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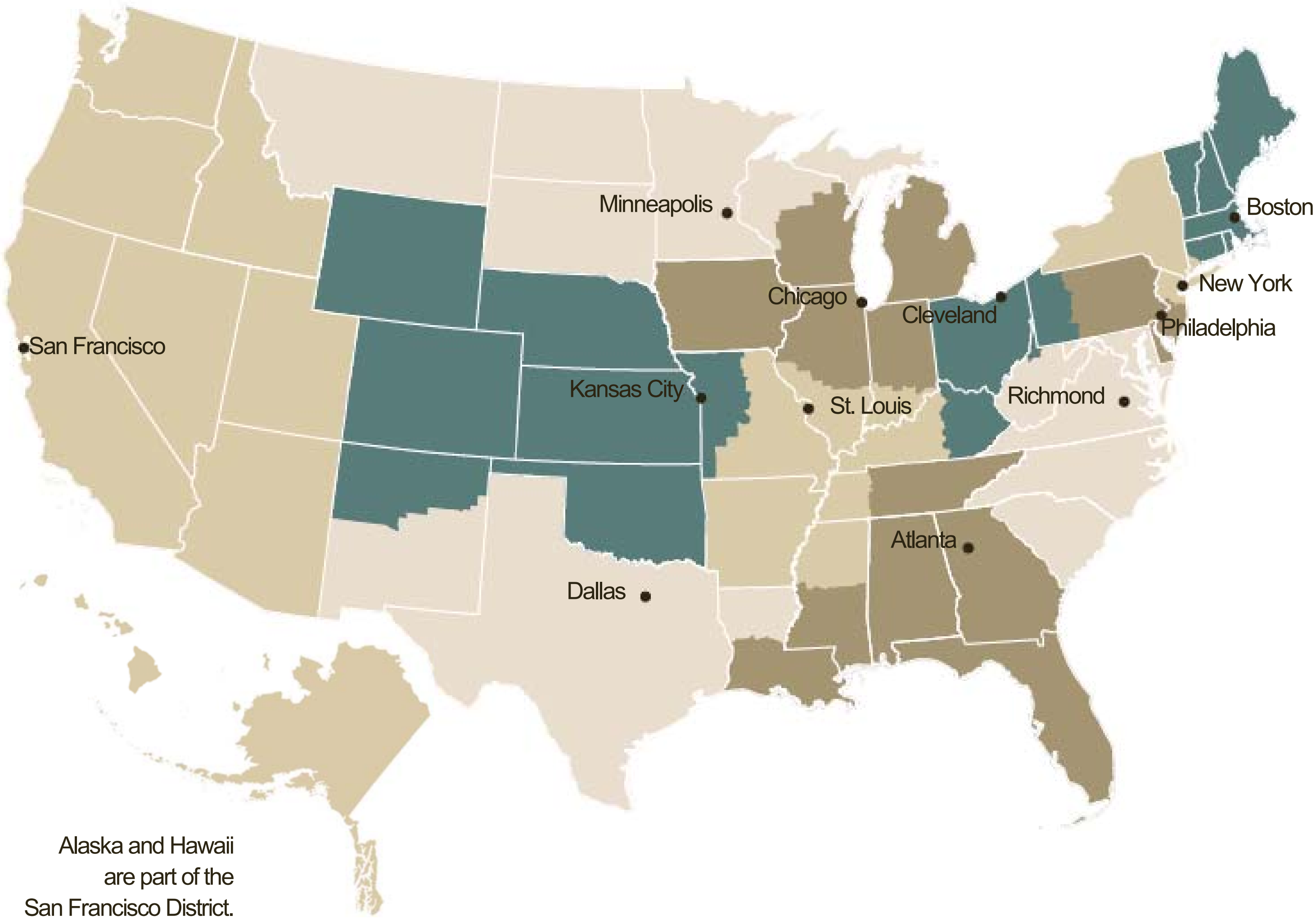
The Beige Book

Summary of Commentary on Current Economic Conditions
By Federal Reserve District

July 2019

Federal Reserve Districts



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

What is The Beige Book?

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

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

How is the information collected?

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

How is the information used?

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

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

National Summary

Overall Economic Activity

Economic activity continued to expand at a modest pace overall from mid-May through early July, with little change from the prior reporting period. In most Districts, sales of retail goods increased slightly overall, although vehicle sales were flat. Activity in the nonfinancial services sector rose further. Tourism activity was broadly solid, with Atlanta and Richmond recording robust growth in this sector. Although some Districts continued to report healthy expansion in the transportation sector, others noted that activity declined modestly. On balance, home sales picked up somewhat, but residential construction activity was flat. Nonresidential construction activity increased or remained strong in most reporting Districts, and commercial rents rose. Manufacturing production was generally flat, but a few Districts noted a modest pickup in activity since the last reporting period. Agricultural output declined modestly following unusually heavy rainfall in some areas, and oil and gas production fell somewhat. Increased demand for loans was broad-based, with all but two Districts noting some growth in financing activity. The outlook generally was positive for the coming months, with expectations of continued modest growth, despite widespread concerns about the possible negative impact of trade-related uncertainty.

Employment and Wages

On balance, employment grew at a modest pace, slightly slower than the previous reporting period. Labor markets remained tight, with contacts across the country experiencing difficulties filling open positions. The reports noted continued worker shortages across most sectors, especially in construction, information technology, and health care. However, some manufacturing and information technology firms in the Northeast reduced their number of workers. A few reports highlighted concerns about securing and renewing work visas, flagging this as a source of uncertainty for continued employment growth. Compensation grew at a modest-to-moderate pace, similar to the last reporting period, although some contacts emphasized significant increases in entry-level wages. Most District reports also noted that employers expanded benefit packages in response to the tight labor market conditions.

Prices

The reports indicated that the rate of price inflation was stable to down slightly from the prior reporting period. Districts generally saw some increases in input costs, stemming from higher tariffs and rising labor costs. However, firms' ability to pass on cost increases to final prices was restrained by brisk competition. Reduced supply boosted prices for some agricultural goods. Reports on transportation costs were mixed, with some Districts noting increased upward pricing pressures, while others highlighted price declines due to reduced demand for shipping services. Prices for professional and business services fell slightly, and steel and lumber prices softened due to lower demand.

Highlights by Federal Reserve District

Boston

Economic activity expanded at a modest pace at the end of the second quarter of 2019. For manufacturers, tariffs and trade policy uncertainty were major issues. Wage and price pressure remained modest, however. Labor markets continued to be tight.

New York

Regional economic growth slowed to a modest pace. Despite tight labor markets, job creation slowed and wage growth was subdued. Increases in both input prices and selling prices have slowed. Manufacturing activity declined. Banks reported a pullback in loan demand, and the financial sector showed signs of softening.

Philadelphia

On balance, business activity continued at a modest pace of growth during the current Beige Book period. Trade uncertainty further delayed business investment, and wage increases edged higher as tight labor markets continued to constrain hiring. Still, inflation remained modest, and the firms remained positive about the six-month outlook.

Cleveland

District economic activity was flat over the period. Demand for financial and nonfinancial services strengthened, but demand for manufacturing and freight softened. Employment increased modestly, mostly in professional and business services. Wages increased modestly, with growth in most sectors. Price inflation decelerated as materials costs, especially for steel, fell.

Richmond

The regional economy grew at a modest rate, overall. Manufacturers reported a slight uptick in shipments and new orders. Port activity remained strong. Trucking volumes fell below seasonal levels. Nonfinancial services and tourism increased in recent weeks. Meanwhile, residential and commercial real estate sales, leasing, and lending picked up modestly, overall. Labor markets remained tight and wages rose moderately.

Atlanta

Economic activity modestly improved. Labor market conditions remained tight. Overall, wage growth was steady. Firms noted rising input costs. Consumer spending was up since the previous report. Housing sales improved from low levels earlier this year. Manufacturing activity grew. Loan activity pulled back slightly.

Chicago

Economic activity was little changed. Employment increased modestly; business spending increased slightly; consumer spending and construction and real estate activity were flat; and manufacturing decreased slightly. Wages and prices rose modestly and financial conditions improved modestly. More wet weather put further stress on farmers.

St. Louis

Economic conditions have improved slightly since our previous report. Barge traffic picked up somewhat after being halted by recent flooding. St. Louis builders expect increased housing permits in the summer as they make up for time lost due to wet spring weather. Loan volumes continued to increase but growth has slowed slightly.

Minneapolis

Ninth District activity grew at a modest-to-moderate pace. Labor demand was healthy but restrained by lack of labor availability. Consumer spending rose but saw conflicting activity. Commercial and residential construction rebounded after several slower months. Manufacturers described demand as stable overall, with some concerns about a slowdown. Heavy rainfall and flooding delayed crop planting, further hurting farmers.

Kansas City

District economic activity continued to grow at a slight pace. Retail and restaurant contacts reported moderately higher sales, and residential real estate sales remained robust. Manufacturing, wholesale trade, and professional and high-tech activity held steady, but transportation activity slowed modestly. Energy activity expanded slightly, while the agriculture sector was strained further by delayed planting and harvesting.

Dallas

Economic activity expanded moderately. Retail sales and drilling activity dipped, but growth picked up in nonfinancial services and manufacturing in June after softening in May. Input cost pressures increased in manufacturing likely due to tariffs. Hiring continued at a steady pace. Outlooks were mixed, with tariff and trade tensions driving up uncertainty.

San Francisco

Economic activity in the Twelfth District continued to expand at a moderate pace. Labor market conditions remained tight and wage growth was moderate. Price inflation was unchanged on balance. Sales of retail goods increased moderately. Conditions in manufacturing were mixed. Conditions in agriculture deteriorated modestly. Activity in residential real estate markets expanded moderately. Lending activity increased moderately.

Summary of Economic Activity

Economic activity expanded at a modest rate in the First District at the end of the second quarter of 2019. Retailers reported lower comparable store sales, which they attributed to temporary factors including unusually strong activity in the same period last year and inclement weather. Restaurants reported higher sales. Manufacturing firms reported slower growth. Contacts attributed slower growth to tariffs, which drove up costs. In addition, trade policy uncertainty reduced capital expenditures. Software and IT services firms reported mixed growth. Commercial and residential real estate markets enjoyed increased prices and flows of transactions in most markets. Employment growth was mixed: some manufacturing firms laid off workers while other contacts reported difficulty finding workers. Tariffs drove price increases at some firms. Wage and pricing pressure was otherwise modest. Outlooks were positive with some downward revision.

Employment and Wages

Contacts reported that wage pressure remained modest. Some firms reduced hiring or laid off workers, but those hiring continued to report a very tight labor market. Manufacturing firms directly affected by tariffs were among the firms with reduced demand for labor. Retailers and restaurants reported that finding workers remained a problem but increased numbers of visas should reduce seasonal labor shortages in tourist areas.

Prices

Firms facing increased costs due to tariffs said that they had little trouble passing them on. Otherwise contacts did not report any unusual price pressure either on the supply or demand side. Retailers said that intense competition limited price increases. Menu prices were up by about 3 percent at restaurants, relative to a year-earlier, reflecting higher labor and other operating costs.

Retail and Tourism

Retail contacts consulted for this round reported that on a year-over-year basis, overall comparable store sales for late May through June were down by 5 to 8 percent. The explanation for these results varied: one firm cited an unfavorable comparison to a record high increase that was set last year, while other sources attributed the lower-than-expected results to an unseasonably cold and rainy spring in the Northeast having an adverse effect on sales and tourist activity. While these lackluster 2019:Q2 results have raised some concerns, the prevailing expectation is that this trend will prove to be temporary. All contacts said filling open positions is hard.

Restaurants sales in Massachusetts were up six percent.

Tourist activity on Cape Cod was adversely affected by dismal weather, including 20 days of rain in June. More visas for temporary foreign workers this year mean that the Cape Cod labor shortage should be less than in 2018. The travel industry expects that growth in 2019 will be good.

Manufacturing and Related Services

Reports from our contacts continued to be mixed. The big story this cycle is trade policy, which six of seven contacts discussed in detail. Contacts attributed higher costs, reduced demand and higher uncertainty to trade policy. Contacts said it was typically hard or impossible to divert to non-Chinese suppliers. For firms that produce components, the costs of “qualifying” new suppliers usually exceed the benefits. Indirect costs of the tariffs were also significant. For example, one contact complained about having to hire consultants to change computer systems to track the cost of tariffs.

Contacts said the US tariffs and foreign retaliation had weakened demand for their products. Firms that supply electronic components to capital goods manufacturers said investment demand had slowed because firms were delaying capital expenditure plans. One contact said the brief threat to impose 5 percent tariffs on Mexican goods significantly increased uncertainty because it meant that even with an agreement in place, new tariffs were still possible. In general, contacts said they were able to pass the tariff costs onto their customers.

One contact reported that previous problems finding trucking capacity had ebbed.

Five of seven contacts reported flat or reduced employment. A frozen fish manufacturer said it was unable to find workers. A manufacturer of electronic components said it had laid people off as a result of the tariffs, with headcount declining by about 10 percent. For example, the firm had moved an assembly line from the U.S. to Germany because most of the components in the product came from China and making the product in Germany allowed them to avoid the tariffs.

Three of our contacts reported downward revisions in capital expenditure plans. In general, firms did not cancel but delayed plans in order to get more clarity about tariffs. One contact reported increased capital expenditure to duplicate production currently done in China.

A majority of contacts said they had negatively revised their outlooks. The major reason was trade policy.

Software and Information Technology Services

Software and IT firms reported mixed outcomes from this past quarter. Half our contacts reported demand and revenue growth that exceeded expectations, attributable to improving business efficiency, newer cloud-based or Internet of Things product lines, and introduction of month-to-month subscription pricing options. Other contacts reported either no change in demand from last year, or decreases in demand in the low single digits. Prices showed no change over the last quarter and one contact who had previously mentioned the potential for price increases later in the year no longer mentioned that possibility. Headcount remained stable with no change quarter over quarter or year over year for the majority of firms. Most contacts remain largely optimistic going into the next quarter mixed with slight apprehension looking toward 2020.

Commercial Real Estate

Commercial real estate markets in the First District showed somewhat mixed results in recent weeks. The Boston area saw ongoing robust leasing activity in the high technology and life sciences sectors as well as for industrial properties, and rent growth has been very strong in these sectors over the past twelve months. Although several new office buildings broke ground in downtown Boston in recent weeks, the delivery pace of new office space in the metropolitan area slowed on a year-over-year basis, and ongoing construction activity is not expected to boost vacancy rates any time soon. Sales volume slowed modestly in the second quarter in Boston's office and industrial property markets, but this was attributed to lack of inventory. Elsewhere in the First District, office leasing picked up slightly in the Providence area and held steady at a slow pace in Hartford, and in both of those cities, contacts expect activity to experience a seasonal slowdown in the near term. The outlook also appears mixed. A Connecticut contact highlighted weak business sentiment and fiscal strain as ongoing barriers to growth, while Boston contacts seemed bullish for the near-term but saw external risks coming from financial markets and a weaker macroeconomic outlook.

Residential Real Estate

Residential real estate markets in the First District continued to show strong momentum in May. Single family homes market saw robust sales activities, with closed sales and pending sales increased in all reporting areas. Inventory decreased moderately in Rhode Island, Boston and Maine, while Massachusetts and New Hampshire experienced a larger drop.

House prices continued to rise in the region. Prices reached milestones in several places. The median sales price of a house surpassed $300,000 in Rhode Island and $400,000 in Massachusetts both for the first time.

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

Summary of Economic Activity

Growth in the Second District economy slowed to a modest pace in the latest reporting period. The labor market remained very tight, though job growth was tepid, and wage growth largely remained subdued. Input price pressures have moderated slightly, and selling prices have decelerated noticeably. Manufacturing activity declined, while growth in the trade and distribution industries slowed considerably. However, most service sectors saw steady to modestly growing activity. Consumer spending has edged up, mainly due to some firming in auto sales, while tourism has been mostly steady. Housing markets have been mixed but, on balance, a bit firmer—particularly the rental market. Commercial real estate markets have held steady overall, and new office construction has continued to pick up. Finally, banks reported a pullback in loan demand across the board, and the financial sector more generally showed signs of softening.

Employment and Wages

The labor market has remained very tight throughout the District. Contacts reported persistent difficulties finding workers across the spectrum—in particular, those with IT skills, truck drivers, and construction workers. An employment agency indicated that demand for temporary workers has diminished, as firms are increasingly inclined to hire permanent workers. A payroll service firm noted that job growth slowed in June, but largely because employers have had more trouble filling job openings. A number of contacts noted difficulties in securing and renewing H1B visas for specialized workers, and cited uncertainty about this as a problem.

Businesses generally reported slowing in hiring activity. Contacts in the manufacturing, transportation, and information sectors reported that, on balance, headcounts have declined, while professional & business service firms indicate little change. Contacts in other service sectors, as well as construction and real estate, reported continued modest growth in employment. Still, contacts in both manufacturing and in most service sectors plan to increase staffing levels in the months ahead.

Despite persistently tight labor markets, businesses and employment agencies generally report continued modest wage growth. Exceptions to this include certain high-skill occupations, such as IT workers and engineers, as well workers in the education & health sector more broadly.

Prices

Businesses reported that input prices and especially selling prices have decelerated in recent weeks. Input cost pressures have abated somewhat in the manufacturing, finance, professional & business services, and leisure & hospitality sectors but have remained fairly widespread in other industries. Selling prices are reported to have leveled off for businesses in manufacturing, information, finance, and leisure & hospitality. Prices for Broadway theater admissions were down roughly 10 percent from a year earlier.

Retailers generally indicated that selling prices have been flat to down slightly. Retail contacts noted that they have been discounting more steeply in recent months, with one major chain noting declines in effective selling prices compared with a year ago.

Consumer Spending

Overall, retail sales were essentially flat in the latest reporting period. Somewhat more retail contacts reported that business was declining than increasing. However, an upstate New York mall reported solid shopper traffic and modestly growing sales activity, despite a number of store closures. In addition, a major retail chain noted that sales in the region were roughly on plan and up modestly from a year earlier. Inventories were generally indicated to be at or slightly above desired levels.

New vehicle sales grew modestly, while sales of used autos were steady to somewhat weaker, according to dealers in upstate New York. New vehicle inventories remained elevated. Dealers indicated that consumer credit conditions generally have remained in good shape.

Consumer confidence in the Middle Atlantic states (NY, NJ, PA) retreated in June, after rising in May, though it remains at a fairly high level, based on the Conference Board's monthly survey.

Manufacturing and Distribution

The manufacturing and distribution sectors have weakened since the last report. Manufacturers reported that overall activity and new orders have contracted modestly in recent weeks. Wholesale distributors reported that growth slowed sharply, and transportation firms noted that activity was flat to rising modestly.

Looking ahead, manufacturing contacts remain fairly positive about the near-term outlook, while wholesale distributors and transportation firms have become somewhat less optimistic. Businesses have continued to express concern about tariffs, trade uncertainty, and the increase in New York State's minimum wage.

Services

Service-sector businesses reported that activity was mixed but, on balance, little changed in the latest reporting period. Contacts in real estate, information and leisure & hospitality noted increased business, while contacts in finance reported declining activity. Businesses in education & health and professional & business services indicated flat activity.

Broadway theaters reported that attendance was steady in June and little changed from a year ago. However, revenues have continued to weaken, running roughly 10 percent below comparable 2018 levels.

Real Estate and Construction

Housing markets across the District have been mixed but, on balance, slightly firmer since the last report. Home purchase markets in upstate New York have strengthened further, and low inventories of unsold homes have continued to boost prices, with more homes selling for above asking price. In New York City, in contrast, the inventory of unsold homes has climbed to a 7-year high, though not to levels considered problematic. Apartment sales prices have been flat overall. There was a brisk pickup in transactions in the second quarter—largely at the high end of the market—in advance of a "mansion tax" effective July 1, but this is expected to sharply curtail activity in the third quarter. Housing markets in the areas surrounding New York City have picked up modestly.

Residential rents across the District have continued to rise modestly in recent weeks and are up from a year earlier. In New York City, rental vacancy rates remain exceptionally low, and landlord concessions have continued to recede from the high levels of the past two years.

Commercial real estate markets have been generally stable since the last report. Office availability rates and rents across most of the District have been steady and little changed from a year ago, though some markets across upstate New York have firmed modestly. Industrial markets have been mixed, as rents have continued to rise moderately but availability rates have drifted up somewhat.

New multi-family construction starts have been steady, while a sizable volume of residential construction has remained in progress in and around New York City. New office construction has picked up further—largely in New York City—while new industrial construction has tapered off somewhat.

Banking and Finance

Small to medium-sized banks in the Second District reported lower demand across all categories, as well as lower refinancing activity. Bankers indicated that credit standards were unchanged and loan spreads narrowed across all categories. Contacts also reported an increase in the average deposit rate. Finally, banks noted slightly higher delinquency rates on commercial mortgages but little change in delinquencies across other loan categories. ■

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

Summary of Economic Activity

On balance, aggregate Third District business activity continued at a modest pace of growth during the current Beige Book period. Manufacturing slowed to a slight pace of growth, but nonmanufacturing, nonauto retail sales, and tourism continued at a modest pace of growth. Homebuilding held steady, while the ongoing trend of declines in existing home sales appeared to have slowed. Auto sales as well as commercial real estate construction and leasing continued to decline slightly. Contacts continued to note that trade uncertainty was constraining business investment and expressed relief that tariffs had not been imposed on Mexican products. Wage pressures appeared to rise further, as the labor market remained tight. Overall, price pressures eased but remained modest. The firms' outlook for growth over the next six months remained positive but softened, with about two-fifths of all firms anticipating increases in general activity and less than one-fifth expecting decreases.

Employment and Wages

Employment growth continued at a modest pace during the current Beige Book period. More than one-fourth of all firms reported increases in staff. On balance, average work hours declined across firms.

Staffing firms noted that new client orders kept pace or resumed a pace consistent with moderate labor demand, but a lack of interested, qualified applicants constrained fulfillment to a modest pace. Commercial real estate contractors have stepped up training programs to replace their experienced workers as more baby boomers retire. A shore contact noted that the tight labor market nationwide led to greater demand for H-2B visas – widely used by seasonal vacation spots. Thus, far fewer visas were awarded to local businesses than had been expected. Owners were observed working their own counters.

Wage growth continued at a moderate pace, but more reports of wage and benefit cost increases – ranging above 3.0 percent to as high as 5.0 percent – suggest that pressure is rising. The share of nonmanufacturing contacts who reported increases in wage and benefit costs rose to over 45 percent; only 2 percent reported decreases. Staffing contacts noted that some manufacturers cannot offer a wage sufficient to attract workers for nontraditional shifts (e.g., night shifts and weekends).

Prices

The firms reported that price increases remained modest for prices paid, but prices received grew only slightly. The share of firms reporting increases fell, while the share reporting decreases rose a bit. Well over half of all firms reported no change in prices. Builders expressed few concerns that material price increases were accelerating, and most banking contacts continued to note no signs of inflation.

Looking ahead six months, the percentage of manufacturing firms that expect to pay higher prices for inputs fell below 40 percent, and the share expecting to receive higher prices for their own goods fell below 30 percent.

Manufacturing

On balance, manufacturers reported slight growth in activity – a slower pace than in the prior period. Shipments and unfilled orders remained somewhat above long-term nonrecession averages; however, the new orders index slipped below its average.

Since the prior period, the makers of paper products, chemicals, fabricated metal products, and industrial machinery have tended to note gains in new orders and shipments, and the primary metal producers and makers of electronic products tended to note decreases. These trends were somewhat weaker this year compared with the same period one year ago for most of the sectors.

Most firms continued to note some negative effects from tariffs, including higher costs, lower profit margins, greater uncertainty, and lower capital expenditures on new industrial capacity. Food processors noted relief that tariffs were not imposed on imports from Mexico.

Manufacturers' expectations of activity over the next six months changed little and remained subdued. However, expectations of shipments and of new orders shifted higher and are at or above long-term nonrecession averages. Expectations of future employment and planned capital spending also remain above average, with the latter rising higher over the period.

Consumer Spending

On balance, contacts for malls and convenience stores continued to report modest growth of nonauto retail sales. Some mall store operators reported declines in year-over-year sales but steady foot traffic, which may result from online sales that are picked up at mall stores. Contacts at convenience stores noted strong sales for the overall marketplace, especially when the sun shines.

Auto sales remained near high levels, with continued signs of slight slowing. One contact attributed a greater share of recent sales to fleet purchases rather than consumer purchases. Pennsylvania dealers reported moderate year-over-year growth through May, but the pace appeared to have slowed in June. New Jersey dealers reported a slight decline in year-over-year sales for May and estimated a modest decline for June.

Tourism activity continued to grow at a modest pace as the summer season began. Weekend food and fuel sales have been strong along the shore routes. Delaware shore contacts noted that the season started early in May and remained busy through June. During the July Fourth week, traffic was "massive," and restaurant waits were long even on a Tuesday night.

Nonfinancial Services

Service-sector firms noted some slowing, but overall, they maintained a modest pace of growth. The percentage of firms reporting increases in current revenues fell, although the percentage reporting increases in new orders edged up. The firms commented on rising uncertainties, including tariffs, inadequate labor supply, uncertain federal policy, and signs of an economic slowdown. One large firm noted a slight uptick in delinquent accounts receivables of its consumer base. The share of firms expecting growth over the next six months fell considerably to under one-half from nearly two-thirds.

Financial Services

Financial firms reported a continuation of moderate growth in overall loan volumes (excluding credit cards) on a year-over-year basis and a resumption of moderate growth in credit card lending.

During the current period (reported without seasonal adjustments), volumes appeared to grow robustly in commercial real estate, home mortgages, and auto lending. Loans grew moderately for commercial and industrial lending and home equity lines. Other consumer loans (not elsewhere classified) were up slightly.

Banking contacts noted increased uncertainty but remained optimistic about the economic expansion. They continued to note overly aggressive loan pricing and some looser standards, but few credit quality problems.

Real Estate and Construction

Homebuilders reported little change in contract signings in May and June. One builder noted that sales have been sufficient through the first six months to make its budget for the year but observed that greater opportunities were found building apartments for lease, rather than homes for sale.

On balance, existing home sales declined modestly on a year-over-year basis – a lesser decline than in the prior period. Continued declines in the Harrisburg and Greater Philadelphia markets more than offset sales increases in southern New Jersey. Low inventories continued to limit sales in all markets, despite demand.

On balance, commercial real estate construction and leasing activity continued a slight retreat from their recent peaks. In the Greater Philadelphia area, contractors described a flat market at a healthy level and optimism for the remainder of the year. Net increases were still evident in a few industrial markets with sufficient labor supply. Office markets were characterized with relatively even net absorption, stable vacancy rates, and incremental rent growth. Contacts were optimistic that current negotiations would recharge the construction pipeline for office and life sciences research facilities. ■

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

Summary of Economic Activity

Economic activity remained stable and solid since the prior reporting period. Professional and business services firms continued to report strong growth. Loan demand increased, driven by improved confidence and lower mortgage rates. Lower mortgage rates also motivated increased demand for residential real estate. However, growth in the aforementioned sectors was offset by declines in others. Manufacturing continued to weaken because of trade wars, high customer inventories, and slowing global growth. Freight haulers saw a modest decline in demand, despite summer's typically being the strong season, and they are concerned about the future. Construction demand was flat overall. Consumer spending was flat as well. Employment increased modestly over the period, almost entirely because of hiring in professional and business services. Wages grew modestly overall, with gains reported in most sectors. Overall, prices increased at a slower pace than earlier, primarily because of lower materials costs, especially for steel. Retail was the only sector with appreciable acceleration of price inflation over the period.

Employment and Wages

Employment in the District increased modestly over the period. Professional and business services firms drove the bulk of hiring. Staffing firms placed more permanent employees than in the prior period. A banker reported increased hiring to keep up with stronger demand for mortgages. Retailers kept nonseasonal employment levels stable and remarked that turnover was at average levels but hiring remained challenging. Manufacturers reported generally stable employment as well. With the exception of seasonal hiring, construction employment was unchanged. Trucking companies did not increase total driver levels, but persistent driver churn motivated continued hiring. Railroad firms downsized employment.

Wages rose modestly overall, with wage growth in most sectors. Retailers reported raising entry-level wages because of persistent labor market tightness. A banker also reported raising entry-level wages incrementally by bringing in each new cohort at a slightly higher level up to a target of $15 per hour at the end of the year. About half of construction and real estate firms reported raising wages recently for the purpose of employee retention. Fewer professional and business services firms raised wages in this period than had in the prior two periods, but some cited poaching of employees as motivating continued wage increases. Several manufacturers implemented cost-of-living increases, and a few also raised wages for retention. After a couple years of strong wage growth for truckers, no trucking contacts raised wages since the last report.

Prices

Price inflation continued to decelerate, with aggregate selling prices rising only slightly over the period. Falling steel prices exerted deflationary pressure on regional manufacturers. Slowing demand for trucking led to declines in spot rates, especially for long-haul. Trucking contract rates also saw slight deflationary pressure; one company commented that it lost a route to undercutting even when holding its own prices constant. The majority of the aggregate price inflation came from retailers, who explained that they were passing along rising wage, tariff, and shipping costs. An auto dealer remarked that invoice prices for new cars have risen. Nonresidential builders did not report any recent materials cost increases, but they padded margins somewhat because of consistently strong demand. Residential subcontractors increased their rates, and some homebuilders raised prices in turn. Professional and business services firms said that increased competition forced them to hold pricing steady.

Consumer Spending

Retail activity was relatively flat, as contacts reported mixed demand for seasonal products. Food retailers indicated that demand for seasonal goods increased over the period. However, apparel and sportswear retailers reported that cool and wet weather dampened demand for seasonal products, resulting in softer than expected sales. Auto retailers continued to see a shift from new car sales and leases to used car sales. Certified preowned vehicles were in particularly high demand, as higher interest rates and price increases on new vehicles have taken many customers out of the new vehicle market.

Manufacturing

Conditions in the manufacturing sector weakened further. While contacts continued to cite trade-related factors as causes for the slowdown, many reported that broader economic forces were also at work. A large ramp up in activity in 2017 and 2018 led many customers to overbuild inventories, leading to slower current demand. Meanwhile, slowing global growth, adverse weather—which has impacted construction activity—and other factors have also contributed to the weakening. Materials costs continued to fall, particularly for steel. There were fewer reports than in the prior period that falling prices have bolstered demand.

Real Estate and Construction

Nonresidential construction and real estate contacts reported strong and stable demand, and they expected this trend to continue in the near future. Backlogs remained solid, and a wide variety of new projects were coming online. Nonresidential builders have revised upward their expectations for demand in the second half of 2019. One builder stated that he has kept expecting that this strong, consistent demand will cause the market to become saturated but that saturation has not happened so far.

Homebuilders saw mixed conditions; some spoke of slowing momentum, while others said that lower interest rates spurred demand growth. One homebuilder was concerned that slower foot traffic in the current period could signal slower demand in the future. Homebuilders cited the possibility of increased interest rates as the most important risk to their outlook. Residential real estate agents noted improved demand in the summer selling season for both seasonal and nonseasonal reasons. Lower mortgage rates and buyer confidence motivated more first-time homebuyers to enter the market, while older customers downsized their homes. Real estate agents were optimistic about demand through the remainder of 2019.

Financial Services

Loan demand increased modestly since the last report. Home loan and refinancing activity increased as mortgage rates dropped. Most community banks reported loan growth driven by strong economic conditions and business and consumer confidence. Demand for commercial credit remained stable and strong. Core deposits grew modestly. Delinquency rates continued to be low. Bankers believed conditions will slightly improve through the quarter, but they were less optimistic about revenue growth in 2019 than they had been at the beginning of the year. Bankers cited the yield curve, the potential for lower interest rates, and international relations as the primary risks to the outlook.

Professional and Business Services

Professional and business services firms saw robust growth, as almost 70 percent of firms reported improving business conditions over the period. Improved interest in offerings, new partnerships, and larger pools of funding were cited as some of the primary drivers of growth in the sector, and firms expected these positive conditions to continue. However, political uncertainty, trade policy, and uncertainty regarding the risk of a downturn were cited by some contacts as notable risks to the sector.

Freight

Activity in the freight sector softened modestly over the period. Even a modest decline is noteworthy because freight shipments typically pick up substantially in the summer. While some firms reported increases in activity because of their reputation and their ability to attract new customers, the majority of firms reported softening demand, particularly for long-distance shipping. Flooding in the Midwest, low demand for fertilizer, and generally slower economic growth were among the causes of the softer demand contacts described. One contact reported that weaker year-over-year growth rates were causing concern among fleets. Freight firms generally expected demand to remain softer, or even decline further, in the coming months. ■

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

Summary of Economic Activity

Since our previous Beige Book report, the Fifth District economy grew at a modest rate. Manufacturers saw a slight increase in shipments and new orders, but continued to face challenges from the current trade environment. Import volumes remained strong and, at one port, the composition of imports is shifting from China to other Asian countries. Trucking firms, on the other hand, had freight volumes fall below seasonal levels. Nonfinancial services firms reported moderate growth, particularly for construction-related and health care services. Tourism contacts indicated that both business and leisure travel increased in recent weeks, which helped boost restaurant and touring business in some areas. Meanwhile, reports from retailers were mixed. Residential real estate sales picked up modestly, overall, but were constrained by low inventory levels. Commercial leasing and sales also increased modestly in recent weeks, vacancy rates remained low, and rental rates were generally reported as stable to increasing modestly. Fifth District bankers reported deposit growth and a modest increase in loan volumes. Labor markets strengthened, overall, but employers continued to face challenges finding workers and were increasing wages at a moderate rate. Price growth remained moderate, overall.

Employment and Wages

Labor demand strengthened moderately in recent weeks. Employment agencies reported growth in new job openings across all the industry segments they service. Meanwhile, employers across sectors continued to report tight labor markets and difficulty filling positions, particularly for skilled tradespeople, engineers, experienced bankers, IT professionals, and hospitality workers. Wages reportedly grew at a moderate rate, overall, and several firms are increasingly using non-wage benefits, such as flexible work arrangements and additional paid time off, to attract and retain workers.

Prices

Since our previous Beige Book, manufacturing firms generally indicated slower, but still moderate, growth for prices paid and a slight acceleration of growth for prices received. Several contacts noted that some raw material prices eased in recent months, including a notable decline in steel prices. Meanwhile, services firms reported a slight increase in both prices paid and prices received, with both growing at a moderate pace. Businesses in both sectors attributed some of the overall increase in prices paid to tariffed imports and paying higher wages to attract and retain workers.

Manufacturing

On balance, manufacturers in the Fifth District reported mild growth in recent weeks, with shipments and new orders increasing slightly. A cabinet manufacturer reported solid growth in business, and a food manufacturer planned to increase capital expenditures because of strong demand. On the other hand, several contacts continued to report challenges with tariffs and the trade environment. For example, a North Carolina furniture manufacturer was unable to pass tariff-related cost increases on to customers, and a West Virginia rubber manufacturer attributed a drop in business from Chinese customers to the trade wars.

Ports and Transportation

Fifth District ports saw robust activity in recent weeks. Import volumes rose and remained above export volumes. One port saw record-breaking imports, with particularly strong furniture imports. A separate port contact noted that furniture imports had shifted away from China, to other South-Asian countries. One port executive noted that exports recently picked up; however, lumber exports to China declined according to multiple Fifth District ports. Meanwhile, an airport reported strong growth in cargo shipments, although growth slowed slightly in recent weeks.

Trucking companies reported slowing business since our last report, with freight volumes below normal seasonal levels. One executive attributed slowing business to retailers who placed orders to get ahead of the tariffs and still have excess inventory as a result. Companies generally reported that the softer demand led to lower shipping rates, and one company had to eliminate several positions because there was not enough work. On the other hand, another firm continued to look for drivers but said that they no longer needed to raise starting wages.

Retail, Travel, and Tourism

The Fifth District tourism sector continued to grow in recent weeks, with many contacts reporting a strong start to the summer tourism season. Travel for both business and leisure increased, although some hotels struggled with occupancy and rates because of an increasing supply of hotels in their markets. Restaurants and touring companies did robust business as travel was high. Firms expect tourism and travel to remain strong throughout the summer.

Comments from Fifth District retailers varied considerably. A Virginia hardware store had an uptick in business as weather improved. A North Carolina auto dealer saw strong buyer traffic and sales, but expressed concerns about how unrest in the Middle East might affect business in the coming months. Meanwhile, a Virginia high-end clothing retailer reported that business continued to weaken after several soft months, but hoped that July sales events would improve revenues. A North Carolina retailer reported rising prices from suppliers, which was attributed to tariffs.

Real Estate and Construction

Residential real estate firms indicated modest growth, overall. Home sales were reportedly stable to increasing modestly in recent weeks. Brokers continued to report that low levels of inventory were constraining sales, and agents said that new listings continued to sell quickly. Meanwhile, residential construction activity remained flat in most areas; however, a broker in Columbia, South Carolina, reported an increase in recent weeks.

Commercial real estate leasing and sales rose modestly, since our previous Beige Book. Fifth District brokers reported increased demand for industrial space and higher fast casual restaurant leasing. Meanwhile, retail activity varied as small retail sites were generally leasing well but larger anchor tenant leasing had slowed. Commercial office leasing was steady to increasing slightly in most markets. A Charlotte, North Carolina, broker reported conversions of older warehouse space to office space, and also noted high-rise towers with rents starting to push over $40 per square foot. Multifamily leasing and construction remained healthy, overall. Vacancy rates remained low across sub-markets. Lastly, reports indicated that commercial rental rates were stable to increasing modestly.

Banking and Finance

On the whole, loan volumes increased modestly since our previous report. Residential mortgage demand was flat to slightly up in recent weeks, but down slightly compared to last year. Bankers commented that the lack of housing inventory continued to affect the volume of mortgage loans underwritten so far this year. Commercial lending activity rose modestly in recent weeks. Bankers noted increased demand for business investment and commercial real estate development loans. Deposits rose moderately. Bankers said that competition for deposits remained strong, and accordingly interest rates moved higher. Credit quality remained strong while credit standards were generally unchanged.

Nonfinancial Services

On balance, demand for nonfinancial services strengthened moderately in recent weeks. Engineering and architecture consulting firms saw strong growth. Overall, health care providers reported growth in services and reimbursements; however, revenues declined in rural hospitals in one area in Virginia. Some firms were concerned that growth could slow in the near future, but they had not altered capital expenditure plans. In fact, one contact reported increased spending on software upgrades and PC replacements. ■

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

Summary of Economic Activity

On balance, reports from Sixth District business contacts indicated that economic activity continued to expand at a modest pace from mid-May through June. Although contacts shared concerns over uncertainty related to tariffs, the overall outlook among businesses remains positive as most expect continued modest growth for the second half of the year. District firms continued to report difficulties filling positions. On balance, wage growth remained steady. Businesses reported increases in non-labor input costs. District merchants noted sales activity increased since the previous reporting period. The tourism sector experienced solid activity throughout most of the District. Real estate contacts noted that home sales, albeit down from a year-ago, increased since the spring season. Overall, the housing market experienced moderate price appreciation. Commercial real estate contacts indicated that activity was steady. Manufacturers reported growth in new orders and increasing production levels. Bankers indicated a slight softening in overall loan activity.

Employment and Wages

Contacts continued to report hiring challenges. However, a few transportation contacts observed some easing in the labor market tightness for drivers over the last couple of months. Some employers noted relaxed policies or standards to hire and retain workers. Broadly, firms continued efforts to expand their pools of prospective employees, e.g., pursuing recent veterans, and partnering with other organizations to develop or enhance vocational centers. Firms indicated investing significantly in training programs to attract new workers or upskill existing staff. A number of contacts expressed that hiring and retention costs were rising, primarily associated with training and certification programs.

Annual wage increases, on average, remained between 3-4 percent. For lower-skilled hourly workers, several employers reported increasing wages to $15 per hour, depending on competition. While many contacts pointed out that employee bargaining power increased, non-financial benefits focused on work-life balance often dominated demands, rather than higher wages.

Prices

Contacts continued to report rising input costs with many expecting the pace to continue through 2019. Despite previous efforts to minimize cost and margin pressures, some companies found it necessary to pass through additional costs owing to tariffs. The Atlanta Fed's Business Inflation Expectations survey showed year-over-year unit costs were up 2.1 percent in June. Survey respondents indicated they expect unit costs to rise 2.0 percent over the next twelve months.

Consumer Spending and Tourism

Contacts reported little change to retail sales levels since the last report. Online sales continued to grow at a faster pace than sales from brick-and-mortar stores. Contacts in the retail and the automobile industry noted concerns with uncertainty in relation to tariffs and the effects changes may have on pricing and demand.

District tourism and hospitality contacts continued to report healthy activity since the last report. The start of the summer season was robust with the number of visitors to Florida, Georgia, and Louisiana exceeding expectations. Although advanced bookings remained healthy through 2019, contacts expressed concern over the potential impact geo-political uncertainty might have on international travel to the United States.

Construction and Real Estate

A decline in mortgage rates coupled with a relatively healthy economy continued to support improving demand for housing throughout the District. Overall home sales, though still down year-over-year, increased through the spring selling season. Demand was strongest in the more affordable price segments, where inventory remained limited. Still, overall inventories increased modestly over the reporting period, leading to more moderate home price appreciation in most markets. However, affordability remained a concern as higher construction costs continued to make it difficult for homebuilders to deliver reasonably priced products.

Commercial real estate contacts reported steady leasing and sales activity throughout the District; however, some contacts reported experiencing longer transaction times. Overall, most sectors experienced positive dynamics as rents continued to grow and vacancies trended downward at a modest pace, and contacts reported an uptick in new projects. Industry participants noted continuing strength in the multifamily and industrial sectors, and financing capital was reported to be readily available for projects.

Manufacturing

Manufacturers reported a modest increase in overall business activity. New orders and production levels continued to increase, although the pace decelerated slightly from the previous reporting period. Purchasing managers indicated that finished inventory levels rose modestly and wait times for supply deliveries were slightly longer. Several contacts suggested that tariffs were creating a heightened level of uncertainty. Expectations for future production levels decreased, with just over one third of contacts expecting higher production levels over the next six months.

Transportation

District transportation firm reports were mixed during the reporting period. Port contacts noted continued growth in container volumes, though at slightly lower pace. Inland waterway contacts reported modestly higher demand year-over-year. Freight forwarders saw strong growth in volume and revenue driven by e-commerce shipments. However, some ocean carriers noted that demand was down from year-ago levels and lower than 2019 expectations. Air cargo activity reportedly weakened as world trade growth decelerated amid trade tensions, Brexit uncertainty, and slowing economic activity, especially in European and Pacific arenas. Railroads continued to see substantial year-over-year decreases in overall traffic; intermodal volumes also fell.

Banking and Finance

Though still healthy, District banking conditions softened slightly. Loan growth at financial institutions continued, albeit at a slower pace, particularly for consumer and commercial real estate lending. Net interest margins declined modestly due to lower loan growth, lower yields on loans, and increased competition for deposits. Nonperforming assets, however, remained steady and near historic lows.

Energy

The District's petrochemical sector continued to experience strong demand and high levels of output. Contacts cited numerous chemical and petrochemical expansion projects initiated over the reporting period and project starts are expected to accelerate through year-end. However, some contacts expressed that Chinese tariffs on U.S. liquefied natural gas (LNG) exports created uncertainty among global firms pursuing new LNG processing plants or expansions in the U.S. Still, exports of most energy products to global markets continued to grow. Gulf Coast refiners indicated that crude refining capacity continued to grow and investment in pipeline infrastructure to transport oil and gas products to District refiners remained at elevated levels. Utilities contacts reported that while growth will continue to soften because of customers' efficiency gains, the industry has initiated extensive capital investment, including industrial transmission expansions; various renewable energy projects, notably solar plants and wind farms; new power plants; and smart grid investments.

Agriculture

Agricultural conditions across the District were mixed. Recent reports indicated much of the District was drought-free although parts of Alabama, southern Georgia, the Florida panhandle, and Tennessee experienced abnormally dry to moderate drought conditions. The District's cotton, soybean, peanut, and rice crops were mostly on par with five-year planting averages. Florida orange forecast was down in June from the prior month's forecast, but was higher than the last two season's production levels. On a year-over-year basis, prices paid to farmers in May were up for cotton but down for corn, rice, soybeans, broilers, and eggs. ■

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

Summary of Economic Activity

Economic activity in the Seventh District was little changed on balance in late May and June, though contacts expected it to grow at a modest pace over the next 12 months. Employment increased modestly; business spending increased slightly; consumer spending and construction and real estate activity were flat; and manufacturing decreased slightly. Wages and prices rose modestly and financial conditions improved modestly. More wet weather put further stress on farmers.

Employment and Wages

Employment increased modestly over the reporting period and contacts expected a similar-sized increase over the next 12 months. Hiring continued to be focused on professional and technical, sales, and production workers. As they have for some time, contacts indicated that the labor market was tight and that it was difficult to fill positions at all skill levels. A staffing firm reported little change in billable hours. Wage growth remained modest overall. Contacts were most likely to report wage increases for professional and technical, administrative, and production workers. Many firms reported increased benefits costs.

Prices

Prices rose slightly in late May and June, though contacts expected prices to rise at a somewhat higher rate over the next 12 months. Retail prices were little changed. Producer prices rose modestly, reflecting in part higher labor, materials, and freight costs. That said, contacts noted that growth in freight prices had slowed in recent months. Contacts in the auto industry reported that automakers and suppliers were not yet passing on much of their higher costs related to tariffs.

Consumer Spending

Consumer spending was little changed over the reporting period. Nonauto retail sales were flat, with reports of increased activity in the furniture and appliance sectors and decreases in the apparel and jewelry sectors. Contacts indicated that restaurant sales increased. Total light vehicle sales were flat, with lower new vehicle sales offset by higher volumes in the used vehicle market. Dealers said that reduced incentives from manufacturers had hurt new vehicle sales; they also noted that the strength in used vehicle sales was sufficient to maintain overall profitability.

Business Spending

Business spending increased slightly in late May and June. Retail inventories were generally at comfortable levels. Manufacturing inventories were also generally at comfortable levels, but there was some increase in the number of contacts reporting higher-than-normal inventories due to slower demand. In contrast, one heavy-duty truck dealer noted a shortage of new trucks. Capital spending moved up slightly, though contacts expected a larger pickup over the next 12 months. Outlays were primarily for replacing industrial and IT equipment and for renovating structures. Contacts from a number of sectors said that elevated uncertainty about the future state of the economy and international trade policy was holding back investment. Demand for transportation services was flat, but remained at a strong level. Commercial and industrial energy demand edged down.

Construction and Real Estate

Construction and real estate activity was little changed over the reporting period. Contacts reported a downtick in residential construction. Home sales were flat overall, with increased sales of lower-end homes offset by decreased sales of higher-end homes. Home prices and rents rose slightly. Nonresidential construction increased modestly overall. One contact noted that there was a slowdown in industrial building, particularly for the auto industry, but that civil construction was still doing well. Nonresidential construction contacts again reported that high materials and labor costs were holding back growth. Commercial real estate activity was little changed, as were rents, vacancies, and the availability of sublease space.

Manufacturing

Manufacturing production decreased slightly in late May and June; in general, however, contacts remained comfortable with the level of activity. Demand for steel declined; the drop was broad-based with the exception of the energy sector, where demand was flat. Specialty metals manufacturers reported a slight drop in demand, as lower demand from the auto and construction industries outweighed growth in the aerospace and defense sectors. Order books for heavy machinery manufacturers decreased slightly, due to lower demand from agriculture. Demand for heavy trucks and auto production both slowed some, but remained at solid levels.

Banking and Finance

Financial conditions improved modestly overall during the reporting period. Financial market participants reported some improvement in market conditions, though volatility was slightly elevated. Business loan demand rose modestly, led by growth in the construction sector. Loan quality deteriorated slightly. Standards loosened some as lenders reported strong competition for quality clients. Consumer loan demand increased modestly, with contacts noting that lower interest rates were encouraging increased mortgage activity. Consumer loan quality and loan standards were little changed.

Agriculture

More wet weather in late May and June caused further delays in planting and even poorer growing conditions. One contact in Indiana said, “I have been farming for 48 years now and this is the worst spring/summer planting season we have experienced.” Because it is now too late to plant corn and soybeans, contacts said that many farmers would be forced to make insurance claims and plant less-profitable cover crops. Corn and soybean prices moved up as expected yields for the fall harvest declined. Egg and dairy prices increased, while hog and cattle prices decreased. Contacts noted that struggling dairy operations were slaughtering more cows, which contributed to the lower cattle prices. ■

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

Summary of Economic Activity

Reports from contacts suggest economic conditions have improved slightly since our previous report. Labor market conditions remained tight, with slight growth in employment and a moderate increase in wages. Price pressures strengthened slightly. Multiple contacts cited tariffs as a contributing factor to higher input prices, but responses were mixed as to whether they would pass these costs on to their customers. Manufacturing activity improved moderately. Barge traffic began to pick up after being halted by the severe spring flooding in the region. Outstanding loan volumes continued to increase, but growth slowed slightly compared with three months prior. Crop quality is noticeably below that of a year ago, mainly due to the recent flooding.

Employment and Wages

Employment has increased slightly since the previous report. Survey-based measures of employment indicated slight-to-modest growth in manufacturing employment in Arkansas and Missouri. Small business employment declined slightly throughout the District. Contacts continued to report labor market tightness for employees across a broad range of skill levels. To attract and retain workers, firms reported offering a wide array of benefits, including extended parental leave, teleworking opportunities, and assistance with student loans. Furthermore, local governments and companies announced several new education and training initiatives as part of long-term efforts to fill skilled trades, transportation, and tech positions.

Wages have grown moderately since the previous report, in part due to upward pressure from the tight labor market. Contacts in healthcare and the public sector in particular reported pay increases resulting from increased competition for workers. However, small business wage growth was more modest.

Prices

Price pressures have increased slightly since the previous report. Grain crop prices have risen sharply due in large part to recent flooding that has limited the quantity and quality of planted crops. Soybeans, sorghum, wheat, and corn prices have increased 10, 4, 17, and 22 percent, respectively, since the previous report. Local contacts noted that increased feed prices will likely translate into higher meat prices in the future. On the other hand, cotton prices showed slight decreases over the same time period and year-over-year losses in excess of 20 percent. The price of coal also fell modestly.

Local contacts in retail and manufacturing held that tariffs affecting access to China and the EU continued to place upward pressure on input prices. However, there were significant differences among firms in their ability to pass elevated costs on to consumers, with some noting that online competition was a limiting force.

Consumer Spending

Reports from general retailers and hoteliers indicate consumer activity has slightly improved since the previous report. May real sales tax collections increased in Arkansas, Kentucky, Missouri, and Tennessee relative to a year ago. Consumers in West Tennessee, on net, expect to spend slightly more than they did last year. However, the consumer outlook in the region has fallen since March. Missouri contacts reported that tourism spending was slightly lower than a year ago.

Manufacturing

Manufacturing activity has increased moderately since our previous report. Overall manufacturing activity in May was stronger than one month earlier in both Arkansas and Missouri, although the pace of growth slowed. Both production and new orders increased in each state. Several companies across a variety of industries announced new capital expenditure and hiring plans throughout the District.

Nonfinancial Services

Activity in the services sector has improved slightly since the previous report. The number of posted vacancies for nonfinancial services occupations increased from April to May in Louisville, Memphis, and St. Louis. Transportation activity improved modestly. Both freight and passenger traffic at District airports increased year over year. Barge activity began to recover after being halted by severe flooding in the spring, but overall traffic levels remained depressed.

Real Estate and Construction

Residential real estate activity has improved slightly since the previous report. Seasonally adjusted home sales increased slightly in May across Louisville, Memphis, and St. Louis but dipped slightly in Little Rock. Inventory levels remained low.

Residential construction activity was unchanged. May permit activity was mixed across District MSAs relative to the previous month but increased slightly overall. Local contacts continued to report that labor shortages are restricting construction activity. Builders in St. Louis expect increased permit numbers in the summer as they make up for muted activity earlier in the year caused by wet weather.

Banking and Finance

Banking conditions in the District have improved modestly since the previous report. According to reports from bankers, outstanding loan volumes grew by 4 percent relative to year-ago levels in the second quarter, which was a slight decrease from the first quarter of 2019. District growth remained below the national rate for the third consecutive quarter. Commercial and industrial lending continued to expand, but growth slowed significantly to 5 percent year-over-year from 9 percent in the previous quarter. Commercial and residential real estate lending maintained positive, and slightly lower, growth rates compared with the previous quarter.

Agriculture and Natural Resources

District agriculture conditions have declined modestly since the previous reporting period and have deteriorated moderately relative to a year ago. Compared with one month prior, the percentage of corn and cotton rated fair or better at the end of June declined modestly, the percentage of soybeans rated fair or better declined slightly, and the percentage of rice rated fair or better increased slightly. The percentages of all four crops rated fair or better were moderately below those from the same time last year. Contacts have frequently attributed the decline in crop quality to the historic flooding along the Mississippi River this spring.

Natural resource extraction conditions declined slightly from the previous reporting period, with seasonally adjusted coal production falling by less than one percent. Similarly, year-to-date coal production was relatively unchanged compared with this time in 2018. ■

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

Summary of Economic Activity

The Ninth District economy grew at a modest-to-moderate pace since the last report. Employment grew modestly, while wage pressures were moderate and price pressures were modest. The District economy saw growth in consumer spending, services, commercial and residential construction and real estate, and manufacturing. Energy activity fell slightly, and agriculture worsened from an already weak position.

Employment and Wages

Employment grew modestly since the last report. Recent surveys by the Minneapolis Fed and others suggested that labor demand continued at a healthy pace. A quarter of respondents to the Minneapolis Fed's annual survey of professional services firms planned to increase staffing levels over the coming year, while only 5 percent expected to cut head counts. A poll of greater Minnesota firms showed that 63 percent were hiring, about half of whom were expanding head counts; only 3 percent were cutting employees. A poll of staffing firms, most of them in Minneapolis-St. Paul, found that total job orders and clients have risen modestly over the past two months compared with the same period a year ago; expectations for job orders over the remainder of the summer were slightly higher. Larger employment gains were restrained by low labor supply. Unfilled job orders have risen modestly among staffing firms, and many said labor market tightness was getting worse. "Toughest market I have ever seen," said one. A health care contact in Montana said, "We flat out cannot find enough workers." Four of five respondents to the poll of greater Minnesota firms said that tight labor was negatively affecting business. Some softness was also present in the job market. Initial unemployment claims rose by 3 percent over the most recent six-week period (ending in early June) compared with a year earlier; each District state saw an increase. However, continuing claims trundled lower, falling by almost 8 percent over the same period.

Wage pressures were moderate overall, but varied. Despite strong hiring demand and tight labor, nearly 70 percent of respondents to the ad hoc poll of greater Minnesota businesses said wages rose less than 3 percent over the past 12 months, and a notable share said they rose less than 1 percent. Their wage expectations for the coming 12 months were slightly lower. Among professional services firms, two-thirds reported wage increases of 3 percent or more, but their wage outlook for the year ahead was also lower. Minnesota staffing firms reported stronger wage growth, with almost half reporting 12-month wage growth of 5 percent or more. However, expectations of future wage increases were somewhat lower.

Prices

Price pressures since the previous reporting period were modest. A third of respondents to the annual professional services survey indicated that they increased final prices over the past year, compared with only a quarter who expected to increase prices in the year ahead. A majority of respondents reported increases in input costs, however. A separate Minneapolis Fed business conditions survey indicated that firms increased output prices slightly on average in the second quarter of 2019 relative to the same period a year earlier; a strong majority expected to leave prices unchanged in the third quarter. A larger share of firms reported input price pressures. Contacts reported substantial increases in trucking costs and health insurance premiums. Retail fuel prices in District states as of early July were moderately lower relative to the previous reporting period. Prices received by farmers in May increased from a year earlier for hay, hogs, milk, and turkeys, while prices for corn, wheat, soybeans, eggs, and chickens decreased; prices for cattle were unchanged from a year ago.

Consumer Spending

Consumer spending rose slightly overall since the last report, with some mixed activity. Gross sales in Wisconsin were flat in May compared with a year earlier, but rose by 7 percent in South Dakota. New and used vehicle sales were lower in May and moved sideways in June in western areas of the District. Resort operators in northern Minnesota reported strong bookings. However, a Montana contact noted that spending from Canadian tourists was down due to the strong U.S. dollar. Airline passenger traffic was strong in May across many of the District's airports, with some seeing double-digit growth. But hotel occupancy rates in Minnesota were slightly lower in May, and lodging and accommodation taxes in Montana were also lower after seeing robust gains in previous months. Total gaming revenue in South Dakota rose 3 percent in May over a year earlier. However, national park visits Districtwide over the same period were notably slower. Monthly traffic across the Mackinac Bridge in Michigan's Upper Peninsula was flat compared with last year.

Services

Professional services grew moderately. Respondents to the Minneapolis Fed's annual services survey reported growth in sales, productivity, profits, and employment over the past year. Expectations for the coming 12 months were slightly stronger. Contacts in the trucking industry generally reported increased freight volumes, with demand far outstripping the supply of drivers. However, some trucking contacts reported major disruptions due to flooding.

Construction and Real Estate

Commercial construction grew moderately since the last report. The value of construction starts across the District saw a healthy rise in May compared with a year earlier after several months of flat or declining activity. A second database that tracks construction projects found that new and active projects in the District through mid-June were moderately higher than last year. Commercial permitting figures suggested that future activity might remain spotty, with May permitting values lower compared with a year earlier in many of the District's larger markets, including Minneapolis-St. Paul. Residential construction rebounded after several lackluster months, with May housing permits rising across much of the District compared with last year. June permit data were not widely available at deadline, with the exception of Minneapolis-St. Paul, which showed strong single- and multifamily activity in May and June.

Commercial real estate grew modestly since the last report. Multifamily vacancy rates in Minneapolis-St. Paul continued to be among the lowest in the country, and office and industrial vacancies remained steady. Retail vacancy rates there were expected to rise slightly in the future, but would be helped by a "thin" pipeline for new construction, according to an industry source. Residential real estate activity rose moderately in most of the District after several slow months. Closed sales in May rose across Minnesota compared with a year earlier, as well as in western and northern counties of Wisconsin. But closed sales were mixed in North Dakota and Montana markets.

Manufacturing

District manufacturing activity increased modestly. An index of manufacturing conditions indicated increased activity in June compared with a month earlier in Minnesota and the Dakotas. A steel manufacturer reported solid demand that they were unable to meet due to labor force constraints. Several diversified contract manufacturers described activity as stable, with demand from nondurable goods generally stronger than from consumer products. However, some manufacturing contacts reported concerns about a slowdown in the sector. Producers of agricultural equipment continued to report reduced domestic demand.

Agriculture, Energy, and Natural Resources

District agricultural conditions worsened from an already weak position. Heavy rainfall and flooding substantially delayed crop planting in many areas of the District. In some areas farmers switched from corn to soybeans or other crops that could start growing later, while in other areas crops did not get planted at all. Contacts in affected areas expressed concerns that the impacts could be severe. District oil and gas exploration activity as of early July was down slightly relative to the previous report. District iron ore mines continued to operate at near capacity. Contacts in nonferrous mining described activity as stable. ■

Summary of Economic Activity

Economic activity in the Tenth District continued to expand slightly in late May and June, and contacts generally expected a faster pace of growth moving forward. Consumer spending continued to rise slightly as higher sales in the retail and restaurant sectors offset weakness in the auto sales and tourism sectors. Contacts in the manufacturing, wholesale trade, and professional and high-tech services sectors noted flat activity, while respondents in the transportation sector reported modestly lower sales. District real estate activity increased modestly as residential real estate sales remained robust and commercial real estate activity rose modestly. Energy activity across the District expanded slightly, but expectations for future activity fell. District agricultural conditions remained weak, and unfavorable weather significantly delayed planting and harvesting. Bankers reported moderate growth in loan demand as well as higher loan quality and deposits. Employment and employee hours held steady across the District, while a majority of respondents noted labor shortages. Wages continued to rise at a modest pace since the previous survey period. Input prices rose modestly, while selling prices held steady.

Employment and Wages

Overall employment and employee hours were fairly steady since the previous survey period, and employment was expected to rise modestly in the months ahead. Contacts in the retail trade, wholesale trade, real estate, professional and high-tech services, tourism, restaurant, and manufacturing sectors noted steady or rising employment, while respondents in auto sales and health services noted a decline. Employee hours were mixed across reporting sectors.

A majority of contacts continued to report labor shortages for low- and medium-skill workers, including construction workers, truck drivers, hourly restaurant and hospitality positions, and auto technicians. A few respondents also noted shortages in high-skill occupations such as pharmacists, IT personnel, engineers and pilots. Wage growth continued to rise at a modest pace since the previous survey period, and additional gains were expected moving forward.

Prices

District input prices continued to rise modestly, while selling prices held steady. Contacts in the retail sector reported moderate growth in input prices and modestly higher selling prices since the previous survey period. Expectations were for strong growth in both selling and input prices in the months ahead. Respondents in the transportation sector reported flat input and selling prices since the previous survey period, but both were moderately above year-ago levels. Input prices in the restaurant sector rose modestly since the previous survey, while selling prices edged down. Contacts in the restaurant sector expected strong growth in input prices and moderate growth in selling prices in the months ahead. Construction supply respondents continued to report modestly lower selling prices but expected strong gains in the months ahead. Manufacturers noted prices edged up for both finished products and raw materials, and expectations were for prices of finished products to hold steady and raw materials prices to rise modestly.

Consumer Spending

Consumer spending grew slightly compared to the previous survey period and year-ago levels, and contacts anticipated modest increases in spending in the coming months. Retail contacts reported moderately higher sales compared to the previous survey period and expected strong growth in the next few months. Retail respondents noted that lower-priced items sold well, while higher-priced items sold poorly. Auto sales continued to fall moderately compared to the previous survey period, although respondents anticipated modest sales increases moving forward. Restaurant sales picked up moderately compared to the previous survey period and continued to be strongly above year-ago levels. However, restaurant respondents anticipated a slight decline in sales in the coming months. Tourism sales fell modestly compared to the previous survey period, and sales were similar to year-ago levels.

Manufacturing and Other Business Activity

Manufacturing activity was flat compared to the previous survey period, and business contacts in the wholesale trade, transportation, and professional and high-tech sectors reported flat or falling sales. Factory production fell slightly due to a decline in activity at durable goods plants, notably those producing computers, electronic products and transportation equipment. Shipments and new orders in the manufacturing sector remained mostly flat, but modest increases were expected in the coming months. Capital expenditures were slightly above year-ago levels, and contacts anticipated additional slight increases to capital spending in the months ahead.

Outside of manufacturing, firms in the transportation sector experienced modestly lower sales compared to the previous survey period and firms in the wholesale trade and professional and high-tech services sectors reported flat sales. Contacts in the professional, high-tech, and transportation sectors expected sales to expand slightly-to-modestly in the months ahead, while wholesale trade sector contacts anticipated strong sales growth moving forward.

Real Estate and Construction

District real estate activity expanded at a modest pace in late May and June, and additional growth was expected in the months ahead. Residential home sales and inventories were solidly above previous survey period levels, and similar gains were expected moving forward. Residential real estate contacts noted that sales of low- and medium-priced homes continued to outpace sales of higher-priced homes. Home selling prices fell modestly since the previous survey period but were similar to year -ago levels. Residential construction activity was moderately below year ago-levels, but contacts expected positive gains in the coming months. Commercial real estate activity rose modestly as absorption, completions, construction underway, sales, and prices rose, while vacancy rates fell. Respondents in the commercial real estate sector projected a slight deceleration in activity moving forward.

Banking

Bankers reported a moderate increase in overall loan demand since the previous survey period. Respondents indicated slight-to-modest increases in the demand for commercial real estate, commercial and industrial, and consumer installment loans, and a strong increase in the demand for residential real estate loans. Demand for agricultural loans remained steady. Bankers indicated a modest improvement in loan quality compared to a year ago and expected a slight improvement in loan quality over the next six months. Credit standards remained largely unchanged in all major loan categories. Overall, bankers reported a slight increase in deposit levels.

Energy

District energy activity expanded slightly compared with the previous survey period, but expectations for future activity declined somewhat. The number of active oil and gas rigs continued to decrease since the last survey period, especially for oil rigs in Colorado, New Mexico, and Oklahoma. Production remained at high levels. Oil prices inched up recently, while natural gas prices continued to decline. Expectations for future oil and gas prices eased lower, and many firms expected less drilling and business activity in the next six months. However, many regional energy firms reported increased expenditures on software, application development, and related personnel over the last two years, and most firms also expected to increase these expenditures over the next two years.

Agriculture

The Tenth District farm economy remained weak, and delayed planting and harvesting could reduce crop production considerably in some states. Weather conditions led to unprecedented delays in corn and soybean planting in some areas of the region. Wheat harvest was also delayed considerably in Oklahoma, Missouri and Kansas. In late June, the percentage of wheat acres harvested in these three states was less than half of the previous year. While expectations of lower U.S. crop production led to sharp increases in prices over the period, uncertainty about the total number of planted crop acres remained. Weather conditions may also reduce the quality of planted crops, which could dampen revenues for some producers. ■

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

Summary of Economic Activity

Moderate expansion continued in the Eleventh District economy. Growth in nonfinancial services and manufacturing sectors picked up in June. Retail sales and drilling activity declined. Home sales continued to climb, buoyed by lower mortgage rates. Loan volumes rose at a faster pace, and crop and pasture conditions were mostly favorable. Employment expanded moderately and wage growth remained elevated. Input cost pressures rose in manufacturing, which multiple contacts attributed to the tariffs. Outlooks improved among service sector contacts but worsened among manufacturers and uncertainty increased due to growing concern over tariffs and trade tensions. About 28 percent of respondents to the supplemental questions in the June Texas Business Outlook Surveys indicated being negatively affected by the tariffs while only 5 percent noted a positive impact.

Employment and Wages

Employment expanded moderately during the reporting period, though there were scattered reports of layoffs. Contacts noted continued difficulty in finding mid-skilled workers. Shortages of truck drivers and food services staff continued. Demand for craft labor remained healthy for midstream chemical manufacturing and port infrastructure-related construction projects. Labor market tightness in the homebuilding industry eased slightly. Energy firms expressed little to no interest in expanding headcounts. Wage pressures generally remained elevated, particularly in energy-intensive areas, and most staffing firms were raising billing rates. There were multiple mentions of rising health care costs.

Prices

Input price pressures remained moderate in the service sector but ticked up in manufacturing partly due to tariffs. Airlines reported higher airport rental and landing fees and maintenance costs. Steel prices softened in part due to lack of demand, while reports on changes in other construction materials prices were mixed. Energy contacts said drilling, fracking, and pressure pumping costs were flat to down. Selling price pressures were generally modest.

Among the 360 firms responding to supplemental questions on the impact of tariffs on their businesses in the June Texas Business Outlook Surveys, 36 percent noted experiencing higher input costs and 22 percent cited an increase in selling prices.

Manufacturing

Expansion in the manufacturing sector picked up in June following softening in May. Output growth in durables was sluggish due to softening in primary metals, fabricated metals, and computer products manufacturing. However, expansion in nondurable goods manufacturing strengthened, with food and chemical manufacturing remaining bright spots. Refinery operating rates were healthy in May and June. Higher prices for heavy crudes processed at Gulf Coast refineries have eroded margin expectations.

Overall outlooks among manufacturers deteriorated, with trade negotiations and tariffs and uncertainty in energy markets weighing on sentiment.

Retail Sales

Retail sales declined over the reporting period. Contacts reported steady demand for autos but weakness in some seasonal segments. Outlooks worsened and uncertainty was elevated partly due to ongoing concerns over tariffs and trade tensions.

Nonfinancial Services

Growth in nonfinancial services activity was broad based and accelerated in June. A few contacts said that lower interest rates and momentum from prior solid demand were supporting activity. Staffing services companies continued to experience year-over-year demand increases, with strength widespread geographically and across industries. Activity in the transportation and warehousing sector was elevated, with sea cargo and small parcel volumes up notably compared with last year. Rail shipments fell during the reporting period impacted by bad weather, tariffs, and trade issues. Airlines cited healthy passenger demand, particularly for domestic and corporate travel. Revenues expanded in the professional and technical services, information services, and accommodation and food services industries.

Service-sector outlooks were optimistic on net, although uncertainty surrounding trade policy remained a drag on expectations of future activity.

Construction and Real Estate

Homes sales rose during the reporting period, which most contacts attributed to lower mortgage rates. Sales in DFW were exceeding expectations but remained below year-ago levels, while sales in Austin and Houston were above last year's levels. Lot development and single-family construction in many areas has been delayed by spring rains. Builders remained cautious about signing on new lot deals. Outlooks stayed optimistic with builders generally on plan for 2019, though there was widespread concern about margin compression and the impact of tariffs on material costs.

Apartment demand surged in DFW and Houston in the second quarter, helping rent growth gain momentum in DFW; however, rents in Houston remained flat. Apartment leasing was healthy in Austin and San Antonio, firming up occupancy and rents.

Reports on the office market indicated leasing was most active for new class A space. Industrial demand and construction remained strong.

Financial Services

Loan volumes expanded at a faster pace compared with the previous reporting period. Growth was broad based, with particular strength in residential real estate and commercial and industrial lending. Cost of funds continued to increase, and net interest margins fell further. Credit standards tightened modestly. Outlooks remained optimistic, with most contacts expecting continued increases in loan demand.

Energy

Drilling activity in the Eleventh District slipped further as firms continued to rein in spending and orders for new equipment. Oilfield service companies are hungry for work, and fierce competition is keeping downward pressure on industry margins. Outlooks were more pessimistic and uncertainty increased as a result of a weaker oil price outlook and a challenging environment for debt and equity issuance.

Agriculture

Moisture levels remained adequate or surplus across most of the district, delaying some plantings but improving crop conditions overall. Pasture and range conditions were quite favorable. Grain prices rose over the reporting period which, coupled with favorable crop conditions, boosted optimism among producers. However, higher grain prices were a negative for livestock producers, driving up feed costs and damping cattle prices. Many agricultural producers were concerned about imposed tariffs and uncertainty surrounding future trade policy. Cotton demand has been adversely impacted by tariffs and slowing global economic growth. ■

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

Summary of Economic Activity

Economic activity in the Twelfth District continued to expand at a moderate pace during the reporting period of mid-May through June. Conditions in the labor market remained tight, employment growth was modest, and wage growth was moderate. Price inflation remained unchanged on balance. Sales of retail goods increased moderately, while activity in consumer and business services increased somewhat. Conditions in the manufacturing sector were mixed. Conditions in agriculture deteriorated modestly. Contacts reported that residential real estate market activity expanded moderately, and commercial activity grew modestly. Lending activity picked up moderately.

Employment and Wages

The labor market remained tight and employment growth was modest. Some contacts reported that employment growth would have been higher if not for persistent shortages of qualified labor. In Eastern Washington, a large employer in the utility sector shifted some of its existing workforce into information technology-related functions, given the difficulty of hiring for those roles. To fill vacancies in construction positions, some employers in Idaho discussed whether to relax certain hiring standards related to drug testing. In Southern California, some employers increased investments in workforce development programs to hire and train workers from labor pools that may have been overlooked in the past.

Wages continued to rise moderately over the reporting period due to brisk competition for qualified workers across sectors. Wages for construction jobs rose solidly in parts of the District where building activity picked up. Hourly rates for delivery drivers at a major shipping and logistics business in California rose moderately. A few businesses continued to adjust to increased minimum wages in their states, which have put upward pressures on starting pay. Some businesses relied increasingly on signing bonuses and expanded benefits packages to fill vacancies.

Prices

Price inflation remained unchanged on balance. For many businesses, brisk competition in final goods markets limited the ability to raise selling prices to offset higher costs, which rose because of compensation pressures and higher input costs. A few businesses that import heavily from China reported higher input costs due to tariffs. Lumber prices remained substantially lower than they were last year. Prices for most other building materials increased somewhat over the reporting period. In Seattle, a restaurant industry contact reported weak upward price pressures for food and beverages, while a payments services provider noted that higher hardware costs were being passed on to clients. Inflation in the agriculture sector overall remained modest, but market prices for beef and pork rose noticeably due to decreases in global supply.

Retail Trade and Services

Sales of retail goods increased moderately. In the Pacific Northwest and the Mountain West, tight labor markets with solidly rising wages supported brisk consumer spending. In Oregon, sales at home improvement stores rose moderately on a year-over-year basis, and a major apparel company based there reported that demand was healthy and should remain so, thanks to elevated consumer confidence. Spending at e-commerce outlets continued to displace some foot traffic at brick-and-mortar retailers, but the impact has been uneven across the District.

Activity in the consumer and business services sectors increased somewhat. Demand for shipping and logistics services remained solid. A major service provider in the District noted that they expect continued brisk shipping activity thanks to strong consumer spending and innovations in their service offerings, such as expanded mobile checkout options. Restaurants in the Pacific Northwest reported moderate sales growth because of the healthy regional economy. Growth in airline passenger volumes in the Los Angeles area slowed slightly, though retail revenue growth at airports picked up as per-passenger spending increased. In the wider Southern California region, contacts reported weakening conditions in the hospitality industry, visible in fewer bookings for both leisure and business guests and a shift in preferences to more affordable rooms.

Manufacturing

Activity in the manufacturing sector was mixed. Production of heavy building machinery and construction materials like asphalt declined somewhat due to lower domestic demand. Some of the weaker demand was attributed to poor weather in regions outside of the District, which delayed building projects there. A business that supplies natural gas and electricity to various manufacturers noted that demand from their aerospace and metals-producing customers was especially solid, likely reflecting the impact of recent protective tariffs in the case of the metals producers. In Northern California, activity in the semiconductor sector recovered from a dip in recent months, with healthier sales and inventory levels.

Agriculture and Resource-Related Industries

Conditions in the agriculture sector deteriorated modestly. Poor growing conditions for wheat and corn resulted in yields weaker than normal in the Mountain West, though some contacts said this boosted profitability slightly on net as selling prices ticked up. Demand for lumber from major trading partners like China continued to run soft due to trade tensions, and domestic demand was also weak due to slower national building activity in recent months. A lumber producer in Oregon observed that some landowners initiated plans to reduce log supply in response to continued weak demand. Fruit growers in the Pacific Northwest also noted subdued demand from foreign trading partners owing to trade developments. A contact in Central California observed stable domestic demand for a variety of crops, though uncertainty surrounding global demand ticked up. Domestic producers of beef, pork, and poultry continued to benefit from the impacts of a swine fever outbreak in China, which limited Chinese meat imports. In the utilities sector of Southern California, electricity sales growth was flat and generation capacity remained well above demand.

Real Estate and Construction

Residential real estate markets expanded moderately. In most areas, demand remained elevated while supply continued to be somewhat constrained by worker and materials shortages, putting further upward pressures on selling prices. In the Mountain West, construction activity did not keep pace with growing demand for both single-family and multifamily housing in urban areas, raising affordability concerns further. In Oregon, the completion of several apartment complexes and single-family developments resulted in brisk selling activity, especially for more affordable units. A couple of contacts reported a tick down in housing demand in Washington and Central California, as evidenced by growing time-on-the-market, but still expected generally stable market activity over the rest of the year.

In the commercial real estate market, contacts reported modest expansion. In Washington, construction activity was strong, and builders had long lists of planned projects, especially in urban areas. Demand for office space in Seattle was high, and the vacancy rate was nearly the lowest in the country. A contact in Central Oregon reported that demand for retail space picked up noticeably, but remained at a slightly lower level relative to previous economic expansions. Commercial permitting for Idaho and Oregon as a whole was down modestly.

Financial Institutions

Lending activity picked up moderately over the reporting period. Contacts across the District noted healthy demand for loans, supported by historically low interest rates, and observed that credit availability was steady. In the mortgage market, refinancing activity increased modestly as mortgage rates declined. Loan quality remained solid, though a contact in Oregon reported that loan quality in their region's agriculture industry deteriorated slightly due to declines in profitability in the sector.