firms reported drilling and business activity levels were below those from this time last year. Firms reported that total revenues, profits, employment levels, and access to credit also declined. Sixty percent of regional energy contacts indicated that current low prices for oil and natural gas were the main constraint limiting near-term growth in activity among areas where their firms were active. Additionally, a majority of District energy contacts expressed negative impacts from trade tensions and tariffs over the past year, and most firms anticipated negative business effects from trade policy to continue in 2020.

Agriculture

Agricultural economic conditions in the Tenth District generally remained weak. Major row crop and cattle prices were generally stable following sharp declines in the prior period. U.S. corn and soybean production was expected to decline slightly in 2019, but not enough to materially reduce large outstanding supplies. In contrast to other areas of the U.S., a slight increase in corn production was expected throughout the region and could contribute to a slight improvement in revenues. Conversely, soybean production was expected to be moderately lower, and prices continued to be damped by ongoing trade disputes. In the livestock sector, recently disrupted beef production channels continued to put downward pressure on cattle prices, but stronger pork exports drove a moderate increase in hog prices. In addition, the distribution of 2019 USDA trade relief payments could provide additional short-term support to farm cash flows. ■

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. Growth continued in manufacturing and nonfinancial services and resumed in retail after flat sales in the previous period. Home sales increased and loan demand accelerated. Energy activity declined and agricultural conditions deteriorated due to hot and dry weather. Employment growth was solid while wage pressures continued. Selling prices were largely flat, as firms' ability to pass through cost increases remained limited. Outlooks improved in manufacturing and nonfinancial services, were unchanged in retail and financial services, and softened in energy. Uncertainty generally remained elevated, driven by trade tensions, the political climate, recession concerns, and weaker global growth.

Employment and Wages

Employment continued to expand at a solid pace. Hiring picked up in manufacturing, while headcounts fell in the oil and gas sector. A staffing services firm noted that direct hires have been increasing while demand for contract workers has abated. A majority of firms trying to hire reported they were having difficulty finding qualified workers. Labor shortages continued to span most industries, skill levels, and regions. Contacts in retail, leisure and hospitality, and professional and business services cited difficulty hiring and retaining workers as a leading issue. A manufacturing contact expressed plans to invest more in capital equipment to reduce their dependence on labor in expanding their business.

Wage pressures continued but retreated slightly to more average levels.

Prices

Input prices continued to rise at a moderate pace, with an uptick seen in prices paid for raw materials among manufacturers. Several contacts pointed to tariffs and trade policy as a driver of higher costs. Firms' ability to pass higher costs on to customers was somewhat mixed, but reports of difficulty were more common than reports of ease. Selling prices were largely flat in the manufacturing and services sectors while prices re-

ceived for oil and gas support services declined. Several contacts reported squeezed profit margins.

Manufacturing

Expansion in the manufacturing sector continued at a moderate pace. Growth in September was slightly slower than what was seen in August, but still stronger than the first half of the year. The modest deceleration in September output growth was fairly broad based, led by machinery and fabricated metals manufacturing. Refiners and chemical producers indicated softening global demand growth was putting downward pressure on production this year. Some recent strength was seen in transportation equipment manufacturing.

Outlooks among manufacturers remained positive, although several contacts pointed to increased uncertainty stemming from tariffs and trade tensions, the political climate, and the global economy.

Retail Sales

Retail sales strengthened slightly over the reporting period, although some weakness was seen in autos and in sales at stores located near the Mexico border. Contacts in Austin noted very healthy retail activity, with national chains and local retailers eager to expand in the region but rather limited by lack of available retail space. One contact noted a negative impact from Tropical

Storm Imelda. Outlooks were largely unchanged, an improvement from the deterioration noted so far this year.

Nonfinancial Services

Nonfinancial services activity expanded moderately over the reporting period. Growth in professional and technical services continued to lead the expansion, while administrative and support services also picked up pace. Staffing services contacts reported high demand in all markets, with particular strength in IT, accounting, banking, and healthcare. Activity in the transportation and warehousing sector remained mixed, with strong airline passenger demand and rising sea cargo volumes but some weakness in air and rail cargo volumes. Both rail and sea cargo contacts reported declines in trade with China, in some cases offset by stronger trade with Southeast Asia.

Service-sector outlooks were slightly positive. Contacts cited uncertainty as a serious issue hampering future demand and business expansion plans. Tariffs, the presidential election, and national or global recession fears were among the drivers of increased uncertainty.

Construction and Real Estate

Home sales continued to trend upward. The increase was broad based, with some contacts noting that sales were better than expected. New-home sales appeared to be the strongest in Austin. Recent flooding in the eastern parts of Houston may impact housing starts in coming weeks. Margins improved slightly, and outlooks were cautiously optimistic, with some builders concerned about an impending U.S. recession.

Apartment demand was strong in Dallas-Fort Worth (DFW) and Houston in the third quarter. Rent growth firmed up close to its long-term average rate in DFW while rent increases in Houston remained sluggish. Apartment leasing stayed solid in Austin, with rent growth in the metro well above the U.S. average. Healthy demand along with a slowing pace of deliveries boosted rents in San Antonio. Apartment construction remained elevated, particularly in DFW.

Reports on the office market indicated leasing continued to be active for new Class A space. Industrial demand and construction remained solid, although there was some concern about the high levels of construction in Houston.

Financial Services

Growth in loan demand and volumes picked up pace over the reporting period, led by particular strength in real estate lending. Volumes for commercial and industri-

al loans edged up, while consumer loan volumes declined modestly. Credit standards tightened in all loan categories. Nearly half of contacts noted declining margins. Bankers reported that business activity improved further over the past six weeks, and outlooks were unchanged. Bankers cite concerns regarding lower interest rates, the uncertain business climate, and political and trade tensions.

Energy

Drilling activity in the Eleventh District continued to erode, contributing to notable weakness in oilfield services. However, oil and gas production continued to rise and well completion continued to increase in the Permian Basin.

According to contacts, the attacks on Saudi Arabian oil facilities did not change capital spending expectations in the oil and gas sector—it would take a lasting increase in the price of oil to influence those plans. Firms were slightly more pessimistic in their outlooks for the remainder of the year than they were during the previous reporting period thanks to spending cuts and a weaker economic outlook.

Agriculture

Hot and dry weather continued across most of the District, with some parts of Texas entering severe to extreme drought. As a result, crop and pasture conditions deteriorated over the reporting period, though harvest was already well underway for row crops. Yields were favorable for much of the 2019 corn and sorghum crop, which at current crop prices has allowed many producers to cover their costs. Wheat and cotton yields were good but prices were below break-even levels. Contacts report a bearish outlook for cotton prices as export and domestic demand estimates are being cut due to slower economic growth, and supply estimates are not being cut as much as anticipated. Trade issues were still very prominent on the minds of agricultural producers, however some contacts reported more optimism regarding a resolution. ■

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



Summary of Economic Activity

Economic activity in the Twelfth District expanded at a modest pace during the reporting period of mid-August through September. The labor market remained tight, employment growth was modest, and wages grew moderately. Reports on price inflation were mixed. Sales of retail goods increased modestly, and activity in consumer and business services expanded slightly. The pace of commerce in the manufacturing sector was little changed, and agriculture sector slowed further. Activity in residential and commercial real estate markets was solid. Lending grew further.

Employment and Wages

The labor market remained tight, and employment levels grew modestly on balance. Some contacts explicitly pointed to growing customer demand as the impetus for adding employees. In general, labor demand continued to outpace supply in sectors such as construction, finance, and hospitality. However, some businesses observed that they were able to add workers because labor shortages abated somewhat over the reporting period. In Washington, large e-commerce companies continued hiring to staff new distribution centers. A community bank in Oregon added positions in response to swifter lending activity. A restaurateur in Southern California reported that a shortage of qualified workers resulted in some restaurants reducing operating hours. A contact in Oregon reported that retail job growth was slightly negative year-on-year and that some manufacturers were unable to fill positions due to skills gaps.

Wages continued to rise moderately across sectors. Labor shortages in construction boosted wages in that sector and resulted in longer lead times for projects. Contacts reported rising salaries for skilled information technology and software development personnel. A business services provider reported that wage growth has decelerated since last year, but is still very high by historical standards. Several contacts emphasized that rapid employee turnover continued to be a key challenge and was a driver of more generous retention-focused

benefit packages and higher wage offers. In California, newly enacted legislation about the designation of independent contractors as employees is expected to increase labor costs for impacted companies significantly in the new year.

Prices

Reports on prices were mixed, but suggested that inflation was stable or up slightly on balance. Contacts in a variety of sectors reported no noticeable change in pricing over the reporting period. Some attributed this to brisk competition among businesses, which limited the ability to pass on higher labor costs to customers. Selling prices for some businesses in the logistics and professional services industries picked up moderately due to solid product demand, while inflation for health-care services jumped slightly. A few contacts observed higher fuel prices following supply disruptions in the Middle East. Building materials costs rose across the District, with some reports attributing this to a pickup in demand in the residential real estate market. However, lumber prices continued to run well below historical averages due to weak export demand, and some local areas saw declines in building material costs in response to limited construction activity. In the agriculture sector, crop prices softened overall due to weaker demand from abroad, though some products saw higher selling prices on net due to lower yields following poor growing conditions.

Retail Trade and Services

Sales of retail goods increased modestly. Across the Mountain West, retailers reported that sales volumes rose moderately and margins were healthy even though consumer confidence about the outlook waned slightly on rising uncertainty. Sales at home improvement stores in Oregon were robust. In Arizona, retail sales were stable, while in Alaska, sales continued to decline and a large apparel retailer left the state. Businesses continued to observe consumer demand shift to e-commerce outlets from brick-and-mortar locations.

Activity in the consumer and business services sectors expanded slightly. Health-care service providers in the Mountain West noted solid customer demand and the capacity to meet it. The restaurant industry in the Pacific Northwest was generally strong, with local tourism and rising incomes supporting spending. In Seattle, a contact noted that a new restaurant opened about every day, on average, though another contact at a quick service beverage company in the area observed flat sales growth across locations. The tourism industry in Southern California slowed somewhat, with a hotel owner reporting lower occupancy rates for that type of lodging.

Manufacturing

Activity in the manufacturing sector was little changed. A metals manufacturer in the Pacific Northwest reported steady activity across various product lines, while a contact in the semiconductor industry in California reported that sales and inventory levels were normal. The slowing trend in both housing and global growth along with the stronger dollar generally constrained sales at domestic wood product manufacturers, though some noted that a recent tick up in the housing market stabilized demand somewhat.

Agriculture and Resource-Related Industries

Activity slowed further in the agricultural sector. Poor weather in Idaho damaged wheat harvests, while potato yields were lower than last year due to poor growing conditions earlier in the season. The outlook for Idaho's corn crop was similarly weak due to colder-than-usual conditions. Demand for agricultural exports continued to run soft, with contacts generally citing tariffs and slower global growth as reasons for the decline in exports. A lumber producer in Oregon noted that lumber exports to China have dropped so much that the industry has started scaling back harvesting capacity to preserve domestic prices. An apple grower in Washington reported an

oversupply of fruit in the market, and contacts in California noted that cherry and nut exports to China were down noticeably. Demand from abroad for various meat products was also weak due to tariffs, though a negative supply shock in the Chinese pork industry continued to drive stronger-than-usual demand for swine exports. A contact in California reported that demand for farmland has fallen recently due to realized and potential effects of trade policy developments, resulting in moderating land prices.

Real Estate and Construction

Residential real estate activity was strong. Permitting for single- and multi-family homes picked up in most areas, though construction starts were constrained by a lack of labor and higher material costs, which led inventories to fall noticeably and lead times to increase. Accordingly, selling prices ticked up across the District as demand outpaced supply. An exception was in the Central Valley of California, where a contact reported that permitting was down and inventory levels increased more than expected. In areas such as eastern Washington and central Oregon, sales activity was brisk due to new buyers arriving from higher-cost areas. A contact in the Mountain West reported that mortgage rates lower than earlier in the year spurred an increase in demand from formerly tepid levels.

Activity in commercial real estate markets was also solid, and vacancy rates were generally low. In the Pacific Northwest, commercial permitting was especially brisk, and contacts there noted that construction would be centered on transportation infrastructure, health-care services, and public schools. In eastern Washington, rising demand for industrial space from the cannabis industry boosted leasing rates. In central Oregon, three of the largest commercial construction contractors were booked for projects through next year.

Financial Institutions

Lending activity grew solidly over the reporting period. Across the District, loan demand was brisk, supported by lower interest rates. Some banks reported that home mortgage refinancing activity increased further. Venture capital funding was strong in Seattle. Lenders to the agriculture sector in the Mountain West were concerned about weakness in that industry leading to loan defaults down the road. Generally, however, contacts reported that credit quality was healthy, with a few bankers noting slightly tighter underwriting standards. ■



