

For use at 2:00 PM EDT

Wednesday

July 18, 2018

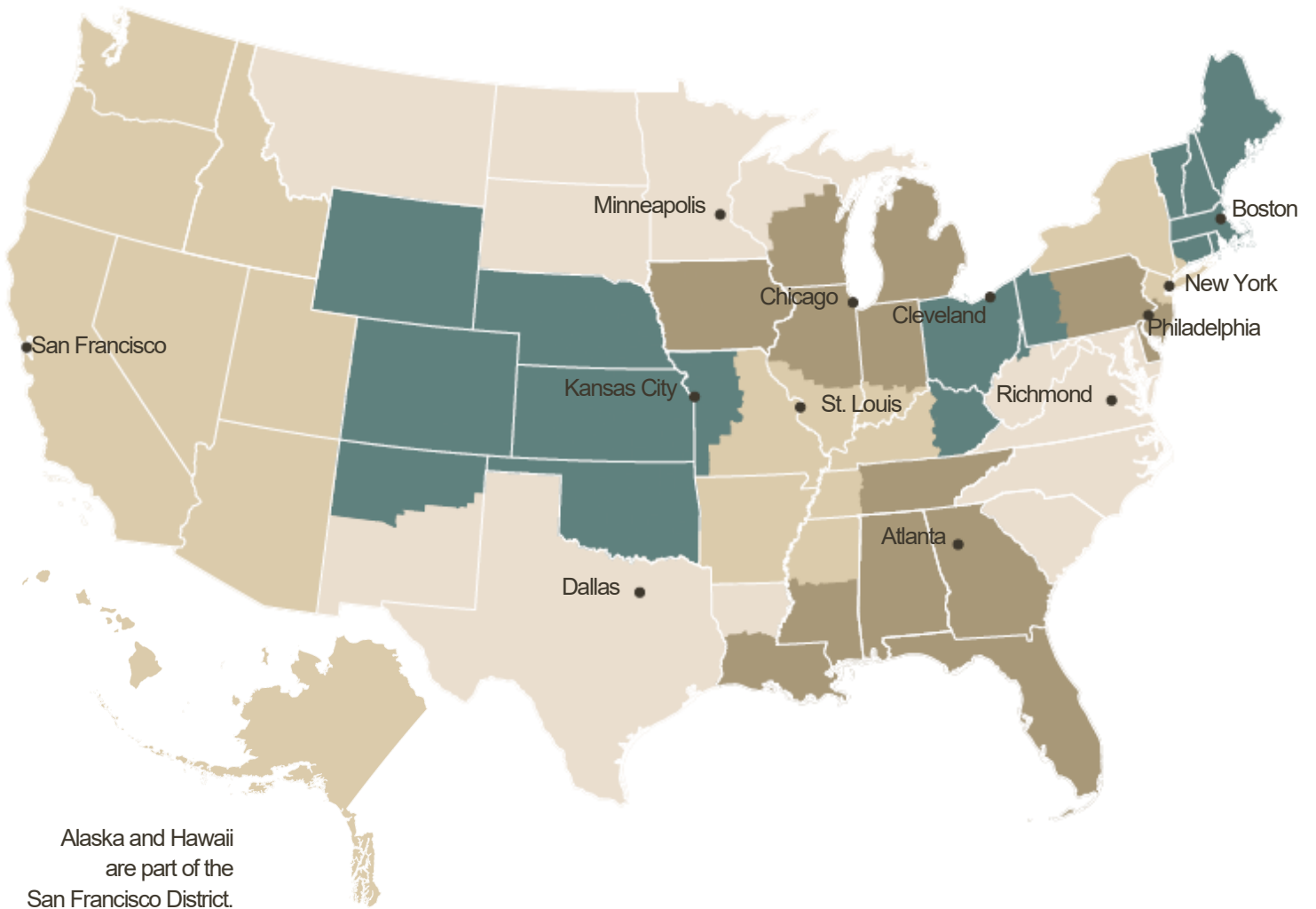
The Beige Book

Summary of Commentary on Current Economic Conditions

By Federal Reserve District

July 2018

Federal Reserve Districts



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

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What is The Beige Book?

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

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

How is the information collected?

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

How is the information used?

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

This report was prepared at the Federal Reserve Bank of Boston based on information collected on or before July 9, 2018. This document summarizes comments received from contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.



National Summary

The Beige Book ■ July 2018

Overall Economic Activity

Economic activity continued to expand across the United States, with 10 of the 12 Federal Reserve Districts reporting moderate or modest growth. The outliers were the Dallas District, which reported strong growth driven in part by the energy sector, and the St. Louis District where growth was described as slight. Manufacturers in all Districts expressed concern about tariffs and in many Districts reported higher prices and supply disruptions that they attributed to the new trade policies. All Districts reported that labor markets were tight and many said that the inability to find workers constrained growth. Consumer spending was up in all Districts with particular strength in Dallas and Richmond. Contacts reported higher input prices and shrinking margins. Six Districts specifically mentioned trucking capacity as an issue and attributed it to a shortage of commercial drivers. Contacts in several Districts reported slow growth in existing home sales but were not overly concerned about rising interest rates. Commercial real estate was largely unchanged.

Employment and Wages

Employment continued to rise at a modest to moderate pace in most Districts. Labor markets were described as tight, with most Districts reporting firms had difficulty finding qualified labor. Shortages were cited across a wide range of occupations, including highly skilled engineers, specialized construction and manufacturing workers, IT professionals, and truck drivers; some Districts indicated labor shortages were constraining growth. Districts noted firms were adding work hours, strengthening retention efforts, partnering with local schools, and converting temporary workers to permanent, as well as raising compensation to attract and retain employees. On balance, wage increases were modest to moderate, with some differences across sectors; a couple of Districts cited a pickup in the pace of wage growth.

Prices

Prices increased in all Districts at a pace that was modest to moderate on average; reports showed upticks in inflation in several Districts. The prices of key inputs rose further, including fuel, construction materials, freight, and metals; a few Districts described these input price pressures as elevated or strong. Tariffs contributed to the increases for metals and lumber. However, the extent of pass-through from input to consumer prices remained slight to moderate. Movements in agricultural commodities prices were mixed across products and Districts. Pricing pressures are expected to intensify further moving forward in some Districts, while in others the outlook is for stable price increases at a modest to moderate pace.

Highlights by Federal Reserve District

Boston

Business activity continued to expand at a moderate pace, with contacted manufacturers, retailers, hotels, and software and IT firms reporting year-over-year increases in revenues. Some contacts saw higher prices and lower margins. Contacts reported difficulty hiring in skilled occupations.

New York

The regional economy continued to expand at a moderate pace, and labor markets have remained tight. Input price increases have remained fairly widespread, and selling prices continued to increase moderately. Housing markets have continued to firm, on balance, while commercial real estate markets have softened a bit.

Philadelphia

Economic activity continued to expand at a modest pace. With tightening labor markets, job growth also remained modest, but wages are now rising moderately. On balance, contacts continued to observe modest price increases with few concerns for future inflation. Notably, nonresidential construction activity has begun to decline from its prior high levels.

Cleveland

The District economy grew moderately. Labor markets tightened, with wage pressures noted broadly. Rising fuel and metals costs are pressuring manufacturers, construction firms, and transportation companies. Stronger confidence in the economy boosted demand in nonfinancial services and the retail sector. Construction activity remained strong.

Richmond

The regional economy grew at a moderate rate. Manufacturing and retail sales strengthened, but firms in both sectors faced transportation constraints and rising input costs. Trucking firms saw record demand, which was partially unmet due to the driver shortage. Port activity remained strong. Labor demand increased moderately, and some firms reported shortages. Price growth accelerated slightly but remained moderate, overall.

Atlanta

Economic activity modestly expanded since the previous report. The labor market remained tight. Reports of wage growth were mixed. Some commodity input prices continued to increase. Consumer spending improved since the last report. Nonresidential construction increased; however, multifamily construction showed signs of slowing. Manufacturing activity grew.

Chicago

Growth in economic activity slowed to a modest pace. Manufacturing production increased moderately, while employment, consumer spending, business spending, and construction and real estate activity grew modestly. Wages and prices increased modestly, and financial conditions improved modestly. The outlook for agriculture income dimmed some.

St. Louis

Economic conditions improved slightly. Labor market conditions remained tight and wage growth was modest. Local contacts reported robust increases in shipping costs across all sectors due to higher fuel prices and driver shortages. Businesses' reports on the impact of tariffs have varied by industry.

Minneapolis

Economic activity in the Ninth District grew moderately, led by strong growth in manufacturing. Hiring demand remained strong, but workers were harder to find. Wages grew moderately with some signs of stronger growth among union wages. Professional services firms saw growth across the board, and lodging demand appeared robust heading into the summer tourism season.

Kansas City

Economic activity expanded moderately since the previous survey, and growth was expected to continue in the months ahead. Most sectors expanded, including a slight pickup in energy activity, modestly higher consumer spending and business services, moderately stronger real estate activity, and continued robust gains in the manufacturing sector. Capital spending plans across the District were positive.

Dallas

Economic activity continued to grow at a solid pace. Manufacturing output rose, and broad-based expansion in the services and energy sectors continued. Retail spending rose while drought conditions became more widespread. Hiring remained solid despite a tight labor market, and wage and price pressures stayed elevated. Expectations regarding future business activity were optimistic, although uncertainty arising from U.S. trade policy weighed on outlooks.

San Francisco

Economic activity in the Twelfth District continued to expand at a moderate pace. Conditions in the labor market remained tight, and price inflation increased moderately. Sales of retail goods picked up slightly, and activity in the consumer and business services sectors edged down. Activity in the manufacturing sector and in residential and commercial real estate markets was solid. Lending activity ticked up moderately.



Summary of Economic Activity

First District economic activity continued to expand at a moderate pace, with nearly all responding retailers, manufacturers, hospitality providers, and software and IT firms citing year-over-year increases in sales and revenues in recent weeks. Residential real estate markets saw price increases but fewer closed sales although contacts reported higher listings and expected higher sales in the future. Commercial real estate markets were generally expanding, although growth in retail was mixed. Hotels reported slower growth which they attributed to the expansion of on-line short term rentals. Contacts across a range of industries said trucking capacity continued to be a major issue. Overall, the outlook continued to be positive. Contacts expressed concerns about tariffs but none cited trade issues as affecting demand or hiring and capital expenditure plans.

Employment and Wages

Many responding firms have done some hiring; most reported tight labor markets and modest increases in pay. Retail contacts reported that labor supply was tight and one contact said labor costs were up 10 percent over the previous year. All surveyed manufacturers were hiring or maintaining current levels of employment. Manufacturing contacts said the labor market was tight, but the exceptional difficulties were mostly in highly skilled areas like engineering. Labor shortages continued to be an issue in the hospitality industry, particularly in seasonal destinations like Cape Cod. Contacts in the software and information technology areas expressed concerns about restrictive immigration policies.

Prices

Most respondents reported modest increases in prices. Although contacts were concerned about the effect of tariffs, none of our contacts reported any material impact so far. Higher freight costs continued to be an issue across a wide array of industries, with the shortage of commercial truck drivers being cited as an important factor. Several manufacturing contacts said that they were only able to pass through a portion of the higher costs to customers. As a result, margins were declining. House prices continued to rise throughout the region.

Retail and Tourism

The retailers consulted for this round reported recent comparable-store sales gains ranging from 3 percent to

10 percent year-over-year. One firm noted that higher freight costs contributed to higher overhead costs and that a shortage of workers led to a 10 percent increase in labor costs compared to a year ago. Despite these higher operating costs, the retail outlook for the rest of the year remains positive, provided that consumer sentiment does not abate.

Two travel industry sources reported that business was either flat or slightly down in late May, but appeared to have rebounded strongly in June. Both contacts reported that traditional lodging providers, such as hotels and bed-and-breakfast establishments, were encountering increased competition from online platforms offering short-term rentals. This shift in consumer preferences was expected to continue. Labor shortages continued to be a concern, and in places like the Outer Cape, the average hourly wage for some low-skilled hospitality workers was reportedly about \$20 per hour. Through May, domestic travel to Boston is up 8.1 percent year-over-year, while international travel is up 7.1 percent year-over-year. The outlook is positive, but there was some concern that escalating trade tensions could put a damper on international tourism to the United States.

Manufacturing and Related Services

Of nine firms we contacted this cycle, all but one reported higher sales. The one exception was a toy manufacturer and our contact said that the weakness was expected and attributable to the closure of a major toy

retailer. While several contacts expressed concern about the effect of the trade war on sales, none reported any sales declines as a result. Four of our contacts said that costs were rising faster than sales revenue. Rising costs were attributed to raw material prices and a lack of trucking capacity. One contact in the container industry said that they had planned to increase output and hire additional workers but had not because of delays in the delivery of new capital equipment.

Software and Information Technology Services

Software and IT contacts in the First District continued to see activity expanding steadily. Revenue was up 3 percent to 10 percent year-over-year in the first half of the year. Several noted increases in margins, despite some seasonal sluggishness in demand. Contacts attributed growth in margins to internal productivity improvements. Firms across the sector expressed concern about acquiring and retaining talent in the tech industry. Further, contacts unanimously expressed anxiety about shocks to the broader economy, such as the potential for changes in trade, tariffs, immigration, war, and the stock market. Firms do not expect changes in headcounts or wages in the short-run, but some noted upcoming and potential capital investments. Overall, contacts felt positive about their progress thus far and optimistic about the rest of the year.

Commercial Real Estate

Commercial real estate market conditions were described as stable or improving in recent weeks. Although mixed across locations and property types, activity levels on balance were moderate to robust. Boston area contacts described the city's office market as strong by historical standards, with low and falling vacancy rates, robust rents that increased slightly, and record-high sales prices for select buildings. Industrial leasing activity in the Boston area was seen as stable, although one contact reported that sales demand for warehouse space near Boston surged on the expectation of rising tenant demand. In Providence office leasing activity was steady at a moderate pace amid falling vacancy rates and rising rents, but industrial leasing activity was hampered by that market's 1 percent vacancy rate. Construction activity across multiple property types maintained a strong pace in Boston and Providence, and increased further in the Portland area, but remained scant in the Hartford area. Contacts expect stable or improving commercial real estate activity moving forward, although most cited downside risks, such as rising interest rates, trade wars, and local labor shortages.

Residential Real Estate

Entering the summer, the residential real estate market in the First District continued to display a sellers' market environment, highlighting high demand and increasing prices. Closed sales were down in all reporting areas but pending sales increased. Contacts cited insufficient inventory as the reason for the drop in sales but remained optimistic about the outlook on the heels of strong buyer demand and increasing new listings. A representative from Rhode Island noted that "Competition is fierce and buyers are finding themselves in a race to the finish line. Inventory is so tight that properties are being sold as soon as they go on the market, often in multiple bid situations." Median sales price increased in all areas but Vermont. Contacts expressed concerns about the rapid price appreciation as many potential buyers were priced out of the market. Contacts said that borrowers, despite high prices and changes to the tax code, were still willing and able to finance purchases. ■

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



Summary of Economic Activity

Economic activity in the Second District has continued to expand at a moderate pace since the last report. The labor market has remained tight, while wage growth has mostly stayed steady. Input price increases have remained fairly widespread, and consumer price inflation continued to run a bit higher than earlier this year. Activity in the manufacturing and distribution industries grew at a fairly brisk pace, while growth in most service industries has been more subdued. Consumer spending has been steady to up slightly in recent weeks, with tourism remaining fairly robust. Housing markets have been somewhat stronger, on balance, while commercial real estate markets have generally softened. Finally, banks reported continued growth in loan demand and little change in delinquency rates.

Employment and Wages

The labor market has remained tight across the District. Businesses reported particular trouble filling senior positions and finding technically skilled workers, especially in IT. One business contact observed that almost all job-seekers are already employed. A New York City employment agency noted that clients have had difficulty adjusting to a city law prohibiting prospective employers from asking about salary history or using it as a guide to compensating new hires.

Hiring activity has been steady overall but mixed by industry. Business contacts in manufacturing, wholesale, retail, and finance reported a pickup in hiring activity, while those engaged in information and professional & business services noted some pullback in hiring. Contacts in the transportation industry noted further shrinkage in their workforce. Separately, a payroll service firm observed that job growth at small businesses has slowed somewhat recently. A major utility firm remarked that devoting more resources to vocational training and building relationships with local high schools and colleges, has made it easier for them to fill job openings.

Wage growth has generally remained steady overall but somewhat more brisk than last year. Wages were reported to be flat in the education & health and transportation sectors but rising in other sectors. The most widespread

gains were reported in retail & wholesale trade and leisure & hospitality.

Prices

Businesses reported ongoing widespread hikes in input prices. The most widespread increases were in retail & wholesale trade, education & health, and real estate. Manufacturers and leisure & hospitality firms noted some diminution in input price pressures since the prior report. Contacts in almost all sectors anticipated further increases in the months ahead.

As for selling prices, wholesalers continued to report widespread price hikes, and businesses in leisure & hospitality and real estate noted some acceleration. Prices for Broadway theater tickets rose fairly sharply in June and were up nearly 15 percent from a year earlier. Retail contacts noted somewhat less discounting than a year ago, resulting in a modest hike in effective selling prices. Similarly, auto dealers reported some increase in average used car prices and fewer incentive offers on new vehicles. Businesses in other industries reported that prices were mostly stable. Looking ahead, a sizable share of firms in leisure & hospitality, wholesale trade, and real estate said they anticipate price hikes.

Consumer Spending

Retail sales were steady to up slightly in May and June

running roughly on plan. A major retail chain noted that sales were on plan and up modestly from a year earlier, with New York City stores continuing to post relatively strong results, in good part driven by tourism.

New vehicle sales in upstate New York were soft in May and June, continuing to run short of year-earlier levels. Sales of used cars have been more robust and continued to rise modestly. Vehicle inventories remained at or above desired levels. Dealers indicated that retail and wholesale credit conditions remained in good shape.

Consumer confidence in the Middle Atlantic states (NY, NJ, PA) edged up to a cyclical high in June, led by an historically positive assessment of the job market.

Manufacturing and Distribution

Both manufacturers and wholesale distributors indicated that activity continued to expand at a brisk pace since the last report. Transportation firms reported more subdued growth. Regarding the near-term business outlook, contacts in the wholesale and transportation sectors continued to express widespread optimism. Manufacturers remained optimistic, on balance, but have become less so than earlier in the year. A number of manufacturing contacts remarked that tariffs have raised their costs. Moreover, uncertainty about future trade policy was cited as a major concern, particularly in parts of upstate New York, where there is substantial trade with Canada.

Services

Service-sector firms continued to report minimal to modest growth in activity. Contacts in professional & business services, education & health, and leisure & hospitality indicated modest growth, while those in the information industry continued to report flat activity. Looking ahead, leisure & hospitality businesses remained glum about near-term prospects, but contacts in the other service industries expressed fairly broad optimism.

Tourism has been fairly robust in recent weeks. New York City hotels reported a moderate pickup in both occupancy rates and revenues. Similarly, Broadway theaters reported a modest pickup in attendance and a marked pickup in revenues, which were up roughly 16 percent from a year earlier in May and June.

Real Estate and Construction

Housing markets across the District have been mixed but, on balance, somewhat stronger since the last report. Across much of the District, a limited supply of homes on the market has restrained sales activity and boosted prices. The market in the Buffalo metro area has been particularly robust, with strong demand and lean invento-

ries driving up prices and producing many bidding wars. One exception to this trend has been the Manhattan co-op and condo market, where inventories have risen, sales activity has receded, and prices have been flat to modestly lower—partly attributed to some drop-off in investor purchases and foreign buyers. In and around New York City, the high end of the sales market continues to lag. One industry contact surmised that more limited deductibility of homeowner costs under the new tax law has been a factor in restraining demand.

The apartment rental market has been mixed. Effective rents are flat to down modestly across New York City, though demand for larger rental apartments has picked up recently—reportedly reflecting both rent reductions and a shift away from homeownership. In northern New Jersey, upstate New York, and the suburbs around New York City, however, demand has been robust and rents have continued to trend up moderately.

Commercial real estate markets have been steady to softer. Office availability rates were steady to up slightly, and asking rents continued to drift down across downstate New York, though they have risen modestly across northern New Jersey and upstate New York. The market for retail space continued to slacken, except in upstate New York, where vacancy rates were steady and rents were up moderately from a year ago. The industrial market continued to strengthen in northern New Jersey but has stabilized elsewhere across the District.

New multi-family construction starts have been steady to somewhat weaker. Office construction has picked up slightly across upstate New York but has remained moribund across the rest of the District. New industrial development has slowed as well. While new construction—both residential and commercial—has been sluggish, ongoing construction activity has remained strong.

Banking and Finance

Small to medium-sized banks in the District reported increased demand for consumer loans, residential mortgages, and commercial mortgages, but no change in demand for C&I loans and refinancing activity. Bankers reported tightening credit standards for commercial loans and mortgages. Banks noted an increase in the average deposit rate and narrowing loan spreads across all categories. Finally, banks reported lower delinquency rates for C&I loans but no change in delinquencies across all other loan categories. ■

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



Summary of Economic Activity

Aggregate business activity in the Third District continued at a modest pace of growth during the current Beige Book period. Employment also continued at a modest pace; but with hiring constrained by a tightening labor market, wage increases have become more widespread and accelerated to a moderate pace. Despite rising labor costs, most contacts are not yet concerned that inflation will exceed its current modest pace. While manufacturing activity and nonfinancial services maintained a moderate pace of growth, most retail sectors continued at a modest pace, at best. Meanwhile, the construction and real estate sectors tended to be flat or declining. In particular, nonresidential construction activity has begun to decline from its previously high levels and represented the only sector with a significant shift in activity this period. The growth outlook over the next six months remained positive, with over half of all firms anticipating increases in general activity.

Employment and Wages

Employment continued to grow at a modest pace during the current Beige Book period. Manufacturing and nonmanufacturing firms reported ongoing net additions to staff; moreover, hiring has broadened among nonmanufacturers since last period. Average hours worked rose over the period for manufacturing firms and nonmanufacturers.

Staffing firms reported ongoing demand for workers, but a scarcity of candidates, plus difficulty hiring and retaining employees. As the job market tightens, wages have risen, and employers have converted more full-time temporary workers to permanent employees than is normal. However, according to one contact, many temp orders continued to be for part-time work.

On balance, wage growth appears to have accelerated to a moderate pace and was more widespread. Over half of the nonmanufacturing contacts reported increases in wage and benefit costs. Several banking contacts also noted rising wages, especially for lower-wage jobs.

Prices

According to most contacts, price increases remained modest. Among nonmanufacturing firms, a little over one

-third reported increases for prices paid, and about one-third reported increases for prices received – somewhat higher than in the prior period. Reports of price increases remained widespread among manufacturing firms this period, with half noting higher prices paid and one-third indicating higher prices received for their own goods. Banking contacts expressed little concern over the path of inflation.

One service firm noted that it had been slowly raising wages and was now starting to push prices up to meet the added expense. However, one homebuilder reported no ability to raise prices despite facing rising costs for many building materials.

Looking ahead six months, manufacturing firms continued to anticipate higher prices, with two-thirds expecting increases in prices paid and over half expecting increases in prices received for their own goods.

Manufacturing

Manufacturing activity maintained a moderate pace of growth. About 40 percent of the firms reported an increase in shipments and new orders; however, this percentage was closer to 50 percent for new orders during the prior period.

The makers of chemical products, paper products, fabricated metal products, and electronic equipment tended to note gains in new orders and shipments; the makers of lumber products, primary metals, and industrial machinery reported mixed results. One machinery manufacturer noted that the effects of the steel tariffs have been chaotic to its supply chain – disrupting planned orders, increasing prices, and prompting some panic buying.

On balance, manufacturing contacts continued to expect general activity to increase over the next six months; the percentage of firms expecting future increases remained just below 50 percent. About 40 percent of the firms expected increases in future employment and future capital expenditures, which represented an improved outlook for capital expenditures since the prior period, but a lower expectation for employment.

Consumer Spending

Contacts for nonauto retail sales continued to report modest sales growth in May and June – aided by favorable weather and steady gas prices. Retailers were generally more optimistic than in recent periods due in part to the corporate tax rate reduction; operators of brick-and-mortar stores were further cheered by the recent Supreme Court decision to allow states to tax online sales.

Auto dealers in New Jersey and Pennsylvania reported year-over-year sales that were flat to up slightly in May and June. Year-to-date sales appear to be holding even with 2017's high levels. However, dealers noted greater downside risk than normal for the second half of this year, including disruptions from tariffs, volatile markets, and rising interest rates.

Tourism contacts continued to report modest growth overall. As temperatures climbed past 100 degrees in Philadelphia, expectations rose that more city residents would escape to the shore and the mountains in July and August. Atlantic City's casino revenues fell on a year-over-year basis in May, yet two large casinos reopened in late June.

Nonfinancial Services

On balance, service-sector firms continued to report moderate growth in general activity. Nearly half of the firms contacted reported increases in sales and new orders. One large firm reported that growth has been better than it was in 2017 – which had been stagnant – and the firm continues to see no problems with payment collections from its clients. Expectations of future growth

became more widespread, with over two-thirds of the firms anticipating increased activity.

Financial Services

Financial firms reported modest growth in overall loan volumes (excluding credit cards) – a somewhat faster pace than last period. Volumes grew moderately in mortgages and in commercial and industrial lending and grew slightly in commercial real estate lending. However, these gains were offset by slight declines in home equity lines, auto loans, and in other consumer loans (not elsewhere classified). Compared with one year earlier, loans grew modestly, and in all categories except for home equity lines.

During the current period, credit card lending grew at a moderate pace – slow by comparison to the same period last year for this highly seasonal measure. Over the year, credit card lending has grown modestly.

Banking contacts continued to note competitive pressure to raise deposit rates but flagged few concerns about credit standards and no issues with credit quality. Bankers remained generally confident about future economic prospects.

Real Estate and Construction

Homebuilders reported no change in sales and construction activity. In most major Third District markets, sales of existing homes continued to be down moderately compared with the same period last year. According to brokers, inventories remain at very low levels throughout the District.

Overall, nonresidential real estate contacts reported no change in the modest growth in leasing activity. However, as several major projects reach or near completion in Philadelphia, there has been a slow and steady decline in labor hours from previously high levels of construction activity. ■

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



Summary of Economic Activity

Business activity in the Fourth District grew moderately during the survey period. Demand was strong in many sectors, but hiring continued at about the same pace as in the previous survey period as a dearth of qualified workers constrained hiring. Wages rose moderately, and increases were in line with recent trends. Upward pressure on input costs was strong, notably for fuel and metals. Contacts widely attributed the cost increases to import tariffs. However, final selling prices rose only moderately. Firms raised their prices to cover, at least partially, their increased raw materials and transportation costs. Otherwise, businesses were cautious about raising their selling prices. Consumer demand, including for autos, was stable to slightly higher. Manufacturing capacity utilization rose to meet strong demand, but a number of producers remarked that they were struggling to keep up with orders. Freight volumes trended higher. Construction activity remained strong.

Employment and Wages

District businesses added workers at a pace that was moderate and similar to that of the previous survey period. Most firms reported strong customer demand and optimism about the economy's near-term prospects as supporting their hiring decisions. Very few firms reduced headcount, and a sizable share reported creating new positions. Hiring was strongest among construction firms thanks to high project volumes. Also, strong demand for technology services enabled professional services to add workers at a healthy clip. Contacts reported the dearth of qualified workers constrained hiring across an array of occupations. The problem was most often highlighted by manufacturing, construction, and transportation companies. One steel contact noted the company had significantly increased overtime hours to cope with the worker challenge. A nonresidential builder noticed that worker turnover was somewhat higher than normal. Despite tightness in the overall job market, wage pressures remained consistent with recent trends in the District. In general, employers raised wages moderately as part of cost-of-living increases or annual merit raises or to fulfill union contracts.

Prices

Upward pressure on input costs remained strong, espe-

cially for fuel and metals. Manufacturers and builders commented widely that import tariffs were lifting steel and aluminum prices. In some cases, manufacturers noted a rush to purchase metals in anticipation of additional price increases. To a lesser extent, construction contacts also noted lumber price increases. Aside from the manufacturing, construction, and transportation sectors, contacts noted moderate cost increases that were consistent with recent trends. Retailers pointed out that prices for cotton and raw food ingredients rose for their suppliers. Final selling prices rose moderately, with little change compared with those of the previous survey period. Overall, firms managed to raise their prices to compensate, at least partially, for rising raw materials and transportation costs. Aside from that, firms either held their prices or cautiously nudged them higher.

Consumer Spending

Retail demand improved moderately, extending a streak that started in the final months of 2017. In addition to a seasonal boost, food retailers and clothing retailers noted that continued strong consumer confidence lifted sales. A few contacts noted slight improvement in sales of discretionary items and higher quality products. Retail sales in the Fourth District were reported to be mostly in line with activity in the rest of the country. Inventories

and profits were stable.

Auto demand and vehicle financing conditions held steady. One auto dealer noted that leasing activity had weakened as manufacturers reduced their support. All contacts reported that sales of passenger vehicles lagged those of crossovers, SUVs, and trucks. One contact speculated that the market share for such vehicles would increase because of increased vehicle fuel economy, older customers' need for comfort, and a younger generation of customers starting families. Expectations for vehicle sales in the near-term were mixed. One dealer was concerned that price increases and higher interest rates could sap demand. Another dealer was optimistic that activity in the energy industry could lift sales in the region.

Manufacturing

The strong manufacturing demand seen earlier in the year showed no signs of letting up in the current survey period. Contacts mostly attributed the momentum to strong US economic growth that broadly supported demand in end markets. One pump and motor manufacturer noted increased demand from customers in primary metals manufacturing and extractive industries. An industrial metals producer cited strong demand from the construction sector. Some manufacturers noted that capacity utilization had risen to meet demand and that a few contacts mentioned they struggled to keep up with orders. Contacts remarked that concerns about future trade- and inflation-related price increases had prompted some customers to accelerate purchases. Most manufacturers expected that continued economic growth would lead to stronger customer demand in the near term. However, one auto-related manufacturer expected import tariffs to lead to weaker sales because of the consequent increase in prices.

Real Estate and Construction

Demand for new homes grew modestly in the current survey period. Homebuilders noted that rising interest rates and concern about rising materials prices motivated some customers to move their purchases forward. Contacts widely expected stable demand in the coming quarter. Real estate agents noted demand for Section 8 vouchers was stable. However, reports of first-time buyers' home demand were mixed. Sales of houses priced below \$400,000 and those priced between \$600,000 and \$800,000 strengthened, according to some contacts. Financing conditions for homebuyers were mostly stable.

Nonresidential builders noted that the strong demand of recent periods continued in the current period and that backlogs ticked higher as firms struggled with labor

constraints. Capital investment plans were mostly unchanged, although one commercial builder stated that the firm boosted spending to use drones for surveying to make up for the shortage of workers. Most contacts expected the current momentum in customer demand to continue in the near term. However, there was some concern that demand from industrial clients could weaken depending on the course taken by trade disputes.

Financial Services

Most banking contacts reported that steady economic growth had kept loan demand stable. Deposits fell during the last two months because of seasonal changes following the tax-filing season. Some bankers noted that strong revenue growth combined with higher borrowing costs drove some customers to fund capital expenditures and expansions with cash rather than with credit. Most contacts reported that delinquency rates remained steady, although rising interest rates were cited as a risk to the outlook.

Nonfinancial Services

Nonfinancial services firms reported strong demand thanks to generally favorable economic conditions. Business advisory firms and software developers reported strong activity. In addition to tax savings and ongoing strong confidence, contacts remarked that their services were in demand because businesses were modernizing their IT infrastructures and attempting to understand the implications of worker scarcities. Capital investments held steady, although one financial consultant remarked that Chinese capital controls had caused an expected investment to fall through. Transportation firms reported continued increases in freight volumes. Railroad contacts attributed some of their volume growth to ongoing capacity constraints in the trucking industry. One trucking contact noted an increase in demand for home deliveries. ■

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



Summary of Economic Activity

Since the previous Beige Book, the Fifth District economy has continued to expand at a moderate pace. Manufacturing activity remained strong although firms reported rising input prices and shipping delays. Trucking firms experienced robust growth and struggled to find drivers and keep up with demand. The volume of goods moving through District ports remained high. Travel and tourism were strong in recent weeks; however, some businesses were unable to provide services due to labor shortages. Retail and auto sales strengthened but firms continued to report concerns over increasing shipping delays and costs. Residential real estate activity increased modestly, and existing home sales continued to be restrained by low inventory levels. Commercial real estate improved modestly as demand picked up for industrial and restaurant leasing but slowed for retail space. Bank lending increased modestly, overall, especially for commercial loans. Nonfinancial services firms reported a moderate increase in demand. Hiring increased at a moderate rate as the job market remained tight. Price growth accelerated slightly but remained moderate, overall.

Employment and Wages

Labor demand strengthened moderately in recent weeks, and employment agencies reported growth in new job openings across all the industry segments they service. Employers continued to report tight labor markets, while candidates increasingly receive multiple jobs offers. Firms reported difficulty filling positions for mechanics, construction workers, engineers, commercial lenders, treasury and risk managers, accountants, IT personnel, hospitality workers, and skilled trade positions. While wage increases remained modest across sectors, reports suggested that wage pressures increased further.

Prices

Price growth accelerated slightly in recent weeks but remained moderate, overall. According to our most recent surveys, manufacturers' input prices increased sharply. In particular, prices for raw materials such as steel, aluminum, polyester, wool, acrylic, lumber, and caustic soda were on the rise. Manufacturers selling prices rose moderately, overall; however, several firms mentioned being unable to pass higher input costs through to consumers. On the whole, service sector firms indicated a moderate increase in prices paid that slightly outpaced growth of selling prices. Metallurgical

and thermal coal prices picked up in recent weeks, as did crude oil prices.

Manufacturing

Manufacturing remained fairly strong. However, several manufacturers reported that while sales increased, profits dipped as price increases could not offset the rising costs of materials and transportation. Manufacturers also expressed concern about the potential adverse effects of rising trade tensions. For example, a District foam manufacturer reported growth in business but growing costs of raw materials resulting from tariffs. Additionally, a Maryland can manufacturer said he could not get the quality of steel needed domestically and anticipated losing business to foreign competitors who are not faced with steel tariffs.

Ports and Transportation

Port activity was strong and continued to grow in recent weeks. While export volumes fluctuated, imports continued to increase throughout the District, with ports seeing robust year-over-year growth. An executive from one port reported cutting back on volumes to allow for easier flow during the port's expansion. One port saw growth in auto exports as demand for used cars increased in oil-rich countries. In recent months, a District airport quadrupled the number of weekly flights to Europe to accommo-

date demand for cargo transportation. In addition, its domestic business continued to grow, owing largely to increasing e-commerce shipments.

Trucking firms continued to see strong growth and record-setting months. A Virginia freight hauler increased its fleet while other companies around the District said they would expand more if they could hire more drivers. Meanwhile, a North Carolina company built new distribution centers to increase capacity. As trucking firms again struggled to meet demand, they were able to increase rates. Demand remained strong for nearly every type of cargo, although a company in North Carolina reported particularly strong growth in retail goods.

Retail, Travel, and Tourism

Tourism remained robust in the District since our last report. National parks saw large increases in the number of visitors, and some restaurants experienced record business. Rental properties in North Carolina began to offer shorter stays in order to compete with other short-term rentals. Meanwhile, a few North Carolina hotels reported that occupancy rates remained high despite an unprecedented supply of rooms as more hotels opened. Several firms struggled to find employees; a Virginia resort was unable to open pools for the summer because of a lack of lifeguards, and a large hotel reservation center in South Carolina closed because of a labor shortage.

District retailers experienced strong sales in recent weeks. A Virginia auto dealer reported a noticeable uptick in business, and a North Carolina auto dealer attributed high sales growth to manufacturer incentives. A Maryland hardware store saw growing business, even as competition increased, and worked to improve its online presence with more sophisticated pricing technology. A West Virginia material handling equipment retailer reported that strong demand for goods was leading to shrinking inventory, a concern echoed by retailers around the District. Retailers also expressed concerns over trucking shortages, which are causing long lead times and higher shipping expenses.

Real Estate and Construction

Residential real estate firms indicated modest growth, overall. Home sales rose modestly in recent weeks, although low levels of inventory persisted and buyer traffic slowed. District agents said that new listings continued to sell quickly. Meanwhile, residential construction activity reportedly picked up in southern Maryland, and demand for new homes strengthened in the Carolinas. However, builders continued to report that new home production timelines were behind schedule as there

were not enough workers and available lots to keep up with the increased demand.

Commercial real estate leasing and sales rose modestly in recent weeks. District brokers reported increased demand for industrial space and a pickup in restaurant leasing, while retail activity slowed slightly. New commercial office construction was soft, despite reports of some build-to-suit projects. Agents said that office and retail landlords were offering fewer incentives and concessions had tightened. Vacancy rates remained low across sub-markets, and a few brokers noted a lack of available product. Commercial rental rates were generally reported as stable to increasing modestly. Multifamily leasing remained healthy, overall.

Banking and Finance

On the whole, loan volumes increased modestly since our previous report. Residential mortgage demand grew at a modest pace; however, the low inventory of homes for sale continued to restrain mortgage loan growth. A banker in Virginia stated that business was particularly strong for new home construction and home equity lines to fund remodeling and refurbishing of existing homes. Commercial lending activity rose moderately in recent weeks. Loan growth was broadly based as bankers noted increased demand for agriculture, commercial, industrial, small business, commercial real estate development, and multifamily construction loans. Deposits rose moderately, on balance. Bankers said that competition for deposits had strengthened considerably and that interest rates moved higher. Credit quality remained strong while credit standards were generally unchanged.

Nonfinancial Services

Since our previous report, the demand for nonfinancial services increased moderately, on balance. Specifically, demand picked up for telecommunication, administrative and support, technology, education, health, and legal services. A law firm said that some of the new business was due to the implementation of the EU's General Data Protection Regulation law that went into effect in May. Meanwhile, a defense contractor reported strong growth in recent months and was optimistic about the near future based on the recently approved federal budget. ■

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 a number of contacts' sentiment declined due to uncertainty related to the impact of tariffs and tariff rhetoric, the overall outlook among businesses remains positive as most expect an increase in activity for the second half of the year. District firms continued to report difficulties filling positions with quality labor. On balance, wage growth remained steady. Businesses continued to report an increase in select non-labor input costs. District merchants noted sales activity increased since the previous reporting period and sales of light trucks and small SUVs improved from a year ago. The tourism sector experienced solid activity throughout most of the District. Real estate contacts noted that new home sales were up slightly and existing home sales were flat to slightly down compared to a year earlier. Overall, the housing market experienced modest price appreciation. Commercial real estate contacts indicated that activity was solid. Manufacturers reported growth in new orders and increasing production levels.

Employment and Wages

Broadly, business contacts across the District cited low availability of quality labor as a growing challenge. Contacts noted that this was a problem often not solved by increasing pay but by focusing on developing and training internal staff. Although firms in particular geographies struggled to fill certain positions, overall, most continued to add to headcounts. Some contacts cited persistent challenges with turnover; as a result, they were increasingly investing resources in retention efforts.

The intensity of wage adjustments remained mixed across the region. On average, three percent annual increases were the norm; however, a growing number of firms noted that when they were not able to meet demand with existing staff, wage increases were around five to ten percent (or greater) as an effort to attract and retain workers. Business contacts continued to report using benefits, bonuses, incentives, and other forms of compensation that are temporary or can be withdrawn if necessary.

Prices

District firms reported some increases in non-labor input costs, particularly for steel, aluminum, and transportation, with limited accounts of an ability to pass along these increases. Expectations of rising costs related to tariffs continued to contribute to vendor price increases for commodities. The Atlanta Fed's Business Inflation

Expectations survey showed year-over-year unit costs were up 2.0 percent in June. Looking ahead, survey respondents indicated that they expect unit costs to rise 2.1 percent over the next twelve months.

Consumer Spending and Tourism

On balance, District retailers reported an increase in sales levels compared to the last report. Discount stores and on-line sales continued to be a leading competitive driver in the industry. Vehicle dealers reported an uptick in the level of sales of light trucks and small SUVs for the month of May compared to the same time period last year.

Tourism activity for the summer season across the District was described as healthy. The hotel market in south Florida continued to experience strong demand. While this was on par with expectations, there were some opportunities for growth based on higher-than-expected demand in weekend leisure and group bookings. Contacts in New Orleans reported an uptick in the number of conventions being held in the city over the summer. Year-to-date Mississippi casino gaming revenue increased compared to the same time period last year.

Construction and Real Estate

On balance, reports from District residential real estate contacts indicated modest but ongoing growth. Many builders reported that construction activity was up from the year-ago level. The majority of builders noted that

buyer traffic was up with sales slightly higher, while several brokers indicated there was no change in buyer traffic relative to the year-earlier level and that sales were flat to down slightly. Reports on inventory levels were mixed and most brokers and builders reported home price gains. District brokers and builders expect that home sales activity over the next three months will primarily hold steady.

Many District commercial real estate contacts noted continued strong demand. Contacts cited that vacancy rates have been steady or falling and the rate of concessions had been steady over the last 90 days. The majority of commercial contractors indicated that, on balance, the pace of nonresidential construction activity at least matched the year-ago level, with the exception of multifamily construction which was characterized as unchanged to down. Most contacts reported a healthy pipeline of activity, with backlogs greater than or equal to the previous year. The outlook for nonresidential and multifamily construction among commercial construction contacts across the District remained positive, with the majority anticipating activity to match or exceed the current level.

Manufacturing

The majority of District manufacturing contacts described overall business activity as solid during the reporting period. Firms indicated that growth in new orders was strong and that production levels were increasing. Purchasing managers reported that supply delivery times were getting notably longer and finished inventory levels were rising. Relative to the previous reporting period, expectations for future production were less upbeat, with about one-third of contacts expecting higher production over the next six months.

Transportation

Transportation activity was largely unchanged since the previous report. District port contacts continued to note significant year-over-year increases in containerized shipments, and bulk and breakbulk cargoes; automobile and equipment freight also rose. Trucking companies noted an increase in activity from year earlier levels; demand for freight services was high, which was attributed to an improved economy and increased e-commerce shipments. Trucking capacity remained tight due to a lack of skilled truck drivers. Contacts at District railroads noted that total traffic year-to-date was flat to slightly down as compared with the same period last year, but intermodal activity saw a modest uptick. Most transportation contacts expect higher levels of activity over the second half of the year.

Banking and Finance

District financial institutions' earnings normalized following a quarter when earnings were negatively impacted by tax reform. Asset growth slowed as higher interest rates impacted some loan demand, especially for real estate products. Asset quality metrics at financial institutions were strong. Transaction accounts remained a significant portion of the deposit base and provided the majority of funding, but borrowings were steadily rising as asset growth recently started to outpace deposit growth. Financial institutions in urban markets note a greater level of deposit pressure in contrast to more rural markets where deposits are stable.

Energy

Overall, District energy sector activity continued to pick up. Industrial projects were reported across the District. Onshore shale drilling activity remained strong. Although offshore exploration and production remained subdued, there was a slight uptick in activity over the reporting period. Production and exports of refined chemical products and crude oil continued to grow as refineries increased capacity. Contacts from the utilities sector noted that the industrial segment still outpaced residential and commercial growth.

Agriculture

Agriculture conditions across the District were mixed. Significant rain improved drought conditions in Alabama, Florida, and Georgia; however, there were abnormally dry conditions reported mostly in Louisiana and to a lesser degree in Mississippi and Tennessee. There were also some areas that experienced above-normal temperatures and locally heavy rains, resulting in some crop stress. June's forecast for Florida's orange crop was unchanged from May, but down significantly from last season's production. On a year-over-year basis, prices paid to farmers in April were up for corn, rice, soybeans, broilers, and eggs and down for cotton and beef. ■

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



Summary of Economic Activity

Growth in economic activity in the Seventh District slowed to a modest pace in late May and June, though contacts expected it to pick up to a moderate pace over the next 6 to 12 months. Manufacturing production increased moderately, while employment, consumer spending, business spending, and construction and real estate activity grew modestly. Wages and prices increased modestly, and financial conditions improved modestly. The outlook for agricultural income dimmed some as prices for most commodities fell.

Employment and Wages

Employment growth slowed to a modest pace over the reporting period, and contacts expected gains to continue at that rate over the next 6 to 12 months. Hiring was focused on production and professional and technical workers, though there was also an increase in the number of firms seeking to hire sales workers. As they have for some time, contacts indicated that the labor market was tight and reported difficulties filling positions at all skill levels. Manufacturers continued to report that they had delayed or turned down projects because of difficulties in finding workers. A staffing firm that primarily supplies manufacturers with production workers reported no change in billable hours. Wage growth remained modest overall, with wage increases most likely to be reported for managerial, professional and technical, and production workers. Most firms reported rising benefits costs.

Prices

The pace of price increases edged up in late May and June, but remained modest overall. Contacts expected prices to continue to rise modestly over the next 6 to 12 months. Retail prices increased slightly overall. Producer prices rose modestly, reflecting in part the pass-through of higher labor, materials, energy, and freight costs. Contacts in the agricultural sector noted heightened price volatility related to uncertainty over U.S. and foreign tariff policies.

Consumer Spending

Consumer spending increased modestly over the reporting period. Nonauto retail sales rose modestly, with gains in the grocery, hardware, home improvement, jewelry, and personal services segments and declines in the furniture and sporting goods segments. Light vehicle sales increased slightly and used vehicle sales rose moderately. A number of contacts indicated that vehicle sales for the first half of 2018 had exceeded expectations.

Business Spending

Business spending increased modestly in late May and June. Retail contacts indicated that inventories were generally at comfortable levels. Most manufacturing contacts did so as well, though a fabricated metals contact indicated that inventories were low because many of his firm's suppliers were capacity constrained. In addition, steel service center inventories remained below historical norms. Capital spending increased modestly and contacts expected growth to continue at that pace over the next 6 to 12 months. Outlays were primarily for replacing industrial and IT equipment and for renovating structures. Contacts again indicated that lead times for purchasing new equipment were elevated. Demand for energy from commercial and industrial users increased modestly, and demand for transportation services increased moderately from an already high level.

Construction and Real Estate

Construction and real estate activity increased modestly over the reporting period. Residential construction increased slightly, led by growth in suburban single-family homebuilding. Home sales were up modestly overall, though a contact in the Detroit area reported slower sales. Contacts across the District indicated that low inventories of starter homes continued to hold back sales. Home prices increased moderately overall and rents rose modestly. The pace of nonresidential construction was little changed. Commercial real estate activity increased modestly, led by growth in the industrial sector. One contact noted that demand for office space from technology firms was strong. Commercial rents increased modestly, vacancy rates declined modestly, and the availability of sublease space increased slightly.

Manufacturing

Manufacturing production increased at a moderate rate in late May and June. A number of contacts across manufacturing sectors reported operating at or near capacity. Steel production increased moderately in response to steady end-user demand and declining imports. One contact said that demand for domestic steel was the strongest it had been in 20 years. Demand for heavy machinery and heavy trucks continued to grow at a solid pace. Order books for specialty metals manufacturers increased modestly, helped by strong demand from the oil and gas sector. Manufacturers of construction materials continued to report slow but steady increases in shipments, in line with the pace of improvement in construction. Auto production increased modestly and remained at a solid level.

Banking and Finance

Financial conditions improved modestly over the reporting period. Financial market participants reported little change in equities prices or volatility, but some increase in short-term interest rates. Business loan demand increased slightly, with growth predominantly coming from small businesses. Loans were primarily for financing real estate and capital equipment. One contact noted slightly higher balances on business lines of credit due to higher input costs for energy and metals. Loan quality and lending standards were little changed. Consumer loan demand also increased slightly, driven by increases in loans for autos and other durable goods and in mortgages. Consumer loan quality and lending standards were little changed. Contacts reported a high level of competition for both business and consumer loans.

Agriculture

The outlook for agriculture income dimmed some over the reporting period as prices for most commodities fell. Crop farmers reported that in general, field conditions were excellent and better than last year. Both corn and soybean prices fell, reducing expected profits from the upcoming harvest. Livestock farmers continued to struggle overall, with some reports of asset sales by hog producers and closures of dairy operations. Contacts throughout the District expressed heightened concerns about the impact of trade disputes and tariffs on the agricultural industry. ■



Summary of Economic Activity

Economic conditions in the District have improved slightly since our previous report. Firms reported modest increases in employment despite continued difficulties finding workers. Wages continued to increase modestly. Price pressures have increased modestly as freight costs have increased across all sectors. Reports from consumer spending contacts remained mixed. Manufacturers reported increases in production and new orders. Residential real estate activity improved modestly while construction activity picked up slightly. District bankers reported increased lending activity as commercial and industrial loan growth continued to be robust. Agriculture and natural resources conditions have been relatively unchanged since the previous report.

Employment and Wages

Employment has increased modestly since the previous report. Several manufacturing companies, including multiple steel producers, announced plans to expand and hire new employees. Furthermore, survey-based employment indexes indicated modest increases in June manufacturing employment across Missouri and Arkansas. To attract and retain employees, firms reported lowering hiring standards, offering more-generous non-wage benefits, and establishing training programs through partnerships with local schools and non-profit organizations. Contacts noted difficulties filling construction and trucking positions in particular.

Wages have increased modestly since the previous report. Contacts reported that the continued tight labor market has led to increased wages in the services sector, particularly for entry-level positions. Retail and food-service firms reported having to raise wages of existing employees to match the higher rates for new employees. One trucking company offered the largest one-time pay increase in its history. Wages paid by small business in the St. Louis metro area grew slightly.

Prices

Price pressures have increased modestly in general since the previous report. Local contacts reported robust increases in shipping costs across all sectors due to higher fuel prices and driver shortages. Tariffs and trade

restrictions have had a mixed effect on prices. U.S.-imposed tariffs have raised the prices of steel and aluminum, increasing input costs for several business contacts. Those contacts in construction lamented that rising prices pressured the industry before this tariff-induced inflation of metal costs. In contrast, proposed tariffs by China have led to an overall downturn in agricultural commodity prices, particularly the price of soybeans. These lower agricultural commodity prices have been passed on to food retailers, who reported that lower food prices have more than offset increased freight costs.

Consumer Spending

Reports from general retailers, auto dealers, and hoteliers indicate mixed consumer spending activity. Real sales tax collections modestly increased in Arkansas relative to a year ago, but declined slightly in Missouri, Kentucky, and West Tennessee. The consumer outlook in West Tennessee has improved since the first quarter, and households, on net, expect to increase spending in the next few months relative to a year ago. Retailers in Tennessee indicated that year-to-date sales have been above last year's levels and expect this trend to continue through the rest of the year. In response to the recent Supreme Court ruling, internet-based retailers indicated that they will likely "eat the cost" from collecting sales tax in the medium term. However, they expect to pass the cost to consumers in the long run through the prices they charge for shipping and by changing eligibility for free

shipping.

Reports from auto dealers were mixed: Memphis auto dealers reported an increase in sales year over year, while dealers in Louisville and Little Rock reported a decrease. Memphis and Little Rock auto dealers also indicated a shift in demand toward SUVs and crossovers. Hoteliers in Little Rock and Memphis reported strong and stable demand, and St. Louis hospitality contacts continued to express a positive outlook for the coming months.

Manufacturing

Manufacturing activity has increased at a moderate pace since our previous report. Overall manufacturing activity was stronger than one month earlier in both Arkansas and Missouri, and the pace of expansion increased in each. New orders and production also rose in both states. Several companies that manufacture motor vehicles and motor vehicle parts reported plans to expand facilities and increase production. Contacts in the paper packaging manufacturing industry reported running at nearly full capacity. Similarly, contacts in the recycled metal industry noted record volumes, and contacts in the mining equipment manufacturing industry reported experiencing backlogs. On the other hand, a manufacturer of plastic products for appliances indicated that sales were down. Several manufacturers noted increases in input prices, which they linked to tariffs.

Nonfinancial Services

Activity in the service sector has improved slightly since the previous report. The number of posted vacancies for nonfinancial services occupations in May was generally unchanged in Louisville and Memphis relative to the prior month and increased moderately in St. Louis. Arkansas air passenger transit and river barge traffic volumes were somewhat lower compared with the previous year, while Louisville air passenger transit volume remained flat. Contacts noted that a continuing shortage of commercial truck drivers has led to higher demand for railroad shipping.

Real Estate and Construction

Residential real estate activity has improved modestly since the previous report. Seasonally adjusted home sales were slightly higher in April. Inventory levels remained low, and contacts continued to report a shortage of homes in the market with newly listed homes selling quickly.

Residential construction activity has improved slightly. Permit activity in May was flat relative to the prior month. A contact in Louisville reported seeing a robust level of new construction under way, and a contact in Little Rock

noted that a healthy demand for single-family homes has led to new prospective developments. St. Louis builders expect 2018 permits to exceed the total from last year.

Commercial real estate activity has been unchanged since the previous report. Contacts in Little Rock reported that the market is generally healthy across most property types but were apprehensive over how future interest rate increases may impact profits and cash flows.

Commercial construction activity was flat. Some contacts in Little Rock expressed concerns that new hotel construction under way risks oversaturating the market. A Louisville contact reported continued robust multifamily construction.

Banking and Finance

Banking conditions in the District have improved at a moderate pace since the previous report. Outstanding loan volumes at small and mid-sized banks grew by 6 percent relative to year-ago levels in the second quarter, down from 7 percent in the first quarter and continuing the steady decline in the rate of loan growth since the end of 2016. Commercial and industrial lending remained strong, growing by 12 percent in year-over-year terms, double the national rate. In contrast, residential real estate lending grew slowly and lagged behind that of the nation for the second consecutive quarter. Bankers also continued to report sluggish deposit growth.

Agriculture and Natural Resources

Agriculture conditions weakened slightly from the previous reporting period, but improved slightly from the same time last year. The percentages of corn, cotton, and rice rated fair or better in June declined slightly relative to the prior month, while that of soybeans increased modestly. However, both the corn and soybeans percentages were higher than a year ago, the cotton percentage was little changed, and the rice percentage was down slightly. Estimated soybean acreage saw a substantial upward adjustment in Illinois relative to March planting intentions but was revised downward in Missouri.

Natural resource extraction conditions were essentially unchanged from May to June, with seasonally adjusted coal production up 0.1 percent. However, June production was 6 percent below prior-year levels. ■

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



Summary of Economic Activity

The Ninth District economy grew moderately overall since the last report. Employment grew modestly, with robust hiring demand continuing to be restrained by tight labor supply. Wage and price pressures were moderate since the previous report. The District economy showed growth in manufacturing, residential construction, commercial real estate, energy, and tourism. But consumer spending and commercial construction were mixed, residential real estate slowed, and agriculture remained weak.

Employment and Wages

Employment grew modestly since the last report. Hiring demand remained robust, but continued to be restrained by tight labor supply. May job openings in North Dakota and the Upper Peninsula of Michigan were both notably higher than a year earlier. A jobs database for Minneapolis-St. Paul showed that new postings for the second quarter were up significantly over the same period last year. An ad hoc poll of large firms in Minnesota found that roughly half were currently hiring to add to head count and expected that to continue over the coming year. A May survey of manufacturing firms showed strong hiring sentiment among respondents in Minnesota and the Dakotas. However, tight labor restricted firms' ability to find workers. May unemployment rates dropped across the District compared with the previous month and a year ago. District states saw a 13 percent decrease in initial unemployment claims during the most recent six-week period (though mid-June) compared with the same period last year. Continuing claims also dropped slightly. State workforce development offices widely reported relatively stable or higher job postings, but fewer job seekers. In Montana, May job postings with the state rose by 2 percent over a year earlier, while active job seekers fell by 21 percent. A Montana staffing firm reported that "hiring demand and job orders are up, but [worker] candidates are down."

Wage pressure was moderate overall, though recent union contracts reflected larger increases. A Minneapolis Fed poll of South Dakota retailers found recent wage increases coalescing around 2 percent to 3 percent, with roughly similar expectations for the coming year. A poll of large Minnesota firms showed slightly stronger results. Four recent union construction contracts in Minnesota negotiated annual increases ranging from about 3 percent to 5 percent per year for three years. A new contract for union service workers at a Minnesota health care provider raised wages between 7 percent and 10 percent over three years; a contract for union utility workers in the Upper Peninsula awarded raises of 11 percent to 14 percent over three years.

Prices

Price pressures increased moderately relative to the previous report. Manufacturing contacts reported that steep increases continued in aluminum and steel material input costs in reaction to tariff announcements. Construction materials costs continued to increase briskly. A June survey of purchasing managers indicated that inflation expectations were elevated, but decreased slightly from the previous month. Retail fuel prices as of late June were mixed across District states relative to the previous reporting period; Montana and the Dakotas saw prices increase slightly, while prices in Minnesota and Wisconsin fell. Prices received by farmers for corn,

soybeans, wheat, hay, chickens, and eggs increased in May compared with a year earlier; prices for hogs, cattle, milk, and turkeys decreased.

Consumer Spending and Tourism

Consumer spending was mixed since the last report. Official tax data suggested some slowing. For example, sales tax collections in May were 5 percent lower in Minnesota compared with a year earlier, while taxable sales were flat in South Dakota. A contact at a restaurant industry association described recent sales as generally up moderately.

Tourism activity increased moderately. A survey of Minnesota businesses revealed solid optimism for the summer tourism season, with significantly more respondents expecting higher revenues compared with those expecting lower revenues. Minnesota's hotel sector also had a very strong May, with demand increasing 7 percent over a year earlier. Said an industry contact, "It looks like this will be a good summer for the state's hotel industry." Lodging and accommodation tax collections in Montana have been higher every month this year, including May, compared with 2017. Gaming receipts from casinos in Spearfish, S.D., were down about 4 percent during the spring months, but summer bookings at hotels and campgrounds in the region were up, according to local officials.

Services

Activity in the professional services industry increased moderately since the last report. Respondents to the Minneapolis Fed's annual services survey indicated growth in sales, profits, productivity, and employment over the past year, with expectations for more growth in the coming 12 months. In contrast, several architecture contacts said business had decreased recently.

Construction and Real Estate

Commercial construction was mixed since the last report. An industry database showed that commercial and heavy construction spending in May rose overall compared with a year earlier, particularly in North Dakota and Minnesota, while South Dakota was flat. A contractor in southeastern Minnesota said current activity levels were "much better" compared with last year. However, another database of new and active projects across multiple states in the District showed that recent activity levels through mid-June were slightly lower than the same period a year earlier. The value of commercial permitting in May was also mixed among the District's larger cities. Residential construction rose modestly overall, though activity varied. Single-family permit values rose in Bismarck, N.D., Billings and

Missoula, Mont., and the Minneapolis-St. Paul region; but permit values were flat in Rapid City and Sioux Falls, S.D., and lower in Fargo, N.D., and Rochester, Minn.

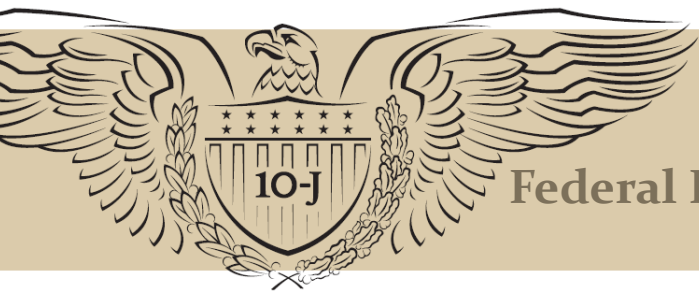
Commercial real estate grew modestly since the last report. In Minneapolis-St. Paul, multifamily vacancy rates continued to be low despite strong delivery of new units to the market, though lease rates have been mostly steady. Despite the continued closure of large retail stores in Minneapolis-St. Paul, this space was being absorbed and "keeping vacancies tight," according to an industry source. Residential real estate fell, with a few isolated exceptions. May home sales in Minnesota dropped 11 percent compared with a year earlier and also fell in western and northern regions of Wisconsin, and in Bismarck. Sioux Falls sales were flat, and Montana metro markets were mixed, with slower May sales in Great Falls and Helena, but higher sales in Bozeman and Missoula.

Manufacturing

District manufacturing activity increased briskly. An index of manufacturing conditions indicated increased activity in June compared with a month earlier in Minnesota and the Dakotas. Contacts from across the manufacturing sector reported very strong activity so far this year. A dealer of stamping and metal forming machinery said that the market for capital equipment was as busy as they'd ever seen. Producers of hydraulic equipment reported similarly strong demand, with some seeing double-digit growth this year.

Agriculture, Energy, and Natural Resources

District agricultural conditions were stable relative to the previous report. Despite a late start to the planting season, crop progress in District states as of late June was generally in line with five-year averages, and the majority of crops were rated in good or excellent condition. However, some areas of the Dakotas and Montana were experiencing dry or moderate drought conditions. Activity in the energy sector increased slightly. District oil and gas exploration activity as of late June was roughly unchanged from the previous report; oil and gas production as of April increased from a month earlier. District iron ore mines continued to operate at near capacity. ■



Summary of Economic Activity

Economic activity in the Tenth District continued to increase at a moderate pace in late May and June, and expectations were for additional gains in the coming months. Consumer spending and business services activity rose modestly compared to the previous survey period, and residential and commercial real estate activity climbed moderately higher. Manufacturing activity continued to expand at a robust pace, and manufacturers and business services contacts anticipated stronger capital spending in the months ahead. Banking contacts reported increased loan demand, improved loan quality, and slightly lower deposit levels. Respondents in the energy sector reported a slight pickup in overall activity and expected strong levels of capital spending. Agricultural conditions weakened slightly as trade uncertainty and expectations of large supplies put downward pressure on crop prices. Employment increased modestly since the previous survey period, and a large share of contacts reported labor shortages. Wages, input prices, and selling prices moved moderately higher, and most contacts expected additional increases moving forward.

Employment and Wages

District employment and employee hours continued to increase at a modest pace in late May and June, and additional gains were anticipated in the months ahead. A majority of contacts in every sector noted rising levels of employment since the previous survey period, with the exception of those in the auto sales sector who noted a modest decline. In addition to rising employment levels, employee hours increased in the retail trade, wholesale trade, real estate, restaurant, tourism, manufacturing, and energy sectors. A high percentage of contacts in the District reported labor shortages for some skillsets, especially within the manufacturing sector. In particular, contacts noted difficulty finding retail sales staff, skilled IT workers, commercial drivers, and restaurant workers.

Wages increased moderately in most sectors, and firms expected a similar pace of growth in the months ahead.

Prices

Input and selling prices rose further since the previous survey period and were moderately higher than year-ago levels. Respondents expected further increases in the coming months. Contacts in the retail sector noted modestly higher input and selling prices compared to the previous survey period, and both were moderately higher than year-ago levels. In the restaurant sector, input prices rose modestly and selling prices picked up at a

moderate pace. Input and selling prices in the transportation sector were moderately above year-ago levels. Construction supply contacts noted moderately higher prices, although the rate of growth was expected to slow slightly moving forward. Manufacturers reported a modest increase in the prices of finished products, and raw materials prices rose moderately. Manufacturers expected the pace of price increases to accelerate in the months ahead for both finished products and raw materials.

Consumer Spending

Consumer spending increased modestly compared to the previous survey period, and firms were optimistic that spending will continue to rise. Retail sales rose moderately since the previous survey period and remained above year-ago levels. Several retailers noted a pickup in sales for appliances, home improvement items, and lower-priced goods, while higher-priced products sold poorly. Retail contacts anticipated moderate increases in sales and modestly higher inventories moving forward. Auto sales rose modestly since the previous survey period but were slightly below year-ago levels. However, dealer contacts expected sales and inventories to rise in the months ahead. Restaurant sales edged up slightly compared to both the previous survey period and year-ago levels, and respondents expected modest sales growth in the next few months. District tourism activity

expanded at a moderate pace compared to the previous survey period, although tourism sales were below year-ago levels. Tourism activity was anticipated to decline modestly in the next few months.

Manufacturing and Other Business Activity

Manufacturing activity continued to expand robustly, and the majority of other business contacts reported modest sales increases. Factory activity grew at both durable and nondurable goods plants, especially for computer, electronics, and food products. Production, shipments, and new orders increased moderately, and activity remained higher than a year ago. Manufacturers' capital spending plans grew moderately, and manufacturers expressed strong optimism about future levels of activity.

Outside of manufacturing, firms in the professional, high-tech, wholesale trade, and transportation sectors reported modest sales growth, and expectations were for a faster pace of growth in the months ahead. Transportation contacts anticipated a modest increase in capital spending in the coming months, while professional, high-tech, and wholesale trade firms expressed more robust plans for capital expenditures.

Real Estate and Construction

District real estate activity rose at a moderate pace, and additional growth was expected in the months ahead. Contacts in the residential real estate sector noted moderately higher home sales, prices, and inventories compared to year-ago levels. Continued moderate growth was expected for home sales and prices, while inventories were projected to remain flat. Residential construction activity strengthened slightly in late May and June including stronger housing starts and sales of construction supplies. However, traffic of potential buyers declined modestly since last year. Residential construction contacts expected a slight pickup in activity in the months ahead. The commercial real estate sector grew at a moderate pace as absorption, completions, and sales rose while vacancy rates declined. Commercial real estate activity was projected to expand at a slightly faster pace moving forward.

Banking

Bankers reported a moderate increase in overall loan demand in late May and June. Respondents reported a modest increase for commercial and industrial, commercial real estate, residential real estate, consumer installment, and agricultural loans. Bankers indicated loan quality improved modestly compared to a year ago and expected further improvement in the next six months. Credit standards remained largely unchanged in all major loan categories, and bankers reported a slight

decrease in deposit levels.

Energy

District energy activity expanded slightly since the last survey period, while expectations for future activity continued to grow moderately. The number of active oil rigs increased modestly, and the number of active gas rigs remained unchanged. Most firms reported continued strong capital spending plans, although several businesses expressed concern about pipeline capacity. Despite persistent growth in global oil demand, contacts projected slightly lower oil prices which a number of firms attributed to the announcement of OPEC's production increases. Expectations for natural gas prices improved further.

Agriculture

The Tenth District farm economy weakened slightly, and drought persisted in some regions. Trade uncertainty and expectations of larger supplies in 2018 put downward pressure on crop prices. Corn prices were slightly lower than a year ago following a sharp decline in June, while soybean prices declined even more rapidly and reached an eight-year low. Although prices for wheat remained steady and slightly higher than a year ago, revenues in Kansas and Oklahoma could remain strained as nearly half of winter wheat acreage was rated as poor or very poor due to dry conditions. Live-stock prices were slightly lower than one year ago following modest declines in June. Hog prices, which continued to be supported by expectations of increased U.S. exports and relatively strong global demand, increased slightly in June but remained slightly below levels from one year ago. ■

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



Summary of Economic Activity

Expansion in the Eleventh District economy continued at a solid pace. Manufacturing output increased, and loan demand and retail spending rose. Broad-based expansion in the energy and service sectors continued. Home sales rose modestly, while apartment markets softened slightly. The ongoing drought negatively affected crop and grazing conditions. Hiring remained strong, and widespread labor shortages continued putting pressure on wages. Price pressures stayed elevated largely due to increases in input costs, particularly steel and aluminum. Although outlooks remained fairly optimistic, tariffs and trade-related concerns were creating uncertainty.

Employment and Wages

Job growth was solid and widespread across sectors, with most firms bullish in their expectations for long-run employment. Labor market tightness continued across a wide array of industries and skill sets, with several contacts saying difficulty finding workers was constraining growth to some extent. Oilfield services firms noted shortages of mechanics and truck drivers, and one contact said hiring and retaining workers in the bottom 20 percent of their payroll was a challenge. A staffing firm said they had partnered with a manufacturing company, where workers could attend a paid, six-week welding course and receive fulltime employment following successful completion. Nearly half of the firms responding to a set of special questions indicated that new technologies were not impacting employment levels, although 25 percent said it was changing the types of workers needed.

Wage pressures remained elevated, and firms expected to give employees a larger increase in wages this year compared with 2017. Several firms were employing multiple strategies to recruit and retain employees, such as intensifying recruiting, raising wages, offering on-the-job training and/or increasing variable pay/bonus.

Prices

Price pressures remained elevated. Input costs increased among energy, manufacturing, and construction

firms, in part due to rising freight costs and the new tariffs on steel, aluminum, and lumber. Auto dealers reported higher new vehicle prices and financing costs, and transportation service firms noted climbing fuel prices. Many other retailers and service firms also cited rising input and other costs such as health care. A number of contacts said they plan on increasing selling prices to offset higher costs. West Texas Intermediate oil prices rose to their highest levels since 2014 driven by falling inventories, rising geopolitical risks in the Middle East, U.S. policy on Iran, and other oil supply concerns.

Manufacturing

Expansion in the manufacturing sector continued, although the overall pace of growth eased in June from the highs seen in May. Output growth was led by transportation equipment and food manufacturing. Growth in machinery production receded in June from May's elevated rates, while demand for fabricated and primary metals increased. Chemical production expanded further, and the Gulf Coast refinery utilization rate climbed up to 97.6 percent toward the end of June. Refiners and chemical producers reported optimistic outlooks, buoyed by relatively low domestic feed costs and expectations of healthy global demand for their products. Overall, outlooks among manufacturers remained positive, although contacts said that the new tariffs had heightened uncertainty in expectations for activity and prices.

Retail Sales

Retail sales rose sharply in May but growth slowed in June, with many retailers noting either flat or softening activity. Internet sales grew moderately over the reporting period. Auto sales were strong, but contacts reported increased pressure on margins in part due to rising financing costs among other expenses. Sales increased among durable goods wholesalers, while falling for non-durables. While outlooks overall remained positive, rising interest rates and the newly imposed tariffs were negatively impacting some retailers' expectations.

Nonfinancial Services

Growth in nonfinancial services activity was broad based across industries. Strong revenue growth among transportation services and finance and insurance firms boosted service sector activity. Rail traffic remained close to record levels, with shipments increasing broadly across business lines. Air cargo volumes expanded as well, in part due to a pickup in international shipments. Airline passenger demand was stable, and leisure and hospitality contacts saw a pickup in activity. Revenue growth in the professional and business services sector was solid, with staffing services firms noting persistently high demand, driven by widespread increases in activity across geographies and sectors. Expectations regarding future business conditions remained optimistic, although higher fuel prices, rising costs, labor shortages, and uncertainty surrounding trade policies were sources of concern among contacts.

Construction and Real Estate

Home sales edged up over the reporting period, with year-to-date sales on or ahead of plan for most builders. Buyers remained price sensitive, putting pressure on builders' margins. Contacts expressed trepidation about the impact of rising interest rates and uncertainty surrounding trade and immigration policies on future activity and/or costs. Nevertheless, outlooks remained positive.

A large number of new apartments are putting pressure on rents, particularly in areas where there was a lot of availability. Rent growth in Dallas and Austin was modest and below its long run average, though occupancy was generally holding up well. A slowing pace of deliveries combined with a pickup in economic growth has boosted occupancy and rent growth in Houston. Investment activity remained solid despite the recent softening in overall performance.

Net absorption in DFW's office market improved in the second quarter but remained modest compared with the highs seen last year. Office leasing activity was steady in San Antonio, but remained sluggish in Houston. Condi-

tions in industrial markets were characterized as solid, and reports on demand for retail space mostly indicated flat but healthy levels of activity.

Financial Services

Loan volumes and demand expanded over the reporting period. Growth remained broad based, with continued strength in commercial and residential real estate lending. Consumer loan volumes increased slightly, and commercial and industrial loan volumes grew at a slower pace than during the last reporting period. Loan pricing rose further, and credit standards remained unchanged or tightened moderately. The volume of deposits ticked up, and some contacts noted raising rates to compete for deposits. Outlooks remained optimistic, although regulatory compliance, difficulty expanding the existing deposit base, and potential inversion of the yield curve were concerns cited by banking contacts.

Energy

Energy sector activity expanded strongly. Demand for oilfield services rose further, and firms noted increased equipment utilization. Drilling activity ticked up in the District even as the U.S. rig count dipped. Expectations regarding future business conditions remained positive, supported by a favorable outlook for oil prices, but contacts expressed concern about steel tariffs, pipeline capacity constraints, and worker shortages.

Agriculture

Drought conditions became slightly less severe but more widespread over the reporting period. Texas farmers were concerned because the drought will likely suppress crop yields, and crop prices are lower due to trade restrictions and strong U.S. production prospects. Grazing conditions remained well below average, and cattle prices experienced a slightly higher-than-average seasonal decline over the last six weeks, despite strong export and domestic demand for beef. ■

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, and wage pressures picked up. Price inflation increased moderately. Sales of retail goods picked up slightly, while activity in consumer and business services edged down. Activity in the manufacturing sector remained solid, and conditions in the agriculture sector deteriorated modestly. Contacts reported that residential real estate market activity expanded at a solid pace, and activity in the commercial real estate sector was also solid. Lending activity ticked up moderately.

Employment and Wages

Tight labor market conditions persisted across all sectors, leading to a pickup in wage growth. Contacts continued to report challenges retaining workers. In the Mountain West, a few major national employers attracted low-skilled warehouse workers from smaller businesses that could not match their starting wages. Across the District, contacts observed higher starting salaries and increased bonuses to attract skilled financial service and information technology professionals. Demand for skilled lending officers increased moderately due to stronger loan growth over the reporting period. Shortages of plumbers, electricians, and other specialized workers drove wage pressures for these positions and led to construction project delays in some cases. A contact in Oregon's banking sector reported an uptick in lending to manufacturers for automation projects to stem increases in labor costs that have weakened profitability. Crop harvesting and processing businesses noted difficulties hiring for on-site managerial positions in rural areas. A contact in financial services in central California reported that employment levels fell slightly as the number of mergers and acquisitions in the region picked up, creating some job redundancies.

Prices

Price inflation increased moderately over the reporting period. Recent oil price increases spurred price inflation in a variety of sectors. Pricing pressures strengthened

for freight costs at lumber businesses in California and Oregon and for petroleum-based products like asphalt. Across the District, contacts noted a pickup in price growth for finished steel and for metal inputs to manufactured products. A few contacts in manufacturing attributed recent inflationary pressures for metal products and declines in the duration of price guarantees to the implementation of tariffs. Solid construction sector activity continued to exert upward pressure on prices for building materials. Contacts in California reported moderate price inflation for cherries, nuts, and raisins after yields fell due to poor growing conditions. A few contacts reported that grocery stores passed on increased food safety costs to consumers, increasing food prices somewhat. Excess capacity in power generation and low input costs continued to limit increases in electricity prices in Southern California. Generic drug prices continued to fall modestly due to a relaxation in regulation and heightened competition among the largest drug sellers.

Retail Trade and Services

Sales of retail goods picked up slightly over the reporting period. Contacts in the Mountain West reported an overall increase in vehicle sales in the region, with truck sales lagging passenger car sales somewhat. Demand at consumer hardware and home improvement stores increased moderately. In the food and beverage industry, contacts reported flat sales at grocery stores.

Activity in the consumer and business services sectors edged down. Sales at quick service restaurants were generally flat. In the Mountain West, the livestock health services sector saw growth slow moderately because of disruptions to the medication supply chain. Activity at transportation businesses was constrained slightly due to continued shortages of truck drivers. Growth in the pharmaceutical industry slowed modestly as continued deflationary pressures for generic drug prices negatively affected profitability at producers of branded drugs.

Manufacturing

Activity in the manufacturing sector remained solid. A contact in the Mountain West noted that demand from the mining industry for equipment jumped, leading businesses to expand operations. Deliveries of commercial aircraft increased noticeably from the same period last year, while new orders grew moderately. A steel producer in Oregon observed that there was sufficient capacity to meet the continued elevated demand for their products.

Agriculture and Resource-Related Industries

Conditions in the agriculture sector deteriorated modestly. In California, yields for various crops fell because of weak precipitation levels in recent months. In the Mountain West, feedlot profits fell noticeably on a year-over-year basis, and profits at dairy and pork producers declined moderately. A pickup in global demand for raisins and nuts resulted in a slight increase in exports of these crops. Potato yields in Idaho were solid, and inventory levels improved from the same period last year.

Real Estate and Construction

Activity in real estate markets expanded at a solid pace. Construction in the residential market was strong, constrained only by the shortage of labor and rising material costs. Contacts across the District reported that home prices and residential rents picked up due to still-low inventory levels and strong demand. In the Mountain West, price growth was most evident at more affordable price points where inventory was especially low. A contact in the Seattle area noted that listing durations for single-family houses continued to trend downward due to brisk selling activity. A few contacts noted that rising borrowing costs might limit demand, although there was no tangible impact over the reporting period. Commercial real estate activity was also solid. In Oregon, construction starts for industrial and warehouse spaces picked up noticeably, as did leasing demand for these spaces. Contacts in Southern California reported that commercial rents and sales prices increased moderately.

Financial Institutions

Lending activity ticked up moderately over the reporting period. Loan demand increased overall, with contacts across the District reporting solid loan growth. Deposit growth picked up in the Mountain West. Contacts in California and Oregon observed strong asset quality and liquidity levels. A few contacts noted tighter lending standards for borrowers in the agriculture sector because of weakening profitability in segments of that industry. ■



