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Summary of Commentary on _____

Current Economic Conditions

By Federal Reserve District

October 2016

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICTS

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Summary*

Reports from the twelve Federal Reserve Districts suggest national economic activity continued to expand during the reporting period from late August to early October. Most Districts indicated a modest or moderate pace of expansion; however, the New York District reported no change in overall activity. Compared with the previous report, the pace of growth improved in the St. Louis, Kansas City, and Dallas Districts. Outlooks were mostly positive, with growth expected to continue at a slight to moderate pace in several Districts.

Labor market conditions remained tight, with modest employment and wage growth noted over the reporting period. Most Districts characterized input costs and/or output prices as fairly flat, but prices increased slightly on net.

Manufacturing activity was mixed, and the strong dollar continued to dampen exports of manufactured goods according to a few District reports. Most regions saw an uptick in retail spending, and outlooks were for modest growth in the months ahead. Reports on auto sales and tourism varied across Districts. Demand for nonfinancial services generally increased, and staffing firms noted steady or higher demand. Port traffic and e-commerce-related activity rose in Districts that commented on it, but reports on other transportation services mostly indicated weakness. Residential construction and real estate activity expanded further, although low home inventories continued to constrain sales in a few Districts. Home price appreciation continued at a modest pace in general, and commercial real estate activity and construction improved since the last report. Demand for business and consumer loans increased, aside from some seasonal slowing, and credit quality remained strong or improved. Agricultural conditions were mixed, as low commodity prices pressured farm revenues despite generally strong crop yields. There were signs of stabilization in the oil and natural gas sector, while reports of coal production were mixed.

Employment, Wages, and Prices

Employment expanded at a modest pace over the reporting period. Reports of hiring were strongest in the Richmond, Chicago, St. Louis, and San Francisco Districts. Layoffs in the

* Prepared at the Federal Reserve Bank of Dallas based on information collected on or before October 7, 2016. This document summarizes comments received from businesses and other contacts outside the Federal Reserve and is not a commentary on the views of Federal Reserve officials.

manufacturing sector were noted in the New York, Philadelphia, Cleveland, and Richmond Districts. The Dallas District reported that energy-sector layoffs had abated, and manufacturing employment was stable following payroll reductions in recent months. Labor market conditions remained tight across most Districts. While reports of labor shortages varied across skill levels and industries, there were multiple mentions of difficulty hiring in manufacturing, hospitality, health care, truck transportation, and sales. The Richmond, Dallas, and San Francisco Districts noted a lack of construction workers, with some contacts noting these shortages were constraining construction activity.

Wage growth held fairly steady at modest levels, although some Districts reported rising pressure for certain sectors. The Philadelphia District cited more upward wage pressure for some skilled jobs, while the St. Louis and San Francisco Districts said pressure intensified for some entry-level positions. These increases were often driven by a shortage of available workers. The competitive labor market also caused retail and tourism contacts in the Boston District to raise wages and prompted employers in the New York District to be increasingly willing to negotiate compensation, according to an employment agency. Also, some small business owners in the San Francisco District reported the need to reinstate previously dropped health care benefits to attract applicants.

Overall price growth was mild. Most Districts reported flat input costs, although a slight increase was noted by firms in the Kansas City and Dallas Districts, and among manufacturing firms in the Richmond and Minneapolis Districts. Most Districts noted little change in selling prices over the reporting period, although there were scattered reports of price movements in certain sectors. Manufacturers in the Cleveland and Kansas City Districts reported declines in finished goods prices. Retailers in the Richmond and Kansas City Districts said selling prices edged up, while select retail chains in the Cleveland District were incrementally reducing shelf prices. Grocery contacts in the Chicago and Minneapolis Districts reported deflationary pressure on food prices, especially meat and dairy. Restaurants in the Cleveland and Kansas City Districts raised menu prices, and the San Francisco District cited modest increases in prices in the broader hospitality sector.

Manufacturing

Reports on the manufacturing sector were quite varied across Districts. The Boston, Philadelphia, Chicago, Kansas City, and Dallas Districts noted increased factory activity, while

activity declined in the Richmond and Atlanta Districts and was steady to weaker in the New York District. The remaining Districts cited flat or mixed activity. Capital expenditures were also mixed. Spending cutbacks accelerated in the Cleveland District, and future spending plans lowered in the Philadelphia District but rose to the highest level in more than a year in the Kansas City District. Outlooks were generally positive, although the strong dollar continued to depress exports of manufactured goods in some Districts.

Looking across the manufacturing sector, transportation manufacturing was a bright spot with strong growth reported in the Chicago and Dallas Districts, and the Cleveland District reported elevated activity for motor vehicle and aerospace suppliers. Growth in fabricated metals manufacturing was also a common trend, seen in the Philadelphia, Kansas City, and San Francisco Districts. For steel, demand fell in the Cleveland District and production weakened in the San Francisco District, where contacts noted that the elevated dollar, strong global production, and weak economic growth held back exports. There were several reports of continued weakness in the oil and gas sector still hurting demand for energy-related machinery and/or metal products in the Boston, Chicago, St. Louis, and Dallas Districts.

Consumer Spending and Tourism

Overall consumer spending was mixed this reporting period. The near-term outlook in the Boston, Philadelphia, Richmond, Atlanta, and St. Louis Districts was for modest growth, while contacts in the Cleveland and Kansas City Districts anticipated mostly flat sales. A majority of reporting Districts noted that retail sales increased this reporting period, although unseasonably warm weather impacted sales of cold-weather apparel in the New York and Cleveland Districts, and the strength of the dollar reduced spending by international customers in the Boston, Atlanta, and Dallas Districts. Reports on automobile sales were mixed. Declining sales were noted by the Kansas City and Dallas Districts, while increased sales were noted by the Atlanta, St. Louis, Minneapolis, and San Francisco Districts. Tourism activity was mixed across the nation according to reporting Districts. The New York and Kansas City Districts mentioned that tourism activity slowed this reporting period, while the Richmond District noted steady activity, and the Atlanta and Chicago Districts said activity increased.

Nonfinancial Services

Demand for nonfinancial services generally expanded since the previous report. However, the New York District cited flat to declining activity, and Philadelphia's report noted

that the pace of expansion slowed slightly from the previous period. Activity in healthcare services expanded in reporting Districts, and demand for high-tech or information technology services increased, according to reports from the Minneapolis and Kansas City Districts. Sales at restaurants slowed further in the San Francisco District, and business was flat to down among leisure and hospitality firms, according to the Dallas report. Service providers in the Dallas District noted an optimistic outlook, and professional and high-tech services contacts in the Kansas City District reported favorable capital spending plans.

Staffing services demand grew at about the same pace or improved slightly since the prior report. Demand for staffing services strengthened in the New York and Dallas Districts, particularly in the Dallas-Fort Worth metroplex, and continued to expand at a modest pace in the Philadelphia and Cleveland Districts. A large employment agency in the New York District said hiring was brisk and broad-based, while a staffing firm in the Chicago District reported flat activity.

Demand for transportation services and freight activity declined on net, partly reflecting weak exports, excess capacity, and lower shipments of energy-related products. Transportation service firms cited slight declines in overall activity in the Cleveland, Richmond, Atlanta, Chicago, and Dallas Districts, while activity in the St. Louis District was characterized as mixed. Rail traffic was weak in reporting Districts, and air cargo volumes fell according to the Atlanta District's report. By contrast, transportation firms in the Kansas City District saw moderate growth in sales, and contacts in the Cleveland, Atlanta, and San Francisco Districts reported increases in online retail or e-commerce related activity. Port traffic rose in the Richmond and Atlanta Districts, and evacuations were underway as hurricane Matthew approached, according to Richmond's report.

Construction and Real Estate

Residential real estate activity expanded in most Districts since the prior report, and contacts in a few Districts expressed optimism about future growth. Homes sales fell markedly in the Kansas City District, while slight to moderate gains were reported by most of the other Districts. Demand for lower-priced homes was solid in Districts that commented on it, while sales of higher-priced homes slowed in the New York, Chicago, and Dallas Districts, and in Alaska according to San Francisco's report. Home inventories were generally reported to be low or declining and were restraining sales growth according to the Boston, Philadelphia, and

Minneapolis Districts. Home prices continued to rise at a modest pace across much of the country, which contacts in some Districts attributed to tight inventories and labor constraints. Growth in residential construction was generally flat to up during the reporting period, with particular strength noted in the San Francisco District. However, construction activity dipped slightly in the Richmond District partly due to lot shortages.

Reports on multifamily activity varied but were positive on net. Strength in the apartment market was noted by the Dallas District (excluding the Houston metro area), while activity was mixed in the New York District. Growth in multifamily construction was positive in the Boston and Atlanta Districts but was mixed in the Richmond District and slowed further according to New York's report.

Commercial real estate leasing activity generally improved, and outlooks were mostly optimistic, although contacts in a few Districts expressed concern about economic uncertainty surrounding the upcoming presidential elections. Commercial rents were flat to up, and vacancy rates were generally low and/or declined in reporting Districts, except in the Houston metro area where office vacancies increased further. Sales of commercial properties were characterized as robust in the Chicago, Minneapolis, and San Francisco Districts but softened in the greater Boston area. Commercial construction increased on net, with contacts in the Cleveland and Atlanta Districts reporting increased or high backlogs. Shortages of skilled labor remained a constraint on construction activity in some Districts, such as Cleveland and San Francisco.

Banking and Finance

Overall loan demand increased, although there were some scattered reports of seasonal softening in some categories of lending. Reports on residential lending were mixed, ranging from some seasonal slowing to growing. Commercial and industrial lending increased overall, although the Cleveland District noted lending is at a slower pace than desired and the New York District reported steady demand. Competition for borrowers remained strong across a number of reporting Districts. Loan quality remained strong or improved in the Philadelphia, Cleveland, Dallas, and San Francisco Districts, and the New York and San Francisco Districts said delinquency rates remained low or declined since the last report. Credit standards were mostly unchanged this reporting period. Deposits grew slightly across most reporting Districts, although the Kansas City District cited stable deposit levels.

Agriculture and Natural Resources

Agricultural producers faced mixed conditions during the reporting period, as several Districts reported strong production for crops yet noted that low commodity prices continued to put pressure on farm incomes. Thanks to favorable growing conditions, record crops were expected for corn and soybeans in several Districts. The San Francisco District noted that yields of pistachios, almonds, and walnuts were expected to reach record levels this year. Above-average rainfall over the last several weeks slowed fieldwork in the Chicago and Minneapolis Districts, and hampered the cotton crop in some parts of the Dallas District. Contacts said that persistently weak farm income continued to reduce borrower liquidity in the Kansas City District, and farmers in the Dallas District were concerned about their ability to get adequate financing for next year.

Signs of stabilization in the oil and gas sector continued, while coal production was up in the Cleveland and Richmond Districts but down in the St. Louis District. The Cleveland, Minneapolis, Kansas City, and Dallas Districts reported an increase in drilling and/or exploration activity. However, demand for oilfield services remained depressed in most of the Dallas District, despite the rise in the rig count. Energy contacts in the Atlanta District said that the drawdown of crude oil inventories continued. Natural gas extraction in the Richmond District was unchanged over the reporting period. The consensus among energy contacts in the Kansas City and Dallas Districts was continued optimism, with the majority of contacts in the Dallas District saying they expect 2017 to be a better year than 2016.

FIRST DISTRICT – BOSTON

Economic activity continues to increase in the First District, mostly at a modest to moderate pace. Although both retailers and commercial real estate contacts report mixed results in recent weeks and months, revenues or sales for responding manufacturers and in residential real estate markets are more consistently positive. In addition, relative to recent Beige Book reports, a larger fraction of contacts in both manufacturing and retail mention raising wages moderately to retain and attract employees. Retailers and manufacturers say their own prices and those of their suppliers are relatively stable. By contrast, the median sales prices of single-family homes rose year-over-year in all six New England states. Outlooks are positive, although contacts in several sectors cite the upcoming presidential election as a source of near-term uncertainty, delaying some business decisions.

Retail and Tourism

Retail contacts consulted for this round report mixed year-over-year comparable-store sales results. Some saw sales decreases ranging from –1 percent to –11 percent, while others had increases ranging from a modest 1 percent to a more substantial 8 percent. Respondents cite a variety of factors to explain their results: Some firms enjoyed double-digit sales growth last year, leading the 2016 sale results to suffer by comparison. One contact had poor results in stores near the Canadian border because of the strong U.S. dollar but experienced mid-to-upper single digit sales increases in locations where the exchange rate was not a factor. A large chain with locations in much of the northeastern United States cites mixed results on a comparable-store basis, but overall sales growth around 5 percent due to opening new stores in new territories. Inventories are said to be well managed and merchandise prices largely stable. Labor markets in some areas are reportedly more competitive, so contacts are raising wages to attract workers or to slow turnover in these markets. The consensus outlook for 2016 is for moderate comp store sales growth of 1 percent to 3 percent.

Restaurants located in tourist areas and urban locations fared well during the high summer season. In Massachusetts, meal tax collections were up 12 percent year-over-year in August and are up 4.6 percent on an annual basis for 2016 to date. A contact hypothesizes that the region's lack of rain hurt some restaurants in suburban locations this summer, particularly on weekends, as potential diners elected to remain home and cook outside in the clear weather. Many restaurants are not fully staffed and, given the tight profit margins restaurants experience in the best of times, the labor shortage is said to be forcing some restaurants to shelve plans for expansion.

Manufacturing and Related Services

We made contact with only seven manufacturing firms this cycle. Three contacts report excellent

business conditions, three report modest growth, and one reports a decline in revenues. A diversified manufacturer of aerospace and construction goods said that he “cannot think of when the domestic economy has been so strong.” A semiconductor equipment firm reports strong sales growth related to the introduction of the iPhone 7. A manufacturer of lab equipment says that sales are up 10 percent year-on-year due to strong sales in Japan. A manufacturer of electrical equipment notes that 40 percent of their sales in commercial construction are for renovation as distinct from new buildings, while typically only 10 percent of commercial construction sales are for renovation. Our contact attributes this atypical pattern to the availability of new technology that lowers energy consumption. The only firm reporting lower sales makes parts for industrial equipment and said that weakness in oil and gas is still hurting them, although managers felt that the oil and gas industry had bottomed out. Overall, firms do not report major changes in capital expenditure plans. One firm reports significant capital expenditures on facility consolidation; that is, they are spending money to centralize production and close plants.

Manufacturing respondents cite minimal cost increases recently and few are raising their own prices. Several contacts report that it is difficult to make price increases stick, although in situations where costs have clearly gone up, customers are willing to make concessions.

Most contacts have nothing unusual to report about employment and wages. The semiconductor equipment firm reports a second annual 3 percent across-the-board salary increase; until last year, the previous firm-wide salary increase was in 2007. The diversified manufacturer of aerospace and construction goods says the labor market is tight and they have resorted to marked increases in starting salaries to lure new workers. The manufacturer of industrial parts has a hiring freeze in place due to slow sales and requires special authorization even for replacements of departing workers.

Commercial Real Estate

Commercial real estate activity is mixed in the First District. Contacts in Boston and Portland note that office leasing activity is roughly flat since late summer, whereas the typical seasonal pattern involves an uptick after Labor Day. These contacts speculate that political uncertainty in advance of the national elections may be delaying leasing decisions. However, another Boston contact reports that office vacancy rates and rents improved again slightly in recent weeks. In Providence, leasing activity is at least steady since August, and August saw increased activity over July. Together these patterns suggest that in Providence the autumn increase in activity may have occurred earlier than usual this year. The investment sales market is also described as somewhat softer in greater Boston, yet contacts expect that premier properties will continue to sell at near all-time-high prices. Also in greater Boston, there is robust growth in construction in the multifamily, gaming, and health care sectors, and modest growth in office construction. However, the amount of speculative office construction remains limited and contacts feel

that the current office construction pace is, if anything, slower than what is justified by fundamentals. Office construction remains limited in Portland, but planned institutional and retail construction around Maine increased in recent months. Based on regional factors such as stable employment growth, contacts are mostly optimistic concerning the outlook. However, macroeconomic risks such as political uncertainty and slow global growth added some caution to contacts' forecasts.

Residential Real Estate

Continuing trends from earlier this year, residential real estate markets in the First District showed healthy activity through the end of August (five of the six First District states—excluding Maine, for which July data are the most recent—as well as the Boston metro area are reporting data through August 2016). Contacts cite strong buyer demand in the First District. For single family homes, both closed sales and pending sales increased year-over-year in every reporting state. A Boston contact notes that “the market was extremely busy last month, and we did not experience the normal August lull in activity.” The market for condominiums also showed year-over-year increases across the board for closed sales. Pending sales data for condos were more tempered, with Rhode Island and New Hampshire seeing small decreases year-over-year. Several contacts suggest that the District's persistently low inventory represents the only significant drag on residential markets. Inventories for both single family homes and condos decreased again from last year in every reporting state, by large percentages in several states. A New Hampshire contact says “there may be lingering worry over the availability of move-in-ready homes to replace what was sold.” A Boston contact refers to a greater than 30-percent drop in inventory as “staggering.”

Every reporting state experienced a year-over-year increase in median sales prices of single-family homes and all but Rhode Island and Connecticut saw the same for condos. A contact in Massachusetts says that “ongoing buyer demand continues to push median prices up.” A Boston contact reports that “surprisingly, this continuation of record-high prices has not caused buyer confidence or activity in our region to diminish.” Many, though, say they are wary of buyers being priced out if prices continue to rise.

Overall, contacts are optimistic, given that the market typically begins to moderate in the fall and winter. Many note that activity was unusually high for August. Several cite low interest rates and the impending presidential election as motivation for potential homeowners to buy now.

SECOND DISTRICT--NEW YORK

Economic activity in the Second District has been flat since the last report, while labor markets have remained tight. Contacts note little change in selling prices, as well as in price and wage pressures; but a growing number of contacts expect to raise selling prices in the months ahead. Both manufacturers and service-sector contacts indicate that business activity has been steady to somewhat weaker, on balance. Consumer spending has remained sluggish, while tourism activity has been mixed but generally weaker. Residential real estate markets continued to be mixed with further weakening at the high end in both sales and rental markets. In contrast, commercial real estate markets have shown signs of strengthening. Residential construction has been sluggish—especially for single-family homes—but there has been some pickup in office construction and industrial construction has remained brisk. Banks report further strengthening in loan demand and continued improvement in delinquency rates.

Consumer Spending

Retail merchandise sales were mixed but generally sluggish in September. Two major chains report that sales weakened in September and were below plan and down moderately from a year earlier in both New York City and the rest of the District. One contact suggests that unseasonably warm weather has delayed sales of seasonal merchandise. In contrast, retailers in upstate New York characterize sales as generally stable and up modestly from comparable 2015 levels, citing the warm weather as a positive factor. Prices are reported to be little changed, as is the degree of promotion and discounting. Inventories are said to be at satisfactory levels, with some retailers noting that the trend towards more on-line sales has enabled them to hold thinner inventories.

Auto dealers in upstate New York report that new vehicle sales remained soft in September and were down from a year earlier. One contact attributes the weakness to a reduction in manufacturers' incentives and surmises that the market has reached a natural plateau. However, some dealers have seen a pickup in used cars sales, which had been sluggish for most of this year.

Inventories of new vehicles are reported to be up a bit, with the slowdown in sales. Retail and wholesale credit conditions generally remain favorable.

Tourism activity has been mixed but generally weaker since the last report. Hotels report that occupancy rates were fairly high in September but that revenues were down sharply from a year earlier. However, attendance at Broadway theatres picked up in September and was up moderately from a year ago; with average ticket prices essentially flat, overall revenues were also up moderately from a year earlier. Consumer confidence in the Middle Atlantic states (NY, NJ, PA) surged in September, reaching its highest level in well over a year.

Construction and Real Estate

The District's housing markets have been mixed since the last report, with continued weakness at the high end. New York City's rental market has remained essentially flat in both Manhattan and the outer boroughs: rents on larger units have edged down further and landlord concessions (e.g., free month's rent, waived fees) have become increasingly widespread; rents on smaller units have been essentially flat in recent months but still up slightly from a year earlier. The rental vacancy rate across the city edged up to a seven-year high. In areas of New Jersey close to New York City, however, rental markets remain fairly robust and rents continue to climb. Rental markets across upstate New York have leveled off overall, as vacancy rates have risen moderately.

New York City's co-op and condo resale market has continued to be stable, overall. Sales activity has declined but remains fairly high, and prices have been steady on balance—rising modestly for smaller apartments but continuing to decline for larger units. Bidding wars have become somewhat less common than earlier in the year. Elsewhere across the District, there have been scattered signs of improvement. Realtors in parts of upstate New York State characterize the housing market as vibrant, with inventories tight, prices rising, and sales activity robust. However, home prices remain generally flat in northern New Jersey, and sales volume has been lackluster, aside from pockets of strength in areas close to New York City.

Commercial real estate markets have shown signs of tightening. Availability rates have declined in northern New Jersey, the Lower Hudson Valley and across most of upstate New York, while rents have risen. In New York City, availability rates have edged up, but this likely reflects a sizable amount of new office space that has come on line.

New multi-family development has slowed further in most of the District, though there continues to be a fair amount of construction in progress—particularly in and around New York City. Single-family construction remains sluggish across the District. Office construction has picked up somewhat in New York City’s outer boroughs and continues to be fairly strong in Manhattan as well but has remained sluggish elsewhere. However, there continues to be a good deal of office construction in progress across New York City and a moderate amount in northern New Jersey. Industrial construction has been increasingly robust—particularly in northern New Jersey, where warehouse space is in strong demand.

Other Business Activity

Contacts in both the manufacturing and service sectors report that business activity has been steady to weaker since the last report, and service-sector businesses indicate less optimism about the near-term outlook. Both manufacturing and service-sector contacts continue to report steady to modestly increasing selling prices; however, a growing proportion of contacts in both sectors plan to raise prices in the months ahead. Input price pressures are little changed since the last report.

The labor remains tight and hiring continues to be fairly robust. Service firms report that they are hiring, on net, while manufacturers report that they are reducing staffing levels modestly. Contacts in both service and manufacturing sectors plan to increase headcounts somewhat, on balance, in the months ahead. A major New York City employment agency reports that hiring activity has remained brisk, with strong labor demand coming from a broad array of industry sectors. Most of the job openings, however, require some specific skill sets. This contact also notes that employers, faced with a shortage of skilled job candidates, are increasingly willing to negotiate on

compensation. Overall, business contacts indicate moderate wage growth and note that wage pressures have not changed.

Financial Developments

Small to medium sized banks in the District report steady demand for commercial & industrial loans but strengthening demand in all other loan categories. Banks indicate that credit standards remained unchanged across all loan categories. Contacts report narrowing spreads of loan rates over cost of funds across all loan categories—particularly for commercial mortgages. Respondents also note increases in average deposit rates. Bankers report lower delinquency rates across all loan categories except commercial & industrial loans, where little change is indicated. The most widespread declines in delinquencies were on residential mortgages.

THIRD DISTRICT — PHILADELPHIA

Aggregate business activity in the Third District continued to grow slightly during the current Beige Book period. Most contacts reported slight increases in hiring with some exceptions; staffing firms indicated modest increases, while manufacturers continued to report declines. On balance, prices continued to rise slightly over the current period, as did home prices. Contacts reported that wages continued to rise modestly but noted more upward pressure for some skilled positions. Overall, firms continued to expect moderate growth over the next six months.

Third District contacts reported moderate growth for lending volumes; modest growth for general services, staffing services, and tourism; and slight growth for manufacturers and commercial leasing agents. Little or no change in activity was noted by auto dealers, nonauto retailers, residential homebuilders and brokers, and commercial contractors. Since the prior period, two sectors improved a bit, while growth in two sectors slowed, as noted in their respective sections below.

Manufacturing. On balance, contacts reported that overall activity grew slightly — following little growth during the prior Beige Book period. Reports indicated that general activity and new orders increased, while shipments fell. The makers of paper products, fabricated metal products, and industrial machinery and equipment noted overall gains in activity from the prior period, while the makers of lumber, chemicals, primary metals, and electronic equipment noted weaker activity. Firms continued to report overall decreases in the number of employees and average employee work hours. Contacts remained optimistic about growth over the next six months but expressed somewhat lower expectations for general activity and future capital expenditures. Expectations for future employment improved.

Retail. Overall, nonauto retail contacts reported little change in sales during the current Beige Book period, similar to the prior period. Outlets reported that sales were flat to up slightly and noted deeper discounting and promotional spending by retailers, while a mall operator reported a pickup in traffic and apparel sales following a disappointing back-to-school season. Convenience store operators have reported steady growth since the last Beige Book period but a

slowdown in growth compared with last year, which they attributed in part to record-high sales and traffic this time last year. Contacts remain cautious but still expect modest growth for overall retail sales through 2016.

Light vehicle sales in the Third District remained at high levels and held mostly steady this period. While sales were flat to slightly down over the year, dealers continued to expect total 2016 sales to be at or above the 2015 level. Contacts in New Jersey also noted high inventories, which could spur sales through model year sell-offs.

Finance. Third District financial firms continued to report moderate growth of total loan volumes over the Beige Book period. Volumes within all major lending categories have grown since the prior period. Commercial and industrial (C&I), credit card, and other consumer loans grew at a faster pace than during the same period one year ago. The strongest growth during the current Beige Book period was for credit card debt, C&I loans, automobile loans, and other consumer lending. Mortgage lending and home equity loans were up slightly during the period but have declined since last year.

On balance, banking contacts continued to report healthy loan portfolios and improving customer credit quality. As before, most contacts indicated that their loan standards were unchanged for most loan categories. A few contacts continued to express concerns about riskier loans by their competitors, particularly for multifamily projects. Many continued to characterize the lending environment as competitive. Contacts noted that while some businesses are making investments, others are choosing to defer capital investments for the time being. Banking contacts remained cautiously optimistic that slow, steady growth would continue.

Real Estate and Construction. Homebuilders reported little change in activity during the current Beige Book period, down from the slight rise reported in the last period. Builders attributed some of the slowdown to a seasonal lull similar to what they experienced last year. Contacts indicated they began to see improvement toward the end of the period and expect activity to pick up in 2017. One banker noted concern over whether multifamily activity in the Philadelphia market is overheating, and one major developer recently backed out of a large Center City project, citing rising construction costs and slowing rent growth.

Brokers in most major Third District housing markets noted that existing home sales activity have improved slightly since the prior period. However, a major Philadelphia-area

broker continued to report that a low inventory of homes was constraining sales, particularly homes in the mid-price range. Home prices continued to rise slightly, although this varies across markets and price categories.

Nonresidential real estate contacts, predominately in the Greater Philadelphia area, reported that construction activity remained steady at healthy levels. Leasing activity improved for industrial space, particularly warehouses, but slowed somewhat for suburban office space. Contacts expect continued growth and demand for industrial growth remains very strong.

Services. Third District service-sector firms reported overall modest activity this period — a slight slowdown from the moderate pace reported in the previous Beige Book. Contacts also noted slower growth in the pace of sales and new orders. Since the prior period, employment indicators have shown improvement, as contacts noted increases in full-time workers, decreases in part-time hires, and no change in workweek hours. Reports from staffing firms continued to reflect modest growth, with a central Pennsylvania firm noting more activity in executive hiring. Expectations for future growth in services have improved since the prior Beige Book period, with a higher percentage of service-sector contacts expecting growth over the next six months.

Tourism contacts generally indicated a continuation of modest growth overall. Hotel revenues in the broader Philadelphia market exceeded last year's revenues for the first time this year, following a strong convention calendar through September as well as robust leisure travel. Along the shore, activity has improved since last period because of better weather conditions, and some shore contacts reported that this was a stronger year than last year. Atlantic City casino revenues have improved slightly since last period but still showed little sign of strengthening. A banking contact noted that while remaining casinos are starting to fare better against the competition, revenues have been buoyed by online gaming.

Prices and Wages. Price levels have continued to rise slightly, on balance, since the previous Beige Book period. Similar to the prior period, most contacts reported no significant changes in the prices they paid or received for their goods and services; however, of the firms that reported a change, more firms noted price increases than decreases. Commercial real estate contacts attributed an escalation of construction costs primarily to rising labor costs but indicated no concern about inflation. Some skilled positions are commanding higher wages, but contacts continued to report modest wage pressures, overall.

FOURTH DISTRICT – CLEVELAND

On balance, the economy in the Fourth District expanded at a modest pace since our last report. Production at manufacturing plants was generally stable, though output from motor vehicle assembly plants trended lower. The housing market improved, with higher unit sales and higher prices. Commercial builders reported that inquiries and backlogs picked up after some weakening early on in the third quarter. Retailers saw little change in same-store sales on a year-over-year basis, while sales of new motor vehicles declined. Commercial and retail credit expanded slowly. The number of drilling rigs operating in the Utica and Marcellus Shales and coal production both increased. Freight volume remains at a low level.

Payrolls were little changed on balance over the period. Job gains in construction were partially offset by losses in manufacturing. Wage pressures were most evident in the construction and retail sectors across skill levels. Reports from staffing firms about job openings and placements were mixed, though all contacts noted an increase in the number of temporary positions. On balance, input and finished-goods prices were steady.

Manufacturing. Manufacturing output was little changed over the period. Activity for suppliers to the motor vehicle, aerospace, commercial construction, housing, and personal consumer products industries remains elevated. Factors tempering output growth for other manufacturing industries include lower business fixed investment, the strong dollar, and weakness in the energy sector. Year-to-date production through August at District auto assembly plants fell about 6 percent when compared to that of the same time period during 2015. Declines were weighted more heavily toward cars. One original equipment manufacturer reported that the lack of light truck inventory, not the decline in demand, is the reason behind a year-over-year unit volume drop. A majority of our steel contacts reported that demand fell over the period. Manufacturers expect that business conditions will show a modest improvement in the upcoming months. Contacts anticipating weaker growth attribute the situation to uncertainty and weakness in global markets.

Cutbacks in capital spending that began mid-year have accelerated. Although firms continue to allocate monies for maintenance projects and product development, they are lowering spending for equipment. On balance, input costs and finished-goods prices declined slightly. On the input side, declines were primarily attributed to weakening commodity prices. Some manufacturers reduced finished-goods prices in response to competitive pressures. Others cut prices because of reduced demand. Manufacturing payrolls were trimmed slightly over the period. Firms cutting employment cited weak sales. Wages held steady.

Real Estate and Construction. Year-to-date sales through August of new and existing single-family homes increased about 5 percent compared to those of a year earlier. The average sales price rose 3.5 percent. Builders believe there is pent up demand for homes that is spurred by low interest rates and rising consumer confidence. Year-to-date estimates of single-family

construction starts were significantly higher across all regions of the District compared to those of a year ago. New-home contracts were distributed across price-point categories. Entry-level contracts ticked higher. New-home list prices moved higher over the period to cover higher costs for labor and land development and higher prices for building materials. Builders expect that home sales will be on par with or fall slightly below seasonal trends for the balance of the year.

Nonresidential contractors are generally satisfied with their current level of activity. Reports indicated that the number of inquiries and backlogs have increased over the period, after both metrics weakened early in the third quarter. Nonetheless, several builders indicated that their customers are postponing investment decisions until after the presidential election. Although demand for construction services is broad-based, segments with the highest demand were CRE, including office space, and higher education. Billing rates are rising at a slower pace when compared to earlier in the year. Other than some tightening in the multifamily segment, construction financing is readily available. Most contractors expect little change in business conditions in the near term.

Home builders and commercial contractors reported little change in building materials prices, except for lumber, the price of which increased. Construction payrolls are expanding at a faster pace than early on in the third quarter. A sizable number of contacts reported creating new positions since our last report. The industry is experiencing wage pressure across skill levels. Subcontractors remain very busy. They are challenged by labor shortages and, as a result, many are selective when bidding. In order to cover rising labor costs, most subcontractors are increasing their rates.

Consumer Spending. Heading into the Labor Day weekend, retailers reported little change in revenues on net compared to those of the same time period a year ago. Although the retail landscape remains very competitive, recent initiatives aimed at adapting to rapidly changing consumer buying habits are helping boost revenues for some chains. The unseasonably warm weather has impacted cold-weather apparel sales. Products selling particularly well include health-and-wellness and personal items. Restaurateurs reported mainly improving sales in their retail operations. One contact noted that increasing competition from nontraditional sources, such as deli counters at grocery stores, is negatively affecting his customer count. For the period between Labor Day and mid-November, our contacts expect little change in revenues compared to the same time period a year ago. Overall, vendor prices were stable. Select retail chains reported that they are continuing with initiatives to incrementally reduce shelf prices. In contrast, some restaurateurs are raising menu prices. Retail payrolls were stable. The labor market for hourly front line and distribution workers is tight, a situation which is driving up wages.

Year-to-date sales through August of new motor vehicles declined 1.5 percent when compared to those of the same time period in 2015. Light trucks (including SUVs and crossovers) continue to dominate transactions, and leasing accounts for more than 40 percent of

all new-motor-vehicle transactions within the District. One dealer noted that banks are starting to tighten credit terms on subprime opportunities because delinquencies are beginning to rise with these customers. Some dealers believe that new-motor-vehicle sales are starting to peak and that the industry will experience a slow downward trend in the upcoming months. In contrast, year-to-date sales of used vehicles rose more than 3 percent compared to those of a year ago. Dealer payrolls and wage levels were stable.

Banking. Bankers were generally satisfied with their commercial and retail credit portfolios. Growth was characterized as steady overall, albeit at a slow pace. On the commercial side, highest demand was for CRE loans. C&I lending remains slower than desired. Customers are seemingly reluctant to invest in plant expansions or equipment. Reports from retail banking indicated that demand was strongest for auto loans and mortgages and, to a lesser extent, credit cards. A majority of bankers said that lending during the third quarter was stronger than that of a year ago. Credit quality remains strong, and little change was reported in loan-application standards. Core deposit balances continued to increase over the period. Banking payrolls were stable on net. The primary factor affecting staffing levels was bank mergers, with four being reported over the period. Wages were stable. Select increases were awarded in an attempt to retain key employees.

Energy. The number of permits issued and the number of drilling rigs operating in the Marcellus and Utica Shales are showing signs of trending higher as wellhead prices rise at a slow pace. Coal production has increased during the past couple of months because of rising demand for electricity attributable to above normal temperatures and reduced customer inventory at coal-fired power plants. As a result, spot and forward prices for domestic thermal coal have increased. Prices for metallurgical coal have also risen, a situation which has been driven largely by production cuts and increased demand. Energy payrolls increased slightly, though much of the increase was seasonal. Wages were steady.

Freight Transportation. Freight volume contracted on a year-over-year basis and remains at a low level. Our contacts attributed this situation to sluggish growth, especially in the industrial sector, and rapid changes in retail distribution. One contact noted that shipment counts industry wide were flat for the first eight months of 2016 except for select carriers who contract with large on line retailers. In the latter case, volume is rising. We heard several reports about overcapacity in the system, and this overcapacity is forcing some haulers to lower shipping rates and to reduce capital budgets. Spending is now primarily for maintenance projects and equipment replacement. On balance, our contacts expect little change in volume during the upcoming months. In general, freight payrolls have declined over the period. Hiring is limited to replacement. Firms continue to pay cost-of-living increases.

FIFTH DISTRICT–RICHMOND

Overview. Fifth District economic activity rose modestly in recent weeks. Although the manufacturing sector remained soft, the pace of decline slowed. Revenue growth increased more broadly at services firms, and retail sales strengthened. Tourism remained steady at seasonal levels. Household and business loan demand increased slightly on balance. Residential real estate sales were up moderately and commercial activity rose modestly. Agricultural activity also picked up slightly. Natural resource extraction was little changed. Large-scale evacuations were underway along parts of the East Coast in recent days as hurricane Matthew approached.

Since the previous Beige Book, labor markets have tightened moderately. According to our surveys, upward wage pressures broadened considerably in the service sector but subsided slightly in the manufacturing industry. Employment rose in September, according to service sector firms, while employment fell at manufacturing firms. Also in the survey, average manufacturing input prices continued to edge up slightly overall, while average prices received by manufacturers were little changed. Retail prices rose at a steady, mild pace. Services prices continued to rise modestly. Farm input prices were unchanged, while prices received dropped for some commodities. Coal prices ticked up, while natural gas prices declined slightly.

Manufacturing. Manufacturers reported that activity declined since our previous Beige Book report, albeit more slowly. Shipments and new orders softened and backlogs were broadly weaker according to surveyed producers. However, a food producer reported that shipments and new orders were unchanged at a healthy level, and a packaging firm executive reported a slight increase in shipments and new orders. Additionally, his company's capital expenditures had increased. According to our most recent survey, average input prices continued to edge up slightly overall, while average prices received were generally unchanged.

Ports. Port traffic, particularly containers, continued to strengthen since the previous report. One port official noted that car exports have declined and farm and construction machinery imports weakened further. The bankruptcy of a South Korean shipping firm interrupted calls, as some ports refused to work the ships until fees could be paid and alternate locations could be found for empty containers to be stored.

Retail. Retail sales rose for a broader set of merchants. Several large grocers reported flat to higher sales. In addition, a large department store wholesaler and a large pharmacy indicated sales were up. Also, a central Virginia retail representative noted that Halloween spending is expected to be very strong, and retailers are hopeful that the spending growth will carry into Christmas. In contrast, home improvement merchants reported flat to lower sales, and a few car dealers said sales were unchanged or

lower, contributing to a shortage of traded-in used cars. Retail prices rose about on par with the previous mild pace.

Services. Revenue growth expanded at services firms. Architects reported strong demand for their services as did an environmental and engineering firm. Demand for healthcare services remained robust, and an uptick is expected in the weeks ahead as the flu season begins. A transportation source reported that truck and railroad services experienced sluggishness due to excess capacity and the strong dollar. One transportation contact commented that a retail inventory overhang needs to be reduced before transportation demand would pick up. Services prices continued to rise modestly.

Tourism. Since the prior Beige Book, tourism remained steady and in line with last year's strong seasonal levels. A general manager at a resort hotel in central North Carolina said that business was stable although more people were waiting until the last minute to book. Hotels in Maryland and South Carolina reported solid early-autumn bookings. Thanksgiving holiday bookings were said to be good on the outer banks of North Carolina. Local events there have helped lengthen the tourist season, resulting in new year-round businesses opening this year. Room and rental rates were reported to be unchanged.

Finance. Loan demand increased slightly, on balance, since our previous report. Residential loan demand was mixed, with some reports of typical seasonal slowdowns. A South Carolina lender said that an increasing share of residential loan demand was coming from new construction. Refinance loan demand softened; a lender in West Virginia believed that demand declined because most people had already refinanced as a result of low interest rates. Business loan demand remained subdued, which some contacts attributed to uncertainty surrounding upcoming elections. Commercial real estate lending rose slightly, but varied by location. Multi-family construction demand picked up, according to a banker in South Carolina. A community banker in West Virginia saw a slight rise in demand for commercial real estate loans, which he attributed to larger banks rebalancing their portfolios. Several sources stated that regulations were reducing commercial lending. Competition among banks remained high and, in some cases, resulted in more aggressive loan structures.

Real Estate. Since our previous report, home sales rose moderately. With only a few exceptions, Realtors reported that increased sales and low inventories combined to push existing sales prices up and average days on the market down. The most active price ranges varied by location. For example, a Richmond, Virginia agent saw the most sales growth coming from homes priced between \$150,000 and \$325,000 while an agent in Washington, D.C. reported increased sales of homes priced \$700,000 to \$900,000 and over \$1.25 million. Residential construction slowed somewhat, on balance, due in part to lot shortages. Reports on multi-family construction were mixed.

Commercial real estate activity rose modestly in recent weeks. Vacancy rates were generally lower for retail, industrial, and office space. Retail activity picked up, with much of the demand coming from large retailers, strip malls, grocers and grocery-anchored shopping centers, and fast casual

restaurants. Demand for larger class A and mixed-use office spaces increased in Virginia Beach. A North Carolina agent said that class B and C properties were being absorbed. A Richmond contact reported increased office demand in the healthcare and energy sectors. Conversely, office leasing was reported as sluggish in Columbia, South Carolina. Industrial leasing activity rose moderately. A contact in South Carolina said investors were looking for new industrial property to buy; he also said rents were increasing. Retail and office rental rates were mostly unchanged.

Agriculture and Natural Resources. Agricultural activity picked up slightly. Weather conditions improved recently, which allowed farmers to begin harvesting corn and peanut crops. The dry summer, however, delayed the maturation of cotton crops, leading to some harvesting delays. According to a South Carolina farmer, the financial loss from last year's flood was suppressing capital investments this year. No changes to input prices were reported. Prices of beef, corn, and soybeans declined.

Natural gas extraction was unchanged in recent weeks, and coal production rose slightly, but remained below year-ago levels. Coal prices ticked up since our previous report, while natural gas prices edged lower.

Labor. Since the previous Beige Book, labor markets have tightened moderately. Employment rose in September, according to service sector firms, while manufacturing firms indicated a decline in employment. Employers continued to report difficulty finding workers across all skill levels. Specifically, construction workers, skilled tradespeople, farm hands, hospitality workers, engineers, managers, and doctors were in short supply. A contact in South Carolina said that construction was being constrained by labor shortages. A construction industry source in Virginia reported a tremendous increase in training programs. Similarly, an executive in Maryland noted increased investment in employees, such as sending them to a local community college to improve or gain skills. Wage pressures continued to increase slightly. A South Carolina contact attributed an increase in turnover in the trades to employees being lured to new jobs with higher wages. An executive in Maryland reported seeing more wage pressure in professional services and in manufacturing. According to our surveys, upward wage pressures broadened considerably in the service sector but subsided slightly in the manufacturing industry.

SIXTH DISTRICT – ATLANTA

Sixth District business contacts described economic conditions as improving at a modest pace from mid-August through September. The outlook among firms remains optimistic with the majority of contacts expecting growth to be sustained at or slightly above current levels for the remainder of the year.

Most district merchants cited that sales growth remained steady since the previous reporting period. However, automobile dealers continued to note softening sales. Hospitality contacts reported that tourism activity had improved since the previous report. Residential real estate contacts indicated that home sales and prices were slightly ahead of last year's levels. Commercial real estate contacts continued to note improving demand and construction activity was up from the prior year. Manufacturers indicated that activity slowed as new orders decreased. Bankers noted improving credit conditions for most of their contacts. Most firms continued to cite labor market tightness, with some reports of wage pressures, but overall input cost pressures were muted.

Consumer Spending and Tourism. District retailers reported relatively flat sales growth compared with the same time period last year. Some contacts noted that international customers were spending less due to the strength of the dollar. Automotive dealers continued to report a slowdown in the momentum of auto sales.

Tourism and hospitality contacts in the District reported a bounce back in bookings since the previous report. The convention segment in Georgia continued to boom as several large conferences were held in Atlanta. Overall, the Zika virus had little impact on visitation to South Florida. Contacts in that region reported a few cancellations of small group meetings; however, large group meetings and convention bookings continued to be solid. The outlook among contacts is positive for the remainder of 2016.

Real Estate and Construction. District residential real estate contacts continued to report slow but steady growth. The majority of builders noted that construction activity was flat to up from the year-ago level. Most builders and brokers said home sales were slightly up relative to the year earlier level. Brokers reported that inventory levels were flat to down from the previous year, while most builders indicated that inventory levels were flat to rising. Both builders and brokers continued to note modest gains in home prices. The majority of builders expect construction activity to hold steady at the current pace or increase slightly over the next three months. Builders' and brokers' home sales expectations moderated a bit in August, with mixed broker outlooks and a sizable portion of builders anticipating a leveling off over the next

three months relative to the year earlier level. Contacts mentioned several factors that could be contributing to the expectation that activity will flatten out, including the close of the summer selling season, tight inventory levels at lower price points, and rising home prices.

Commercial real estate contacts continued to report improvement in demand resulting in rent growth and increased absorption, but cautioned that the rate of improvement varied by metropolitan area, submarket, and property type. The majority of commercial contractors indicated that the pace of nonresidential construction activity had increased from one year ago, with many reporting backlogs of one to two years. Many District contacts also indicated that the pace of multifamily construction continued to increase from the year earlier level. Looking ahead, most District commercial real estate contacts expect the pace of overall nonresidential construction activity to rise slightly over the next quarter, while many indicated that they expect the pace of multifamily construction to level off in the coming quarter.

Manufacturing and Transportation. Contacts reported a mild decrease in manufacturing activity compared with the previous reporting period. Purchasing managers indicated that new orders declined and production levels were flat. Payroll levels increased slightly and finished inventory levels decreased, while supplier delivery times were reported to be taking slightly longer. Contacts also revised down their outlook as roughly one-third of firms expect an increase in production over the next six months, compared with almost one-half in the previous report.

District transportation contacts reported a slowdown in activity since the previous report. Air cargo contacts cited a drop in overall trade, reflecting significant year-to-date declines in exports primarily to Latin America and the Caribbean. Logistics firms reported softness in the movement of some consumer goods; however, warehousing and trucking contacts cited growth in e-commerce activity. Total rail traffic weakened compared with year-ago levels, impacted mostly by lower shipments of agricultural and energy-related products. District ports, however, continued to see year-over-year increases in container volumes and cargo tonnage.

Banking and Finance. Credit remained readily available for most qualified borrowers. Banking contacts noted that consumer confidence and credit issues for many homeowners had improved. Demand for most types of loans remained strong. Competition for deposits increased and some financial institutions noted raising rates on CDs to attract deposits. Energy-related companies continued to report challenges in obtaining credit and some small businesses also reported difficulty obtaining credit from traditional banks.

Employment and Prices. Labor market tightening persisted across most parts of the District. Firms still experienced challenges finding qualified workers at various levels to fill job openings, and low-skilled positions were becoming increasingly more difficult to fill. Business contacts continued to report investing in automation with an end game of reducing headcounts and increasing productivity. Regions and industries directly tied to oil and gas continued to experience layoffs.

Firms reported that annual wage increases remained stable, with the exception of wage pressure in a broad range of highly skilled jobs in fields such as information technology, healthcare, and specialized construction. There were also reports of some wage pressure for businesses requiring large numbers of low-skilled or manual laborers. Non-labor input cost pressure was restrained and pricing power was limited. Margins appeared to be holding steady. According to the Atlanta Fed's survey of business inflation expectations, year-over-year unit costs were up 1.5 percent and survey respondents indicated they expect unit costs to rise 1.9 percent over the next 12 months.

Natural Resources and Agriculture. Energy contacts in the District indicated that the drawdown of crude oil inventories continued, yet inventories remained at high levels. A pipeline disruption from the Gulf Coast to areas northeast of the incident created temporary supply shortages of U.S. gasoline, and to a lesser extent, diesel. The line was repaired quickly, but the leak impacted gas prices and inventories for several days.

Agriculture conditions across the District were mixed. Drought conditions persisted throughout much of the District, ranging from abnormally dry conditions to areas of extreme drought. The USDA designated many counties in Alabama, Georgia, Mississippi, and Tennessee as natural disaster areas due to damages and losses attributed to drought conditions, while several counties in Louisiana were designated as natural disaster areas due to damages and losses attributed to severe storms and flooding. On a year-over-year basis, prices paid to farmers for rice, soybeans, and broilers increased, while corn, cotton, beef, and egg prices decreased. However, on a month-over-month basis, prices paid to farmers for cotton, rice, and eggs were up, while prices for corn, beef, and broilers were down.

SEVENTH DISTRICT—CHICAGO

Summary. Growth in economic activity in the Seventh District continued at a moderate pace in late August and September, and contacts expect growth to remain moderate over the next six to twelve months. Business spending and manufacturing production grew at a moderate rate, while consumer spending and construction and real estate activity increased slightly. Financial conditions were little changed. Cost pressures were little changed as well, remaining mild. Low expectations for farm incomes continued as the harvest began.

Consumer spending. Growth in consumer spending increased only slightly over the reporting period, in spite of a further increase in promotional activity. Store traffic remained low. Contacts reported stronger sales in the furniture, home furnishings, and personal care segments, but weaker sales in the grocery, clothing, and sporting and leisure goods segments. Most contacts continued to expect a slightly slower pace of holiday sales compared with last year. The tourism industry continued to perform well, with a slight increase in already high occupancy rates. The sales pace of autos in the District remained strong, but slowed slightly despite higher incentives. A number of dealers said that they believe pent-up demand from the Great Recession is now fully satisfied. Used vehicle sales volumes were flat.

Business spending. Growth in business spending remained at a moderate pace in late August and September. Retailers largely indicated that inventories were at comfortable levels. One contact noted that the bankruptcy of South Korean shipping company Hanjin (which left \$14 billion of cargo stranded at sea due to inability to pay port fees) should have limited effects on retail inventories. Manufacturing inventories were generally at desired levels. Steel service center inventories were below historical norms, but a contacted noted that this was likely intentional because growth in steel demand has slowed. Current capital expenditures continued to grow at a moderate pace, as did expectations for future spending. Outlays were primarily for replacing industrial and IT equipment. Hiring picked up to a moderate rate, and contacts expect hiring to continue at a moderate rate over the next six to twelve months. Many contacts noted that the labor market continues to tighten. Demand remained strong for skilled workers, particularly for many professional and technical occupations, sales, and skilled manufacturing and building trades. Contacts also indicated that competition continued to grow for lower-skilled workers. A staffing firm again reported no change in billable hours and ongoing difficulty filling orders at the wages employers were willing to pay. The firm noted that turnover rates were high. It also reported an

increase in drug test failures relative to a year ago among potential employees. Demand for electricity increased slightly in the Chicago area, led by an influx of large industrial customers, while demand for electricity fell slightly in the Detroit area. Shipping volumes again declined slightly, though there were early signs that shipments of energy products were beginning to rebound.

Construction and real estate. Construction and real estate activity increased modestly over the reporting period. Residential construction was little changed overall, with growth in the single-family segment in suburban locations offset by declines in other markets. Home sales and prices increased slightly overall, though sales varied by price range: There was strong demand for homes priced under \$500,000, while the sales pace slowed for homes priced over \$500,000. Demand for nonresidential construction increased slightly, with growth concentrated in industrial construction. Commercial real estate activity remained robust and was up slightly, with contacts reporting gains in both the for-sale and for-lease segments. Commercial rents edged up, and vacancy rates and the availability of sublease space decreased slightly.

Manufacturing. Growth in manufacturing production continued at a moderate pace in late August and September. Growth continued to be strong in autos and aerospace (though it slowed a bit in autos) while gains remained modest overall among other industries. Growth in steel demand slowed some and remained modest. Heavy machinery manufacturers again reported declines in demand resulting from slower increases in construction and a significant cutback in dealers' inventories. Demand for heavy trucks grew slightly. Specialty metals manufacturers reported little change in their order books on balance, with slight slowdowns for stronger industries such as autos and slight pickups for weaker industries such as energy. Manufacturers of construction materials again reported slow but steady increases in shipments, in line with the modest pace of improvement in construction. A manufacturer of audio equipment reported strong growth.

Banking and finance. Financial conditions changed little over the reporting period. Financial market participants noted a slight decline in equity prices and low levels of volatility. A contact indicated that impending regulatory changes for institutional money market mutual funds continued to result in large withdrawals from the funds, further pushing up short term interbank lending rates. Loan demand from small and middle market businesses continued to rise, with one contact pointing to an increase in hiring of "relationship managers" as a sign of growth. Multiple contacts reported growth in commercial and industrial loan demand, but noted that it was the result of increasing M&A activity, not increasing capital expenditures. Contacts also indicated that

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commercial and industrial loan pricing was competitive, and that asset quality improved some. Commercial real estate loan demand was robust and steady, though contacts worried that the market was overheating. Consumer loan demand increased modestly. Residential mortgage volumes were solid, but little changed, and contacts reported competitive pricing and improving quality. Auto loan volumes were robust and the pace picked up some. Contacts also reported an increase in credit card loan losses and slower increases in personal loan volume.

Prices/costs. Cost pressures were little changed on balance, remaining mild in late August and September. Most energy and metals prices were flat and stayed low, though steel prices fell some. Retail prices changed little on balance, though deflationary pressures strengthened for produce and meat and dairy products. Wage pressures were steady overall, with larger increases for high-skilled occupations than for low-skilled occupations. That said, a number of firms reported increasing wages equally across the board. Non-wage labor costs picked up some, with a greater number of contacts reporting increases in healthcare costs.

Agriculture. Low expectations for farm incomes continued over the reporting period. The consensus among contacts was that for most farms a profitable soybean harvest would not be enough to offset an unprofitable corn harvest. Corn prices were unchanged and lower than last year; while soybean prices moved down again, they remained higher than last year. Both the corn and soybean crops were still on track to set records for the District, although problems with disease lowered yield expectations for corn a bit. Even though crops were more mature than normal in late September, harvesting was behind its typical pace because above-average precipitation slowed field work. Milk prices were up some, but only enough to “slow the bleeding” for most producers. Hog and cattle prices were lower once again, as meat supplies have continued to build.

EIGHTH DISTRICT—ST. LOUIS**Summary**

Information received from business contacts suggests that economic conditions in the Eighth District have modestly improved since our previous report. Manufacturing and transportation activity continues to be mixed, while activity in other parts of the service sector remains positive. Employers reported moderate hiring. Wage pressures were also generally moderate, but with stronger growth for certain entry-level positions. Price pressures remain modest. Consumer spending grew modestly, with auto dealers noting improving sales and a somewhat optimistic outlook for the remainder of the year. Real estate activity improved for both residential and commercial property types. District bankers continued to report strong loan demand. Row crop farmers in the District are expecting record yields.

Employment, Wages, and Prices

Despite continued tightening in local labor markets, wage growth and employment growth has generally been moderate. Still, contacts across the District reported high demand for labor in some industries, particularly in manufacturing, construction, healthcare, and financial services. Wages for entry-level positions in these industries have also generally increased faster than wages in other sectors. A contact in Little Rock reported widespread difficulties in filling vacant positions, especially those in the skilled trades, while a contact in St. Louis reported difficulties in filling vacant information technology positions. Despite steady increases in wages, and labor costs more generally, business contacts report little change in prices charged to customers.

Consumer Spending

General retail and auto sales have grown modestly since the previous report. Most businesses contacts throughout the District expect sales to be higher or slightly higher in the fourth quarter. After a months-long slowdown in general retail sales, Arkansas sales seem to have picked up since our previous report. Multiple Arkansas auto dealers reported improved sales activity compared with 2015. Moreover, dealers anticipate sales will continue to increase toward the end of the year. A September survey of

households in the Memphis area indicates they do not plan to increase their spending relative to a year ago.

Manufacturing and Other Business Activity

Manufacturing activity has been mixed since our previous report. Several manufacturers reported capital expenditure and facility expansion plans in the District, including firms that manufacture primary metals, furniture, and food products. In particular, a steel manufacturer announced a large expansion to meet demand from the automotive industry, and a furniture manufacturer opened a new facility to meet growing demand. In contrast, reports from manufacturers of electrical equipment were mixed. One manufacturer of electrical components announced that it would shut down a production line, while another announced it would close a facility. Similarly, a manufacturer of construction and mining machinery announced layoffs in response to weak demand.

Reports of plans in the District's services sector have been generally positive since the previous report. Several firms that provide healthcare, online retail, and education services reported plans to build new facilities and hire new employees. Reports from the transportation sector, however, were mixed. Two freight logistics providers reported a slowdown in outbound freight loads. In contrast, several providers of passenger transportation and package delivery services announced plans to expand.

Real Estate and Construction

Residential real estate activity improved moderately since the previous reporting period. August home sales were strong, increasing by 13 percent in Little Rock and St. Louis and 14 percent in Memphis. Louisville saw a much more modest 3 percent increase in home sales. Inventory of homes for sale continued to decrease in most areas even though residential construction activity increased moderately. August building permits were up in all four major MSAs compared with a year earlier; approximately two-thirds of all MSAs in the District saw an increase. A few Arkansas real estate contacts reported that much of the new construction in their area is for presold homes.

Commercial real estate activity continued to improve. Little Rock and northwest Arkansas multifamily markets remained strong, and a Louisville real estate contact indicated that the local

industrial market is tight. On the other hand, a northwest Arkansas contact noted that it is taking longer to lease retail and office properties. Little Rock and Memphis also saw continued interest in multifamily construction. In contrast, a northwest Arkansas contact noted that construction has slowed recently, partly because multiple projects are already underway. Several projects for senior housing facilities in the District were announced or broke ground.

Banking and Finance

Banking conditions in the District were strong, and lending growth has continued pattern of robust growth in 2016. The pace of loan growth among District banks remains significantly higher than the national rate and was stable relative to last quarter. Total outstanding loans for a sample of approximately 80 small and mid-sized District banks rose by 23 percent over the past 12 months. Notably, real estate lending accounted for the largest fraction of total loan growth, expanding by 20 percent over the same period. Commercial and industrial loans rose strongly, up 28 percent compared with year-ago levels.

Agriculture and Natural Resources

Contacts expect yields of corn, cotton, and soybean crops to be at record levels across the District as a result of timely rains during the growing season. Meanwhile, rice yields are projected to increase only slightly. Sorghum is the only major District crop that is expected to have a production decline, but this stemmed largely from reduced plantings because of pest issues and lower prices in 2015. While the general outlook for the fall crops is strong, one contact has noted that some areas in the District have recently experienced flooding that may reduce yields and production by more than expectations. District coal production has continued to decline, as year-to-date production through August was down 26 percent.

NINTH DISTRICT—MINNEAPOLIS

The Ninth District economy grew slightly overall since the last report. Growth was noted in real estate, residential construction, professional services, and energy. Manufacturing and mining activity was flat, while consumer spending and tourism sectors were mixed. Commercial construction and agriculture slowed. Employment grew modestly since the last report, wage pressure was moderate, and price pressures were modest overall.

Consumer Spending and Tourism

Consumer spending across the District, since the last report, was mixed. A national clothing chain based in Minnesota reported a “tough” third quarter even as sales grew 1 percent since the last report. A national retail chain was closing six stores in the District—three each in South Dakota and Minnesota—out of 64 stores closing nationwide. A new redevelopment plan in Missoula, Mont., will feature the opening of a tire store and two new restaurants. Minneapolis-St. Paul continued to see consumer spending growth, mostly as a reflection of shifting demographics, according to one industry source. More households were established in the metro area over the past year, prompting more grocery stores and home goods stores to open in recent months. In North Dakota, automotive and truck sales have been “in a trough,” overall, but a representative reported “seeing a slight uptick.” Sales in Fargo were “excellent even with the downturn in oil,” and Grand Forks realized a “flat to slight uptick” in sales.

Tourism conditions were mixed since the previous report. Air passenger ridership was up just slightly at the Kalispell, Mont., airport, reflecting the increase in traffic at Glacier National Park. In North Dakota, airline passenger traffic overall dropped 13 percent; some airports saw a significant drop, such as Dickinson (56 percent) and Williston (28 percent), while other airports in Grand Forks, Fargo, and Bismarck saw a slight increase. Hotel occupancy rates and gaming revenue each fell more than 4 percent in Deadwood, S.D., compared with the same time last year.

Construction and Real Estate

Commercial construction activity slowed since the last report. The value of nonresidential construction in July and August fell in Minnesota and the Dakotas while rising in Montana, where larger cities were reporting strong activity. The number of projects out for bid in August and September in the District was lower overall compared to a year earlier. Residential construction rose moderately. Total permitted single-family units rose 9 percent in August and September in Minneapolis-St. Paul. Other, smaller metros across the District saw mixed single-family activity. Multifamily permitting has slowed from very high levels in much of the District. Over the last four quarters, 5,000 new units have been completed in Minneapolis-St. Paul; close to 4,000 units were expected over the coming year.

Commercial real estate activity was strong since the last report. Total sales value and square footage for industrial and office property in Minneapolis-St. Paul were robust in the third quarter, and vacancy rates remained low. Residential real estate rebounded from a mid-summer pause in much of the District. August sales were 9 percent higher in Minnesota than a year earlier, and 11 percent higher in western and northern Wisconsin counties. Low inventory continues to hold back higher sales, and one Montana contact reported that more pending sales were falling through as buyers failed to qualify for financing.

Services

Professional services activity increased moderately since the last report. Clinics and urgent care centers in Minnesota proliferated across the state, with one provider alone responsible for 20 percent of the growth. The growth, according to industry sources, “reflects a shift toward retail-style medical services.” A legal services representative in Rapid City, S.D., reported that business has been “solid” due to regulation and compliance cases. An information technology representative in Grand Forks indicated that consulting services have seen an “upward trend” over the past few months due in large part to the growing unmanned aerial systems industry.

Manufacturing

District manufacturing was flat overall since the previous report. An index of manufacturing conditions by Creighton University indicated decreased activity in September in Minnesota and North Dakota, while the index pointed to increased activity in South Dakota. A contact in southern Minnesota reported that orders from larger clients were slowing. However, contacts in the food processing industry reported solid activity. A medical device maker was expanding into a new facility in Minnesota, and a producer of packaging equipment reported that demand was up due to companies seeking to automate.

Energy and Mining

Activity in the energy sector increased slightly since the last report. District oil and gas exploration activity as of late September increased slightly from low levels a month earlier. A utility announced plans to expand wind power capacity by 60 percent within four years. However, a large oil pipeline project was cancelled. Mining activity was steady since the last report. Production at Minnesota iron ore mines was ahead of expectations earlier in the year, but still well below levels of a year earlier.

Agriculture

District agricultural conditions weakened since the last report. Harvests of corn and soybeans were on schedule overall in much of the District, though heavy rains delayed progress in some areas. Wheat and small grain production for 2016 was generally down in many areas from a year earlier in spite of

strong yields due to farmers planting fewer acres. Contacts reported that the extended period of low crop prices continued to put pressure on farm incomes and that this was beginning to spill over to rural areas more broadly. Prices received by farmers decreased in August from a year earlier for corn, soybeans, wheat, hay, cattle, hogs, chickens, eggs, and turkeys; prices for milk increased from a year earlier.

Employment, Wages, and Prices

Employment grew modestly since the last report. Average weekly initial claims for unemployment insurance from August through mid-September fell modestly in Minnesota and Montana from levels a year earlier, but were slightly higher in the Dakotas. A survey of Wisconsin employers found that a slightly smaller percentage expected to add staff in the fourth quarter compared with the previous quarter. Some types of construction work in Minnesota have slowed recently, according to a trade union representative. A Montana staffing firm reported that job orders were lower compared with last year due to the loss of two large manufacturing accounts and difficulty finding workers for available jobs. A recent Minnesota report showed that job vacancies remained high, but were slightly below levels of a year ago. A central Minnesota health care organization with about 500 employees reported that “there are 50 openings at all times.” Numerous job fairs across the District gave mixed signals, according to contacts. A western Minnesota job fair reported fewer employers this year “and maybe a few less job seekers,” while two job fairs in the Twin Cities reportedly saw strong attendance, although employer demand exceeded capacity. Companies were gearing up for seasonal hiring; a transportation company expected to hire almost 1,300 seasonal workers in the Twin Cities.

Wage pressure was moderate since the last report. Among numerous contacts, most reported wage increases of 2 percent to 3 percent; one trade union reported that a new, three-year contract had wage increases of 3.5 percent to 4 percent. In Montana, strong construction in larger markets was reportedly putting upward pressure on wages but, said one contact there, “they haven’t gone crazy.” Price pressures were modest overall since the last report. Large grocery operators reported downward pressure on food prices, especially dairy, eggs, and meat. A Minnesota manufacturing source said input prices were up 2 percent to 5 percent over a year earlier, and an agricultural source said costs have adjusted to low commodity prices, with lower fertilizer costs and stable seed and chemical costs.

TENTH DISTRICT - KANSAS CITY

Economic activity in the Tenth District rose slightly in September. Consumer spending remained above year-ago levels but declined slightly compared to the previous survey period. Retail sales increased moderately, while sales in the restaurant, auto, and tourism sectors decreased. Manufacturing activity picked up, primarily due to stronger activity in the durable goods sector. Contacts in transportation, professional, and high-tech firms reported moderate growth in sales, but firms in the wholesale trade sector noted mostly flat activity. District real estate activity increased slightly in September despite a seasonal slowdown in residential real estate sales. Conditions in the banking sector were mostly unchanged from the previous survey period as bankers reported steady loan demand, unchanged loan quality and credit standards, and stable deposit levels. Energy activity across the District experienced moderate growth with respondents reporting higher revenues and drilling activity than in the previous survey period. District farm income remained subdued as low crop and livestock prices persisted in part due to high levels of production and inventories. Input and selling prices in most sectors increased slightly, and wages continued to grow.

Consumer Spending. Consumer spending fell slightly in September, but sales remained higher than year-ago levels. Retail sales increased moderately compared to the previous survey period and were slightly higher than a year ago. Several retailers noted that lower-priced and clearance items sold well, while sales of luxury and higher-priced products were sluggish. Retail contacts anticipated mostly flat sales in the next few months, with inventory levels expected to rise slightly. Auto sales decreased at a moderate pace since the previous survey and were considerably lower compared to a year ago. Auto dealers expected a modest decrease in sales in the months ahead, but auto inventories were expected to remain unchanged. Restaurant sales declined moderately but remained above year-ago levels. Sales in the restaurant sector were anticipated to decline in the months ahead. District tourism activity was higher than a year ago, although activity declined in September.

Manufacturing and Other Business Activity. Manufacturing activity increased moderately, and most other business activity was also positive. The improvement in manufacturing activity came mainly from durable goods factories, particularly for machinery and metals products. Production,

shipments, and new orders all rose considerably, and manufacturers' capital spending plans were the highest in over a year. Expectations for future activity remained moderately positive.

Outside of manufacturing, contacts in transportation, professional, and high-tech firms reported a moderate increase in sales, with further improvements expected. Wholesale trade contacts noted mostly flat activity but expected sales to improve modestly in the coming months. Professional, high-tech, and wholesale trade firms reported favorable capital spending plans, while transportation contacts expected capital spending to remain unchanged.

Real Estate and Construction. Overall District real estate activity expanded slightly in September. Residential sales were sharply lower than the previous survey period, with most respondents citing seasonal effects for the slowdown. Sales of low- and medium-priced homes continued to outpace sales of higher-priced homes. Residential inventories experienced modest declines, and home prices were up strongly compared to the same time last year. Activity for residential construction firms increased modestly as housing starts, traffic of potential buyers, and construction supply sales were up over the previous survey period. Contacts in the commercial real estate sector reported modest growth as absorption, completions, construction underway, and sales rose, while commercial vacancy rates declined slightly. Expectations for the commercial real estate market were for continued growth but at a slightly slower pace.

Banking. Most bankers reported steady but improving overall loan demand since the previous survey period. Respondents indicated a steady demand for commercial and industrial, commercial real estate, residential real estate, agricultural and consumer installment loans. Most bankers indicated loan quality was unchanged compared to a year ago. In addition, a majority of respondents expected loan quality to remain essentially the same in the next six months. Credit standards remained largely unchanged in all major loan categories. Finally, a majority of respondents reported stable deposit levels, and the number of respondents indicating lower deposits declined.

Energy. District energy activity increased moderately, and the outlook remained optimistic overall. Drilling activity, as measured by the number of active oil and gas rigs, edged higher, particularly in Oklahoma. Firms reported moderately higher revenues this period, but said oil and gas prices still needed to be marginally higher to be profitable. Most respondents projected that global inventories would balance by the second or third quarter of 2017. Therefore, several contacts expected commodity prices to increase moderately in the second half of 2017. Natural gas prices inched higher

since the last report period. Most respondents expected prices to continue to increase slightly in the coming months as winter weather drives up demand.

Agriculture. District farm income remained subdued as low crop and livestock prices weighed on revenue expectations. Inventories of wheat remained high, and expectations of a strong corn harvest held grain prices below the previous year. Soybean production was also expected to be at or above record levels, but relatively steady demand has kept prices slightly above a year ago. Crop production costs have decreased modestly, but at a slower pace than crop prices, keeping profit margins relatively weak. In the livestock sector, both cattle and hog prices decreased in September, and were lower than a year ago, primarily due to strong production. Persistently weak farm income and reduced cash flow in both the crop sector and livestock sector have continued to reduce borrower liquidity and has continued to drive demand for agricultural production loans.

Wages and Prices. Input and selling prices were up slightly in most sectors compared to the previous survey period, and wages continued to rise. In the retail sector, input prices grew moderately, while selling prices edged up. Restaurant prices rose modestly and were expected to increase further moving forward. Respondents in the transportation sector reported slight gains in selling prices after falling in the prior survey, and modestly higher transportation input prices. Prices in the construction sector continued to grow moderately, with continued increases expected in the next few months. Manufacturers reported a continued decrease in finished goods prices, despite a modest rise in raw material costs, and both finished goods and raw materials prices were projected to grow in the coming months. Contacts in most sectors reported an increase in wages, though at a slower pace than in the prior survey, and expectations were for moderate gains moving forward. Respondents noted a shortage of commercial drivers, skilled technicians, and salespeople.

ELEVENTH DISTRICT—DALLAS

Summary of Economic Activity Economic activity in the Eleventh District expanded moderately over the past six weeks. Manufacturing activity rose, and demand for nonfinancial services increased. Retail sales held steady and automobile sales remained strong. Real estate activity was flat to up in most markets. Loan demand was mixed. Demand for oilfield services stayed depressed, although drilling activity ticked up. Agricultural growing conditions remained favorable, but prices fell further. Overall employment growth picked up slightly, while prices held steady. Outlooks remained generally positive but cautious.

Prices Prices held fairly stable over the reporting period. Some upward pressure on input costs continued, while selling prices remained largely flat. Real estate contacts noted that land and lot prices generally stayed elevated, and home construction costs remained high. Oil and natural gas prices held fairly steady despite recent volatility, and prices were generally supportive of very modest increases in activity in the oil and gas sector. Energy contacts noted that an oil price above \$50 per barrel is needed to materially accelerate the recovery in the industry. Exploration and production contacts noted that the prices from services companies are still generally trending down and that they believe they will be able to hold on to most of the cost concessions gained thus far.

Employment and Wages Employment reports were more positive than during the prior reporting period. Employment levels continued to hold steady or rise among most services contacts, although declines were seen among some transportation services firms. Most manufacturers noted stable employment levels, and several reported hiring, reflecting the stabilization seen in that sector recently. Energy firms noted that layoffs were mostly done, and that the industry was holding on to as much of its talent as it could.

Wage pressures remained minimal, although several manufacturers noted upward pressure resulting from a shortage of skilled and unskilled workers. Shortages of health care professionals and construction workers persisted.

Manufacturing The manufacturing sector expanded over the reporting period, and outlooks were more positive than in the last report. Output increased for both durables and nondurables, although some continued weakness was seen in energy-related manufacturing (such as fabricated metals and machinery). High-tech and transportation manufacturing remained growth leaders, while construction materials demand growth was more muted. Contacts continued to point to lower exports as a headwind, citing challenges with international demand due to the strong dollar.

Refinery utilization rates continued to be healthy, although large inventories and soft global demand were still keeping a lid on margins. Gulf Coast chemical producers saw mixed demand, in line with the headwinds of a strong dollar and moderating international demand.

Retail Sales Retail demand was flat overall. Retailers generally noted a pickup in Texas business activity in September, but there were reports of sales declines in certain regions and segments. Contacts noted slowing sales growth in border cities due to the sustained impact from the strong value of the dollar, and one contact noted continued sales declines at stores in the oil patch. Automobile sales declined less than is typical at this time of year and remained at very high levels. However, weakness persisted in the Houston auto market. Auto contacts were rather pessimistic in their outlooks, with concerns about how the presidential election will impact consumer spending.

Nonfinancial Services Demand for nonfinancial services generally increased over the past six weeks, at a slightly faster pace than in the prior period. Staffing services firms said demand strengthened, with some contacts seeing very large increases, especially in the Dallas-Fort Worth area. A few contacts noted a pickup in staffing demand in Houston. Transportation services firms continued to report weaker cargo volumes, although increases in grain volumes were a bright spot. A rail contact noted petroleum shipments over the reporting period were down versus last year, but shipments of frac sand were up. Airlines reported stable demand, with domestic travel remaining strong. Firms in the healthcare sector noted rising revenues, while leisure and hospitality firms said business was flat to down. Outlooks among services firms were positive overall, but tempered by concern for continued low oil prices, weakness in the global economy, and uncertainty surrounding the presidential election.

Construction and Real Estate Home sales were flat to up slightly during the reporting period. Sales of lower-priced homes remained solid, but there were reports of increased competition and slowing demand at mid to higher price points. Contacts in Austin noted a slight uptick in new home sales during the latter part of the reporting period. One contact described new home sales in Dallas-Fort Worth as choppy, and respondents in Houston reported continued softness. Home prices were elevated, but some incentives were being offered by builders, according to contacts.

Apartment demand continued to be healthy, and occupancy remained high. Rents rose further, with Dallas-Fort Worth seeing the fastest year-over-year growth among the major metros. Conditions were weak in the Houston apartment market, where increasing supply put pressure on rents and occupancy.

Office leasing activity remained solid in Dallas-Fort Worth, and rents were up from year-ago levels. In contrast, demand was weak in Houston, causing the office vacancy rate to rise further. Sublease space remained elevated in Houston but was being partly absorbed due to discounted rates. Office construction was elevated in Dallas-Fort Worth but slowed in Houston. Industrial demand was strong,

particularly in Dallas–Fort Worth, and vacancy rates remained low in both Houston and Dallas–Fort Worth.

Financial Services Loan demand was mixed over the reporting period. Although most contacts noted increased loan balances, there were some that reported declines. Small and mid-size mortgage loans continued to perform relatively well. Auto loan growth slowed a little, mainly because of the end of the summer season. Loan quality generally remained strong, partially due to lenders' continued caution in issuing loans. Credit standards stayed fairly conservative, especially for energy-related loans. Changes in deposit levels over the past six weeks were somewhat mixed, although the majority of contacts reported moderate growth in deposits. Interest rates paid on deposits remained unchanged, as did interest rate margins. Although outlooks were rather positive, contacts were still quite cautious.

Energy Demand for oilfield services remained depressed in most of the Eleventh District, even as drilling ticked up (especially in the Permian Basin). Most contacts remained cautiously optimistic for the fourth quarter, but optimism for 2017 slipped. While the majority of contacts still believe 2017 will be a better year than 2016, expectations for next year have moderated in light of recent revisions to the oil demand outlook from the International Energy Agency.

Agriculture Crop production prospects for 2016 remained strong across the district, with increases over 2015 production expected for most crops. Ample rainfall provided favorable pasture conditions and abundant forage, although it hampered the cotton crop in some areas. Already-low crop prices generally fell over the reporting period, and cattle prices dropped as well. Contacts continued to note that farmers were concerned about their finances and their ability to get adequate financing for next year.

TWELFTH DISTRICT—SAN FRANCISCO**Summary**

Economic activity in the District continued to expand at a moderate pace during the reporting period of September through early October. Overall price inflation was limited, while upward wage pressures intensified further. Sales of retail goods picked up to a moderate pace, and growth in the consumer and business services sectors was strong. Manufacturing activity changed little on balance. Conditions in the agriculture sector improved moderately. Contacts reported vigorous activity in residential real estate markets, while conditions in the commercial sector strengthened. Lending activity grew at a moderate pace.

Prices and Wages

Overall price inflation was limited over the reporting period. Prices in the hospitality sector increased modestly, a somewhat slower pace than earlier in the year. Raw materials price inflation remained subdued, except for select agricultural commodities. Prices for generic pharmaceuticals declined further, with significant drops noted for a few products.

Wage pressures intensified further during the reporting period. On balance, growing labor shortages increased wage pressures for low skilled and entry-level workers, and a few contacts noted an increase in the time required to fill vacancies due to shortages of workers who meet basic job requirements. Some small business owners in Idaho reported the need to reinstitute previously dropped health-care benefits to attract applicants. Demand for skilled IT professionals continued to heighten wage pressures in the financial and technology sectors. One contact reported that wage growth in the Bay Area technology sector remained high but had slowed somewhat from its torrid pace over the past few years, particularly for smaller businesses.

Retail Trade and Services

Retail sales growth picked up over the reporting period and was moderate on balance. Sales of luxury consumer goods were strong, while smaller retailers noted that demand for mid-priced products improved following a summertime lull. Beverage sales remained strong. Contacts in the gaming industry reported strong sales growth and noted that retailers continued to invest in brick-and-mortar capacity, as foot traffic remained robust. Demand for new and used automobiles bounced back from a slowdown in the prior reporting period.

Contacts in the apparel industry reported that sales growth improved and was moderate on balance.

Activity in the consumer and business services sector generally grew at a solid pace. E-commerce sales continued to boost domestic shipping volumes, while demand from the export sector remained weak due to the elevated dollar. Demand for payment services from small businesses slowed somewhat from earlier this year but continued to expand moderately. Overall, activity in the entertainment sector grew at a moderate pace across most platforms due in large part to heavier demand for script-based television content. Tourist activity in Hawaii increased further for both domestic and foreign travelers. Sales at restaurants slowed further.

Contacts in the utilities sector reported that energy demand from manufacturers declined further due in part to weaker demand from metal producers and food processors in the Pacific Northwest. Labor market conditions remained tight, with one contact reporting difficulty in finding a sufficient number of truck drivers for the summer harvest.

Manufacturing

Manufacturing activity was mixed across sectors but largely flat on balance over the reporting period. Shipments of aluminum products reached record highs, as demand from producers of fabricated and primary metal products increased further. Sales growth of manufactured pharmaceuticals slowed slightly from its earlier rapid pace, and contacts continued to report rising production costs from government regulation and negative media coverage around industry pricing decisions. Activity in the semiconductor industry continued to grow steadily as orders for new products kept pace with final sales. Steel production weakened over the reporting period as the elevated dollar, strong global production, and weak global economic growth held back exports. One contact reported that a “fairly significant” number of small metals recyclers had closed or filed for bankruptcy. Orders and deliveries of commercial aircraft are down for the year compared with the same period last year.

Agriculture and Resource-Related Industries

Activity in the agricultural sector expanded at a moderate pace. Harvest yields of pistachios, almonds, and walnuts are expected to reach record levels. Contacts reported that both yields and quality of this year’s grain harvest were high. Potato producers noted average yields and flat to slightly decreasing demand for

processed potato products. Profitability improved slightly in the dairy industry, although feedlot owners face challenges. On balance, the elevated dollar continued to slow most exports, particularly for raisins, where global inventories remain elevated.

Real Estate and Construction

Real estate market activity grew at a strong pace over the reporting period. Overall, residential construction expanded significantly. However, slow permit issuance and a lack of available land continued to constrain residential construction somewhat in parts of the District. Contacts in Alaska reported that, while overall residential sales were strong, sales of luxury units slowed. House prices ticked up further throughout the District's metropolitan areas. Demand for commercial construction picked up further as occupancy rates remained high. Sales of commercial real estate in southern California grew at a strong pace, although one contact reported that purchases of existing properties remained more cost effective than investments in new construction. On balance, shortages of skilled labor constrained construction of both residential and commercial units across much of the District.

Financial Institutions

Lending activity grew at a moderate pace over the reporting period. Loan growth expanded further, but competition for borrowers remained fierce as the supply of available funds exceeded demand. Deposits picked up further, and liquidity was ample. Credit quality improved slightly and delinquencies remained low. Contacts noted that regulatory costs and low interest rates continued to hold down profitability across the sector. One contact reported that some community banks had trouble retaining experienced bankers, and investments in training new hires had increased from previous periods.