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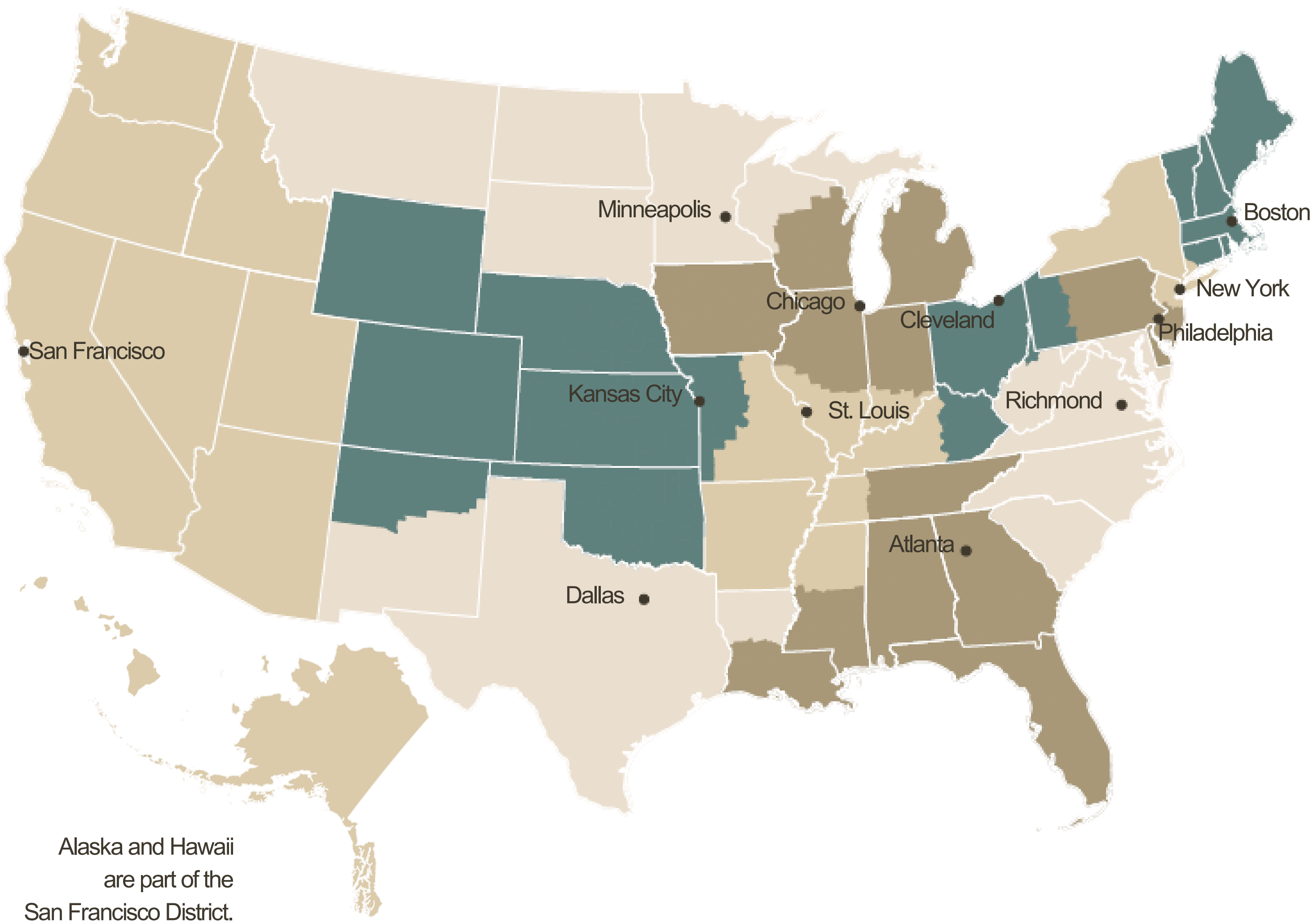
The Beige Book

Summary of Commentary on Current Economic Conditions
By Federal Reserve District

November 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.

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 Philadelphia based on information collected on or before November 26, 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

Overall Economic Activity

Most of the twelve Federal Reserve Districts reported that their economies expanded at a modest or moderate pace from mid-October through late November, though both Dallas and Philadelphia noted slower growth compared with the prior Beige Book period. St. Louis and Kansas City noted just slight growth. On balance, consumer spending held steady – District reports on growth of nonauto retail sales appeared somewhat weaker while auto sales tended to improve, particularly for used cars. Tourism reports varied but generally kept pace with the economy. Tariffs remained a concern for manufacturers, but a majority of Districts continued to report moderate growth in the sector. All Districts reported growth in nonfinancial services – ranging from slight to strong. New home construction and existing home sales tended to decline or hold steady, while construction and leasing of nonresidential structures tended to rise or remain flat. Overall, lending volumes grew modestly, although a few Districts noted some slowing. Agricultural conditions and farm incomes were mixed; some Districts noted impacts from excessive rainfall and from tariffs, which have constrained demand. Most energy sectors saw little change or modest growth. Most Districts reported that firms remained positive; however, optimism has waned in some as contacts cited increased uncertainty from impacts of tariffs, rising interest rates, and labor market constraints.

Employment and Wages

Labor markets tightened further across a broad range of occupations. Over half of the Districts cited firms for which employment, production, and sometimes capacity expansion had been constrained by an inability to attract and retain qualified workers. In fact, several Chicago firms reported that some employees have simply quit – with no notice nor means of contact. Partly as a consequence of labor shortages, most Districts reported that employment growth leaned to the slower side of a modest to moderate pace. Conversely, most Districts reported that wage growth tended to the higher side of a modest to moderate pace. In addition to raising wages, most Districts noted examples of firms enhancing nonwage benefits, including health benefits, profit-sharing, bonuses, and paid vacation days.

Prices

On balance, prices rose at a modest pace in most Districts, although a few noted moderate increases. Nearly all reported that input costs rose faster than final goods prices. Reports of tariff-induced cost increases have spread more broadly from manufacturers and contractors to retailers and restaurants. Local growing conditions caused prices to vary across farm products and among Districts, but reported soybean prices were typically lower. Several Districts noted falling oil and fuel prices, as well as rising freight costs. House prices continued to rise in a majority of markets.

Highlights by Federal Reserve District

Boston

Activity continued expanding at a moderate pace according to business contacts across most sectors. Staffing firms said labor markets were very tight across industries and occupations, while retailers and manufacturers cited shortages only for selected jobs. Increases in selling and input prices were reported to be modest.

New York

The regional economy expanded at a modest pace in the latest reporting period, while labor markets remained exceptionally tight. Widespread escalation in firms' input prices have continued, but wages and selling prices have increased more moderately. Tourism has picked up, while housing markets have softened somewhat. Banks noted widespread improvement in delinquencies.

Philadelphia
Economic activity continued to expand at a modest pace, although it appears to have eased a bit, with downshifts (or declines) in five distinct sectors. Lack of qualified labor has constrained hiring and raised wage pressure. Price increases remained modest. Nevertheless, firms remain generally positive about the six-month outlook.

Cleveland
The District economy grew modestly. Demand was strong in banking, manufacturing, and nonfinancial services. Consumer demand improved slightly, but housing demand softened. Staff levels rose moderately, and wage pressures were widespread. Input costs rose strongly in all industries. Contacts noted that tariffs were lifting prices further down the supply chain. Selling prices rose with less intensity than they did for input costs.

Richmond
The regional economy continued to grow at a moderate rate since our previous report. Labor demand strengthened further while wage growth remained modest. Price growth increased slightly but remained moderate, overall. Manufacturing and services firms saw a sharp increase in input prices, which were attributed to tariffs, shipping costs, and some higher business-to-business and recruitment costs.

Atlanta
Economic conditions moderately improved. Tightness in the labor market persisted and more firms reported increasing wages. Nonlabor costs continued to rise. Retail sales increased across most of the District. Tourism activity was positive. Residential real estate market activity was restrained, and commercial real estate activity remained solid. Manufacturers indicated that activity increased. Credit conditions were stable.

Chicago
Growth in economic activity was modest. Manufacturing production grew moderately; employment, consumer spending, and business spending increased modestly; and construction and real estate activity decreased slightly. Wages and prices rose modestly and financial conditions were little changed. Large yields led agricultural conditions to improve some.

St. Louis
Economic conditions have slightly improved since our previous report. Labor market conditions remain tight, and many firms report raising wages and salaries to attract new workers. The outlook among firms surveyed in mid-November was slightly optimistic, although weaker than the outlook one year ago.

Minneapolis
The Ninth District economy grew moderately. Hiring demand was robust, but a tight labor supply was restraining employment growth. Nevertheless, wage pressures were moderate overall, with exceptions. Some firms reported paying a greater share of workers' health insurance premium costs to attract and retain employees. Price growth was generally modest, though input prices saw more pressure.

Kansas City
Economic activity expanded slightly since the previous survey and remained modestly above year-ago levels. Employment and wages rose further, and about half of respondents expected to increase employment in the next twelve months. Manufacturing, wholesale trade, transportation, energy, and professional and high-tech sectors reported the strongest growth in the District, while the agriculture sector remained weak.

Dallas
Growth in economic activity slowed to a moderate pace. A broad-based softening was seen in manufacturing, retail, and housing. Drilling activity increased. Hiring continued, and widespread labor shortages pushed up wages. Price pressures eased but remained elevated in part due to the tariffs, and outlooks were less optimistic than the previous report.

San Francisco
Economic activity in the Twelfth District continued to expand at a moderate pace. Labor market conditions tightened further, and price inflation increased moderately. Sales of retail goods expanded somewhat, and activity in the consumer and business services sectors was solid. Conditions in the manufacturing sector strengthened. Activity in real estate markets was solid on balance. Lending activity ticked down modestly.

Summary of Economic Activity

First District economic activity in most sectors continued to expand at a moderate pace since the last report. Retailers reported moderate year-over-year sales growth, while Massachusetts restaurant sales rose modestly from a year earlier. Manufacturing firms saw revenues rise from a year ago, but at a somewhat disappointing pace. Most staffing firms reported modest to moderate year-over-year revenue growth, with some signs that the pace of growth slowed recently. Sales of single-family homes and condos declined from a year earlier in most New England reporting areas, while median sales prices continued to rise. Activity in commercial real estate markets remained mixed within the region, at a moderate level on average. Labor markets remained tight and wage increases continued at a moderate pace. Notwithstanding labor-related costs, upward pressure on prices was said to be very modest. Most contacts continued to report a positive outlook, although some cited increased uncertainty or risks.

Employment and Wages

Labor markets continued to be tight, although many firms said they are able to hire as needed. Two-thirds of manufacturing contacts expected flat employment at their firm and one-third expected growth. Manufacturers did not report any unusual difficulty finding qualified employees although an industrial distributor said that it had become increasingly difficult to find technical salespeople. Retailers said they have not had problems filling open positions, except for jobs specializing in information technology. Massachusetts restaurants continued to note acute labor shortages and higher labor costs, citing the Commonwealth's recently implemented Employer Medical Assistance Contribution (EMAC) and scheduled hikes in the minimum wage. Staffing industry respondents reported that continued low unemployment made recruiting very challenging. Most staffing firms reported increases in bill and pay rates, ranging from low single-digit increases to 10 percent; one cited high-level IT jobs as a driving factor in increased bill rates.

Prices

Price increases were said to be modest. Manufacturing firms did not report strong pricing pressure either from customers or suppliers. An industrial distributor said they expected tariffs to contribute 50 to 100 basis points to price increases for their products. Only one manufacturer complained about high transportation costs, in contrast with recent reports when many noted high costs. Two retail contacts noted that wholesale prices have risen only modestly and that food prices were down about 0.4 percent. Looking ahead to 2019, retailers expressed significant uncertainty about the impact that tariff increases will have on prices—beyond some point, they will pass the increases on to consumers. One retailer said they will not be the first mover on raising prices but will watch to see what their competitors do. Massachusetts restaurant menu prices were up 2.6 percent from a year ago.

Retail and Tourism

Retail contacts reported comparable-store year-over-year sales increases ranging from low single-digit to low double-digit percentages. All respondents remarked that consumer sentiment was strong and that they expected the fiscal year to end with low single-digit comparable-store revenue increases. Capital spending plans for 2019 were said to match or exceed investment in 2018.

A contact in the Massachusetts restaurant industry reported that revenues were up about 2 percent year-over-year through September, but cautioned that this result was largely driven by newly opened units, as sales at existing locations ranged from flat to up or down 1 percent year-over-year. Anecdotally, restaurant sales were down year-over-year in October as "people stayed home to watch the World Series." As noted earlier this year, the cost challenges confronting the restaurant industry are expected to thin out the ranks; very recently, two iconic Massachusetts restaurant chains have closed units, as have some high-end Boston-area restaurants.

Manufacturing and Related Services

All manufacturing contacts this cycle reported higher sales year-on-year. However, two-thirds of the six respondents said the pace of growth was a little disappointing. A furniture maker said sales growth had slowed relative to earlier in the year. Two semiconductor-related firms reported year-over-year sales growth had slowed to 12 percent and 10 percent; one attributed the slower growth to smartphones and the other to slowing demand for consumer devices more broadly. A defense contractor said they were having unusual difficulty with permits to sell to foreign customers. No contacts reported significant revisions to their capital expenditure plans.

Contacts were generally optimistic, even the ones with disappointing sales growth. One contact in industrial distribution said that there was industry chatter about a recession in the second half of 2019 but he saw no signs of that. A contact in the semiconductor industry said that people were concerned about the semiconductor industry cycle but continued to expect growth in 2019.

Staffing Services

New England staffing firms reported mostly positive year-over-year revenue growth, notwithstanding low or negative quarter-over-quarter growth rates. All firms noted labor supply shortages, regardless of the job's industry, occupation, or placement type, while commenting on the high and healthy demand from clients. One company stated that they were hesitant to take on new clients because they could not fulfill orders from existing ones. Most respondents devoted additional resources to improve recruitment: hiring more employees, investing in technology and social media, building relationships with local community groups, and increasing advertising. A few firms noted concerns about potential increases in health care costs and local minimum wages. Overall, staffing firms expressed optimism and expected tight labor market conditions to continue into 2019.

Commercial Real Estate

Commercial real estate markets remained mixed across the First District, with moderate activity on average. Leasing activity held steady at a slow pace in Connecticut and picked up to a moderate pace in Rhode Island. In greater Portland, leasing demand remained strong, on average, despite having softened a bit in the industrial and retail markets. Boston-area contacts described office leasing activity as very robust. In both Boston and Providence, demand for industrial space—whether for lease or purchase—strengthened further. Following recent declines, office vacancy rates were described as historically low in Boston and very low in both Portland and Providence.

Construction activity was also mixed, with negligible activity in Connecticut, moderate activity in Rhode Island, and robust activity in the Portland and Boston areas. One Boston contact said that planned construction could yield a large quantity of new office space in the downtown area over the next five years, although rising construction costs—up some 15 percent in the past six months due to increases in both labor and materials costs—may crimp some projects. The outlook dimmed further in Connecticut and remained largely favorable elsewhere for the near term; some contacts cited increasing risks and uncertainty for late 2019.

Residential Real Estate

Most residential real estate markets in New England saw year-over-year sales declines in recent months. For single-family homes, closed sales decreased from September 2017 to September 2018 in Rhode Island, Massachusetts, Boston, and New Hampshire, while increasing slightly from October to October in Maine. Median sales prices increased over the year in all reporting areas. For condos, sales decreased in Massachusetts, Boston, and New Hampshire, stayed flat in Maine, and increased in Rhode Island. Condo prices increased in Boston and Maine but decreased slightly in Rhode Island, Massachusetts, and New Hampshire. Vermont experienced an over-the-year decrease in sales for single-family homes and condos combined.

Contacts cited lack of inventory, rising prices and interest rates, and market normalization as possible reasons behind the declining sales. A contact from Rhode Island noted that the cooling in housing suggested a more balanced and healthy market, "buyers … will likely have more properties to choose from in the year ahead." A Massachusetts representative, by contrast, attributed the dwindling sales mainly to ongoing inventory shortages. Looking forward, residential real estate contacts across the region expressed optimistic views about the closing months of 2018. ■

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

Summary of Economic Activity

Economic activity in the Second District has grown modestly in the latest reporting period. The labor market has remained exceptionally tight, and wage growth has remained moderate. Businesses noted continued widespread escalation in input costs but moderate increases in their own selling prices. Prices of final goods and services have generally held steady. Manufacturing and distribution activity continued to grow briskly, while growth in most service industries has been more subdued, though there has been a pickup in the leisure & hospitality industry—particularly tourism. Consumer spending has remained mostly steady in recent weeks. Housing markets have softened further, while commercial real estate markets have been mixed. Finally, banks reported a pickup in loan demand from the business sector and a decline in delinquency rates across the board.

Employment and Wages

The labor market has remained exceptionally tight across the District. A broad swath of businesses continued to note problems finding qualified workers. Turnover has reportedly increased, and a few contacts cited instances where new hires left for another job soon after or even before their start date. A couple contacts lost existing and prospective skilled workers due to immigration restrictions, including H-1B visas not being renewed.

Businesses reported steady to modestly rising employment, on balance. Firms in manufacturing, transportation, and information reported a modest pickup in hiring activity, and most retailers noted a typical seasonal pickup. Contacts in education & health, leisure & hospitality, finance, and wholesale again reported moderate net hiring. A large retail chain hired about the same number of holiday-season workers as in 2017, but the mix shifted a bit from in-store to supporting on-line sales. An upstate New York employment agency noted that clients are increasingly interested in direct hires versus contract workers.

Wage pressures remained widespread, though contacts in most industries noted that overall wage growth has been moderate. One contact did note a spike in salaries of college grads in tech fields. A few contacts noted increased use of non-wage benefits to attract and retain staff, such as increased health benefits and profit-sharing. A number of business contacts in New York State, mostly manufacturers, expressed concern about the upcoming minimum wage hike. One contact expressed concern about an upcoming jump in New York's threshold for counting workers as exempt from overtime.

Prices

Businesses reported continued widespread escalation in input prices but moderate hikes in selling prices. Input price pressures were particularly widespread in manufacturing, leisure & hospitality, and finance. Contacts across all industry sectors reported steady to moderately rising selling prices. A sizable proportion of businesses in leisure & hospitality, wholesale trade, and finance said they plan to hike prices in the months ahead.

Retailers generally indicated that selling prices, as well as the degree of discounting, have remained stable. Similarly, prices for New York City hotel rooms and Broadway theater tickets have been fairly stable in recent months.

Consumer Spending

Retail sales were generally reported to be mixed but, on balance, steady in recent weeks. A major retail chain noted that November sales were on plan and up modestly from last year, helped by a strong Thanksgiving weekend. Retailers in upstate New York reported that sales have been lackluster in November, with discounters outperforming other stores. One contact attributed sluggish store sales to the ongoing shift to on-line shopping. Inventories were generally said to be in good shape.

New vehicle sales were mostly flat in October and early November, according to dealers across upstate New York, but down from a year earlier—partly reflecting further reductions in incentives. New vehicle inventories were a bit on the high side. Sales of used vehicles, on the other hand, have been robust, with selling prices a bit higher than anticipated. Dealers indicated that credit conditions remained in good shape, though floor-plan credit has become a bit more expensive.

Consumer confidence in the Middle Atlantic states (NY, NJ, PA) retreated in October but remained near a cyclical high, based on the Conference Board's monthly survey.

Manufacturing and Distribution

Manufacturers and wholesale distributors noted ongoing brisk growth in activity in the latest reporting period, while transportation firms indicated steady activity. Looking to the months ahead, manufacturers continued to express fairly widespread optimism, while contacts in the wholesale trade and transportation industries were more guarded in their optimism. A few contacts continued to express concern about tariffs and recent and potential changes in trade policy.

Services

Growth has remained subdued in the latest reporting period. Contacts in professional & business services noted a pause in growth, while businesses engaged in the education & health, leisure & hospitality, and information industries noted a pickup in growth. In one sign of a pickup in tourism, Broadway theaters reported strong gains in both attendance and revenues, both of which have been running 15-20 percent ahead of this time last year. Looking ahead, contacts in education & health and professional & business services were fairly optimistic about the near-term outlook, while leisure & hospitality firms expect business to be flat.

Real Estate and Construction

Housing markets across the District have softened further, on balance, since the last report. In upstate New York, sales have slowed, and there have been fewer bidding wars, though the dearth of inventory has continued to boost selling prices. In New York City, sales of both existing co-ops and condos continued to weaken, while selling prices were flat to up slightly. The new development market has been very slack with sales and prices down noticeably. In Long Island, both home sales and prices have continued to rise but the pace has slowed. The inventory of unsold homes continued to rise in both New York City and Long Island, but it is still at a very low level. Much of the softening in and around New York City is attributed to a combination of increased financing costs, volatility in the financial markets, a drop in foreign purchasers, and changes in federal tax law that limit deductibility of homeowner costs. New York City's apartment rental market has been mixed: vacancy rates edged down in response to increased landlord concessions—particularly in new developments—while effective rents have been flat to down slightly.

Commercial real estate markets have been mixed but mostly steady. Office availability rates were steady to up slightly, while asking rents were up modestly, on average. Retail markets were increasingly slack across most of the District, and there is concern that this trend will accelerate after the holiday season. In contrast, industrial markets have remained solid, with availability rates steady at or near multi-year lows and rents rising briskly across the New York City metropolitan region.

New multi-family construction has been mixed but generally sluggish, though a substantial volume of residential development is currently under construction. New commercial construction starts—office, industrial, hospitality, and especially retail—have been very subdued, though there remains a good deal of office and industrial space under construction in and around New York City.

Banking and Finance

Small to medium-sized banks in the District reported lower demand for consumer loans but stronger loan demand from the business sector. Bankers also reported a decrease in refinancing activity. Credit standards were unchanged across all categories. Bankers reported lower loan spreads for residential mortgages, commercial mortgages, and C&I loans, and unchanged loan spreads for consumer loans. Contacts also reported an increase in the average deposit rate. Finally, bankers indicated that delinquency rates declined across all loan categories. ■

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

Summary of Economic Activity

On balance, aggregate business activity in the Third District continued at a modest pace of growth during the current Beige Book period, although the pace appears to have eased somewhat. The labor market has tightened further, which continues to constrain hiring at a modest pace and to apply moderate upward wage pressures. Price pressures remained modest. Nonfinancial services maintained a moderate pace of growth, while manufacturing eased back to a modest pace. Nonauto retail sales continued at a modest pace, and auto sales remained flat; however, tourism activity appeared to slow to a slight pace of growth. Construction activity appeared to be flat for residential homes and slightly declining for commercial sectors, while modest declines in existing home sales deteriorated to a moderate drop. Commercial leasing maintained modest growth. The growth outlook over the next six months remained positive, with two-thirds of the nonmanufacturing firms and over 40 percent of the manufacturers anticipating increases in general activity.

Employment and Wages

The pace of employment growth appears to have slowed somewhat during the current Beige Book period but remained modest overall. The share of nonmanufacturing firms reporting an increase in full-time staff fell by half to less than one-fifth, while the share of manufacturing firms reporting an increase in net employment remained near one-fourth. However, average hours worked appeared to fall for more manufacturing firms, while remaining about the same for nonmanufacturers.

Numerous contacts from many sectors noted that jobs were going unfilled for a lack of qualified labor and that employee retention was a growing problem. One staffing firm noted that its roster of qualified job candidates is essentially tapped out – it has become very difficult to find qualified applicants to replenish its candidate pool.

On balance, wage growth continued at a moderate pace. Various firm contacts speak of annual wage increases of around 3 percent. In fact, the percentage of the nonmanufacturing contacts who reported increases in wage and benefit costs fell to just over one-third from nearly half in the prior period. However, staffing firms in markets with lower unemployment rates report that their average wage is up as high as 6.5 percent over the prior year.

Prices

Price increases remained modest for most firms, with little change from the prior period. On balance, about one-fourth of the nonmanufacturing firms continued to report increases for prices paid and for prices received, and one-fourth of the manufacturing firms also reported increases for prices received. The share of manufacturing firms reporting increases in prices paid remained just above 40 percent.

One firm reported that it has passed along its costs from 10 percent steel tariffs but that it expects customers to push back if the tariffs increase to 25 percent. Another firm had absorbed the 10 percent tariffs but is slowly raising prices now in anticipation of higher tariffs.

Looking ahead six months, manufacturing firms continued to anticipate higher prices, with nearly 60 percent of the firms expecting increases in prices paid and in prices received for their own goods.

Manufacturing

Manufacturing activity eased back to a modest pace of growth – close to its nonrecession average. Likewise, the firms reported a decrease in new orders, while shipments increased relative to the prior period.

The makers of chemicals and of primary and fabricated metal products tended to note gains in new orders and shipments; the makers of paper products and of industrial and electronic equipment reported mixed results. Tariffs remained a major concern for many producers. Still, several firms reported that they were adding capacity, while others noted that operating capacity was constrained by shortages of qualified labor. However, a transportation analyst cautioned that new truck orders are at record levels and could be canceled if clear signs of a downturn emerge.

On balance, manufacturers continued to expect general activity to increase over the next six months; however, expectations eased a bit – slightly below the nonrecession average. Expectations of future increases in new orders, shipments, and employment remained nearly the same as the prior period and at high levels. Furthermore, expectations of future capital expenditures rose to nearly double the indicator's nonrecession average.

Consumer Spending

Nonauto retailers continued to report modest growth. Mall sales remained relatively strong, and contacts noted successful, innovative replacements for anchor stores that were closed because of bankruptcies. Convenience store sales continued to incrementally improve.

On balance, auto sales remained flat compared with high 2017 levels. According to dealers, October year-over-year auto sales rose slightly – Pennsylvania dealers noted growth, while New Jersey sales were flat. However, early estimates of New Jersey's November sales suggest a decline, and dealers are now less optimistic for year-end sales.

According to tourism contacts, activity appeared to grow at a slight pace overall – a bit slower than in the prior period. A Philadelphia analyst expects 2018 to be another record year yet noted a somewhat slower growth rate in October and expectations for a slower fourth quarter. In Atlantic City, sports betting and online gambling continued to boost the total casino take in September and October; however, the take for the traditional casino slots and table games fell to single-digit growth. Moreover, after excluding the two new casinos, the casinos' traditional take declined by more than 10 percent.

Nonfinancial Services

On balance, service-sector firms continued to report moderate growth in general activity. The percentage of firms reporting increased sales edged up to near 60 percent, and the percentage reporting increased new orders remained close to 33 percent. A media firm noted recent gains from election advertising but a "tepid" auto sector. Expectations of future growth held steady, with two-thirds of the firms anticipating increased activity.

Financial Services

Financial firms continued to report modest growth on a year-over-year basis in credit card lending and in overall loan volumes (excluding credit cards). However, during the current period, credit card lending (reported without seasonal adjustments) grew moderately compared with modest growth during the same period last year, while loan volumes (excluding credit cards) grew at a moderate pace compared with slight growth.

During the current period, volumes grew moderately in mortgages and in commercial and industrial lending; grew modestly in commercial real estate and in home equity lines; and declined slightly in autos and in other consumer loans (not elsewhere classified).

Bankers continued to note rising deposit rate pressure and strong competition for quality loans. They continued to cite concerns that credit standards were slipping but noted few signs of credit quality deterioration.

Real Estate and Construction

According to homebuilders, activity appears relatively flat overall; a central Pennsylvania builder noted that traffic and sales disappeared during October and November, while a South Jersey builder noted moderate gains. Both builders said that construction activity had peaked or was peaking and that contractors were beginning to look for work. Existing home sales declined moderately across most local markets. "Inventory is hitting rock bottom," according to one large Philadelphia broker.

On balance, market analysts reported that construction of new commercial real estate may have declined a bit – apartment and warehouse projects remained steady, while office and retail projects began to wind down. One developer reported that its 2019 plan assumes that demand for warehouse space continues to outstrip supply but noted that warning signs were rising, including additional retail bankruptcies, rising interest rates, and lower housing starts. Analysts reported that effective rents rose for apartments and warehouse space but edged up, at best, for office and retail space. ■

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 modestly during the survey period, with a majority of firms reporting stable customer demand. Demand was strong in banking, manufacturing, and nonfinancial services, whereas retail demand improved slightly, and housing demand softened. On balance, employers increased staff levels moderately to meet demand, though wage pressures were strong and widespread. Contacts in every industry noted that increased competition for labor was requiring them to boost compensation to retain workers. Nonlabor input costs rose strongly in all industries, led by metals, fuel, and transportation costs. Some contacts noticed that import tariffs were boosting prices further down the supply chain. Selling prices rose with less intensity than they did for input costs.

Employment and Wages

On balance, contacts reported moderate increases to their staff levels. Hiring activity was very strong in professional and business services, in which three-quarters of contacts reported adding workers. Skilled services aside, employers in many sectors gave mixed reports. Retail contacts noted that the increase in temporary employment for the holiday shopping season this year was comparable to holiday season increases in recent years. Many manufacturers increased headcounts to keep up with demand, but there was an uptick in reports of firms' reducing headcounts. Finally, transportation firms pared their workforces because of lower seasonal demand and to gain efficiencies. Staff levels at construction firms were stable.

Wage pressures were widespread. In every industry, contacts noted that increased competition for labor was requiring their firms to boost compensation in a variety of ways to retain workers. A number of manufacturers noted they increased wages between 0.5 percentage points and 1.0 percentage points over the rate of inflation. One construction contact reported that starting salaries for new graduates was significantly higher this year than it was last year. One transportation employer remarked that his firm preferred to use recruitment and retention bonuses rather than wage increases. One clothing retailer noted that his firm felt pressure to raise its wages as other large retailers boosted their pay.

Prices

Nonlabor input costs rose strongly in all industries. Higher metals prices because of import tariffs continue to be a pain point for manufacturers and construction firms, although an increasing number of contacts in these industries have been reporting stable prices in recent survey rounds. There were a number of reports of tariffs leading to higher prices further down the supply chain. One transportation contact reported that domestically produced maintenance parts were becoming more expensive because some components are imported from China. One retailer noted that her suppliers were increasing their prices because of the tariffs. In addition to higher metals prices, contacts noted fuel, transportation, food, and polyresin cost increases.

Final selling prices rose with slightly less intensity than they did for input costs. The majority of manufacturers held their prices, unlike during the previous five survey rounds, when a majority had raised selling prices. The manufacturers that raised their prices did not, for the most part, report getting pushback from their customers. Some nonresidential builders were able to raise prices enough to increase their margins. One homebuilder noted, however, that his firm held its sticker prices but lowered effective prices by offering incentives on almost every deal. Nearly all nondurable-goods retailers held their prices, while auto dealers all reported higher prices. The majority of transportation firms found success raising their prices. One contact said he managed to raise his fees by 4 percent to 6 percent. Another transportation contact said he noticed that while shippers can secure higher rates, shipping customers were being more selective about nonprice factors, such as service and how the shipper handles its loads.

Consumer Spending

Consumer demand improved slightly. Auto sales edged higher thanks to increased sales of used cars. Demand for new cars fell, however, as higher metals prices and rising interest rates eroded affordability. Auto dealers reported that trucks, SUVs, and crossovers continued to gain market share of passenger vehicles. Demand for nondurable goods ticked higher. Retailers with broad footprints noted that sales within the Fourth District were roughly in line with national sales. Inventories were at desired levels, but profit margins for nondurable goods narrowed modestly.

Manufacturing

Business conditions in manufacturing remained solid, although producers struggled with capacity constraints and input price increases. Demand was strong, but some contacts indicated that this demand was due to inventory stockpiling as fixed-price contracts approached renewal and as price increases were imminent. Import tariffs have had mixed effects: some manufacturers reported higher demand as import competition subsided, but others reported that tariffs led to input cost increases and supply chain gaps. The competition for skilled labor remained stiff, and two contacts reported off-schedule capital investments in labor-saving technologies to be able to keep up with strong demand without the need for additional personnel.

Real Estate and Construction

Homebuilders reported that demand fell moderately and that they expect housing demand to soften in the near future. Homebuilders note that decreasing home affordability, because of rising construction costs and rising interest rates, drove this decrease in demand. Lower-priced homes continued to outsell higher-priced homes. Real estate agents reported stable housing inventories.

Business conditions improved modestly for nonresidential construction firms. Both private- and public-sector demand improved recently, with particular strength coming from industrial and education customers. Backlogs remained strong and trended upward. Real estate developers were split about their characterizations of market conditions. Developers that experienced weaker market conditions cited closures of retail stores as leading to weaker demand. However, other developers noted stable or even slightly better demand because of strong business confidence.

Financial Services

Banking conditions were strong and steady. Demand for credit remained robust and came from both commercial and consumer segments. However, mortgage demand showed some signs of slowing and was held down by lack of housing inventory and by worries about rising interest rates. Most contacts reported that core deposits rose in response to higher interest rates, although some seasonal factors were at play as the holiday season approached. One contact noted that commercial deposits declined because clients invested cash in operations or equity markets rather than holding reserves.

Nonfinancial Services

Nonfinancial services firms reported strong growth in business activity. Contacts cited strong business confidence, driven by continued US economic growth, as underpinning their clients' willingness to spend on business advisory services. Contacts were split evenly between those that expected business conditions to improve in the near future and those that expected them to be stable. In the transportation sector, demand increased from an already high level. One railroad contact remarked that demand for her firm's intermodal services was strong and that this was a sign that capacity was a constraint for trucking companies. There was some concern that seasonal patterns may be unusual this year as firms try to import goods before additional tariffs on Chinese goods take effect on January 1. Expectations for near-term business conditions in the transportation sector were stable. ■

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

Federal Reserve Bank of Richmond

The Beige Book ■ November 2018

Summary of Economic Activity

The Fifth District economy expanded at a moderate rate, overall. Manufacturers gave mixed reports as some firms reported solid growth while others experienced lower demand and higher raw materials prices due to tariffs and some had lingering negative effects from the recent hurricanes. District ports saw robust activity, particularly for imports; however, officials were concerned that the threat of new tariffs boosted imports temporarily and volumes could drop off in the near future. Trucking demand slowed slightly but remained robust. Retail, travel, and tourism rose moderately as customer traffic and hotel bookings picked up in advance of the holiday season. Residential home sales increased modestly overall but varied considerably across markets. Real estate agents reported a decline in buyer traffic and a slight decline in prices for higher-priced homes. Commercial real estate leasing rose moderately for office, retail, and industrial markets. Lenders saw a modest increase in residential mortgage demand and stronger growth for commercial real estate loans. The demand for labor strengthened moderately, and wage increases remained modest across sectors. Price growth remained moderate, overall. However, input prices rose sharply and compressed firms' profit margins.

Employment and Wages

Labor demand continued to strengthen moderately in recent weeks. Employment agencies noted an increase in seasonal hiring and expected to post more job openings throughout the holiday season. One staffing agency reported strong demand for all positions and skill levels and stated that 'recruitment is the hardest it has ever been.' Staffing firms saw more companies offering permanent positions to temporary employees. Meanwhile, business owners had difficulty filling positions for IT professionals, accountants, technicians, construction workers, and front-line manufacturing workers. In addition, some firms said that the lack of qualified talent was becoming a constraint on their business. Wage increases remained modest across sectors.

Prices

Since our previous Beige Book report, price growth increased but remained moderate, overall. According to our most recent surveys, manufacturer's selling prices rose at a moderate rate while input prices rose sharply. Several firms commented that the strong dollar and tariffs continued to affect the availability and prices of raw materials. Service sector firms reported similar margin compression with moderate growth in prices received but a sharp increase in prices paid. Wholesale and retail services saw higher prices for goods affected by tariffs while businesses reported paying higher prices for business-to-business services and recruitment. Manufacturers and services firms saw higher shipping costs, as well.

Manufacturing

Since our last report, Fifth District manufacturers gave mixed reports on demand. Tariffs were a significant concern noted by manufacturers, as they were believed to raise costs of raw materials, thereby raising prices and lowering demand. However, a cabinet manufacturer reported an uptick in business in recent weeks, as customers rushed orders in anticipation of higher tariffs in the new year. Meanwhile, a Virginia food manufacturer reported higher-than-anticipated growth that left the company struggling to meet demand. Many manufacturers continued to face high transportation costs. In addition, effects of Hurricanes Florence and Michael lingered, as production had been shut down in places.

Ports and Transportation

Fifth District ports saw robust business conditions. Export volume softened somewhat, but imports were strong across the District. One port handled record-breaking volumes in October. Port contacts stated that import growth was largely driven by retail, particularly auto. Some expressed concerns that the growth was the result of companies trying to order before another round of tariffs, which could lead to weak activity in the coming months. The softening in exports was partially attributed to agricultural goods, which were reduced by hurricane damage and tariffs. A District airport saw strong growth in imports and exports and was increasing capacity.

Demand for trucking remained strong, although firms noted a slight slowing of demand compared to the extraordinarily high levels seen in the last year. Trucking firms saw improvements in hiring that allowed them to keep their trucks moving but were hesitant to invest in new trucks and equipment because of concerns about demand in the next year .

Retail, Travel, and Tourism

Travel and tourism grew moderately since our last report. Hotel occupancy and room rates remained strong and bookings were picking up going into the holiday season. However, rainy weather suppressed tourism somewhat by preventing outdoor activities and made travel more difficult. Labor issues were reported by some businesses, such as a Virginia resort that had to cut back on scheduled ski lessons because of a lack of instructors while other businesses reported shrinking profit margins as a result of wage increases.

Fifth District retailers reported moderate growth, on balance, with strong demand and high customer traffic. A Virginia sporting goods store reported its best business in several years. Meanwhile, a North Carolina auto dealer reported steady business overall but noted a slowdown in new car sales as customers chose low-cost used cars instead. Several retailers reported narrowing profit margins as cost of goods increased as a result of tariffs, and transportation costs remained high. Some retailers in the Carolinas have not made up business lost because of the hurricanes. And a Virginia produce retailer reported losing crops to the storms.

Real Estate and Construction

Home sales increased modestly, overall, but the market was a little less consistent and buyer traffic slowed in recent weeks. Realtors attributed some of the slowdown to rising interest rates. Single-family home inventory remained low while average days on the market edged up in some locations. District home prices were reportedly stable to increasing modestly. Meanwhile, new home construction slowed slightly. A Virginia Realtor reported fewer new home sales at two residential developments and stated that the builder added incentives on existing inventory to help increase sales.

Commercial real estate leasing rose moderately in recent weeks as brokers reported strong demand across office, retail, and industrial markets. Vacancy rates remained low across markets, while rental rates were reportedly stable to increasing modestly. Commercial sales rose modestly, according to a few brokers, with industrial and retail building sites representing the majority of transactions. A broker in Charlotte, North Carolina, said that the number of office building sales had increased in recent weeks for both urban and suburban markets. Commercial construction increased modestly in some regions, which was mainly attributed to strong demand for warehouse and industrial space. Multifamily leasing remained healthy in most markets.

Banking and Finance

Since our previous Beige Book, loan demand grew modestly. Overall, bankers said that demand for commercial real estate loans strengthened, while business and auto loan demand was unchanged. Meanwhile, residential mortgage demand grew at a modest pace. Deposit rates increased, and bank executives reported that competition for deposits remained aggressive. Credit quality remained stable and credit standards were generally unchanged. Interest rates for residential and commercial loans rose slightly in recent weeks.

Nonfinancial Services

Demand for nonfinancial services was little changed in recent weeks. Professional and business services firms gave mixed reports; some said that demand increased while others commented that labor constraints were holding back growth. Enrollments at community colleges fell due to a strong labor market. Meanwhile, accounting and legal services firms experienced moderate growth. ■

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

Summary of Economic Activity

Reports from Sixth District business contacts described economic conditions as expanding at a moderate pace since the previous report. The majority of contacts are optimistic and expect the pace to continue for the remainder of the year. The labor market remained tight amid increasing reports of wage pressures. Firms continued to note rising nonlabor costs, and several contacts indicated having the ability to pass along the increases. Retailers, including automobile dealers, cited slightly higher sales over the reporting period. Reports from the hospitality sector were positive across most parts of the District. Contacts reported that residential real estate market activity was subdued, though commercial real estate activity remained robust. Manufacturers reported robust levels of new orders and production. Bankers cited that financial conditions were steady since the previous report.

Employment and Wages

Broadly, employee retention efforts remained a dominant labor market theme among business contacts. Firms continued to engage in internal programs and marketing initiatives to promote culture, build loyalty, and create a positive environment for workers. Several business contacts, especially those searching for truck drivers, construction laborers, low-skill workers, and information technology professionals, continued to report that labor market tightening impeded their ability to grow. Contacts shared that driver shortages caused supply chain delays and negatively affected their ability to meet customers' demands. Employers encountered some tightening for other positions and business areas, however some contacts expressed a willingness to wait for the right person rather than pay more, since they do not believe that higher pay will guarantee a higher quality worker. Hurricane Michael reduced employment among firms in northwest Florida, and several businesses have not returned to pre-hurricane employment levels.

Overall, employers shared that wage increases rose at either the same or an increased pace compared with the previous year, around 3-4 percent on average. A number of contacts mentioned that recent announcements from large national firms to increase starting wages for workers at the lower end of the pay scale have created broad pressures to raise pay for these workers across the region, particularly among hospitality and retail employers. Several contacts pointed out that overall compensation costs were expected to increase at a slightly faster pace in 2019.

Prices

Nonlabor costs continued to rise, according to reports from businesses across the District. Similar to the previous report, some price increases were noted as being passed along with no significant protest. Some contacts reported rising trucking rates and expressed concern that continued price escalations related to tariffs could impact future demand. The Atlanta Fed's Business Inflation Expectations survey showed year-over-year unit costs were up 2.2 percent in October. Survey respondents indicated they expect unit costs to rise 2.3 percent over the next twelve months.

Consumer Spending and Tourism

Since the previous report, District retailers indicated that sales levels rose slightly. The outlook among retailers regarding the upcoming holiday season was optimistic with contacts expecting higher sales levels than last year. Automobile dealers noted a slight increase in the momentum of auto sales.

District tourism and hospitality contacts reported that domestic travel was strong while the pace of growth in group and convention travel softened since the last report. On balance, demand for hotel rooms in the District remained robust while room rates decreased. Contacts were optimistic about demand in 2019 although they anticipate the pace of growth to slow.

Construction and Real Estate

On balance, housing activity continued to grow, albeit at a measured pace. Year-over-year new home sales in many District markets were up slightly, and existing home sales either moderated or declined as interest rates rose and inventory levels remained low. Upward pressure on home prices persisted but at a moderate pace. New home construction throughout the District continued to lag behind housing demand and was concentrated in higher price points within prime/high demand submarkets. Homebuilders indicated that rising land, labor, and material costs continued to push new home prices higher.

District commercial real estate activity remained strong across most of the region during the reporting period. Vacancy rates continued to decline modestly, though contacts reported some slower-paced leasing dynamics at some suburban retail properties. Industrial leasing was especially robust and generally was greater than the heightened amount of new construction completions across the District. Multifamily occupancy rates rose as demand outpaced supply.

Manufacturing

Manufacturing contacts continued to report solid demand and healthy overall business conditions since the previous reporting period. New orders and production levels remained robust at most firms, with the exception of those along the Gulf Coast that were affected by Hurricane Michael. Supply delivery times were reported to be getting slightly shorter, while input prices continued to rise. Expectations for future production levels increased from the previous period, with almost half of contacts expecting higher production over the next six months.

Transportation

District transportation contacts indicated that demand was generally consistent with the previous reporting period. Total rail traffic, including intermodal, was up marginally over year earlier levels. Trucking and logistics contacts reported continued growth in e-commerce shipments. District ports noted a strengthening in container activity related to inventory building for the peak buying season, along with increases in breakbulk, automotive, and heavy equipment cargo. While one District port in the path of Hurricane Michael experienced some operational disruptions, most transportation firms noted little to no negative impact on the movement of cargo due to the storm.

Banking and Finance

Conditions at financial institutions were stable. Earnings improved, driven by higher interest rates that enhanced the net interest margin at most institutions. Credit quality generally remained positive, however some District institutions experienced an increase in bankcard delinquencies. Financial institutions continued to loosen underwriting standards due to slowing demand for credit and increased competition, particularly in the residential mortgage and the commercial lending portfolios.

Energy

Overall, activity in the District's energy sector picked up since the previous reporting period. Oil and gas production continued to increase. Expenditures on power generation projects across the District continued to rise, largely attributed to increased industrial demand. Contacts reported several recently initiated, approved, or planned capital projects across the region to expand capacity among chemical producers and power plants, and to construct oil and gas storage terminals and pipelines for takeaway capacity to and from the Gulf Coast of Louisiana. Gulf of Mexico drilling rig shut-ins due to Hurricane Michael were described as minimal; contacts estimated the loss of crude oil production at approximately two million barrels or about $140 million.

Agriculture

Agriculture conditions across the District softened. In early October, Hurricane Michael caused significant wind and rain damage to agriculture production in the Florida panhandle, south Alabama, and south Georgia. Products affected included cotton, pecans, peanuts, fruit and specialty crops, timber, livestock, poultry, and greenhouse and nursery products. In spite of Hurricane Michael, cotton harvesting in Alabama and Georgia progressed close to their five-year averages, but with significant deterioration in conditions, especially in Georgia. The District's soybean and peanut harvests were ahead of their five-year averages. Year-over-year prices paid to farmers in September were up for corn, cotton, rice, and beef, while soybean, eggs, and broiler prices were down.■

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

Summary of Economic Activity

Economic activity in the Seventh District grew at a modest pace in October and early November, and contacts expected it to continue at that pace over the next 6 to 12 months. Manufacturing production grew moderately; employment, consumer spending, and business spending increased modestly; and construction and real estate activity decreased slightly. Wages and prices rose modestly and financial conditions were little changed. Large corn and soybean yields led to some improvements in crop producers' incomes.

Employment and Wages

Employment growth slowed to a modest pace over the reporting period, and contacts expected job gains to continue at that rate over the next 6 to 12 months. Hiring was focused on production, sales, and professional and technical workers, though there was a decline in the number of contacts planning to hire sales workers. As they have for some time, contacts indicated that the labor market was tight and that they had difficulty filling positions at all skill levels. A number of contacts said that they had been "ghosted," a situation in which a worker stops coming to work without notice and then is impossible to contact. Wage growth picked up some but remained modest overall. More contacts reported that they were increasing wages for select employees as opposed to raising wages across the board. Contacts were most likely to report wage increases for managerial, professional and technical, administrative, and production workers. Many firms reported rising benefits costs.

Prices

Prices rose modestly in October and early November, and contacts expected prices to continue to increase at that rate over the next 6 to 12 months. Retail prices increased slightly overall. Producer prices again rose moderately, reflecting in part the pass-through of higher labor, materials, and freight costs. Energy costs declined some.

Consumer Spending

Consumer spending picked up some over the reporting period, but growth remained modest on balance. Nonauto retail sales rose modestly, with gains in the home improvement, hardware, lawn and garden, furniture and appliance, and apparel sectors. Contacts expected good holiday sales this year. Light vehicle sales rose moderately, with gains for both new and used vehicles. Some dealers indicated that generous discounts had noticeably boosted business fleet sales.

Business Spending

Business spending increased modestly in October and early November. Retail contacts said that inventories were generally at comfortable levels. One contact noted that retailers were expecting good holiday sales and had increased inventories accordingly. Contacts also indicated that retailers were building up stock in anticipation of higher tariffs on Chinese imports that are set to take effect in 2019. Most manufacturing contacts also reported stocks were at comfortable levels, though some indicated that inventories were too low because of longer lead times for materials. 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. There was also a notable increase in contacts reporting spending for M&A. Demand for energy from commercial and industrial users increased modestly, with growth in manufacturing (particularly from steel producers) offsetting a slight decline in the commercial sector. Demand for transportation services was little changed, but remained at a strong level.

Construction and Real Estate
Construction and real estate activity decreased slightly over the reporting period. Residential construction declined slightly, with growth in suburban single-family homebuilding offset by declines in other markets. Home sales also declined some. One contact attributed the slowdown to rising interest rates and low inventories for starter homes. Home prices and residential rents increased slightly. Nonresidential construction was little changed overall, though one contact noted increased demand from the education sector. Commercial real estate activity was also little changed, though the pace remained strong. Contacts noted particularly strong demand for industrial space. Commercial rents edged higher and vacancy rates edged lower. The availability of sublease space increased marginally.

Manufacturing
Growth in manufacturing production continued at a moderate rate in October and early November. Steel output rose moderately as end-user demand remained at a high level. Steel imports continued to decline. Demand for heavy machinery increased moderately as well, with growth led by the construction and energy sectors. One contact noted that supply chain constraints were holding back growth. Demand for heavy trucks remained strong. Order books for specialty metals manufacturers increased modestly: Growth was spread across a wide variety of sectors, though contacts noted particularly strong demand from the aerospace sector. Auto production was flat, but remained at a solid level.

Banking and Finance
Overall, financial conditions were little changed over the reporting period. Financial market participants noted the declines in equities prices and increased volatility. Business loan demand increased modestly, with contacts reporting growth in the construction, manufacturing, transportation, and energy sectors. Loan quality and lending standards were little changed. Consumer loan demand was flat overall, though contacts noted a slight increase in demand for auto loans. Consumer loan quality and lending standards were also little changed.

Agriculture
Although the harvest took longer than normal, corn and soybean yields were quite large. And, in spite of low prices, crop producers' incomes were better than what had been expected earlier this year. However, crop sales were lower than normal, and a record amount of the harvest was put into storage. This reflected in part higher prices for delivery in later months compared to prices for delivery at harvest. Logistical challenges continued as soybeans that would usually be exported to China were being sent to other markets. Farm equipment dealers reported giving large discounts in order to make sales as many crop farmers continued to face financial challenges. Hog and cattle prices moved higher during the reporting period, but milk prices floundered in part because of weak exports. Farm mediation services remained in demand for troubled operations. ■

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

Summary of Economic Activity

Economic conditions have slightly improved since our previous report. Firms indicated modest growth in employment and wages. Wage increases were widespread and higher than previous years for the vast majority of firms. Similarly, price pressures have increased modestly since our previous report. Consumer spending activity improved slightly, although auto sales showed little to no growth. Reports from manufacturing firms were upbeat; many firms reported strong orders and a positive outlook. Conversely, reports from bankers and real estate contacts were generally pessimistic, with these contacts reporting slight declines in activity. Overall, the outlook among all contacts continued to weaken but remains slightly optimistic for the upcoming year. On net, a slightly greater share of contacts expect economic conditions in 2019 to be better or somewhat better than 2018.

Employment and Wages

Employment has grown modestly since the previous reporting period. On net, 22 percent of business contacts surveyed reported that employment was higher or slightly higher than a year ago. Approximately half of the contacts expected their firm to increase employment over the next year, and the remaining contacts expected employment to remain unchanged. Contacts ranked an inability to find candidates with the required skills as the single greatest factor restraining hiring. The labor market was especially tight in the manufacturing, construction, and transportation sectors. One contact reported that manufacturing firms were turning down new orders due to worker shortages. Firms, particularly small businesses, continue to use nonwage benefits to attract employees. Staffing contacts in St. Louis reported that employees seem to have more leverage than employers for the first time in several years.

Wages have moderately increased since the previous report. On net, 39 percent of survey respondents indicated that wages were higher or slightly higher than a year ago, and 30 percent reported increases in labor costs. Contacts reported that the tight labor market led to increased pay for both new hires and existing employees: 77 percent of firms reported raising wages and salaries by more than they did in the past few years. Additionally, raises for new hires at national retailers have pushed up starting wages. Small business wages increased modestly in the St. Louis area and moderately in Tennessee.

Prices

Prices have increased modestly since the previous report. On net, 27 percent of business contacts reported that prices charged to consumers increased relative to last year. Nonlabor costs for businesses also rose modestly. On net, 33 percent of survey respondents held that costs were higher than the same time last year, which is unchanged from our survey three months ago. Metal prices, while remaining high in year-over-year terms, showed little change since the previous report. Agricultural prices remain generally low, and decreased international demand has increased the cost of using grain storage facilities as farmers seek to store, rather than to sell, their crops.

Consumer Spending

Reports from general retailers, auto dealers, and hoteliers indicate that consumer spending has slightly increased since our previous report. Real sales tax collections increased in Arkansas, Missouri, Tennessee, and Kentucky relative to a year ago. Reports from St. Louis auto dealers indicated that auto sales slightly increased, while Little Rock and Memphis auto dealers indicated that auto sales were flat relative to a year ago. Auto dealers reported increased demand for new vehicles, but they also expressed concern over higher interest rates on new vehicle loans. Hospitality contacts in Missouri reported that sales were flat year over year. Arkansas tourism sales tax revenue slightly increased year over year.

Manufacturing

Manufacturing activity has increased moderately since our previous report. A large majority of contacts reported that production, new orders, and capacity utilization increased. Several companies reported new capital expenditure and facility expansion plans, including firms that manufacture agricultural chemicals and window coverings.

Contacts are also optimistic about the next quarter, with net majorities expecting increases in production, new orders, and capacity utilization. However, one contact in the chemicals sector is reporting that layoffs will take place between this quarter and the first quarter of 2019, and a few manufacturing contacts expressed concern that labor market tightness is contributing to a shortage of qualified employees.

Nonfinancial Services

Activity in the nonfinancial services sector has improved slightly since the previous report. Across the District, sales expectations were met. Compared with a year ago, 68 percent of survey respondents noted higher sales and 52 percent expect the next quarter also to be higher year over year. Local contacts note that barge activity has increased due to the large number of storage barges for soybeans affected by recent tariffs. National logistics firms continue to hire temporary workers due to higher seasonal demand.

Real Estate and Construction

Residential real estate activity increased slightly. Seasonally adjusted home sales for October increased slightly overall. Contacts continued to report inventory shortages; and, on net, about one-quarter of contacts reported that sales halfway through the fourth quarter have fallen short of expectations.

Residential construction activity was mixed. October seasonally adjusted permit activity within District MSAs was modestly lower than one year ago. However, about 36 percent of survey respondents, on net, reported an increase in residential construction relative to the same time last year, and the same fraction of respondents reported that they expect this trend to continue into the first quarter of 2019.

Commercial real estate activity has decreased modestly since the previous report. Contacts reported a decrease in demand for most property types, particularly office and retail, and about 40 percent of respondents, on net, reported a decrease in multifamily demand in the current quarter. About 10 percent of respondents, on net, expect a slowdown in activity to continue into the first quarter of 2019; however, respondents expect demand for retail space to pick up in the first quarter of 2019.

Commercial construction activity has remained unchanged since our previous report. There was a slight decrease in multifamily permit activity in most of the District's major MSAs relative to the prior month, but local contacts in Little Rock reported that the market was strong and there was robust demand for construction. On net, one-third of contacts expressed an optimistic outlook going into the first quarter of 2019.

Banking and Finance

Banking conditions have weakened slightly since the previous report. Loan demand for commercial and industrial loans was unchanged relative to year-ago levels, while loan demand for mortgages slightly declined. Bankers expect stable demand growth overall into the first quarter of 2019. Credit standards overall tightened slightly relative to year-ago levels. Overall delinquencies remained relatively stable on a year-over-year basis, with only a slight increase for the final quarter of 2018. Commercial and industrial loan delinquencies are expected to remain unchanged in the first quarter of 2019.

Agriculture and Natural Resources

District agriculture conditions declined modestly from the previous reporting period. Corn, cotton, and soybean yields are expected to be higher than 2017 levels, while rice yields are expected to be lower. Contacts noted that unusually wet weather has impacted crop quality negatively this fall, which contributed to a deterioration in crop prices. In addition, contacts expressed concern over the ongoing tariffs leveled at U.S. agricultural products. There are reports of storage shortages as soybeans that are normally exported to China are being stored in large quantities rather than exported.

Natural resource extraction conditions declined slightly from September to October, with seasonally adjusted production declining a little over 3 percent. October production increased 3 percent from a year ago. ■

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

Summary of Economic Activity

Ninth District economic activity increased moderately since the previous report. Employment grew moderately, with hiring demand remaining robust, but a tight labor supply was restraining employment growth. Wage pressures were moderate overall, while price growth remained modest. The District economy showed growth in consumer spending, construction, residential real estate, manufacturing, and energy. Commercial real estate activity was mixed, while agricultural conditions remained weak.

Employment and Wages

Employment grew moderately since the last report. Hiring demand remained robust, but a tight labor supply was restraining employment growth. Job postings tracked by district states were higher overall in October compared with the same period a year earlier. Minnesota and North Dakota saw particularly strong growth in job postings, while South Dakota and the Upper Peninsula of Michigan had small declines. Ad hoc surveys of businesses in Minnesota, Montana, and South Dakota, conducted in late October and November by the Minneapolis Fed, found that a significant majority of respondents' firms were hiring; many were hiring to both increase total headcount and replace turnover. Numerous construction contacts in Minneapolis-St. Paul said they were hiring, and most were looking to increase total headcount. However, tight labor availability was making it difficult for firms to find necessary workers. Surveys by the Minneapolis Fed found that labor availability was widely seen as the biggest obstacle to short-term growth. Unemployment insurance claims have also continued to drop; over the most recent six-week period (through early November), both initial and continuing claims saw a cumulative decline of 12 percent across District states compared with the same period a year earlier. A Montana contact noted that seasonal layoffs for male-dominated industries like construction have been pushed back this year. “This hasn't happened before in the years that we've been watching.”

Wage pressures were moderate overall, with some evidence of stronger pressures for certain industries and worker skills. Several ad hoc surveys by the Minneapolis Fed showed wage increases coalescing around 3 percent over the past 12 months. A small majority of Minnesota and South Dakota firms reported wage increases below 3 percent; however, a small majority of Montana firms reported increases above 3 percent, as did about 70 percent of Minneapolis-St. Paul construction firms. A Minnesota services company announced it was raising its base wage from $12 to $14 per hour in hopes of hiring 300 people by year's end. A tight labor market for high-tech skills in Minneapolis-St. Paul has led to double-digit wage increases for some information technology and other STEM positions over the past 12 months. There were also reports that more companies, especially those in construction trades, were picking up a greater share of workers' health insurance premium costs to attract and retain employees.

Prices

Price Price growth remained generally modest since the previous report, though input prices saw more pressure. In a recent survey of large firms, about 30 percent saw input prices rise by 3 percent or more over the past 12 months, but 41 percent believe they will rise by 3 percent or more over the coming 12 months. Several contacts reported notable increases in freight and transportation logistics prices. Retail fuel prices in District states as of late November were substantially lower than a month earlier. However, home heating costs were expected to increase faster in District states than nationally this winter, largely due to rises in the prices of heating oil and natural gas, as the average temperature forecast is roughly flat from last year. Prices received by farmers for corn, wheat, hay, and cattle increased in September compared with a year earlier; prices for soybeans, hogs, milk, chickens, eggs, and turkeys decreased.

Consumer Spending and Tourism

Consumer spending grew moderately since the last report. Taxable sales have seen strong growth in South Dakota this fall compared with a year earlier; Wisconsin also saw sales growth year over year, but at slower rates than those seen over summer months. In Minnesota, hotel demand rose, with higher occupancy and revenue per available room in October compared with a year earlier. Tourism activity was solid in Montana, with October visits to Glacier National Park seeing a 9 percent increase. Total enplanements at Montana's two largest airports were also up 9 percent over a year earlier. Attendance at national parks elsewhere in the District were mixed. Total visits in October were down at Mount Rushmore, as well as at Pictured Rocks in Michigan's Upper Peninsula, and vehicle crossings at the U.P.'s Mackinac Bridge have been lower this fall compared with a year earlier.

Construction and Real Estate

Commercial construction activity grew moderately since the last report. Industry data showed that total construction spending in October was higher across much of the District compared with a year earlier. Industry data showed that both new commercial projects and total active construction projects in the District as of early November were slightly higher than a year ago. However, there was also some evidence that the number of active projects may be elevated to some degree by the inability of construction firms to find available labor. Overall, commercial permitting in October was strong in Minneapolis-St. Paul, but otherwise mixed among the District's other metro markets. Several industry contacts in Minneapolis-St. Paul said project pipelines were full heading into the end of the year and early part of 2019, and industrial and medical construction sectors were said to be strong. Another construction contact also noted significant activity in the energy segment in Minnesota. Residential construction activity saw moderate growth. October single-family permitting was higher in a notable majority of District metros compared with a year earlier, while multifamily permitting was mixed.

Commercial real estate activity was mixed since the last report. In Minneapolis-St. Paul, industrial and multifamily sectors both continued to show healthy leasing demand, with low vacancy rates despite significant new construction. However, both retail and office vacancy rates have been increasing. Several national retailers announced closures in Minnesota, and one specialty retailer announced the closure of eight stores in the state. Consumer shifts to online retailers have contributed to rising vacancy rates in retail space, but have also contributed to lower industrial vacancies due to increased leasing of industrial warehouse space in Minneapolis-St. Paul. Residential real estate activity rose moderately. Closed sales in October were mostly higher compared with a year earlier across most of the District. October home sales were particularly strong in western and northern counties of Wisconsin. Sales in Montana's larger markets were mixed, but softer overall.

Manufacturing

District manufacturing activity increased modestly since the previous report. An index of manufacturing conditions indicated increased activity in October compared with a month earlier in Minnesota and the Dakotas. An industrial equipment producer announced a large expansion that would nearly double capacity at a plant in Minnesota. However, multiple contacts have reported putting capital spending plans on hold due to uncertainty in their outlooks.

Agriculture, Energy, and Natural Resources

District agricultural conditions remained weak. According to results from the Minneapolis Fed's third-quarter survey of agricultural credit conditions, roughly three in five lenders surveyed reported that farm incomes decreased in the third quarter relative to a year earlier, while a similar proportion reported decreased capital spending. While early indications were for very strong production in much of the District, in some areas heavy rains and unseasonably cold weather were complicating harvests. District oil and gas exploration activity as of late November increased moderately relative to the last report. North Dakota oil production increased to a new record in September. A major natural gas processing plant began operations in North Dakota. ■

Summary of Economic Activity

Tenth District economic activity increased slightly in late October and November and remained modestly above year-ago levels. Consumer spending was fairly flat as gains in retail and auto sales were offset by declines in restaurant and tourism activity. Manufacturing activity continued to expand moderately in both durable and non-durable goods plants. Sales rose at a modest-to-moderate pace in the professional and high-tech, wholesale trade, and transportation sectors, and additional gains were expected in the months ahead. Residential real estate sales declined modestly and residential construction activity held steady, while overall activity in the commercial real estate sector increased. Energy activity expanded, but the outlook was mixed due in part to geopolitical uncertainty. The agricultural outlook remained weak, with lower soybean prices, weakness in dairy and hog markets, deteriorating farm income, and uncertainty surrounding international trade. Employment and employee hours edged up across most industries, and about half of contacts expected to increase employment in the next twelve months due primarily to strong sales growth and overworked staff. Wage growth expanded modestly, and additional gains were expected. Prices continued to rise, with gains in input prices slightly outpacing those of selling prices.

Employment and Wages

Overall employment and employee hours edged up in late October and November across the District, and expectations were for modest gains in the months ahead. Contacts in the retail trade, wholesale trade, auto sales, real estate, professional services, health services, and manufacturing sectors noted flat-to-modestly higher employment, while those in the transportation, restaurant, and tourism sectors reported a decline. The same sectors reporting an increase in employment, with the addition of transportation, also noted rising employee hours. About half of respondents expected employment to increase at their firm over the next twelve months, while the majority of the remaining respondents anticipated unchanged levels of employment. Those who projected increased employment levels cited expectations for strong sales growth and currently overworked staff as the primary reasons.

A majority of respondents continued to note labor shortages for low- and medium-skill workers, including positions for retail sales, commercial drivers, specialized IT, construction, and restaurant staff. Wages grew modestly since the previous survey, and most contacts reported higher starting wages for new hires. Wages were expected to increase at a similar pace moving forward.

Prices

Input and selling prices continued to rise in late October and November, with the pace of gains in input prices slightly exceeding the growth of selling prices on average. In the retail sector, however, both input and selling prices grew moderately, and additional gains were expected in the months ahead. Respondents in the transportation and restaurant sectors reported modest growth in selling and input prices since the previous survey period, and both were well above year-ago levels. Moderate gains were anticipated for input prices in the restaurant and transportation sector, while modest growth was expected for selling prices moving forward. Manufacturers continued to report modest price growth for finished products and moderately higher prices for raw materials. Raw material prices were projected to increase moderately in the months ahead, while prices for finished products were projected to rise modestly.

Consumer Spending

Consumer spending was fairly flat compared to the previous survey period, however contacts expected modest increases in the coming months driven by projected gains in the retail and auto sectors. Retail sales rose slightly and remained well above year-ago levels. Retail sales and inventory levels were anticipated to increase moderately in the next few months. Auto sales inched up compared to the previous survey period, and contacts expected both sales and inventories to rise modestly in the coming months. Respondents noted SUVs and trucks sold well, whereas sedans sold poorly. Restaurant sales continued to fall modestly, though they remained well above year-ago levels. Restaurant contacts anticipated sales to continue to decline slightly in the coming months. Tourism activity also fell modestly since the previous survey period.

Manufacturing and Other Business Activity

Manufacturing activity continued to expand at a moderate pace, and other business contacts experienced modest-to-moderate sales growth. Factory activity grew at both durable and nondurable goods plants due primarily to increases in metals, aircraft, food, and plastics. The levels of production, shipments, and new orders increased modestly since the previous survey period, and each remained higher than year-ago levels. Manufacturers expected modest increases in capital expenditures in the coming months.

Outside of manufacturing, firms in the wholesale trade and transportation sectors experienced moderate sales growth, and professional and high-tech firms reported modest sales growth. Transportation contacts expected modest growth in the coming months, whereas wholesale trade and professional and high-tech contacts projected strong growth. Wholesale trade and professional and high-tech firms anticipated capital expenditures to increase modestly moving forward, while transportation firms expected capital spending to rise slightly.

Real Estate and Construction

District real estate activity was mixed as residential real estate activity edged down and commercial real estate activity rose. Residential home sales declined modestly since the previous survey period, while home prices and inventories continued to rise. Residential real estate contacts expected steady residential home sales and modest increases in selling prices and inventories in the months ahead. Sales of low- and medium-priced homes continued to outpace sales of higher-priced homes. Overall residential construction activity was flat since the previous survey period, and expectations were for no change moving forward. Activity in the commercial real estate sector increased slightly as sales and prices rose; absorption, construction underway, and completions were flat; and vacancy rates fell. Commercial real estate contacts expected slight growth in overall activity in the months ahead.

Banking

Bankers reported steady overall loan demand compared to the previous survey period. Specifically, respondents reported a slight increase in demand for commercial real estate loans, while the demand for commercial and industrial loans, residential real estate, consumer installment, and agricultural loans fell. Bankers indicated loan quality improved slightly compared to a year ago and expected no change in loan quality over the next six months. Credit standards remained largely unchanged in all major loan categories. Overall, bankers reported a slight increase in deposit levels.

Energy

Energy activity expanded since the last survey period as production continued to grow, although expectations for future activity were mixed. The number of active oil rigs increased moderately, and the number of active gas rigs inched higher. Oil prices fell in November after rising earlier in the year. Expectations are for continued production growth for crude oil in addition to supply increases for natural gas. International geopolitical discussions surrounding waning OPEC production and U.S. sanctions on Saudi Arabia may affect District energy prices and production expectations moving forward.

Agriculture

Farm income and credit conditions in the Tenth District weakened slightly from the last reporting period. Corn, wheat and cattle prices rose slightly. However, weakness in hog and dairy markets, significantly lower soybean prices, and trade uncertainty weighed on the agricultural outlook in the District. Expectations for farm income were lowest in Missouri and Nebraska, which are more concentrated in soybean production than other states in the District. Alongside lower farm income, repayment rates declined slightly and demand for farm loans increased modestly. In addition, producers' working capital deteriorated moderately, and the share of farm borrowers planning to sell mid- to long-term assets increased from a year ago. Despite downward pressure from a weaker farm economy and modest increases in farm loan interest rates, farmland values decreased only slightly. ■

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

Summary of Economic Activity

Expansion in the Eleventh District economy slowed to a moderate pace during the reporting period. A broad-based deceleration was seen across the manufacturing and retail sectors and in loan volume growth. Home sales were soft partly due to tight inventories and rising mortgage rates. Conversely, drilling activity increased and ample rainfall boosted crop conditions. Employment expanded, despite widespread labor shortages. Wage pressures were strong, and tariffs drove up input costs. Outlooks were less optimistic than the previous report due to increased uncertainty arising from trade disputes, rising interest rates, labor market constraints, and postelection politics.

Employment and Wages

Widespread job growth continued, despite tight labor markets. Labor shortages remained pervasive across industries and skill sets but were the most severe for mid-skilled positions such as truck drivers and blue-collar workers in manufacturing, construction, and energy. Most companies said they were struggling to find qualified workers, and many noted settling for less-qualified candidates to fill vacancies.

Upward wage pressures remained strong and prevalent, although they did ease somewhat in manufacturing. Many firms noted raising wages to recruit and retain workers, and also using non-wage-based incentives such as better benefits, improved working conditions, and bonuses. A staffing firm said it had become difficult to hire for positions paying less than $15 an hour in Dallas–Fort Worth following Amazon's announcement to raise its minimum wage. A manufacturing equipment supplier reported frequently raising wages to prevent its employees from being poached by other firms, and one contact noted high employee turnover despite paying their groundskeepers $20 an hour.

Prices

Input price pressures remained elevated in part due to tariffs, particularly in manufacturing and construction, and firms were struggling to pass these higher costs onto customers. Input and selling price pressures eased in retail, while pricing pressures in other service sectors were largely unchanged. Natural gas prices rose since the last report, while West Texas Intermediate crude oil prices fell from their recent highs. Fuel prices dropped even further, hurting refiners' margins.

Manufacturing

Expansion in the manufacturing sector slowed during the reporting period, and outlooks were less optimistic than they have been all year. Output growth softened notably in November, with the tariffs, labor constraints, and trade policy uncertainty cited as damping factors. The slowing was broad based but most pronounced in fabricated metals, construction related products, computer and electronics, and food manufacturing. The Gulf Coast refinery utilization rate remained high, while chemical production flattened during the reporting period. Outlooks among downstream energy firms stayed optimistic, although petrochemical companies were experiencing margin compression from higher costs.

Retail Sales

Retail sales expanded at a slower pace compared with the previous reporting period. Online sales grew modestly as did motor vehicle sales, but some auto dealers said rising interest rates were shrinking margins. Sales at stores located along the Texas/Mexico border worsened partly due to weakness in the peso/dollar exchange rate, and building material and garden equipment suppliers noted flat activity. Retailers' outlooks were less positive than the last report as tariffs and rising interest rates negatively impacted expectations.

Nonfinancial Services

The nonfinancial services sector expanded broadly, with revenue growth firming up among healthcare, information services, and accommodation and food services firms. Demand for staffing services generally remained brisk and broad based, with particular strength noted in orders for healthcare staff, oilfield services labor, and blue-collar workers such as electricians, welders, and plumbers. Activity in the transportation services sector was solid. Courier and air cargo volumes expanded. Rail traffic stayed strong across most business lines, outside of a decline in building products shipments that was driven partly by a slowing housing market. Airlines said passenger demand remained stable and continued strength was expected in domestic air travel. Revenue growth was lackluster among professional, scientific, and technical services firms. Contacts were less optimistic in part due to uncertainty stemming from trade issues and politics.

Construction and Real Estate

Activity in the housing market was soft over the reporting period as the recent rains and rising interest rates affected traffic and sales activity. Still, sales of moderately priced homes mostly remained solid. The wet weather also delayed lot development and homebuilding activity. Home prices were flat to up, and contacts noted usual year-end discounting. Outlooks remained positive, although there is increased trepidation about the impact of rising mortgage rates and/or high construction costs on future sales.

Conditions were little changed in the apartment market, and contacts noted some supply-driven softness at the high-end (prime Class A properties). Investor interest in multifamily properties was high, particularly in Austin and Houston. Industrial and retail markets generally remained healthy.

Financial Services

Growth in loan volumes moderated over the reporting period. The deceleration was broad based across categories, including commercial and industrial, commercial real estate, and residential real estate. Consumer loan volume growth held steady. The cost of funds and loan pricing rose further, and many contacts noted that loan pricing remained very competitive. Deposit volumes expanded, albeit at a slower rate. Despite the slowing in loan growth, outlooks remained optimistic.

Energy

Drilling activity in the Eleventh District increased, but the number of new wells brought into production in the Permian Basin continued to lag due to ongoing pipeline and transportation capacity constraints. The completion of a new pipeline project ahead of schedule has narrowed the spread between in-basin and West Texas Intermediate crude oil prices. Margins of oilfield services firms continued to be pressured by high costs and increased competition. Conversely, growing supplies of local sand and improvements in operational efficiency supported producers' margins. Overall, outlooks remained positive.

Agriculture

Agricultural conditions improved further, with less than one percent of the state in drought as of mid-November. Ample rainfall has built up ground moisture reserves, boosting crop prospects for 2019. However, excessive precipitation in some areas has delayed planting of the winter wheat crop and caused some quality issues for cotton. Overall, agricultural producers were quite optimistic, although some continued to experience financial difficulty from drought conditions earlier in the year. ■

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 early October through mid-November. Conditions in the labor market tightened further, and wage growth was moderate. Price inflation increased moderately. Sales of retail goods expanded somewhat, while activity in consumer and business services was solid. Conditions in the manufacturing sector strengthened, and conditions in agriculture improved modestly. On balance, contacts reported that residential and commercial real estate market activity expanded at a solid pace. Lending activity ticked down modestly.

Employment and Wages

Conditions in the labor market tightened further. Across the District, contacts reported an increase in competition for workers and a shrinking pool of qualified applicants. A major shipping and logistics business in Northern California revised upwards plans to hire seasonal workers and expected to convert more seasonal hires to permanent employees than in the past. Contacts continued to note shortages of construction workers, even as the real estate market cooled somewhat in some parts of the District. A contact in the business services sector in Washington observed increased competition from other sectors for skilled accounting and information technology professionals that are in short supply across the state. A few contacts in the banking and agriculture industries in California slowed their pace of hiring due to productivity-enhancing investments.

Wage growth continued to increase moderately across skill levels and industries. Nonwage compensation also increased at several businesses, often in the form of additional paid vacation days. Many contacts reported that turnover was up noticeably, causing labor costs to rise more than anticipated, as new hires negotiated higher starting wages. A contact in Northern California reported that salaries for software engineers continued to increase noticeably. An airline company in the Mountain West noted moderate increases in starting salaries for pilots.

Prices

Price inflation increased moderately over the reporting period. Contacts reported a moderate pickup in the pace of price increases at retailers and quick service restaurant chains, partly due to rising labor costs at these businesses. Businesses in the shipping and logistics industry planned to apply holiday surcharges due to high freight volumes and previous increases in energy costs. A contact in the steel industry was able to increase selling prices modestly due in part to reduced global competition. A contact reported that some businesses in light manufacturing that source input materials from China faced higher production costs. Potato prices were down modestly due to supply outpacing demand after a strong harvest.

Retail Trade and Services

Sales of retail goods expanded somewhat over the reporting period. A contact in Arizona noted strong consumer demand in the region, which drove retail sales noticeably higher compared to this time last year. A contact in the Mountain West noted that consumers have begun to tend to purchase their lower-cost, basic goods online and higher-cost, luxury items in stores, straining brick and mortar establishments that sell everyday products. A major quick service restaurant chain based in Washington reported that in-store traffic continued to trend downward at a gradual pace.

On balance, holiday sales are expected to increase moderately relative to last year's season, due in part to solid momentum in consumer confidence and spending. In the shipping and logistics industry, rising volumes in the past month have led some contacts to expect a robust holiday shopping season. One contact pointed to last year's income tax changes as a driver of a more optimistic outlook for holiday spending. However, another was attentive to the negative impact that the recent stock market declines could have on spending.

Activity in the consumer and business services sectors was solid. A contact in the shipping and logistics industry reported a further increase in demand for freight services and brisk competition in the industry. A contact in Northern California observed strong demand for software products to address cybersecurity threats and to enhance business productivity. Demand from leisure guests in the hospitality industry was solid, while near-term business reservations declined further.

Manufacturing

Conditions in the manufacturing sector strengthened. Contacts in the steel industry reported that capacity utilization remained stable at an elevated level despite a tick down in sales to automakers and builders. Solid domestic demand from other sectors and beneficial trade policy developments helped to bolster the industry. Contacts in Northern California observed that new orders of semiconductors were strong, input materials were readily available, and inventory levels were healthy. Deliveries of commercial aircraft increased slightly from the same period last year, while new orders grew significantly.

Agriculture and Resource-Related Industries

Conditions in the agriculture sector improved modestly. Profits at beef and pork producers rose noticeably on a year-over-year basis, due to strong domestic demand. A contact in Central California reported that yields were generally solid but that trade policy uncertainty continued to limit the ability of growers to secure longer-term sales contracts. Potato and wheat yields in the Mountain West were strong, though exports of these products declined moderately. Drier-than-usual conditions in parts of California lowered yields for select crops, like nuts and tomatoes, but contacts noted that inventories were at an adequate level to meet demand.

Real Estate and Construction

Activity in real estate markets continued to expand at a solid pace, though many contacts observed that the pace of expansion has moderated somewhat in recent months. Residential construction was mixed. In the Mountain West and California, contacts observed generally solid construction activity and a shift into multifamily construction from single family in certain regions. Contacts in the Pacific Northwest reported that building slowed somewhat, citing expectations of weaker demand due to rising mortgage rates as one factor restraining new projects. In most of the District, home prices and rents decelerated modestly, though prices were still high by historical standards, supported by continued elevated demand. Contacts noted slightly more positive developments in the commercial real estate market. A contact in Northern California observed solid leasing demand from businesses, in some cases resulting in rents above advertised rates. Contacts were generally hesitant to interpret any recent moderation in real estate activity as a definite shift in the trajectory of the market.

Financial Institutions

Lending activity ticked down modestly over the reporting period. Growth in loan demand slowed modestly overall, with several contacts attributing most of the slowdown to higher interest rates. Net interest margins were flat to down slightly. Activity in the venture capital market was strong and equity valuations remained elevated despite some recent corrections. Credit quality continued to be healthy. ■