

For use at 2:00 PM EST

Wednesday

November 27, 2019

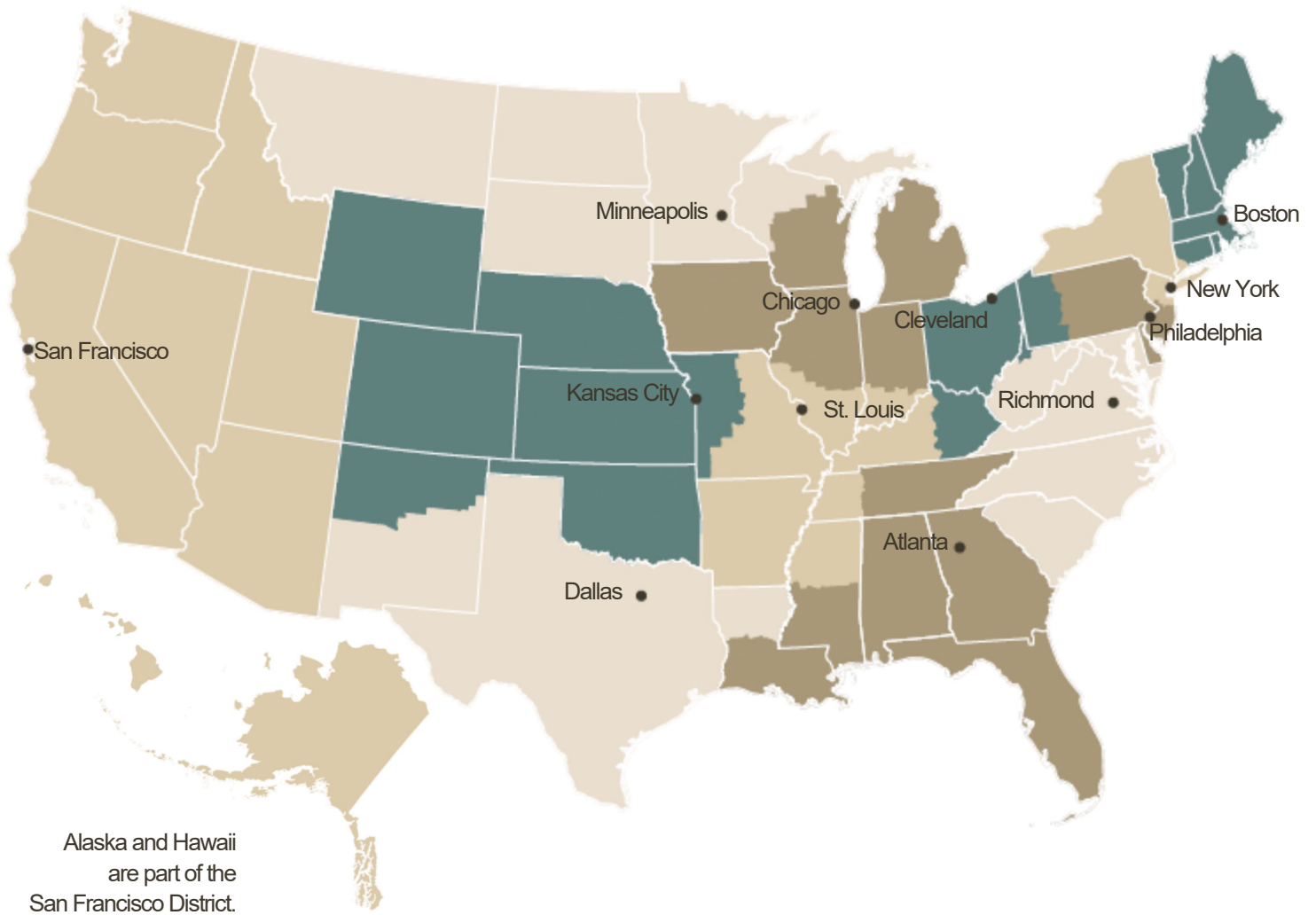
The Beige Book

Summary of Commentary on Current Economic Conditions

By Federal Reserve District

November 2019

Federal Reserve Districts



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

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What is The Beige Book?

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

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

How is the information collected?

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

How is the information used?

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

This report was prepared at the Federal Reserve Bank of Dallas based on information collected on or before November 18, 2019. This document summarizes comments received from contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.



National Summary

The Beige Book ■ November 2019

Overall Economic Activity

Economic activity expanded modestly from October through mid-November, similar to the pace of growth seen over the prior reporting period. Most Districts reported stable to moderately growing consumer spending, and increases in auto sales and tourism were seen across several Districts. In manufacturing, more Districts reported an expansion in the current period than the previous one, though the majority continued to experience no growth. The picture for nonfinancial services remained quite positive, with most Districts reporting modest to moderate growth. Transportation activity was rather mixed across Districts. Reports from the banking sector indicated continued but slightly slower growth in loan volumes. Home sales were mostly flat to up, and residential construction experienced more widespread growth compared to the prior report. Construction and leasing activity of nonresidential real estate continued to increase at a modest pace. Agricultural conditions were little changed overall, remaining strained by weather and low crop prices. Activity in the energy sector deteriorated modestly among reporting Districts. Outlooks generally remained positive, with some contacts expecting the current pace of growth to continue into next year.

Employment and Wages

Employment continued to rise slightly overall, even as labor markets remained tight across the U.S. Several Districts noted relatively strong job gains in professional and technical services as well as healthcare. Reports were mixed for employment in manufacturing, with some Districts noting rising headcounts while others noted stable employment levels and one District reported layoffs. There were scattered reports of labor reductions in retail and wholesale trade. The vast majority of Districts continued to note difficulty hiring driven by a lack of qualified applicants as the labor market remained very tight. The shortage of workers spanned most industries and skill levels, and some contacts noted that their inability to fill vacancies was constraining business growth. Moderate wage growth continued across most Districts. Wage pressures intensified for low-skill positions.

Prices

Prices rose at a modest pace during the reporting period. Reports regarding input costs and selling prices in the manufacturing sector were mixed, with some Districts noting deceleration in prices, while others cited increased cost pressures and a few indicated little to no change. Retailers mentioned higher costs, which contacts in some Districts attributed to tariffs. Firms' ability to raise prices to cover higher costs remained limited, though a few Districts noted that companies affected by the tariffs were more inclined to pass on cost increases. Service sector prices in reporting Districts were mostly flat to up. Energy and steel prices were flat to down, while reports on construction materials and agricultural commodity prices were mixed. Overall, firms generally expected higher prices going forward.

Highlights by Federal Reserve District

Boston

Economic activity expanded at a modest to moderate pace as businesses and consumers headed into the fourth quarter. Prices were largely stable and hiring steady. Outlooks were mostly positive—an improvement since the last round.

New York

There was little or no growth in the regional economy. Employment was little changed, as job creation slowed, partly reflecting a shortage of available workers, while wage growth moderated. Input price decelerated, while selling prices continued to rise modestly. Service sector activity weakened, and real estate markets softened somewhat.

Philadelphia

On balance, business activity continued at a modest pace of growth during the current Beige Book period. Labor markets tightened further throughout the District, accompanied by slowing employment growth and continued moderate wage growth. Price increases remained modest. Most firms expressed cautious optimism but continued uncertainty.

Cleveland

Fourth District economic activity increased modestly. Strength in professional and business services drove growth. Manufacturing improved slightly. Home and auto demand was up, though nondurable consumption was mixed. Employment grew slightly, driven by hiring in professional and business services. Wages rose modestly overall. Selling prices increased modestly on balance.

Richmond

The Fifth District economy grew moderately. Manufacturers saw a pick-up in shipments and new orders but continued to face constraints from tariffs and trade uncertainties. Tourism remained strong while reports on retail sales were mixed. Financial and nonfinancial services experienced positive but mild growth. Labor demand strengthened while wage and price growth remained moderate, overall.

Atlanta

Economic conditions improved modestly. Tightness in the labor market persisted, and low-skill wage pressures increased. Nonlabor input costs rose. Retail sales and tourism activity were stable. Residential real estate activity improved, and commercial real estate activity was positive. Manufacturing activity accelerated further during the reporting period.

Chicago

Economic activity increased slightly. Employment, consumer spending, and manufacturing all increased slightly. Construction and real estate activity was little changed, while business spending decreased slightly. Wages and prices rose slightly and financial conditions improved modestly. More poor weather added to crop farmers' difficulties.

St. Louis

Economic conditions have been mixed but relatively unchanged since our previous report. Contacts continued to note a heightened sense of economic uncertainty. Labor market conditions remained tight, and many firms reported raising wages and salaries to attract new workers. The outlook among firms surveyed in mid-November was slightly pessimistic for the second consecutive quarter.

Minneapolis

Ninth District activity grew at a modest pace. Employment grew slightly. Labor demand remained healthy, but some softness was evident, and labor supply remained tight nonetheless. Consumer spending rose, with increases seen in airport traffic and vehicle sales. Manufacturing contracted, with reports of shrinking backlogs. Construction and real estate markets reported healthy activity. Oil drilling decreased slightly.

Kansas City

District economic activity was flat in October and early November. Consumer spending edged down as sales in the retail sector rose but fell in the auto, restaurant and tourism sectors. The professional and high-tech services and wholesale trade sectors reported rising sales, while transportation contacts noted a decline. Overall conditions in the energy, agricultural and manufacturing sectors remained weak.

Dallas

Economic activity continued to expand moderately. Growth remained solid in services and retail, and downshifted slightly in manufacturing. Home sales remained on the rise while energy activity continued to decline. Selling prices were largely flat, as firms' ability to pass through cost increases remained limited. Hiring continued at a steady pace. Outlooks were generally improved, though uncertainty remained elevated.

San Francisco

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



Federal Reserve Bank of **Boston**

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Summary of Economic Activity

Business contacts in the First District cited mostly positive results when contacted in November. Both retailers and manufacturers reported modest to moderate increases in revenues compared with a year earlier, as did staffing firms. Reports from commercial real estate contacts were similar to the last round, with the greatest strength in the Boston market, while activity in Hartford was steady at a low level. Residential real estate sales and prices were up in most areas. Labor markets remained tight and staffing firms noted some substantial pay increases. Most responding firms cited a positive outlook, with some noting a recent upgrade in their expectations.

Employment and Wages

Labor markets remained tight in the First District even as business contacts cited modest expansion of headcounts in aggregate. Retail contacts reported having no problems hiring staff or having difficulty hiring only for selected positions. By contrast, several manufacturers noted that hiring was difficult and that labor costs had risen. At the same time, manufacturers reported no major positive revisions to hiring plans. Staffing respondents saw strong demand for labor and continued to experience tight labor supplies, particularly of highly-skilled workers. Most staffing contacts were able to increase bill rates and pay rates concurrently, ranging from 4 percent to 20 percent; one held both rates unchanged from the last quarter.

Prices

Business contacts had little to say about prices. Retailers mentioned no pressures and most manufacturing contacts reported no unusual pricing patterns. One exception was a dairy-products firm which reported raising their selling prices by 5 percent to recoup part of a 9 percent increase in input costs.

Consumer Spending

Retailers consulted for this round reported posting year-over-year comparable-store sales gains in the mid-single digits. Total revenue increases including expansion activity were in the high single digits or low double digits year-over-year. Sales expectations were optimistic for

the holiday season and beyond. While the underlying trend in terms of economic fundamentals was reportedly strong, some contacts expressed concern about the impact of tariffs. One retailer reported that the intermediary firm that pays their import duties on some European luxury goods recently announced that the rates it charges will be going up significantly. Two other firms have reported tariff impacts on sales, either in terms of pricing or in terms of supply chain disruptions slowing their product supply.

Passenger traffic to Logan International was up 2.3 percent for domestic travel and up 11.1 percent for international arrivals year-to-date through September compared with a year earlier. Airlines have continued to add flights. The 2019 cruise ship season has ended with homeport passenger counts up 15 percent and port-of-call passenger counts up 33 percent compared to the 2018 season. Business and leisure travel were expected to remain robust into 2020.

Manufacturing and Related Services

Reports from eight manufacturing contacts were more positive in this round than in the recent past. In some cases, contacts reported their first year-on-year sales growth since 2018. However, part of the improvement reflects a weak comparison period a year earlier: The first half of 2018 was strong, partly because of tax cuts, but tariffs and general trade uncertainty contributed to weakness in the second half of 2018. A notable area of

strength was semiconductors, which had been going through a down cycle that industry participants said was only partly attributable to global economic patterns; semiconductor industry cycles are often out-of-sync with the rest of the economy.

Two contacts reported positive revisions to their capital expenditure plans. One is a manufacturer of veterinary supplies which said, among other things, that swine flu had led Chinese producers to increase production of chickens, requiring purchase of new veterinary technologies.

Manufacturing respondents were positive about the near-term future and half said they had made upward revisions to their forecasts recently. Reasons varied. For a furniture maker, it was mostly a single large order from a new type of customer. For other firms, it was the trough in the semiconductor cycle.

Staffing

Most New England staffing firms reported positive revenue growth in the third quarter of 2019, citing high single-digit year-over-year increases. Some expect healthy growth in the last quarter of 2019 as well. Job candidates often do not possess the skillsets and experience desired by employers, so staffing firms have augmented their training efforts. They have also increased their presence on online job boards and other advertising channels. A few respondents have expanded by hiring more recruiters and building specialized teams for retained search services or permanent placements. All staffing contacts expressed optimism for additional gains in 2020.

Commercial Real Estate

Commercial real estate activity in the First District continued to strengthen into November. Office leasing demand in Boston has been robust even as leasing activity has slowed because of extremely low vacancy rates. Construction activity was robust. The investment sales market has also been strong; according to one contact, total transaction volume increased by 18 percent from Q3 2018 to Q3 2019. The outlook for Boston was cautiously positive: All contacts reported that there were no signs of a growth slow-down and the commercial real estate market was well-balanced. However, one contact mentioned that they did not expect much price appreciation and had lowered their income expectations for the next five years.

The Providence area saw moderate commercial market activity. Office rents were flat, while one-off transactions (not robust activity) lifted rents in the industrial market. Demand remained moderate in the investment sales

market. One contact expressed concern about growing political uncertainty.

In the greater Hartford area, commercial leasing activity levels have not changed since the last cycle. Absorption in the industrial market was low, and absorption in the office market was negative for 2019 to date. Retail stores continued to close. In the investment sales market, prices were steady and the number of bidders in the market has fallen slightly. Commercial real estate respondents said business sentiment was neutral in Connecticut.

Residential Real Estate

Residential real estate markets in the First District saw improvements in September. (Most areas reported year-over-year changes from September 2018 to September 2019; New Hampshire reported October statistics and Vermont reported August data. Connecticut statistics were unavailable.) For single family homes, closed sales and median sales prices were up in five reporting areas. Inventory generally decreased. For condominiums, sales rose moderately in all reporting areas except Rhode Island. Median sales prices dropped slightly in Boston, but increased or stayed flat in all other areas. Condo inventory improved in Boston and Maine but decreased in Rhode Island, Massachusetts, and New Hampshire. Vermont experienced a slowdown in closed sales and an increase in prices in August (data for Vermont combine single family homes and condos).

Contacts expected market activity to slow seasonally during the remainder of the year. The Maine and Massachusetts respondents both noted that the market for homes priced below \$250,000 is very tight. Contacts expressed positive outlooks for the coming months, citing favorable mortgage rates as the main reason. ■

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



Federal Reserve Bank of New York

The Beige Book ■ November 2019

Summary of Economic Activity

There has been little or no growth in the Second District economy in the latest reporting period. The labor market remained tight, with slowing hiring activity and wage growth. Input prices decelerated, while selling prices continued to rise at a modest pace. Manufacturing activity was essentially flat, while business in the transportation and distribution sectors grew modestly. However, most service industries reported some softening in business conditions. Business contacts remained fairly restrained in their optimism about the near-term outlook. Consumer spending was mixed, with strength in auto sales but ongoing weakness in traditional retail. Tourism has remained robust. Housing markets have been softer, on balance, though the residential rental market has held up fairly well. Commercial real estate markets have weakened, and new commercial construction has slowed. Finally, finance sector contacts generally reported softening conditions, though banks reported increased demand for mortgage loans.

Employment and Wages

The labor market has remained tight across the District, but hiring has slowed. Business contacts have continued to report trouble finding workers to fill a wide range of jobs such as software developers and engineers, accountants, retail clerks, mechanical engineers, machinists and welders. Two major employment agencies noted that almost all job candidates are already working, and that many are reluctant to switch jobs, particularly at this time in the year.

Businesses overall continued to report little change in staffing levels, as job creation slowed. Contacts in manufacturing, education & health, and leisure & hospitality reported modest net hiring; however, finance, real estate, and wholesale trade firms indicated modest declines in employment, on balance. Looking ahead to the next six months, businesses in manufacturing and most service sectors still planned on adding to staff; however, businesses in the information, finance, and transportation sectors projected modest declines in employment. Businesses overall reported that wage growth has moderated slightly in the latest reporting period, though contacts in leisure & hospitality and education & health reported more widespread increases.

Prices

Businesses in most sectors reported that input costs decelerated, while selling prices continued to rise at a modest pace. However, contacts in wholesale and retail trade have continued to note more widespread escalation in the prices they pay. Contacts in the leisure & hospitality sector, however, have continued to report steady to declining prices. Prices for Broadway theater tickets, for example, have edged down and are slightly lower than a year ago. Looking ahead, there was not much of a change in businesses' inclination to raise prices in the months ahead.

Consumer Spending

Retailers report that sales have been steady to softer since the last report and were lukewarm in their expectations for the near-term outlook. A number of retail contacts expressed concern about the general business climate, and a sizable number have scaled back capital spending plans. Upstate New York retailers noted some pickup in shopper traffic and sales activity, reflecting heavier and earlier sales promotion, but note that the pace of growth remains modest. Most stores indicated that inventories were in good shape heading into the holiday season.

Sales of both new and used vehicles have remained solid in recent weeks, running above year-earlier levels, according to dealers in upstate New York. Dealers indicated that manufacturer incentives and year-end changeovers have boosted sales. Consumer credit conditions have remained in good shape.

Manufacturing and Distribution

Manufacturers reported that business activity has remained flat. On the distribution side, wholesalers noted a significant rebound in activity, while transportation contacts said that activity grew modestly.

Looking ahead, manufacturers, wholesalers, and transportation firms indicated that they anticipate modest growth in the months ahead, on balance. Contacts in all these sectors have expressed ongoing concern about tariffs, trade tensions, and related uncertainty, as well as the rising minimum wage in New York.

Services

Businesses across almost all service industries reported some weakening in activity, on balance, since the last report. A notable exception has been in the leisure & hospitality sector, where contacts noted moderate growth in activity. Broadway theaters reported that attendance was fairly sturdy in October but dropped off a bit in the first half of November, as both attendance and revenues slipped below comparable year-ago levels.

Other service industries generally reported softening activity—particularly in the information and finance sectors. Professional & business and education & health service firms reported some modest weakening in conditions. Service firms, even those in leisure & hospitality, have grown somewhat less optimistic about the near-term outlook.

Real Estate and Construction

Housing markets across the District have been mixed but, on balance, weaker in the latest reporting period. Prices of New York City condos and co-ops have continued to trend lower and are now running moderately below comparable 2018 levels, with steeper declines at the high end of the market and in Manhattan. A local real estate expert noted a precipitous drop in the share of cash purchases at the higher end of the market, which is seen as a signal that investors have largely left the market. The inventory of existing homes has continued to climb to a fairly high level in Manhattan but less so in the outer boroughs. Housing markets in the suburban areas around New York have been more stable, with prices still

rising moderately in most areas and inventories generally stable. Similarly, in upstate New York, the sales market has remained strong, with inventories steady at very low levels, prices still rising, and bidding wars still fairly commonplace in the more sought-after areas.

The residential rental market has strengthened further. While Manhattan rents have leveled off, rents across much of the city and metro area have continued to rise at a moderate pace—and at a somewhat faster pace at the high end of the market, reflecting a shift in demand away from owning. Rental vacancy rates have edged up but remain quite low across New York City.

Commercial real estate markets across the District have generally weakened in the latest reporting period. Office rents have been mostly flat, while availability rates have climbed modestly in most areas, with leasing activity steady to slower. Industrial markets have been mixed: rents have continued to trend up, though the pace has slowed, and availability rates have been flat to up slightly. The market for retail space has weakened further, even as the holiday shopping season draws near, with rents flat and vacancy rates at multi-year highs.

New multi-family construction starts have held steady across the District, while the volume of ongoing multi-family construction has remained fairly brisk. New office and industrial construction has continued to weaken modestly.

Banking and Finance

Financial sector contacts generally reported softer business conditions and expressed concern about a deteriorating business climate. Bankers reported higher demand for residential and commercial mortgages, but unchanged demand for consumer and C&I loans. Credit standards were said to be unchanged across all major categories. Loan spreads narrowed on all categories. Contacts also reported further decreases in average deposit rates. Finally, bankers reported stable delinquency rates across all loan categories. ■

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



Summary of Economic Activity

Aggregate Third District business activity continued at a modest pace of growth during the current Beige Book period. Growth rates slowed from the prior period to a modest pace in manufacturing and nonauto retail sales, and to a slight pace for tourism. Financial services continued to grow at a moderate pace; nonfinancial services grew at a modest pace. Construction activity for residential and nonresidential buildings continued to hold steady, as did commercial leasing activity. Sales of new autos and of existing homes continued to decline – at a slight and a moderate pace, respectively. Labor markets tightened further throughout the District. Wages continued growing moderately, but employment growth appeared to slow to a slight pace. Overall, price pressures remained modest. The firms' outlook for growth over the next six months remained positive, with about half of all firms anticipating increases in general activity. Most contacts expected current business conditions to continue through 2020 but remained cautious in their planning.

Employment and Wages

Employment grew slightly during the current Beige Book period – a slower pace than in the prior period. About two-thirds of the firms reported no change in staff. While the share of manufacturers reporting a higher number of employees rose, the share among the much larger non-manufacturing sectors fell. Average work hours continued to edge down since the prior period.

The firms continued to report very tight labor market conditions. Staffing firm contacts all noted challenges to hiring, as the labor shortages continued to constrain placements. One staffing contact also reported that order activity was down; another noted that orders had been delayed, after which clients were trying to catch up with production – necessitating added incentives to attract workers for overtime. Another staffing firm noted pressure from a client seeking contact concessions in order to absorb some of the cost of tariffs on the firm's products.

Wage growth continued at a moderate pace. While the overall pressure appears to have eased slightly, contacts noted specific pressures at lower wage rates. One staffing firm reported more difficulty recruiting for firms that only offered minimum wage, and another indicated that a different staffing firm was deploying yard signs to recruit for jobs paying \$16 an hour. The share of nonmanufac-

turing contacts who reported increases in wage and benefit costs ticked up to 44 percent; just 2 percent reported decreases.

Prices

On balance, the firms continued to report modest increases for both input prices and prices received for their own goods and services. The share of firms reporting increases in prices fell for both manufacturing and non-manufacturing firms; generally, the share reporting decreases in prices rose. About two-thirds of the firms reported no change in prices over the period.

Looking ahead six months, the anticipation of higher prices was less widespread among manufacturers than last period. The percentage of manufacturing firms that expect higher prices fell, while the percentage expecting lower prices rose. This was true for prices firms expected to pay as well as for prices firms expected to receive for their own goods.

Manufacturing

On balance, manufacturers reported modest growth in activity – somewhat slower than the moderate pace reported during the prior period. Nearly twice as many firms reported increases in shipments and new orders than reported decreases; however, the percentage reporting increases rose to about one-fifth of all firms that

reported.

The growth was broadly shared, as the makers of lumber products, paper products, chemicals, primary metal products, fabricated metal products, and industrial machinery all tended to note gains in new orders and shipments.

Comments were mixed. A couple of primary metals firms reported positive trends, but the firms from several other sectors noted weakening orders, competitive business lost as a consequence of tariffs, and production constraints for lack of labor.

Manufacturers' expectations of activity over the next six months were mostly unchanged. Expectations of shipments and of new orders edged higher, remaining above long-term nonrecession averages. Expectations of future employment fell, while planned capital spending rose.

Consumer Spending

Contacts for malls and convenience stores reported modest growth in nonauto retail sales – a return from the somewhat faster pace during the prior period. Mall store operators reported solid year-over-year sales growth. Convenience store contacts suspected a little economic softness underlying a slight tick down in their positive rate of sales growth, although weather may have also been a factor.

Auto sales continued to edge lower but remained near high levels. Pennsylvania dealers noted positive year-over-year sales in October, while New Jersey dealers reported slight growth in October following a weak September. Year-over-year sales growth through October year to date remained positive in both states, holding steady in Pennsylvania but flattening out slightly in New Jersey.

Tourism activity appeared to grow at a slight pace – a bit slower than in the prior period. A tourism analyst noted that demand for hotels in downtown Philadelphia remained positive but slowed on a year-over-year basis, similar to national trends. Atlantic City casino revenues slowed from the prior period and were down slightly, on balance.

Nonfinancial Services

On balance, activity at service-sector firms continued at a modest pace of growth. The percentage of firms reporting increases in new orders nearly doubled, and the share of firms reporting increases in current revenues edged higher. Over 55 percent of the firms – more than in the prior period – expect growth over the next six months.

Financial Services

Financial firms continued to report moderate growth in overall loan volumes (excluding credit cards) on a year-over-year basis, although the rate seemed to edge slightly slower. Credit card lending held steady at a moderate pace.

During the current period (reported without seasonal adjustments), volumes appeared to grow moderately for home mortgages, modestly for automobile loans, and slightly for other consumer loans (not elsewhere classified). Commercial real estate and commercial and industrial loan volumes declined slightly, while home equity lines decreased moderately.

Banking contacts continued to report no significant problems with loan delinquencies. Contacts also noted ongoing uncertainty that is slowing business decision-making and constraining the willingness to invest. However, most banking contacts remain cautiously optimistic about continued growth through 2020.

Real Estate and Construction

Homebuilders reported little change in contract signings in the current period, on balance. One South Jersey builder reported two strong months of sales in the active adult market, noting positive feelings about the coming year but a plan to be conservative.

Existing home sales continued to decline moderately on a year-over-year basis across most local markets, with exceptions of moderate growth in the Jersey Shore and Harrisburg areas. A large Philadelphia-area broker indicated continued inventory constraints heading into a seasonal lull for home sales.

On balance, commercial real estate construction and leasing activity seemed to hold steady at relatively high levels. Contacts reported continued strength in the industrial market, with ongoing demand for new construction. Most contacts also noted a positive quarter for office space leasing, which may spur demand for new construction in the future. Management firms continued to note positive net absorption, falling vacancy rates, and rising rents in many office and industrial segments. ■

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



Federal Reserve Bank of Cleveland

The Beige Book ■ November 2019

Summary of Economic Activity

Overall economic activity in the Fourth District increased modestly, an improvement after a couple periods of little growth. Professional and business services contacts continued to see strong and increasing activity. Manufacturers reported slight demand growth for the first time in several months, noting that while their international sales remained weak, domestic demand was stronger than they had predicted. Homebuilders indicated that low mortgage rates and rising wages boosted demand for new homes. Auto sales were bolstered by higher incentives, while reports from non-auto retailers were mixed. Bankers noted growing loan demand for homes and autos. Nonresidential contractors reported that demand ticked up. By contrast, the freight sector saw further weakening. Contacts in many sectors were optimistic about near-term growth prospects. Employment rose slightly on balance, largely on the strength of professional and business services hiring, while overall wage growth was modest. Output price inflation was modest on balance.

Employment and Wages

Aggregate employment increased slightly over the period. Professional and business services firms continued to staff up to meet demand growth, accounting for most of the net employment gains. Construction contractors indicated that typical winter layoffs had been delayed this year. Nonseasonal retail staffing levels were stable. Most bankers held employment levels steady, but one large bank implemented layoffs, saying interest rate reductions had put pressure on margins. Most manufacturers had stable staffing, but a couple steel manufacturers cut temporary workers and reduced hours for permanent employees. Long-haul trucking and rail companies reduced staffing levels because of softening demand.

Wages rose modestly overall. Manufacturers increased wages and offered retention bonuses to compete for talent. Retailers across subsectors raised pay rates, citing tighter labor markets. While professional and business services firms reported only slight wage pressure, other white-collar industries, including banking and real estate, saw stronger wage pressure. One community banker said he needed to raise wages 10 percent to attract qualified talent. Construction pay was mostly unchanged. Freight firms reported little pressure to raise wages.

Prices

Selling prices in the District rose modestly on balance. Much of the price inflation came from services firms; nonsteel manufacturers' prices were stable, and retail inflation was mixed. Some professional and business services firms negotiated modest price increases. A staffing contact remarked, "we have good pricing power due to [strong] demand with inadequate supply." Commercial real estate companies increased rates in response to rising labor costs. Local delivery and rail freight companies raised rates, while long-haul trucking rates were flat to down. Manufacturers' selling prices were stable, except in the case of steel producers, whose prices fell with the market. Though tariffs pushed up costs for some manufacturers, manufacturers' materials costs decreased on balance, especially for steel. On the consumer side, a clothing retailer reduced the use of price discounting to offset higher costs resulting from tariffs. By contrast, a food retailer said that while tariffs had increased costs, the company "cannot raise prices on a whim" because of fierce competition. Homebuilders reported rising costs; some increased prices to offset these costs, while others took hits to their margins to maintain market share.

Consumer Spending

Retailers reported slightly higher sales compared to those of the previous report. Light-vehicle sales were solid and increasing. One dealer noted that new-vehicle sales in October were bolstered by a 7 percent increase in manufacturer incentives relative to last year's. Contacts in hospitality and retail apparel reported mixed activity throughout the Fourth District. While overall sales were up only slightly this period, retailers were optimistic about sales in the coming months, looking forward to a boost from the holiday shopping season.

Manufacturing

Manufacturers reported a slight increase in activity, although overall conditions remained relatively soft. Domestic demand held up better than manufacturers had anticipated. However, several contacts said international weakness still weighed on demand, especially softness in western and central Europe and the ongoing negative impacts from trade tensions with China. One steel producer noted that declines in steel prices pushed up demand as customers negotiated contracts for 2020 in an effort to lock in low prices, while another said that a falling price environment encouraged customers to hold lower inventory and buy on an as-needed basis. Aside from the usual holiday slowdown, manufacturers were relatively optimistic that conditions would continue to improve in the coming months, and several noted that they were working on plans for increased capital investment for 2020.

Real Estate and Construction

Construction contacts reported strengthening demand, while real estate firms indicated that demand was flat. Nonresidential contractors noted slight demand growth over the period because they acquired new projects from a wide range of industry segments. Nonresidential contractors were upbeat about the near future as well, believing there will be plenty of projects to bid on in 2020. However, commercial real estate contacts reported flat demand. A couple commercial real estate contacts said softening global markets and trade tensions weighed on demand.

On the residential side, homebuilders indicated that demand increased modestly, citing low mortgage rates and wage growth as contributing factors. One homebuilder also suggested that stronger demand for resale homes allowed potential buyers to trade up to new homes more easily. However, residential real estate agents characterized sales of existing homes as unchanged. Homebuilders expected continued demand growth, apart from the expected winter slowdown, while realtors expected home demand to remain unchanged.

Financial Services

On balance, demand for credit increased slightly. A large minority of bankers reported that demand for credit had increased, while the rest suggested that it was steady. In particular, contacts indicated that lower interest rates drove increases in home lending—particularly for mortgage refinancing—and vehicle loans. However, one contact indicated that demand from small businesses and large commercial clients weakened. Although bankers indicated that falling interest rates may erode core deposits going forward, deposit balances have remained relatively stable to date.

Professional and Business Services

Activity in the professional and business services sector has strengthened further since the previous report. Contacts from a variety of subsectors continued to report strong demand for business services and suggested that their clients were investing in growth through activities such as marketing and mergers and acquisitions. One business development contact reported a considerable increase in activity in recent weeks because of a number of businesses that are opening new locations in the area. Overall, the majority of contacts in professional and business services expect favorable conditions to continue into the near future.

Freight

Freight sector conditions have weakened further since the last report. The majority of contacts reported no change or lower demand for freight services, although one freight firm reported that September and October were its strongest months since January. Ongoing weakness in the manufacturing sector was a major factor contributing to recent softening; one contact noted demand weakness because manufacturing output from Mexico had fallen significantly. Another contact remarked that economic uncertainty caused businesses to hold off on investment purchases, resulting in lower shipping volumes. Finally, contacts pointed to excess capacity in trucking as exacerbating weaknesses. Overall, freight contacts have downgraded their near-term outlook since the previous report, from solid to mixed. ■

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



Summary of Economic Activity

The Fifth District economy grew moderately since our previous Beige Book. A majority of manufacturers reported growth in shipments and new orders, although tariffs and trade uncertainty were concerns for many producers. Overall, import volumes continued to exceed export volumes; however, growth in exports outpaced growth in imports in recent weeks. Meanwhile, trucking companies reported a decline in rates as demand softened to a moderate rate. Some retailers reported strong sales, although some high end retailers lost sales to customers who sought less expensive alternatives. Travel and tourism strengthened across most of the Fifth District. Home sales and mortgage lending picked up in recent weeks, according to real estate agents and lenders. On the commercial side, real estate leasing, sales, and construction grew at a modest to moderate pace with the exception of retail leasing, which slowed in several markets. Nonfinancial services firms reported mild growth, overall, and expected slow growth to continue heading into 2020. Executives noted a slowdown in the oil and gas industry. Farmers have been hesitant to invest in land or equipment. Labor demand strengthened while wage increases were moderate, overall. Price growth also remained moderate in recent weeks.

Employment and Wages

The demand for labor strengthened moderately in recent weeks. Employment agencies reported a seasonal pick-up in new job openings and an increase in direct hire recruitment services, rather than temporary, for larger clients. Employers continued to report difficulties finding qualified workers. A few firms sought to fill job openings with in-house training programs, apprenticeship programs, or partnerships with educational institutions. Wages increased moderately, overall. Meanwhile, staffing agencies reported increased wage pressures for jobs in the lower pay scales.

Prices

Price growth remained moderate since our previous report. According to manufacturing and service sector firms, growth of prices paid continued to exceed growth in prices received. Rising labor costs, including wages and employer-paid health insurance, were noted as contributors to the increase in prices paid. Meanwhile, raw materials prices were reportedly up for some construction materials and tariffed goods while price declines were cited for freight transportation, energy, food commodities, chemicals, and steel.

Manufacturing

Manufacturing in the Fifth District grew moderately since our last report. Contacts reported increases in shipments and new orders, overall, as strong demand supported continued growth for many manufacturers. However, tariffs and trade continued to be concerns since tariffs led to higher costs of raw materials and lower profit margins. Trade-related uncertainty remained significant. Lower profitability caused some companies to decrease production levels and staff headcounts. Meanwhile, some manufacturers struggled on the demand side, such as a Virginia yarn manufacturer, who reported that economic uncertainty is hurting demand by leading some customers to reduce inventory levels.

Ports and Transportation

Ports in the Fifth District saw modest growth, overall. Import volumes continued to exceed export volumes, but several contacts noted that export volumes were growing faster than import volumes. On the export side, growth was particularly strong in chemicals, plastics, and meat. However, some ports saw softness in autos, on both the import and export side. Firms continued to express concerns about trade with China but were able to divert some trade through other East Asian countries.

Meanwhile, an airport executive saw a drop in cargo to and from Europe and looked to expand business in other parts of the world.

Fifth District trucking companies reported moderate demand in recent weeks. Executives saw steady business with established customers but softening rates, lower revenues, and less demand than a year ago. Some small trucking companies that had opened to meet high demand in recent years went out of business, easing pressures on driver availability and wages. Executives differed in their views about the future. For example, a North Carolina trucking firm planned to expand its fleet of tractors and drivers in 2020, but another company stopped filling open positions because of low revenues and high costs.

Retail, Travel, and Tourism

Travel and tourism in the Fifth District were generally strong in recent weeks. Hotels and resorts had higher occupancy and moderate rate increases. Restaurants around the Fifth District also had steady demand, although some had to cut services or hours because of difficulty finding employees. In Charleston, South Carolina, tourism recovered well after Hurricane Dorian, but attractions in the District of Columbia noted some softness. Contacts noted that low gas prices gave people incentive to travel but expressed concerns that ongoing delays in operationalizing new aircraft could hamper growth.

Fifth District retailers experienced varied conditions since our last report. Some reported strong sales, and one even planned to expand by opening new stores. However, hardware stores saw softening demand, as did high-end clothing stores, who attributed weakness to customers looking for cheaper alternatives. Several retailers reported that tariffs were raising costs and hurting profit margins. In Virginia, a home goods store discontinued several items, particularly small electronic devices, as a result of tariff-related cost increases.

Real Estate and Construction

Home sales increased moderately in recent weeks. Real estate agents indicated that inventories of single-family homes were little changed as new listings continued to sell quickly and buyer traffic was steady at open houses and showings. Meanwhile, new home sales and construction were steady, although construction of lower priced homes remained limited. Overall, agents reported modest growth in home prices.

Commercial real estate leasing rose moderately in recent weeks. Brokers continued to reported strong demand for industrial space and office leasing increased modestly in some markets. Retail leasing, however, slowed across markets and vacancy rates increased slightly. Meanwhile, rental rates were reportedly stable to increasing modestly. Commercial sales and construction increased modestly in some regions. Multifamily leasing remained healthy in most markets, while multifamily construction remained steady.

Banking and Finance

On the whole, loan demand picked up modestly since our previous report. Residential mortgage demand was generally described as stable to increasing modestly. Some banks noted that low interest rates helped to increase loan demand, but net interest margins were compressed. Bankers also noted an increase in mortgage refinancing. Commercial real estate loan demand and business lending strengthened modestly while automotive lending was flat, on balance. Deposits grew moderately since our last report. Bankers continued to report vigorous competition for loans and deposits. Measures of credit quality remained stable at high levels throughout the Fifth District.

Nonfinancial Services

On balance, nonfinancial services firms reported slight growth in demand in recent weeks. Hospitals and health care providers continued to experience solid growth. A records management firm, on the other hand, saw softer federal government spending in recent weeks. Advertising and marketing firms were generally positive, although one marketing executive believed that the outlook in his industry had shifted from optimistic to cautiously optimistic or “a little nervous”. Several firms indicated that challenges finding qualified workers and general economic uncertainty were constraining growth and leading to expectations for slower growth heading into 2020.

Natural Resources

Comments on the natural resources sector were somewhat pessimistic. One contact noted a slowdown in oil and gas drilling and was concerned about bankruptcies in the coal industry. Meanwhile, farmers were reportedly hesitant to invest in land or equipment because of unstable commodity prices, limited labor availability, tariffs, and their income being tied to government subsidies such as disaster and trade relief funds. ■

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



Summary of Economic Activity

Sixth District business contacts indicated that economic activity expanded modestly since the previous report, and the outlook among contacts remained positive. Tightness in the labor market continued to constrain growth in many sectors. Contacts noted that wage pressures continued to increase for lower-skilled positions. Firms continued to report rising nonlabor costs, and businesses affected by tariffs indicated they were likely to pass along cost increases to customers. Retail sales levels and automobile sales remained steady from October through mid-November. Tourism activity improved since the last report. Residential real estate markets showed signs of improvement, and commercial real estate activity was steady. Manufacturing activity accelerated, and new orders and production levels rose over the reporting period. District bankers noted that financial conditions remained healthy, though the pace of loan growth slowed slightly.

Employment and Wages

Firms continued to report that staffing levels were in line with projections of flat to slightly higher growth in payrolls compared with the prior year. As reported last period, exceptions were in retail, trade, and logistics, where labor force reductions were noted. Contacts in various geographies and industry segments continued to cite labor market tightness as constraining growth. Consequently, firms continued to pursue automation of certain operational processes. Attracting and retaining talent remained another labor market challenge, as employers continued to explore innovative recruiting and retention tactics.

Annual wage increases, on average, remained in the 3-4 percent range; however, contacts reported that wage pressures continued to build for lower-skill positions.

Prices

Overall, reports from firms continued to indicate increasing nonlabor costs, albeit at a pace in line with expectations. While some businesses noted pricing power, there were accounts of some firms considering alternatives to raising prices in order to maintain margins and offset increases. However, firms most affected by tariffs indicated they were more likely to pass along cost increases to customers. The Atlanta Fed's Business Inflation Expectations survey showed year-over-year unit costs were

up 1.7 percent in October. Survey respondents indicated they expect unit costs to rise 1.8 percent over the next twelve months.

Consumer Spending and Tourism

Retailers noted that consumer spending remained strong and retail sales levels were steady since the last report. Contacts anticipate a healthy holiday season with online sales growth expected to again outpace brick and mortar sales. Automotive sales were unchanged from the previous report.

Tourism and hospitality contacts indicated a higher level of uncertainty from a year ago; however, overall business sentiment remains positive for the balance of the year and into 2020. Overall, tourism activity for the District remained healthy since the last report. Monthly Mississippi casino gross revenues were up for the first nine months of the year compared with the same time frame in 2018.

Construction and Real Estate

This year's gradual decline in mortgage rates helped boost demand for housing throughout the District. Home sales showed signs of improvement and home prices appreciated. Supply remained a challenge, however, as for-sale inventory levels in many markets has not kept up with demand. Declining supply of developed lots for new construction and relatively higher construction costs remained an impediment to improving housing starts.

Although lower mortgage rates made housing more affordable, rising home prices and limited supply continued to be a challenge for home buyers looking to purchase in many markets throughout the District.

Commercial real estate (CRE) leasing and sales activity generally remained positive and steady across most District markets and property sectors during the reporting period. Overall, most CRE sectors experienced positive dynamics as rents continued to grow and vacancy trends remained stable or declined at a modest pace. Industry contacts reported continued strength in the multifamily, industrial, hospitality and office sectors. The pace of CRE project construction activity remained healthy. Contacts reported that capital was readily available for most CRE projects via banks and non-bank entities and that lending competition appeared to be accelerating.

Manufacturing

Manufacturers indicated that overall business activity accelerated slightly since the last report. New orders and production levels rose, while finished inventories remained relatively flat. Purchasing managers reported that wait times for supply deliveries were slightly longer. Optimism for future production among manufacturing contacts decreased, with only one-fifth of contacts expecting higher levels of production over the next six months, compared to one-third in the last reporting period. Contacts continued to mention trade policy as a potential downside risk to their outlook.

Transportation

District transportation firms cited varying levels of activity over the reporting period. Freight forwarders saw strong growth in package volume and revenue. Port contacts reported increased freight activity, and some noted record year-over-year increases in container volumes. However, some slowing in breakbulk cargos, such as imported steel, plywood, and non-ferrous metals, primarily due to tariffs, was noted. Inland barge companies reported an increase in demand from year-earlier levels. Railroads saw significant declines in shipments of food products (excluding grain), primary metal products, iron and steel scrap, and coal, which were partially offset by increases in coke and metallic ores; intermodal shipments continued to decline by near double digits. The majority of contacts expect activity over the next year to be flat to slightly up.

Banking and Finance

Conditions at financial institutions cooled slightly but remained healthy. Bankers indicated that loan growth continued, though at a slower pace, particularly for consumer loans and commercial real estate. While there was a slight increase in nonperforming assets, values

were still near historic lows. Slower loan growth and increased payoffs added to margin pressures for financial institutions.

Energy

Chemical and petrochemical manufacturers described a slight softening in production related to slowing global economic conditions. However, capital investment and hiring is expected to pick up in the near term as facility expansion plans move forward. While demand for pipeline infrastructure persisted, some energy contacts mentioned that new pipeline construction was fraught with challenges and cost overruns. Utilities contacts reported slowing momentum among certain industrial and commercial segments, although their Southeast outlook was positive and capital investment budgets expanded year-over-year. Renewables sales and production activity remained strong as adoption, especially wind and solar, accelerated.

Agriculture

Agricultural conditions remained mixed. Reports indicated parts of the District, particularly in Georgia but also in large parts of Alabama, the Florida panhandle, and Tennessee, experienced drought-conditions ranging from abnormally dry to extreme drought. The November forecast for Florida's orange and grapefruit crops was unchanged from last month but ahead of last year's production. On a year-over-year basis, prices paid to farmers in September were up for corn but down for cotton, rice, soybeans, beef, broilers, and eggs. However, on a month-over-month basis, prices increased for cotton, rice, and soybeans but declined for corn, beef, broilers and eggs. ■

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



Federal Reserve Bank of Chicago

The Beige Book ■ November 2019

Summary of Economic Activity

Economic activity in the Seventh District increased slightly overall in October and early November, and contacts expected growth to continue at a similar pace over the next 12 months. Employment, consumer spending, and manufacturing all increased slightly. Construction and real estate activity was little changed, while business spending decreased slightly. Wages and prices rose slightly and financial conditions improved modestly. More poor weather added to crop farmers' difficulties.

Employment and Wages

Employment increased slightly over the reporting period, though contacts expected a somewhat faster rate of growth over the next 12 months. Hiring continued to be focused on professional and technical, sales, and production workers. As they have for some time, contacts indicated that the labor market was tight and that it was difficult to fill positions at all skill levels. Multiple contacts reported bringing back retired workers as a way to fill openings. Manufacturers facing slow demand again reported cutting hours rather than laying off workers because they were worried the tight labor market would make it too difficult to hire when demand recovered. A staffing firm reported a slight decrease in billable hours due to lower demand from manufacturers. Wages increased slightly overall; contacts were most likely to report increases for managerial, professional and technical, and administrative workers. Benefits costs increased slightly as well.

Prices

Prices moved up slightly in October and early November, though contacts expected prices to rise at a somewhat faster pace over the next 12 months. Retail prices increased modestly. One contact said that food, home goods, and apparel retailers were struggling to pass on higher costs; in contrast, another contact noted that

retailers continued to raise prices to reflect higher potential and realized tariffs. Producer prices were flat, with contacts reporting little change in input costs.

Consumer Spending

Consumer spending increased slightly on balance over the reporting period. Nonauto retail sales decreased slightly, as declines in apparel, appliances, and furniture outweighed gains in the grocery, home improvement, hospitality, and lawn and garden sectors. Contacts noted that brick and mortar department stores continued to struggle as e-commerce spending grows. Contacts remained optimistic that holiday spending would be higher than last year. Light vehicle sales increased moderately over the reporting period. The UAW-GM strike had a limited effect on GM vehicle sales on net, with a decline in sales in October offset by a pickup in November. However, dealers reported a noticeable shortage in GM parts, particularly those needed by collision repair shops. Used light vehicle sales also moved up moderately.

Business Spending

Business spending decreased slightly in October and early November. Retail inventories were a little high overall. One contact indicated that retailers were building stocks as a hedge against potential tariff increases.

Inventories of GM vehicles were lower than normal due to the UAW strike, but contacts expected them to return to normal by the end of the year. Most manufacturers reported comfortable inventory levels. Capital spending declined some, though contacts expected a modest increase in spending over the next 12 months. Outlays were primarily for IT equipment and intellectual property. A majority of contacts reported that their newly purchased capital had increased capacity. Demand for transportation services declined modestly, most noticeably for long distance trucking. Commercial and industrial energy usage declined modestly due to lower demand from the industrial sector. Contacts attributed at least part of the decline to the GM strike.

Construction and Real Estate

Construction and real estate activity was little changed over the reporting period. Residential construction increased slightly. There were reports that slower growth in demand had led some single-family homebuilders to slow the pace of new development projects. One contact noted an increase in remodeling demand. Home sales declined slightly overall, with larger decreases for homes at higher price points. Overall, home prices were unchanged, while rents increased. Nonresidential construction activity decreased marginally. Commercial real estate activity was little changed at a strong level. Contacts noted that demand for industrial space, particularly for warehousing and logistics, continued to be solid, and activity in the hospitality sector was also strong. Contacts reported that demand for commercial real estate as an investment vehicle was robust because of relatively high capitalization rates in the District compared to other regions. Vacancy rates edged lower and the availability of sublease space increased slightly. Rents were unchanged.

Manufacturing

Manufacturing production increased slightly overall in October and early November in spite of the strike at GM. Steel demand increased slightly, with one contact reporting strong demand from energy transmission firms but slightly weaker demand from the auto sector. Heavy machinery demand increased slightly, spurred by growth in the construction and mining industries. Auto production declined due to the GM strike, but contacts reported that overall auto industry demand was flat and at a solid level. Contacts supplying GM reported lower shipments due to the strike and expected the recovery in activity to take until the end of the year. Specialty metals manufacturers reported little change in order books, with flat activity across most major sectors. Contacts reported increased shipments of heavy trucks, but a decline in

new orders. Manufacturers of building materials reported a slight increase in sales.

Banking and Finance

Financial conditions improved modestly on balance over the reporting period. Business loan demand increased slightly, with reports of strength in the commercial construction sector, but weakness in the agricultural sector. Loan quality edged down and standards were little changed. Consumer loan volumes increased modestly as lower rates continued to spur mortgage refinancing. Quality and standards were little changed.

Agriculture

Early frost and snow further delayed this year's harvest and diminished yields. Overall, contacts expected the District's corn and soybean harvests would be much smaller than a year ago. In addition, contacts expressed concern about crop quality, especially with short propane supplies in some places, which limited the amount of crop drying farmers could do. Corn and soybean prices were down from the previous reporting period, but up from a year earlier. Nevertheless, lower expected yields meant crop revenues would be down from a year ago. Milk, egg, hog, and cattle prices moved up during the reporting period. Contacts noted that demand for pork from China had grown despite U.S. tariffs because African swine fever had decimated China's hog herd. More generally, contacts reported a pickup in overall agricultural exports, with some noting that news on trade negotiations sounded promising for future exports. Farm incomes generally are expected to be down from last year, although government payments from the Market Facilitation Program will provide some support. ■

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



Federal Reserve Bank of St. Louis

The Beige Book ■ November 2019

Summary of Economic Activity

Economic conditions have been mixed but generally unchanged since our previous report. Contacts across multiple industries continued to note a heightened sense of economic uncertainty. There was a slight uptick in employment. Wage increases were widespread and higher than in previous years for the vast majority of firms. Contacts continued to report only a slight uptick in prices charged to consumers despite moderate increases to nonlabor input costs. Reports from manufacturing firms were mixed. Agriculture conditions remained strained by low crop prices and generally poor production and yields. Across all industries, the outlook among surveyed contacts remained slightly pessimistic; on net, 12 percent of respondents expect conditions during 2020 to be worse or somewhat worse than in 2019.

Employment and Wages

Employment has increased slightly since the previous reporting period. On net, 11 percent of survey respondents reported that employment was higher than a year ago, and 41 percent, on net, expect to hire additional workers over the next 12 months. Labor market tightness persisted across the District; on net, 34 percent of contacts reported difficulty finding qualified workers. Firms continued to deal with worker scarcity by raising benefits, lowering hiring standards, investing in technology, and/or retraining existing employees. Employment conditions in manufacturing remained more subdued. Fifty-seven percent of manufacturing contacts reported a desire to hire more workers, but other survey-based results showed slight employment declines in the sector.

The tight labor market has continued to put upward pressure on wages, which have increased moderately since the previous report. On net, 38 percent of survey respondents indicated that wages were higher than a year ago. Seventy-four percent of those seeking to hire new workers reported raising wages for some or most job categories, and 63 percent of all contacts reported raising wages for existing employees by more than they have in the past few years.

Prices

Prices have increased slightly since the previous report. On net, just 6 percent of business contacts reported that prices charged to consumers increased in the current quarter relative to the same time last year. This is the fifth consecutive survey in which the share reporting higher selling prices has declined. Despite the reported softness in prices charged to consumers, firms' input costs continued to increase at a moderate rate. On net, 32 percent of business contacts reported higher nonlabor costs, the same share as in the previous quarter. Business contacts in retail and manufacturing reported facing increased price pressures due to tariffs.

Consumer Spending

Reports from general retailers, auto dealers, and hoteliers indicate that consumer activity has been mixed since the previous report. October real sales tax collections increased in Arkansas and Kentucky but were flat in Missouri relative to a year ago. September real sales tax collections increased in West Tennessee relative to a year ago. General retailers reported that sales have been about the same or slightly lower than this time last year, and their outlook on future economic conditions has turned pessimistic. Most surveyed auto dealers reported that sales have been about the same as this time last year but have fallen short of expectations, citing

rising prices as deterrents to consumer confidence. Multiple dealers continued to note seeing an increased preference for used and low-end vehicles. Hospitality contacts in the St. Louis region shared mixed accounts of recent tourism activity relative to a year ago but remained optimistic about the coming months.

Manufacturing

Manufacturing activity has been mixed since our previous report. For the second consecutive quarter, a majority of survey respondents reported declines in production, new orders, and capacity utilization relative to one year ago. Makers of vehicle parts noted that a slowdown in the automotive industry has negatively impacted sales. However, survey-based indexes indicate that manufacturing activity overall expanded slightly in Arkansas and Missouri from September to October, with new orders and production increasing moderately in both states. Contacts were slightly optimistic about the future; on net, most survey respondents expect manufacturing conditions to improve slightly in the first quarter of 2020.

Nonfinancial Services

Activity in the services sector has improved modestly since the previous report. On net, around 40 percent of survey respondents reported higher sales compared with the same time last year, and 45 percent expect this growth to continue into the first quarter of 2020. However, nearly a third of contacts noted that sales halfway through the fourth quarter have fallen short of expectations, which some credited to increased economic uncertainty. Transportation activity has been mixed since the previous report. Trucking contacts reported that lackluster demand for freight transportation has put downward pressure on prices. Barge traffic in Little Rock exceeded expectations in the first half of the fourth quarter.

Real Estate and Construction

Residential real estate activity has been mixed since the previous report. Seasonally adjusted home sales increased slightly from August to September in Little Rock, Louisville, and Memphis but decreased slightly in St. Louis. On net, 10 percent of survey respondents reported a decrease in demand for single-family homes relative to a year ago, and some contacts noted that fourth-quarter sales have fallen short of expectations. Inventory levels remained depressed.

Residential construction activity increased slightly. There was a slight uptick in September permit activity across District MSAs relative to the previous month. On net, 10 percent of survey respondents reported higher construction activity compared with the same time last year, and 20 percent expect continued growth in the next quarter.

Builders in the St. Louis area expect an uptick in activity in the near future due to lower mortgage rates and a reduction in home inventory.

Commercial real estate activity has increased slightly since the previous report. Survey respondents reported a slight increase in demand for office space relative to one year ago, a slight decrease in demand for retail space, and no change in demand for industrial space. Contacts, on net, also noted slightly higher demand for multifamily properties.

Commercial construction activity was mixed. Survey respondents reported higher demand for office and industrial property construction. However, there were some reports of firms putting future projects on hold because of economic uncertainty.

Banking and Finance

Banking conditions in the District have experienced little change since the previous report. Demand for mortgages and auto loans decreased slightly relative to one year ago, and demand for commercial and industry loans fell modestly. However, there was a sharp increase in credit card borrowing relative to the same time last year. Bankers expect a slight increase in total loan demand in the first quarter of 2020. Credit standards tightened overall compared with year-ago levels. Delinquencies were flat on a year-over-year basis but are expected to increase moderately in the first quarter of 2020.

Agriculture and Natural Resources

District agriculture conditions have remained unchanged from the previous reporting period and well below those from a year ago. Corn and soybean yield forecasts increased from October, while cotton yield forecasts have declined modestly. All three crops and rice are projected to have lower yields than last year. Production forecasts for corn, cotton, and soybeans have increased slightly since the previous report. Production levels for corn, rice, and soybeans are expected to be significantly lower than in 2018, while that for cotton is expected to increase modestly. District contacts continued to express concerns over depressed agriculture commodity prices.

Natural resource extraction conditions declined modestly from September to October, with seasonally adjusted production declining by nearly 4 percent. October production decreased 8 percent from a year ago. ■

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



Federal Reserve Bank of Minneapolis

The Beige Book ■ November 2019

Summary of Economic Activity

The Ninth District economy grew at a modest pace since the last report. Employment grew slightly, while wage pressures were moderate overall and price pressures remained modest. The District economy saw growth in consumer spending, commercial and residential construction and real estate, and energy. However, manufacturing declined slightly, while agricultural conditions remained weak.

Employment and Wages

Employment was slightly higher since the last report. In several ad hoc polls, conducted in three states among a mix of business types, a majority of respondents said they were hiring in some capacity. A broader poll of contacts across the District found somewhat softer (but still positive) sentiment about recent and future employment levels at their firms. An October survey of manufacturers in Minnesota and the Dakotas found that hiring sentiment had improved from contractionary levels a month earlier. A second survey among bankers and other rural businesses in these same states found that new-hiring sentiment was quite positive. Job postings this fall were modestly higher in the Dakotas and Michigan's Upper Peninsula, while Minnesota's were lower. A major layoff at a manufacturer in central Minnesota, involving more than 800, was seen by some local employers as a contribution to the local labor pool. However, contacts widely noted difficulty filling open positions, including in manufacturing, which has been experiencing some overall softness. Many staffing contacts reported lower job orders from clients, particularly in manufacturing, with some seeing declines of 20 percent, year over year. Initial unemployment insurance claims over the most recent six-week period (through the end of October) were about 3 percent higher than a year earlier, with increases seen in Montana, North Dakota, and Wisconsin, while Minnesota saw a slight decline.

Wage pressures were moderate overall. Staffing contacts suggested varying degrees of wage pressure. Among a group of six staffing offices (all with the same franchise, located mostly in Minnesota), average wages rose less than 2 percent at three locations over the previous 12 months, but more than 5 percent at two locations, and almost 10 percent at the remaining office. In the span of one week in October, a staffing contact in western Wisconsin said four manufacturing clients increased wages by \$1 to \$3 an hour. A Minneapolis Fed survey of Districtwide businesses found that 62 percent of employers raised wages by 3 percent or more compared with a year earlier. However, among a small sample of large Minnesota firms, most reported increasing wages by less than 3 percent over the past 12 months. As has been the pattern for some time, however, contacts continued to believe that future wage increases will be slightly to modestly softer than previous wage gains.

Prices

Price pressures remained modest since the previous report. A majority of respondents to a survey of large District firms reported recent increases in nonlabor input costs of less than 2 percent, with a similar outlook for the coming 12 months. Retail fuel prices as of mid-November were slightly lower in most areas of the District relative to the previous reporting period. Home heating costs were expected to rise more in District

states than nationwide this winter, largely due to differences in regional increases in the prices of natural gas. Prices received by farmers in September increased from a year earlier for corn, potatoes, milk, hogs, and turkeys, while prices for wheat, soybeans, hay, cattle, eggs, and chickens decreased.

Consumer Spending

Consumer spending increased moderately since the last report. Gross retail sales in South Dakota jumped more than 6 percent in September compared with a year earlier. The state also saw 11 percent growth in gaming receipts. But gross sales in Wisconsin were down 1 percent over the same period, following fairly strong summer sales. Sales tax receipts in Minnesota and North Dakota have also trended higher than forecasts. A vehicle dealership with multiple sales outlets in the western portion of the District saw vehicle sales fall modestly in September compared with a year earlier, but rebounded with an 8 percent increase in October. Airport traffic in September and October was strong across many of the District's regional airports. In Minnesota, hotel occupancy and revenue per available room improved modestly in September (year over year). Lodging and accommodations taxes in Montana were also slightly higher in the third quarter compared with 2018. However, several bankers noted that consumer loan demand was mixed. Monthly visitors to several major national parks in the District also saw double-digit declines in September (year over year). Restaurants and other businesses catering to consumers reported having to shorten hours of operation due to lack of staffing.

Construction and Real Estate

Commercial construction rose moderately since the last report. A construction database showed that new and active projects across the District over the most recent six-week period (ending in early November) were modestly higher than the same period a year earlier. Most contacts in engineering, architecture, and construction reported solid backlogs and were optimistic heading into a traditionally slower period. Commercial permitting this fall was broadly higher across most of the District's larger cities, and was particularly strong in Sioux Falls, S.D.; one notable exception was the city of Minneapolis, where permitting slowed in October. A contact in Michigan's Upper Peninsula said the region was seeing normal seasonal slowdown, and there were fewer projects to bid on for work next year. Residential construction was moderately higher; single-family construction was higher in many locations, but flat in a few places; multifamily construction was mostly lower. However, both single- and multifamily construction were

strongly higher in Minneapolis-St. Paul in September and October.

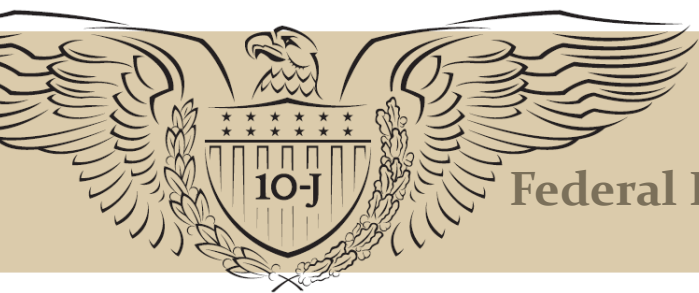
Commercial real estate improved modestly since the last report. In Minneapolis-St. Paul, office vacancy rates were down slightly compared with this summer. Industrial space in the region continued to expand, but strong leasing activity kept vacancy rates low. Retail vacancy rates have remained among the lowest in the country, thanks to strong leasing and lower levels of new construction. Rental rates, however, have been flat or falling. Office vacancies have trended lower this year in Sioux Falls, and industrial vacancies were stable; however, retail vacancies there were still elevated. Multifamily vacancy rates remained low across most of the District, according to sources. Residential real estate was modestly higher across the District. Closed home sales in September and October in Minnesota were about 2 percent higher over the same period a year earlier. Higher sales over this period were also seen in western Wisconsin, Grand Forks and Fargo, N.D., and Bozeman and Missoula, Mont. However, slower sales were seen in northern Wisconsin and Sioux Falls.

Manufacturing

District manufacturing activity declined modestly from the last report. Contacts continued to point to decreases in orders, production, and capital spending. A heavy equipment producer noted a slowdown in sales that they initially blamed on heavy rainfall this year, but said this "masks a much deeper contraction in capital equipment spending." Custom manufacturers reported a decrease in order backlogs. In contrast, an index of manufacturing conditions indicated increased activity in October compared with a month earlier in Minnesota and South Dakota and flat activity in North Dakota.

Agriculture, Energy, and Natural Resources

District agricultural conditions declined from an already weak position. Roughly three in five lenders responding to the Minneapolis Fed's third-quarter (October) survey of agricultural credit conditions reported that farm incomes decreased in the third quarter relative to a year earlier, with a similar proportion reporting decreased capital spending. Persistent heavy rains have delayed harvests and damaged crop quality in substantial portions of the District. District oil and gas exploration activity was steady since the previous report. The number of active drilling rigs as of early November fell slightly from a month earlier, but the most recent figures (as of August) indicated that oil production hit a new record. ■



Summary of Economic Activity

Tenth District economic activity held steady in October and early November, although conditions were mixed across sectors. Consumer spending edged down since the previous survey period as higher retail sales were offset by lower sales in the auto, restaurant, and tourism sectors. Manufacturers noted weaker activity, led by continued declines in durable goods production, but manufacturers expected activity to stabilize in the months ahead. Contacts in the transportation sector noted slightly lower sales, while sales in the wholesale trade and professional and high-tech services sectors rose. District real estate conditions rose slightly, although residential construction contacts expected lower activity moving into the winter months. Energy activity continued to fall in the District, and the outlook for drilling and business activity softened. The agriculture sector remained weak, and credit conditions worsened as farm income and loan repayment rates fell. District employment and employee hours held steady since the previous survey period, but a majority of contacts reported ongoing shortages of qualified labor. Wages continued to expand at a modest pace, and contacts expected moderate growth in the months ahead. Services sector contacts noted higher input and selling prices since the previous survey period, while manufacturers noted slightly lower prices for finished products and raw materials.

Employment and Wages

District employment and employee hours held steady since the last survey period, and both remained above year-ago levels. Job gains in the professional and technical services, real estate, health services and wholesale trade sectors were offset by losses in the manufacturing, auto sales, transportation, and tourism and hotel sectors. Employment in all industries, with the exception of the auto sales sector, was at or above levels from the same period a year ago, and contacts expected employment to rise in the next few months.

A majority of contacts continued to report labor shortages across all skill levels, and a lack of qualified applicants was cited as the number one reason for not filling open positions over the last three months. Specifically, respondents noted shortages for truck drivers, hourly retail and food-services positions, auto-technicians, IT personnel, nurses, engineers and skilled construction trades. Wages continued to grow modestly since the previous survey period, and strong gains were expected in the months ahead.

Prices

Input and selling prices rose modestly in October and early November in the services sector, while manufacturers noted slightly lower prices. Both input and selling prices were expected to increase moving forward for all

reporting sectors. Contacts in the retail trade sector noted moderate input price gains and modestly higher selling prices. Input and selling prices in the restaurant sector rose modestly, and were strongly above year-ago levels. The transportation sector saw modest gains in both input and selling prices. Construction supply respondents noted steady selling prices since the previous survey period, although selling prices were below year-ago levels. Manufacturers noted slightly lower prices for finished products and raw materials. Construction supply and manufacturing respondents expected small price increases moving forward.

Consumer Spending

Consumer spending edged down in October and early November relative to the previous survey period, however contacts expected sales to expand during the upcoming holiday season. Retail sales grew modestly compared to the previous survey period, and remained above year-ago levels. After steady increases through the late summer months, auto sales fell modestly compared to both the previous survey period and year-ago levels. Contacts noted that SUVs and trucks sold well, while sedans sold poorly. Both auto and retail trade contacts were optimistic about future sales and expected increases in the coming months. Restaurant sales fell slightly compared to the previous survey, but were sharply higher than a year ago. Tourism activity was

weaker than the last survey, but slightly above levels from a year ago. Above average snowfall in the mountain areas has led to increased optimism about winter tourism activity this season.

Manufacturing and Other Business Activity

Manufacturing activity fell slightly in October and early November due to persistent declines in durable goods factory activity, however manufacturers expected activity to slightly increase in the months ahead. Factory production, order backlogs, and new orders each declined compared to the previous survey period, and contacts expected production, shipments, and the volume of new orders to increase in the months ahead. Capital spending was modestly above year-ago levels, and contacts anticipated slight growth in spending in the months ahead.

Outside of manufacturing, firms in the transportation sector experienced slightly lower sales, while sales increased strongly in the wholesale trade sector and modestly in the professional and high-tech services sector. All three sectors expected sales to increase in the months ahead. Transportation sector contacts anticipated slight decreases in capital spending in the coming months, while wholesale trade and professional and high-tech services contacts expected spending to increase.

Real Estate and Construction

District real estate activity rose slightly since the last survey period and was above year-ago levels. Residential real estate sales held steady in October and early November, although sales were higher than a year ago. Residential construction activity rose modestly over the previous survey period as starts, traffic of potential buyers, and construction supply sales rose. However, expectations were for a decrease in residential construction activity moving into the winter months. Commercial real estate activity inched up as sales, absorption, and completions rose while vacancy rates fell and construction underway held steady. Overall activity in the commercial real estate sector was projected to grow slightly.

Banking

Overall loan demand rose slightly during the survey period, although demand across categories was mixed. Bankers noted higher demand for commercial real estate and consumer installment loans, but experienced flat demand for residential real estate loans, and lower demand for commercial and industrial and agricultural loans. Bankers continued to see modest improvement in loan quality compared to levels at the same time last year and expected loan quality to hold steady during the next six months. Credit standards held steady across all

major loan categories. Deposits edged up, although several bankers noted poor demand for certificates of deposits during the survey period.

Energy

District energy activity decreased since the previous survey period, and expectations for future drilling and business activity eased. The number of active rigs continued to decline across most states but was primarily driven by a decrease in Oklahoma. Oil and gas production eased slightly, but still remained at generally high levels. As a result, production levels continued to support strong mid-stream and transportation activity. Revenues and profit levels of regional firms fell compared to a year ago and earlier this year, in part due to lower commodity prices. District employment levels and capital expenditures in the industry also eased.

Agriculture

The Tenth District farm economy remained weak, and agricultural credit conditions deteriorated slightly. In the most recent survey period, regional contacts reported that farm income and loan repayment rates continued to decline at a modest pace. Demand for farm loans remained strong, but the pace of growth slowed from previous survey periods. Despite some support from government payments connected to ongoing trade disputes, most bankers pointed to an ongoing environment of low agricultural commodity prices and elevated costs as the primary factors contributing to further weakness. As profit opportunities remained limited, producer working capital deteriorated slightly, and a modest number of borrowers were expected to sell assets before the end of the year to improve liquidity. ■

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



Federal Reserve Bank of Dallas

The Beige Book ■ November 2019

Summary of Economic Activity

Moderate expansion continued in the Eleventh District economy. Growth held fairly steady in services and retail but decelerated slightly in manufacturing. Home sales remained on the rise while energy activity continued to decline. The agriculture picture was mixed, with continued drought conditions but rising prices and decent production prospects. Employment growth was solid and upward wage pressures continued. Selling prices were largely flat, as firms' ability to pass through increased costs remained limited. Outlooks generally improved, except in energy and financial services. Uncertainty generally remained elevated, driven by trade tensions, the political climate, and weaker global growth.

Employment and Wages

Employment continued to expand at a solid pace. Hiring accelerated slightly in the service sector and remained above average in manufacturing. Headcounts continued to fall in the oil and gas sector. Labor shortages remained pervasive, with multiple contacts specifically mentioning the drag this was having on business growth. Staffing services contacts reported a very tight labor market with most companies struggling to find qualified workers across skill levels.

Wages continued to increase, with pressures picking up slightly over the reporting period.

Prices

Input prices continued to rise at a moderate pace, except in the energy sector where they remained flat at low levels. Some contacts, particularly manufacturers and retailers, pointed to tariffs as a primary driver of increased costs. Selling prices were largely flat, although airline contacts noted a slight increase in ticket prices over the past six weeks. Some contacts said they are unable to sufficiently raise prices to cover their increasing costs.

Manufacturing

Expansion in the manufacturing sector slowed to a more modest pace, and demand weakened slightly. Several

contacts noted that slowing demand was due to energy sector weakness and a general pullback among customers due to heightened uncertainty. Production declines were noted in machinery and fabricated metals manufacturing—two segments with ties to the energy sector. Meanwhile, output of nondurable goods picked up pace over the reporting period. Refiners and chemical producers said softening global demand, tariffs, and ongoing trade policy uncertainty were squeezing margins.

Outlooks among manufacturers remained positive, and expectations for manufacturing activity six months ahead increased across a variety of measures. Trade tensions remained a concern, however, and some contacts noted that uncertainty was making planning difficult.

Retail Sales

Retail sales continued to grow at a moderate pace over the reporting period, although some weakness was seen in autos and among wholesalers. Retailers experiencing a pickup in sales pointed to lower interest rates, favorable weather, and increased internet sales as factors boosting growth. One retailer noted that sales at stores near the Mexican border continued to be challenging compared with previous years. Overall retail outlooks improved notably, although some contacts cited trade issues as a headwind, including instability in some countries where they do business.

Nonfinancial Services

Nonfinancial services activity continued to expand moderately over the reporting period, even picking up pace slightly. Growth in professional and technical services continued to lead the expansion, joined in the latest period by healthcare services. Weakness was seen in administrative and support services. Staffing services contacts reported mostly softer demand, though still at relatively high levels. Staffing contacts noted strength in healthcare and banking but weakness in energy. Activity in the transportation and warehousing sector remained mixed, with strong airline passenger demand and rising sea cargo volumes but some weakness in rail cargo.

Service-sector outlooks improved over the past six weeks, although uncertainty remained elevated. Global economic uncertainty and trade tensions continued to be the predominant factors hampering future planning. Domestic political uncertainty moving into the 2020 elections also came up as an area of concern for several contacts.

Construction and Real Estate

Home sales continued to rise, although a few contacts noted slight seasonal weakness. Sales were up year over year partly due to lower mortgage rates, and most builders were meeting or exceeding expectations. Builders have managed to sell off inventory, bringing the supply of finished vacant homes down to normal levels. Some builders were able to pass through select price increases, improving their margins, and outlooks were mostly optimistic. Recent tornadoes in Dallas-Fort Worth damaged homes, which spurred demand for rentals.

Apartment demand generally remained healthy, with occupancy tightest in Austin. Rents rose slightly. Investor appetite was solid, and apartment construction continued to be elevated. Leasing of office and industrial space remained active.

Financial Services

Growth in loan demand continued at a moderate pace over the reporting period, bolstered primarily by commercial and residential real estate loans. Commercial and industrial loan volumes held steady while consumer loan volumes again contracted slightly. Credit standards continued to tighten across the board. While business activity picked up since the last reporting period, the outlook for activity six months from now deteriorated slightly. Bankers cited concerns regarding the uncertain business climate and lower interest rates hampering pricing flexibility.

Energy

Drilling activity in the Eleventh District continued to erode, with firms cutting spending and orders for new equipment. Well completion activity has proved more resilient, particularly in the Permian Basin, slipping only slightly from recent highs. The oilfield services market remained depressed, with little optimism about better margins next year.

Firms were more pessimistic in their outlooks through the end of 2020 than during the prior reporting period due to a weaker economic outlook and tightening credit conditions. Contacts noted that some firms were pivoting to international markets for growth opportunities and where there is hope for higher margins.

Agriculture

Much of Texas remained abnormally dry or in drought. Even still, crop conditions were mostly fair to good, and were more favorable than this time last year. Texas crop production estimates for 2019 exceed 2018 for several crops, including corn, sorghum and cotton. Crop and livestock prices generally trended higher over the reporting period. Milk prices also rose, nearing a profitable level for dairies after a couple of difficult years, according to contacts. Contacts noted continued concern among agricultural producers over trade issues with China but noted there was increased optimism regarding trade talks and the possibility of some tariffs being removed. ■

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



Summary of Economic Activity

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

Employment and Wages

The labor market remained tight, and employment growth picked up moderately. Businesses in sectors including health care, finance, and manufacturing noted solid hiring activity, while others reported that shortages of qualified labor prevented them from filling vacancies. In the Mountain West, a producer of building products hired tradespeople in response to improved construction activity, and a contact in Boise reported that a major e-commerce business was opening a distribution center in the area, resulting in anticipatory hiring. In the Pacific Northwest, a health-care provider expanded its workforce in response to higher demand. Worker turnover also spurred hiring activity, as in the case of a credit union in Northern California. A community banking contact in Oregon saw previously robust demand for workers moderate slightly.

Wages rose modestly across sectors as companies tried to attract qualified workers in highly competitive labor markets. Wages picked up further for skilled finance and technology workers, according to community banks, credit unions, and financial technology companies across the District. A provider of business security services in Seattle observed that labor costs have risen to the highest level in company history. A few businesses in higher cost urban areas noted efforts to relocate jobs to lower cost areas of the District in order to contain labor compensation. Several reports mentioned that forthcom-

ing increases in the minimum wage taking effect in the new year would result in higher wages for most hourly workers as employers adjust pay scales upwards.

Prices

Reports on prices were mixed, but suggested that inflation was up slightly on balance. A handful of businesses, such as a quick service restaurant chain and a professional security provider, reported that selling prices were higher due to a pickup in wage costs that could not be sustainably absorbed by profit margins. Health-care service providers noted that inflation ticked up for many products and treatments due to solid patient traffic. Some producers of building materials and wood products increased selling prices in response to improved construction activity, while others lowered prices somewhat in response to weak export demand. Contacts in metals manufacturing and public utilities reported stable prices on inputs such as copper and natural gas. In Southern California, subdued demand for hotel lodging resulted in a slowdown in room rate inflation and, for some hotels, modest declines in prices.

Retail Trade and Services

Sales of retail goods increased somewhat. Most reports indicated that consumer demand was steady, with spending supported by increasing incomes borne of tight labor markets. Sales at specialized outlets, such as home improvement stores and pet supply stores, rose

noticeably. Retailers were generally optimistic about holiday sales, given solid consumer spending over the past year and other factors like continued service improvements at e-commerce outlets. A few businesses expected to rely more on discount pricing schemes than in previous holiday seasons due to brisk competition. Some businesses that depend primarily on brick-and-mortar sales were concerned about inclement weather constraining foot traffic; one contact noted that, with Thanksgiving falling later than usual, the shorter holiday shopping season could damp sales.

Activity in the consumer and business services sectors was solid. Across the District, demand for health services was strong and in some cases led service providers to open new locations. In the entertainment sector, the robust growth of streaming services has resulted in a boom in television and movie production that could lead to expansion in locales in the District outside of Southern California. Sales at quick service restaurants grew steadily, though one contact in Southern California noted a few restaurants closed in response to labor and operating costs that exceeded sales revenue. In California, the tourism sector saw mixed activity, with sales at leisure cruise companies rising somewhat and occupancy rates at hotels around San Diego falling modestly.

Manufacturing

Activity in the manufacturing sector was little changed. A metals manufacturer in the Pacific Northwest reported that demand was steady, though order backlogs for most producers were no longer growing. Domestic wood product manufacturers saw the pace of sales pick up modestly thanks to the stabilizing housing market, which followed the broad decline in mortgage rates. In general, these manufacturers also noted stiff competition with producers from countries that have not been targeted with tariffs. However, one contact noted that production constraints at sawmills in Canada have benefited domestic producers by reducing Canadian supply to the United States.

Agriculture and Resource-Related Industries

Reports on activity in the agricultural sector were mixed. In the Central Valley of California, one contact noted solid yields and sales for crops like tomatoes, beans, and grapes, while another observed disappointing nut yields and continued weak export demand. Profitability for growers improved slightly, however, as they adjusted their supply levels in response to the new environment of subdued demand from abroad. Activity in the livestock sector was also mixed, with demand for beef and dairy cattle ticking down and demand for swine picking up

somewhat. A lumber producer from the Pacific Northwest reported that production has been steady, but exports continue to decline due to trade tensions and slowing foreign economies. For some wheat growers in Eastern Washington, recent inclement weather prevented them from planting, while tensions with trading partners have resulted in an oversupply in domestic markets and tighter profit margins.

Real Estate and Construction

Residential real estate activity expanded moderately on balance. Several reports noted that permitting picked up, along with sales, due in part to lower interest rates spurring construction and demand. Labor shortages and higher materials costs still limited construction starts somewhat, but a few respondents indicated that materials were now more readily available and wait times for contractors had shortened modestly. Prices grew a bit, with historically elevated selling prices and rents leading buyers in some urban areas to relocate. Robust demand continued to outpace supply and push up prices in the Mountain West, especially in metro areas like Boise. In Seattle and Los Angeles, contacts noted a mixed picture of the residential market, with some indicating that time-on-market for houses increased amid flagging demand and others observing robust construction activity and sales.

Activity in commercial real estate markets also expanded moderately. Demand for industrial spaces like factories and distribution centers was brisk in Southern California. Commercial construction activity was stable to up slightly in Oregon. In Seattle, major developers have initiated new commercial projects to meet the demand of businesses that have expanded employment and operations. In the Los Angeles area, rents have risen to such high levels in response to past robust demand for office space that leasing activity has cooled slightly. A contact in the Central Valley of California observed a modest decline in commercial permitting.

Financial Institutions

Lending activity grew solidly, with most reports noting a further pickup in loan demand and a few noting no change over the reporting period. In general, lower interest rates drove more lending activity, but also resulted in narrower interest margins for many banks. A financial technology company that lends primarily to small businesses reported steady activity. Credit quality was strong across most of the District, though a few banks reported tighter underwriting standards for new loans in the face of uncertainty about future economic conditions. ■



