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# The Beige Book

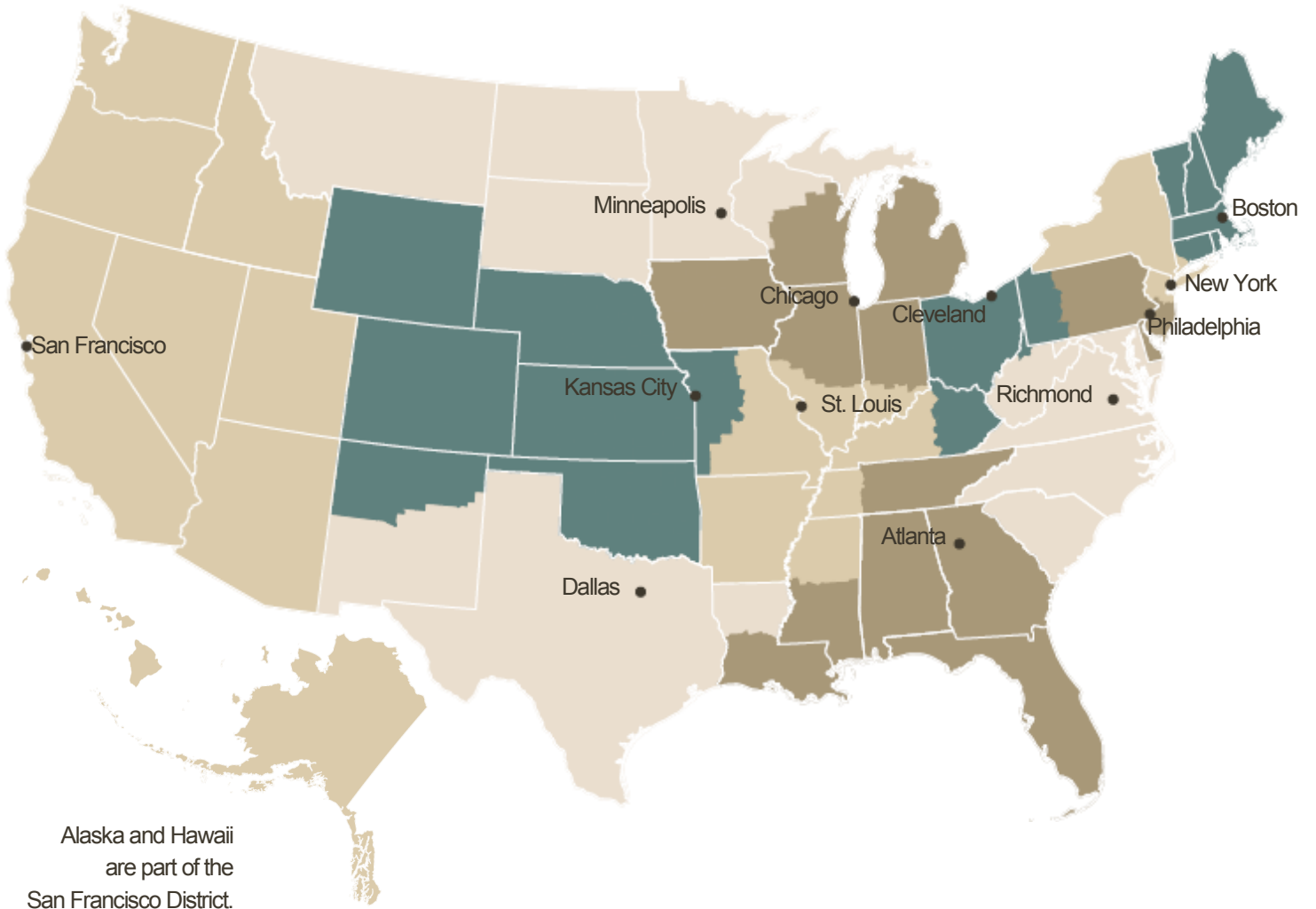
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Summary of Commentary on Current Economic Conditions

By Federal Reserve District

January 2017

## 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.

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This report was prepared at the Federal Reserve Bank of Boston based on information collected on or before January 9, 2017. This document summarizes comments received from contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.

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# National Summary

The Beige Book ■ January 2017

## Overall Economic Activity

Reports from the twelve Federal Reserve Districts indicated that the economy continued to expand at a modest pace across most regions from late November through the end of the year. Manufacturers in most Districts reported increased sales with several citing a turnaround versus earlier in 2016. Growth in the energy industry was mixed; two Districts reported weakness in coal production but others reported improvements in coal, oil, or gas activity. Most Districts said that non-auto retail sales had expanded, but several noted that sales over the holiday season were disappointing and reports in more than one District suggested that growth in e-commerce had come at the expense of bricks-and-mortar retailers. All Districts reported varying degrees of growth in employment and a majority described their labor markets as tight. Residential construction and sales were generally mixed, although San Francisco reported strong real estate market activity throughout the 12th District. Financial conditions were stable. Firms across the country and industries were said to be optimistic about growth in 2017.

## Employment and Wages

Labor markets were reported to be tight or tightening during the period. Employment growth ranged from slight to moderate and most Districts indicated that wages increased modestly. A couple of Districts mentioned layoffs, but even in those Districts, as in other regions, most responding firms were said to have added employment, on net. District reports cited widespread difficulties in finding workers for skilled positions; several also noted problems recruiting for less-skilled jobs. Wages in some Districts were pushed up a bit by increases in the states' minimum wages and most Districts said wage pressures had increased. Many Districts said contacts expect labor markets to continue to tighten in 2017, with wage pressures likely to rise and the pace of hiring to hold steady or increase.

## Prices

Pricing pressures intensified somewhat since the last report. Eight out of twelve Districts saw modest price increases and the remainder experienced slight increases, or flat prices in the case of the Atlanta District. Increases in input costs were more widespread than increases in final goods prices. Cost increases were reported for coal, natural gas, and selected building and manufacturing materials. Retailers' selling prices were mixed, but on balance were flat or down amidst competitive discounting. Prices of most agricultural commodities stayed flat at very low levels. Home prices were stable or up modestly. Businesses in several districts reportedly expect further modest increases in input costs and selling prices in 2017.

## Highlights by Federal Reserve District

### Boston

Economic activity in the First District expanded at a modest to moderate pace in the final weeks of 2016. Firms undertaking hiring cited difficulties finding employees; a contact in the restaurant industry, in particular, noted worker shortages. At the same time, most employers said they were not raising wages substantially. Business contacts remained optimistic about 2017.

### New York

Economic activity has held steady. Labor markets remained tight and wages continued to grow moderately. Input cost increases have become increasingly widespread, and selling prices have increased at a somewhat faster pace. Housing markets have continued to weaken at the high end, while commercial real estate markets have slackened.

### Philadelphia

Overall economic activity appeared to pick up to a modest pace of growth in the Third District with nonauto retail sales, nonfinancial services, and manufacturing providing the boost from the prior period of slight growth. Hiring also rose to a modest pace, and tightening labor markets sustained modest pressure on wages and prices.

### Cleveland

Economic activity in the Fourth District grew slightly. Labor markets showed signs of tightening. Upward pressure on selling prices increased. Retail sales disappointed, while motor vehicle unit sales increased. Residential and commercial construction activity remains elevated. Activity in the energy sector edged higher, and manufacturing output was little changed.

### Richmond

Economic activity increased at a moderate pace on balance, with strengthening in the manufacturing sector. Retail sales also grew at a faster pace since the previous report. Real estate agents reported strong industrial leasing, with more e-commerce tenants looking for large facilities. Stronger multi-family construction was reported in Washington, D.C., Charlotte, North Carolina, and Charleston, South Carolina.

### Atlanta

Economic activity expanded modestly. Retailers cited an increase in sales. Home prices increased modestly. Commercial real estate contacts continued to indicate improving demand. Manufacturers noted an increase in new orders and production. The labor market remained tight and wages were stable. Non-labor input costs remained relatively unchanged.

### Chicago

Growth in the Seventh District continued at a modest pace. Manufacturing production grew at a robust rate, business spending grew at a moderate rate, consumer spending increased modestly, and construction and real estate activity edged up. Financial conditions improved some, prices increased modestly, and farm incomes were little changed.

### St. Louis

Economic conditions in the Eighth District continued to expand at a modest pace. On a positive note, District contacts anticipate an uptick in consumer spending activity in early 2017. Conversely, low commodity prices continue to put many agricultural parts of the District under financial stress.

### Minneapolis

Economic activity in the Ninth District grew modestly. Consumer spending was lower than expected through the holidays, though winter tourism started well. Manufacturing activity picked up, and the outlook for the sector appeared more optimistic. Commercial construction held steady at high levels, but heavy and residential construction lagged. Homes sales were strong in most regions.

### Kansas City

Economic activity in the Tenth District expanded modestly in late November and December. Consumer spending increased, and contacts expected moderately higher sales in the months ahead. Manufacturing production, shipments, and new orders grew at their fastest pace in over two years. The energy sector expanded further, and higher energy prices led to continued optimism in the sector.

### Dallas

Economic activity grew moderately in the Eleventh District, and outlooks were more optimistic than the previous report. The energy sector noted improved demand and an uptick in employment, following depressed activity for nearly two years. Manufacturing activity expanded, although job growth remained weak. Retail sales continued to be weak in energy-related and peso-sensitive areas.

### San Francisco

Economic activity in the Twelfth District continued to expand at a moderate pace. Holiday retail sales picked up, and activity in the services sector remained strong. Conditions in the agricultural sector were mixed, while activity in the manufacturing sector was stable. Contacts reported strong activity in the housing market and moderate growth in overall lending activity.



## Summary of Economic Activity

Business activity continued to expand in the First District at the close of 2016. Both retailers and manufacturers cited modest to moderate increases in revenues in recent weeks compared with a year earlier. Software and information services firms reported strong order increases in the fourth quarter. Commercial real estate markets were mostly steady in the region; in the Boston area office rents increased and sales prices for commercial properties were stable. Residential real estate markets across the region continued to experience increases in both sales and prices. Although none sought substantial additions to headcount, a number of firms reported difficulty finding workers to fill openings. Prices were largely stable. Most responding firms cited a positive outlook, expecting end-of-year growth rates to continue in 2017.

### Employment and Wages

Contacts in multiple sectors mentioned tightening labor markets. For example, one retailer reported that their firm's labor costs went up 5 percent in 2016 because they had to pay more to attract workers and they faced state-mandated minimum wage increases. A majority of manufacturing contacts reported that they were actively recruiting and half indicated that they were struggling to find workers. Manufacturers' mentions of hiring difficulty extended across both skilled and unskilled workers and appeared to be an issue all across the region, including western Massachusetts, central Connecticut, and Rhode Island, as well as the Boston area. Software and IT services respondents kept headcounts relatively stable this past quarter and raised wages by mid-single digit percentages.

### Prices

Retailers reported that input and selling prices remained generally steady. Manufacturing contacts similarly did not report exceptional pricing pressure from either customers or suppliers. A global supply glut of selected chemicals reduced prices of both those chemicals and products made with them. A supplier to the auto industry expressed concern that high levels of inventory in the auto business would lead to discounting and, in turn, price-cutting pressure on suppliers as occurred in the mid-2000s.

### Retail and Tourism

Retail contacts consulted for this round reported that sales growth was generally good between mid-November and early January. In one case, this more positive recent trend made up for lower-than-expected sales earlier in 2016, which were partly driven by weather. Apparel sales were up, but demand for hardware items was reported to be down. Two respondents concluding their fiscal years on December 31 reported 2016 sales increases ranging from 1 percent to just over 3 percent. Another contact cited preliminary 2016 sales increases in the mid-single digit range. Continued modest sales growth is expected for 2017.

A contact in the restaurant industry reported that sales in December were generally good, which he indicated serves as a positive predictor for the next couple of months, as customers spend gift cards purchased during the holiday season. Locally owned restaurants were said to be doing better than the larger publicly-traded chain outlets. This respondent expected that overall restaurant sales will be up 1 to 2 percent for 2016. Looking forward, there was concern that a tight labor market combined with increases required by minimum wage laws will stifle restaurant expansion and job growth over the next few years, and some sense that this trend has already started. Restaurant expansion may also be limited by rising real estate costs.



### **Manufacturing and Related Services**

All eight manufacturers contacted this cycle reported higher sales versus the same period a year earlier. A sporting goods manufacturer reported robust year-over-year sales increases in the fall but does not expect that pace to continue. A manufacturer and retailer of furniture reported that sales slowed in mid-November but recovered in the balance of the year and were up slightly versus the year-earlier period. A toy maker reported exceptionally strong sales in the fourth quarter. A manufacturer of components for capital goods said that the second half of 2016 was better than the first half.

Most respondents reported higher capital expenditures but none reported major revisions to spending plans. Information technology remained a major area of capital expenditure for several firms. A manufacturer of components for capital goods said that new technologies were allowing firms to get more out of existing equipment and that this was depressing capital expenditures.

All the contacted manufacturers cited a positive outlook notwithstanding some uncertainty about the impact of possible policy changes by the new administration.

### **Software and Information Technology Services**

Contacts in software and IT services—with a very limited number of respondents—reported mixed revenue results near the end of 2016, but strong demand in Q4. A healthcare software firm reported a slight decline in 2016 revenue from 2015, though they attributed this to accounting changes more than a real decline in business. They experienced a “huge” Q4 for new orders, and thus were gearing up for a strong 2017. The contact identified uncertainty surrounding the future of the Affordable Care Act as a possible headwind for their hospital clients. An IT firm selling to manufacturers summed up 2016 as “a stable year after a rocky 2015.” They reported high single-digit growth in bookings in Q4 over last year. The contact was hopeful that manufacturing will continue to recover in the coming year, possibly including tailwinds from the incoming administration. However, they expressed concern about a resurging U.S. dollar.

### **Commercial Real Estate**

Conditions in commercial real estate markets across the First District were stable in recent weeks. Office leasing activity was steady or modestly slower in the region’s major metro areas. Investment sales activity and sales prices for prime commercial properties in Boston were also stable, as foreign investors were undeterred by higher interest rates and a stronger dollar. One contact

estimated that office rents in greater Boston increased 10 percent on average in 2016. Apartment construction activity slowed in recent months in both Boston and Portland, while office construction was stable at a slow pace in Boston and minimal in the rest of the region.

The outlook among contacts was cautiously optimistic, with significant uncertainty related to domestic politics. Contacts across the District expected capitalization rates to increase in 2017 to keep pace with rising interest rates, noting that such increases imply that rents will have to increase and/or valuations will have to decrease. On balance, contacts anticipated that property values will remain flat in 2017. Apartment construction activity was expected to slow further in coming months as borrowing costs continue to rise and lending terms continue to tighten, but prospects for new office construction appeared brighter for 2017 in light of rising office rents and low office vacancy rates around the region.

### **Residential Real Estate**

Continuing recent trends, residential real estate markets in the First District showed robust increases in sales and prices relative to last year. Closed sales for single-family homes and condos increased in all six First District states as well as in the Boston metro area (five of the six First District states and Boston reported changes from November 2015 to November 2016; Maine reported on October 2015 to October 2016). Massachusetts recorded the most closed sales on record for the month of November. As usual, many contacts cited falling inventories as an issue: inventories decreased year-over-year in every reporting region. A contact in Massachusetts reported that “with such little inventory, buyers needed to be quick with their best offers from the start.”

Home prices also rose year-over-year. For single-family homes, the median sales price increased in every reporting region. The same was true for condos, except in Vermont where prices decreased slightly.

Overall, contacts were optimistic about the outlook for the end of the year and into 2017. Many said rising interest rates would stimulate buyers to make offers at the end of 2016, but they did not expect further moderate increases in interest rates to restrain the region’s consistently strong buyer demand. ■

For more information about District economic conditions visit:  
[www.bostonfed.org/regional-economy](http://www.bostonfed.org/regional-economy)





## Summary of Economic Activity

Economic activity in the Second District has held steady since the last report, while labor markets have remained fairly tight. There have been increasingly widespread increases in input costs and scattered signs of a pickup in selling prices. Manufacturers indicated that business rebounded following an autumn slump, while service-sector contacts reported steady to moderately expanding activity. Consumer spending has been mixed, even as consumer confidence climbed to a multi-year high. Housing markets have been mixed, with weakness continuing at the high end, and commercial real estate markets were steady to somewhat slacker. Residential construction was sluggish, while there has been some pickup in office and especially industrial construction. Banks reported that both loan demand and delinquency rates were steady to moderately improved.

### Employment and Wages

The labor market has remained fairly tight, while hiring activity has been mixed. Businesses in most service industries reported that they have been hiring, on net, while manufacturers indicated that they are keeping headcounts steady. On balance, contacts said they plan to increase headcounts in the months ahead, particularly manufacturers. Contacts at employment agencies remained fairly upbeat about the job market, though they said it was hard to judge during this typically slow season. Still, an upstate New York agency noted that hiring remained fairly strong longer into December than usual and a New York City agency reported that hiring has picked up surprisingly early in January.

Contacts generally reported only a very modest pickup in wage growth, though contacts in service industries indicated that they anticipate rising wages in the months ahead—particularly in education and health, retail, wholesale and distribution industries. Though New York State raised its minimum wage structure on January 1, it is too early to assess its effects.

### Prices

Business contacts reported some pickup in both input prices and selling prices. Manufacturing contacts noted particularly widespread price increases, while most

service sector contacts noted only scattered increases. Both manufacturers and service firms also said they anticipate increasingly widespread cost increases in the months ahead. Retailers generally maintained that selling prices were steady to down slightly. Broadway theaters reported that ticket prices have increased by considerably more than the seasonal norm during this past holiday season.

### Consumer Spending

Retail merchandise sales were mixed but generally sluggish in November and December. Two major chains reported that same-store sales were down moderately from 2015 levels and below plan, though one noted that its on-line sales were up by double-digit percentages. By contrast, business picked up for upstate New York retailers. Cold weather reportedly boosted sales of winter apparel and outerwear. Despite the disappointing sales performance, inventories were said to be at reasonably satisfactory levels. Retail contacts were generally not very optimistic about the near-term sales outlook.

Auto dealers in upstate New York reported that sales of new and used vehicles picked up in the final two months of the year. Inventories of new vehicles have remained on the high side. Retail and wholesale credit conditions were reported to be in good shape.

Consumer confidence in the Middle Atlantic states (NY, NJ, PA) surged in December, reaching its highest level in more than nine years.

### **Manufacturing and Distribution**

Manufacturers reported that business activity has picked up noticeably since the last report and expressed increased optimism about the near-term outlook. Similarly, businesses in the wholesale trade and transportation industries reported widespread improvement in business activity and were increasingly optimistic about future business conditions.

### **Services**

Service-sector businesses reported steady to slightly improving business conditions since the last report. Looking ahead, these businesses were generally optimistic about the outlook—particularly those in the information and professional & business services sectors. Tourism activity has remained sluggish, as hotel business and Broadway theater attendance were flat to down from a year earlier.

### **Real Estate and Construction**

Housing markets have been mixed across the District since the last report, with weakness continuing at the high end. New York City's rental market has weakened noticeably, as rents for smaller units have leveled off, while rents of larger units have declined. Apartment rents elsewhere have been mostly flat of late, but still up modestly from a year earlier. Rental vacancy rates have increased in New York City, as well as across upstate New York, while they have edged down in northern New Jersey.

New York City's co-op and condo resale market has also weakened. Both sales activity and prices have slipped, except on small and moderately priced units. Bidding wars have become considerably less prevalent than earlier in the year. Elsewhere across the District, conditions have been more mixed. Home sales in the suburbs around New York City picked up considerably, though prices have remained fairly stable. In upstate New York, the market is still characterized as quite strong. Sales activity has been fairly robust for this time of year, inventories have remained tight, prices have continued to climb and sellers have continued to see multiple offers above the listing price. In contrast, home prices have remained generally flat in northern New Jersey, though activity has picked up somewhat.

Commercial real estate markets were steady to somewhat slacker in November and December. Office availability rates rose modestly in upstate New York, Long Island, Westchester and Fairfield counties, while rates remained steady in New York City and Northern New Jersey. Asking rents for office space were flat to up modestly in most of the District, though they declined in upstate New York. In contrast, the market for industrial space has shown continued strength. Across the New York City metro area, industrial vacancy rates have declined further and rents have risen fairly sharply. In upstate New York, though, vacancy rates have been mostly flat, and rents have edged lower.

New multi-family development has been weak in most of the District, except in northern New Jersey where it has held steady at a strong level. Single-family construction has remained sluggish across the District. Office construction has picked up somewhat in Manhattan but has been flat to down modestly across most of the District.

### **Banking and Finance**

Small- to medium-sized banks reported strengthening demand for commercial mortgages but little change in demand for consumer loans, residential mortgages, and commercial and industrial (C&I) loans. Bankers reported that credit standards were unchanged across all loan categories. No change was reported in spreads of loan rates over cost of funds across all loan categories except C&I, for which banks reported wider spreads. Bankers indicated lower delinquency rates for commercial mortgages and C&I loans but no change in delinquency rates for the remaining loan categories. ■

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



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## Summary of Economic Activity

Aggregate business activity in the Third District grew at a modest pace during the current Beige Book reporting period — a bit faster than the prior period. Notable shifts in activity included nonfinancial services and existing home sales, which improved to a moderate pace of growth. Four sectors — nonauto consumer spending, manufacturing, and non-residential construction and leasing — improved to a modest pace of growth. Employment growth also picked up to a modest pace. This pickup included manufacturing firms, which had been reporting job losses for much of the year. Contacts continued to report that wages rose modestly as the labor market continued to tighten. On balance, general prices also continued to grow at a modest pace. Overall, firms continued to expect moderate growth over the next six months.

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### Employment and Wages

Employment has picked up notably to a modest pace of growth since the prior report. Manufacturing firms noted an increase in employment for the first time in a year, while average hours worked lengthened for the second consecutive month. Employment indicators from non-manufacturing firms improved, as contacts reported increases in the use of full-time workers and part-time hires and in workweek hours.

However, descriptions from staffing firms were mixed, with Pennsylvania firms noting some quieter-than-normal lulls around the holiday season, while a New Jersey firm reported finishing strong through year-end.

On balance, wage pressures continued to be modest although the labor market has tightened for many occupations, according to banking and staffing contacts. One staffing contact described the labor market as tightening, with wages trending up and more turnover in mid-market placements; the contact also noted that small businesses will have to raise wages to remain competitive. Manufacturing contacts estimated that wages and nonhealth benefits would increase 2.0 percent to 2.5 percent in 2017 and that total compensation, including health benefits, would rise 3.5 percent to 5.5 percent.

### Prices

On balance, price levels continued to rise modestly. Although about 70 percent of the firms reported no change at all in prices paid and prices received, more of the remaining firms reported increases than decreases. The differential was similar to last period for prices paid but diminished for prices received.

Retail analysts used the term “price deflation” to depict the deep discounting of many retailers throughout the holiday sales period. Overall, home prices continued to rise slightly, although this varies across markets and price categories. Both residential and commercial developers have noted the high cost of developable land.

### Manufacturing

Overall, manufacturing firms reported modest growth — noting improvements in general activity and shipments, for which over one-third of the firms reported increases. New orders also continued to grow, but with somewhat fewer firms noting increases compared with the prior period.

The makers of paper products, chemicals, and primary metal products noted overall gains in activity from the prior period, while the makers of lumber products noted

weaker activity. Fabricated metals, industrial machinery, and electronics firms reported mixed results.

More than half of the manufacturing contacts were optimistic that orders, shipping, and general activity would grow over the next six months. Firms also expressed broader optimism for future capital expenditures and employment.

## Consumer Spending

Nonauto retail sales grew modestly over the holiday sales period, according to several analysts. They also noted that retailers offered heavy discounts on many items even before Black Friday and maintained these bargains throughout the season. Our contacts anticipate that while some retailers succeeded in clearing their shelves and creating the opportunity to restock with new inventory, they may have constrained their profits. Customers were described as “more savvy with technology” and as spending more money per trip.

Auto dealers described light vehicle sales as holding steady at high levels through year-end. Annual sales figures were estimated to finish slightly above those of 2015. For New Jersey, this meant a second consecutive sales record. Generally, dealers do not expect an increase in 2017 but hope sales will remain at or near 2016 levels.

Tourism contacts generally indicated a continuation of modest growth relative to the high levels of the prior year. Philadelphia area hotels set records for a third consecutive year. A shore location contact boasted an all-time record December — the third record month in the past year. Mild winter weather helped boost traffic at shore locations over the holidays, filling restaurants and retail shops. However, casino revenues in Atlantic City continued to decline against prior-year levels.

## Nonfinancial Services

Overall, Third District service-sector firms reported that activity picked up to a moderate pace of growth. Contacts also noted that the pace of sales and new orders improved. However, reported expectations of future growth have outpaced reports of current growth, though falling shy of many other reports over the past six years.

## Financial Services

Third District financial firms reported modest growth of total loan volume, a bit off the moderate pace of the prior Beige Book period. However, the significant seasonal increase in credit card volumes anticipated for the recent holiday period was much larger in 2016 than in 2015.

Commercial real estate loans and commercial and industrial loans continued to be two of the fastest growing loan categories; however, both grew at a slower pace than during the same period one year ago. Volumes of home mortgages, home equity loans, auto loans, and other consumer loans were mostly unchanged over the current Beige Book period.

On balance, banking contacts continued to report healthy loan portfolios and improving customer credit quality. In addition, several contacts noted holding the line on their own credit standards against more lenient terms and conditions offered by competitors.

Several contacts noted that the recent optimism and enthusiasm expressed by Main Street firms and Wall Street investors have not yet translated into tangible business investment. Overall, banking contacts continued to express cautious optimism for slow, steady growth, and are not yet convinced of potentially greater growth.

## Real Estate and Construction

On balance, homebuilders continued to report little change in activity. However, reports were mixed: Pennsylvania builders of mid-priced homes noted a pause in activity, while a South Jersey builder of higher-priced homes reported a pickup at year-end with strong backlogs going into January.

Brokers in most major Third District housing markets reported an upsurge in home sales to a moderate pace but noted that this season accounts for a relatively low percentage of annual sales volume. Moreover, sales continued to be constrained by very low inventory levels.

Nonresidential real estate contacts covering much of the Third District reported that slow, steady incremental growth was supporting leasing (and pre-leasing) activity, falling vacancy rates, rising rents, and new construction. Industrial/warehouse space is in greatest demand throughout the District. The market for office space is tightest in Philadelphia’s central business district, while most suburban office markets are still strengthening. ■

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



## Summary of Economic Activity

Economic activity grew slightly on balance across the Fourth District since our last report. Labor markets continue to show signs of tightening. Upward pressure on selling prices increased. Retailers reported disappointing same-store sales through the early part of the holiday shopping season, while motor vehicle unit sales increased. Production at manufacturing plants was stable. The housing market improved, with higher unit sales and higher prices. Commercial builders reported some pull back in inquiries and backlogs. Reports indicated a healthy increase in upstream shale gas activity. Coal production rose. Freight volume expanded over the period, but volume was flat compared to that of the same time period a year ago.

### Employment and Wages

Payrolls were little changed on balance since our last report. Job gains in banking were offset by losses in construction and freight hauling. Staffing firms reported a slight improvement in the number of job openings and placements; healthcare professionals were in highest demand. Job losses in manufacturing since late summer have been stemmed. While not creating new positions, manufacturers are replacing employees who leave voluntarily. Homebuilders and commercial contractors reported temporary seasonal layoffs. The construction industry continues to experience some wage pressure, especially from high-skilled workers. Staffing levels at banks increased on net. Many bankers noted wage pressure at the entry level and for high-skilled jobs, citing competition from within and outside their industry.

### Prices

Upward pressure on selling prices increased over the period. Manufacturers reported widespread increases in finished goods prices in response to rising raw-material costs, primarily for steel. Increasing wellhead prices for natural gas were attributed to the cold weather and storage withdrawals. Coal prices rose in response to draw-

downs of domestic power plant coal inventories, the strengthening gas prices, and a firming in export prices that was supported by continued tightness in international coal supplies. Shortages of homebuilding materials have been driving up prices, especially for concrete, drywall, and framing lumber. Commercial building contractors saw rising prices for structural steel and rebar. A few retail chains reported reassessing their shelf prices because of intensifying price competition. New motor vehicle average transaction prices have risen about 1 percent in the past year, but that number hides distinct trends for cars and light trucks. Car prices have declined because of rising dealer and OEM incentives. In contrast, light truck prices increased because of larger sticker price increases and lower incentives. Upward pressure on freight hauling rates is expected during 2017 because implementing regulations associated with the new electronic logging requirements may lead to a temporary reduction in freight capacity.

### Consumer Spending

Retailers reported disappointing same-store sales through the early part of the holiday shopping season. The unusually warm weather was cited as driving down purchases of cold-weather items. An apparel chain noted



significant price competition from several competitors who are in the process of liquidating. Another chain reported that although foot traffic has increased, price declines for select product lines has resulted in flat sales in those lines. Going forward, traditional retailers expect little change in sales because of intensifying price competition, especially from Internet sellers. Several contacts reported cutting capital budgets because of weakening sales. However, investment in e-commerce remains strong. Year-to-date unit sales through November of new motor vehicles declined 1 percent when compared to the year-earlier period. Light trucks continue to dominate transactions. Used motor vehicle transactions have increased about 3 percent.

### **Manufacturing**

Factory output was little changed over the period, though several contacts cited a seasonal downturn in new orders. Activity for suppliers to the motor vehicle and construction industries remains elevated. Factors tempering output growth for other manufacturing industries include a general malaise in the industrial products market and weakness in the energy sector. Year-to-date production through November at District auto assembly plants fell 5 percent when compared to that of the same time period during 2015. Car inventories remain significantly higher than those for light trucks. Steel producers reported rising volumes, a situation which they attributed to lower imports. Capital spending increased slightly over the period, but a large share of the monies was allocated for maintenance projects. Spending on new equipment and product development fell. Post-election confidence has buoyed the outlook of many contacts; however, it remains uncertain how potential changes in the regulatory environment ultimately will affect capital investment.

### **Real Estate and Construction**

Year-to-date unit sales through November of new and existing single-family homes increased 5 percent compared to those of a year earlier. The average sales price rose 4.5 percent. Homebuilders are concerned about rising interest rates and the affect they will have on consumers' willingness to purchase new homes. First-time-buyer and first-move-up contracts moved higher, whereas sales of high-end homes slowed. Year-to-date estimates of single-family construction starts were much higher in Ohio and Kentucky, but lower in Pennsylvania, compared to a year earlier.

Although overall activity remains elevated, nonresidential contractors reported a slowing in the number of inquiries and a decline in backlogs, a situation which they attribut-

ed to seasonal factors and uncertainty leading up to the presidential election. General contractors are expecting to see an increase in spending on infrastructure projects and for warehousing and distribution centers. Many general contractors reported raising billing rates to cover higher material costs, especially for steel.

### **Banking**

Bankers reported that lending pipelines are relatively strong, but there is little organic growth. Several contacts reported seasonal slowing in select product lines, especially on the retail side. The outlook is more positive since the presidential election because some clients are expecting regulatory relief. One banker noted the first round of federal funds rate increases is unlikely to be passed through to savers. However, future increases will likely result in higher interest rates paid on savings accounts. Credit quality remains strong, and little change was reported in loan-application standards. On the commercial side, the strongest demand was for CRE loans. Reports from retail banking indicated that the highest demand was for auto loans and home equity products. Core deposit balances continued to increase.

### **Energy**

Reports showed a healthy increase in the number of permits issued and the number of drilling rigs operating in the Marcellus and Utica Shales during the past couple of months. Nonetheless, upstream activity is below levels seen two years ago. Natural gas output remains at historic highs. Coal production continued to move higher as customers respond to their low inventories and improving market conditions for their products.

### **Freight Transportation**

Freight volume expanded over the period on balance and was attributed to a slowly improving economy. However, volume was flat compared to that of the same time period a year ago and was characterized as sluggish. As a result, some carriers reduced staffing through attrition. Freight shipping rates were relatively stable, other than select increases in the fuel surcharge. Capital spending was primarily for new equipment. ■



## Summary of Economic Activity

Fifth District economic activity grew at a moderately faster pace since the previous Beige Book report. Reports were strongly upbeat in early December, while assessments reported later in the month and in the surveys were more restrained. Demand for labor increased at a moderate pace, and reports of wage pressures were more common than earlier. Price changes were generally mild, except at retail and services firms where prices received rose at a slightly faster pace. The manufacturing sector strengthened and producers indicated moderate growth in new orders. Retail sales rose briskly, while tourism at winter resorts strengthened to seasonal levels. Residential real estate activity was little changed at seasonal levels. Commercial real estate leasing rose moderately and sales increased modestly. Residential and commercial loan demand was flat to slightly stronger in the weeks since the previous report. Revenue growth at non-financial services firms remained modest. Indicators for agricultural and natural resource production were mixed.

### Employment and Wages

Labor demand increased at a moderate pace since the previous Beige Book. District businesses reported modest increases in wages, with more contacts reporting increased wage pressures. The supply of well-qualified workers, especially in the skilled trades, continued to be a problem. A Virginia recruiter reported slightly stronger demand for employees in customer service, health care, legal, and government positions. Staffing firms reported that the volume of worker conversion from temporary to permanent remained at normal levels. A contact in Charleston, South Carolina said companies there were doing more direct hiring in recent weeks. Also a staffing firm in West Virginia reported increased placement of temporary workers due to high demand from manufacturers, especially in the automotive sector.

### Prices

Manufacturers reported that average input prices rose modestly in recent weeks, with the exception of copper and stainless steel, which advanced more rapidly. Average manufacturing output prices increased only slightly. Services and retail prices continued to rise moderately and at a slightly faster pace than reported in our previous Beige Book. Cotton prices were unchanged while peanut and corn prices remained low. Natural gas prices rose

modestly in recent weeks, and Northern and Central Appalachian coal prices edged slightly higher.

### Manufacturing

More manufacturers reported a rise in shipments and growth in backlogs since the previous report, as well as moderate growth in new orders. In addition, increased capacity utilization was more widespread. Producers of paper products, batteries, and office furniture reported stronger overall business conditions. Manufacturing executives expected further strengthening during the next six months.

### Ports and Transportation

The volume of container traffic rose moderately at two of the District's ports since the previous report. At another port, container traffic increased by double digits every month in the fourth quarter, in part because of calls from larger, post-Panamax vessels. Imports of autos remained strong at one major port in recent weeks, while both imports and exports of farm and construction machinery remained very weak. In addition, exports of autos declined.

A couple of national trucking firms in the District reported that demand for dedicated freight services increased moderately, as businesses locked in services to ensure



their freight needs will be met when an electronic log mandate becomes effective in late 2017.

### **Retail, Travel, and Tourism**

Retail sales rose briskly in recent weeks, with strong shopper traffic and big-ticket sales. A sporting goods store manager said his sales to large-scale customers, such as schools, were particularly strong. A wholesaler of construction equipment and a chain store in the home and garden business also reported that sales increased.

Contacts generally indicated that tourist activity strengthened to normal seasonal levels at winter resorts. In addition, a source on the outer banks of North Carolina said tourist stays were above year-ago levels. However, an hotelier in western North Carolina reported a softer market in his area.

### **Real Estate and Construction**

Residential real estate sales were flat since the previous report, with typical low levels of buyer traffic for the winter months. Inventories remained low, while days on the market were generally unchanged. However, a contact in Roanoke, Virginia stated that demand for more expensive homes improved while noting that smaller down payment requirements contributed to increased sales of modestly priced homes, particularly for first-time home buyers. Residential builders reported that home starts and closings were steady at modest levels, while one contact said that seasoned builders finished another good year. However, many sources continued to report a lack of lots and limited new home inventories.

On balance, commercial real estate leasing rose moderately in recent weeks. Rental rates rose moderately in both retail and industrial markets. The retail sector remained the most active in terms of leasing, with continued demand for fast casual restaurants and grocery stores. Real estate agents reported strong industrial leasing, with more e-commerce tenants looking for large facilities. Office leasing was generally unchanged at low levels, although some contacts reported tightening in the Class A market. Commercial real estate sales increased modestly for retail, industrial, and multifamily properties, with slightly improved sales prices. Commercial construction remained steady at modest levels, except in Washington, D.C., Charlotte, and Charleston, South Carolina, where multi-family construction was reported to be stronger.

### **Banking and Finance**

Loan demand was reported as stable or increasing slightly in recent weeks. On the residential mortgage side, demand for new originations was unchanged while demand for refinancing rose modestly. A banker in West Virginia attributed the rise in refinance demand to anticipated interest rate increases. Commercial loan demand was described as stable overall, with reports of strength in D.C., while West Virginia's coal regions continued to be depressed. Business lending was unchanged; however lenders' outlooks improved. One banker said there was an increase in optimism although most business owners were in a 'wait and see mode.' Reports on core deposit growth were mixed. A Virginia banker reported strong growth in core deposits while a West Virginia banker reported a slight decline. Credit standards were unchanged or slightly tighter while credit quality was stable. In West Virginia, however, quality declined slightly and past-due payments rose marginally.

### **Non-Financial Services**

Most services firms reported that revenue growth remained modest since the previous report. However, legal and accounting services providers indicated that revenues rose more quickly.

### **Agriculture and Natural Resources**

Reports on agricultural activity in recent weeks were mixed. A South Carolina farmer indicated that improved weather conditions after Hurricane Matthew allowed crops to dry out enough to be harvested; yields, however, were down markedly from historical averages. A Maryland contact said that the fall harvest finished early, which allowed grain farmers to get moderately better prices than growers in the Midwest. Dairy farm consolidation continued and milk production was stable due to technology enhancements. Agriculture investments rose slightly for light equipment while large equipment sales remained weak.

Coal production declined slightly in the southern part of West Virginia but rose in the northern part. Natural gas extraction rose modestly in recent weeks. ■



## Summary of Economic Activity

Sixth District business contacts indicated that economic activity expanded at a modest pace since the previous report. The outlook among most contacts for first half of 2017 remains optimistic. Businesses continued to report a tightening labor market and steady wage growth. Non-labor input costs remained relatively unchanged since the previous report. District merchants and automobile dealers cited an increase in sales. Tourism reports were mixed. Residential real estate contacts indicated that December new home sales were flat to slightly up from a year earlier and that existing home sales were mixed. Home prices increased modestly since the last report. Commercial real estate contacts continued to indicate improving demand. Manufacturers noted an increase in new orders and production.

### Employment and Wages

Contacts reported continued tightening in the labor market since the previous report. Firms and staffing agencies had difficulty filling positions for certain professional jobs, craft labor jobs, and low-skill jobs. For professional positions in particular, employers noted that they were being more selective than they were prior to the recession. Manufacturers reported moderate increases in payroll levels, while retailers encountered the typical seasonal uptick in payrolls. In order to fill vacancies for low-skill positions, a number of firms and staffing agencies reported that they had reduced job qualification requirements. Businesses continued to report investing in technology to automate certain positions as a way to address the challenges of finding workers. Firms continued to engage in partnerships with community colleges and workforce development organizations to develop customized training programs, apprenticeship programs, and internship opportunities. Most contacts reported relatively stable wage growth, despite continued upward pressure for select high-skill or high-demand positions.

### Prices

Contacts reported little change in input costs and prices. Exceptions were reports from purchasing managers of continued increases in commodity prices, downward pricing pressure in trucking and maritime shipping due to excess capacity, and lower refined gasoline and diesel

prices due to excess supply. According to the Atlanta Fed's Business Inflation Expectations survey, year-over-year unit costs were up 1.7 percent in December. Survey respondents indicated they expect unit costs to rise 2.1 percent over the following twelve months.

### Consumer Spending and Tourism

Most District retail contacts reported that sales levels rose modestly since the last report. Early reports from merchants for holiday sales indicated that levels appeared to have been slightly above expectations. Automobile dealers noted that incentives, such as cash bonuses and discounts, boosted overall vehicle sales in November.

Reports from tourism and hospitality contacts across the District continued to be mixed. Contacts in Georgia reported continued growth in business, leisure, and group travel; while contacts in Florida reported a slight decrease in tourism activity since the last report. The outlook among most contacts for the first quarter of the year remains optimistic.

### Construction and Real Estate

Overall, reports from District residential real estate contacts continued to note slow but steady growth in December. The majority of builders noted that construction activity was up from the year-ago level. Many builders indicated that home sales were flat to slightly up relative

to the year-earlier level, while brokers indicated home sales were mixed over the same period. Most builders and brokers noted that buyer traffic was equal to or higher than the previous year's level. Brokers reported that inventory levels were mixed relative to the year-earlier level, while most builder reports indicated that inventory levels were flat or rising. Builders and brokers continued to note modest gains in home prices in December. Home sales expectations improved a bit since the previous report, with many brokers and builders anticipating sales to remain flat or increase slightly over the next three months relative to the year-earlier level. Most builders anticipate construction activity will hold steady at the current pace or increase slightly over the next three months.

Most commercial real estate contacts noted improvements in demand resulting in rent growth and increased absorption, but continued to caution that the rate of improvement varied by metropolitan area, submarket, and property type. The majority of commercial contractors indicated that the pace of nonresidential construction activity had increased from one year ago, with many reporting backlogs greater than one year. Reports on the pace of multifamily construction were mixed, with roughly half indicating that the pace had increased from the year-earlier level and the rest suggesting that the pace had leveled off or slowed. Looking forward, most District commercial real estate contacts expect the pace of nonresidential construction activity to increase slightly over the next quarter while many anticipate the pace of multifamily construction to continue to level off in the coming quarters.

### **Manufacturing**

Manufacturing contacts reported that overall business activity increased since the last report. Purchasing managers indicated that new orders increased and production activity continued to rise at a firm pace. Supplier delivery times were reported to be slightly longer, while inventory levels of finished goods rose notably compared to the previous report. Expectations for future production remained fairly consistent with the previous report, with almost half of firms anticipating an increase in production levels over the next six months.

### **Transportation**

District transportation contacts reported mixed levels of activity. Ports cited substantial growth in containerized cargo, which was attributed to a strengthening in export demand and a busy peak season. Year-over-year total rail traffic fell further since the last report due to significant declines in the shipments of petroleum and petroleum products, metallic ores, coal, and farm products.

Intermodal traffic was also down. Trucking companies reported a continued slowdown in truckload freight; however, holiday e-commerce shipment volumes far exceeded expectations, placing constraints on capacity and negatively impacting on-time delivery rates. The majority of transportation contacts forecast higher levels of activity over the next year.

### **Banking and Finance**

Credit remained readily available for most qualified borrowers. However, some small businesses continued to have difficulty obtaining credit.

### **Energy**

Contacts continued to report weak demand and an oversupply in the oil and gas sectors. Contacts among a growing global liquefied natural gas export market along the Gulf Coast noted that they are positioned to meet demand and capacity. Utility industry contacts noted that investment in windfarm projects continued to expand, and that changing customer behaviors and energy efficiency improvements in end-use technologies continued to challenge growth in electricity demand.

### **Agriculture**

Agriculture conditions across the District were mixed. By the end of November, much of the District was categorized as experiencing severe to exceptional drought conditions. December rains brought some relief, although parts of Alabama and Georgia remained classified in severe or extreme drought categories and dry conditions expanded through most of Florida. The USDA again designated many counties in the District as natural disaster areas due to damages and losses attributed to the drought. Florida's December orange forecast was unchanged from November, remaining below last season's production. On a year-over-year basis, prices paid to farmers in November were up for cotton, soybeans, and broilers, but down for corn, rice, beef, and eggs. In light of poor pasture conditions caused by the drought, livestock producers using corn for feed benefited from low corn prices. ■

For more information about District economic conditions visit: [frbatlanta.org/economy-matters/regional-economics](http://frbatlanta.org/economy-matters/regional-economics)



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## Summary of Economic Activity

Growth in economic activity in the Seventh District continued at a modest pace in late November and December, though contacts expected it to move up to a moderate pace over the next six to twelve months. While manufacturing production grew at a robust rate and business spending grew at a moderate rate, consumer spending increased modestly and construction and real estate activity edged up. Financial conditions improved some, prices increased modestly, and farm incomes were little changed.

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### Employment and Wages

Employment growth slowed to a modest rate over the reporting period, though contacts expected growth to pick up to a moderate rate over the next six to twelve months. Contacts continued to indicate that the labor market is tight and that they are experiencing more difficulty filling positions at all skill levels. One manufacturing contact reported such difficulty finding high-skilled workers that they had traded in expensive, sophisticated machinery for cheaper, less sophisticated equipment that was easier to operate. A staffing firm reported no change in billable hours and ongoing difficulty filling orders at the wages employers were willing to pay. That said, overall, wage growth picked up to a moderate pace. Some contacts reported larger wage increases for high-skilled occupations, while a number of contacts indicated that they raised wages equally for all employees. Many contacts also reported rising healthcare costs.

### Prices

Prices again rose modestly in late November and December. Retail prices increased only slightly. Contacts reported rallies in energy and metals prices and that these had led to higher steel prices. Higher transportation costs continued to weigh on agricultural returns, particularly for milk producers.

### Consumer Spending

Growth in consumer spending picked up to a modest pace over the reporting period, and most contacts expected that pace to continue in 2017. Contacts reported stronger sales in the food and beverage, general merchandise, hardware, and personal services sectors. Sales of new light vehicles strengthened further, supported in part by even more aggressive incentives. Many dealers reported record sales for the calendar year and expected similar sales levels in 2017. Used light vehicles sales increased as well, as the high number of new vehicles coming off lease helped push down prices.

### Business Spending

Growth in business spending remained at a moderate pace overall in late November and December. Retailers largely indicated that inventories were at comfortable levels, though many auto dealers reported that inventories were uncomfortably high in spite of strong sales. Manufacturing inventories were generally at desired levels, though steel service center inventories were below historical norms. Current capital expenditures grew at a moderate pace and contacts expected that pace to continue over the next six to twelve months. Outlays were primarily for replacing industrial and IT equipment. Shipping volumes increased slightly.

### **Construction and Real Estate**

Construction and real estate activity edged up over the reporting period. Residential construction grew slightly across home types and locations. Home sales and prices increased slightly overall, though growth varied by price range: demand for homes under \$250,000 grew strongly, while demand for homes between \$250,000 and \$500,000 was flat, and demand for homes over \$500,000 was up slightly. Nonresidential construction increased modestly on balance. While one contact reported having the largest backlog of projects in years, another reported that demand for more space from automotive suppliers had eased. Commercial real estate activity increased slightly in both the for-sale and for-lease segments. Commercial rents and availability of sublease space were little changed, and commercial vacancy rates decreased slightly.

### **Manufacturing**

Growth in manufacturing production picked up to a robust pace in late November and December. Growth continued to be strong in autos and aerospace (though it slowed a bit in autos) and was moderate overall among other industries. Demand for steel increased some, but remained modest. Contacts expected production of steel to pick up in 2017, driven partly by a projected recovery in oil and gas demand. Heavy machinery manufacturers reported growth in sales, reflecting both strengthening end user demand and a smaller-than-expected cutback in dealers' inventories. A number of speciality metals manufacturers indicated that order book growth was stronger than expected at the end of the year. Manufacturers of construction materials again reported slow, but steady, increases in shipments, in line with the modest pace of improvement in construction.

### **Banking and Finance**

Financial conditions improved on balance over the reporting period. Financial market participants reported broad-based growth in equity prices and low volatility. Loan demand from middle-market businesses increased slightly overall, with improvements spread widely across sectors. Credit quality and standards were little changed, though one contact reported that standards were loosening because of competitive pressure. Consumer loan demand was little changed. Residential mortgage activity increased slightly, and with rising rates, there was a shift in the mix from refinancing to new originations. Contacts reported a slight decline in auto loan demand and that auto loan quality was unchanged.

### **Agriculture**

Farm incomes were little changed in late November and December. Corn prices moved higher and sales picked up some, but inventories remained high following the record harvest. Soybean sales were up moderately while soybean exports remained strong. Contacts reported modest declines in input costs, as fertilizer and seed prices fell. Farmland rents were also somewhat lower, but had not fallen as much as land values. A rally in cattle prices, as well as increases in dairy, egg, and hog prices, provided some relief for stressed livestock operations. ■

For more information about District economic conditions visit:  
[www.chicagofed.org/cfsbc](http://www.chicagofed.org/cfsbc)





## Summary of Economic Activity

Information from contacts suggests that economic conditions have continued to expand at a modest pace since our previous report. Reports of planned activity in the manufacturing and nonfinancial services sectors were generally positive. Labor market conditions remain tight, with moderate growth in both employment and wages. Reports indicate that consumer spending growth was generally unchanged, but with expectations of improvement in the first part of this year. Residential real estate conditions were somewhat mixed, while commercial real estate activity remained robust. District bankers reported that loan demand remained modest, with growth among most loan types.

### Employment and Wages

Anecdotal evidence suggests moderate increases in employment and wages since our previous report. Contacts described the year-end increases in employment as in line with growth in previous years. Reports indicated that manufacturing employment increased moderately in Missouri and modestly in Arkansas. Contacts in Louisville expressed difficulties finding seasonal workers because of the high demand for seasonal employment combined with a tight labor market, leading some to increase wages temporarily to attract employees. Contacts in Little Rock reported that wages for skilled workers continue to steadily increase. In addition, the number of unemployed workers per advertised vacancy fell modestly throughout the District in December.

### Prices

Price pressures in the District remained modest. In general, business contacts did not report many changes in prices charged to customers. Low commodity prices continue to put pressure on profit margins in sectors dependent on the agricultural sector. For example, agricultural equipment dealers outside of Memphis reported they have reduced prices on late-model used trade-ins to fuel sales. A contact in Arkansas reported there has been no shale drilling activity recently due to large inven-

tories and the low price of oil. Another contact in Little Rock cited concerns that the strengthening of the U.S. dollar is putting downward pressure on grain prices. However, since the previous report, cash prices for coal and feed corn both increased moderately, those for corn meal, soybeans, and sorghum increased slightly, those for rice declined slightly. Across the District, home prices continued to increase moderately. A contact in the Memphis area also reported higher prices in industrial and retail properties.

### Consumer Spending

Reports from general retailers and auto dealers indicate consumer spending growth in the District was generally unchanged. Contacts described the increase in year-end sales as in line with typical seasonal fluctuations. Arkansas taxable sales picked up in December after a sluggish November. The purchasing sentiment of District households continued to indicate that the next few months should be a good time to buy major household items. Multiple business contacts cited relatively low gas prices compared with the national average as a source of optimism. Furthermore, nearly half of surveyed auto dealers expect year-over-year increases in sales in the first quarter of 2017, and the majority anticipates increases in inventory over the same period.

### **Manufacturing**

Manufacturing activity has increased modestly since our previous report. Many companies reported capital expenditure and facility expansion plans in the District, including several manufacturers of food products and wood products. In contrast, a large manufacturer of transportation equipment announced plans to close a large facility and relocate operations outside of the District. Manufacturers were generally optimistic and expect new orders and production to increase over the first quarter. Contacts expressed concern about the strong dollar, the possibility of trade restrictions, and global economic weakness.

### **Nonfinancial Services**

Reports of plans in the District's service sectors have been positive since the previous report. In particular, several firms that provide healthcare, retail, and utilities services announced plans to build or expand facilities and hire new employees. Reports from information services, leisure and hospitality, and professional and business services were mixed, with some expansion but also several facility closings and layoffs. Reports from the transportation sector were positive. A Little Rock contact noted that trucking activity has outperformed seasonality in the past 5 or 6 weeks.

### **Real Estate and Construction**

Residential real estate activity was mixed across the District, with little overall change in home sales from the previous reporting period, while inventory remained tight. Residential construction activity was also roughly unchanged since the previous report. Seasonally adjusted building permits for November were flat, on average, across District metropolitan areas. Still, permit activity was higher than a year ago. Some local homebuilders indicated concerns over rising mortgage rates.

Commercial real estate activity increased at a moderate pace. Multifamily and industrial demand continued to strengthen. Commercial construction activity improved moderately. The amount of new non-residential space started in November was significantly lower than a year ago in the largest metro areas in the District. However, a number of new projects were announced or approved across the District. St. Louis in particular saw plans established or greenlighted for a multitude of new multifamily and office buildings. A local contact also noted that field work has been steadily increasing despite the slowdown in construction starts.

### **Banking and Finance**

Credit market conditions within the District improved at a moderate pace since the previous reporting period. According to a survey of 85 small- and mid-sized District banks, overall lending activity experienced moderate growth across all lending categories with some signs of a slight tapering. Increases in real estate lending made the largest contributions to aggregate loan growth since the previous reporting period. Over the same time frame, loans to individuals expanded at the highest rate for any singular loan category. Bankers reported demand for commercial real estate loans was generally unchanged while commercial and industrial loan portfolios grew at a moderate pace. Some banks have reported increases in non-performing loans in their agricultural loan portfolios, which they attribute to low commodity prices throughout last year.

### **Agriculture and Natural Resources**

As of late November, 95 percent of the District's planned winter wheat had been planted, which is a roughly 1-percentage-point improvement over last year. Faster planting occurred partly because District farmers planned to plant 13 percent fewer acres than they did for the prior crop year. Reports suggest that low snow accumulation, which serves as insulation for winter wheat, and periods of extremely cold temperatures may reduce yields.

District seasonally adjusted coal production dropped 3 percent from November to December, while year-to-date production through December was 18 percent below last year's level. ■

For more information about District economic conditions visit:  
[www.research.stlouisfed.org/regecon/](http://www.research.stlouisfed.org/regecon/)





## Summary of Economic Activity

The Ninth District economy grew modestly overall since the last report. Employment was mixed, with notable hiring and layoff events, but an optimistic outlook overall among different sources. Wage pressure was moderate, while price pressure was modest overall. The District economy showed growth in manufacturing, real estate, commercial construction, energy, and tourism. But consumer spending dropped, residential construction slowed, and agriculture remained weak.

### Employment and Wages

Employment was mixed since the last report, but labor markets continued to be tight, and the 2017 hiring outlook was positive. Initial unemployment claims in the five-week period ending in mid-December were unchanged in Minnesota and Montana relative to a year earlier, but were higher in the Dakotas. A retail distribution center in Minnesota announced plans to hire 1,000 full-time employees in the coming year, and energy companies were reportedly hiring again in the oil fields of western North Dakota. Results from the Minneapolis Fed's annual survey of manufacturers, conducted in November and December, showed that hiring activity was flat in 2016, though the outlook was positive as one-third of respondents planned to increase employment in the coming year. A Montana staffing agency reported solid hiring expectations among clients. "There is a level of optimism I haven't seen in a long time," said a source there. A survey of employers by a multistate staffing firm found a positive, but somewhat softer hiring outlook for the first quarter of 2017 in the District compared with earlier surveys. In Minnesota more than a half-dozen layoff events occurred, or were announced, involving between 60 and several hundred workers, including a transportation company, health care provider, boat manufacturer, medical device firm, and private higher education firm. Eight department store closures were also announced.

Wage pressure was moderate since the last report. The survey of manufacturers found that 2016 wages and benefits rose by an average of 2.5 percent to 3 percent, with slightly smaller increases expected in the coming year. A smaller ad hoc survey of professional services firms produced roughly similar results, though the outlook for 2017 wages was somewhat higher. A Minneapolis-St. Paul staffing contact said wages "increased slightly" during the fourth quarter as employers competed for labor, especially in the retail sector. A North Dakota source said that although unemployment was still very low, wage pressure "appeared to have leveled off" with slightly slower demand there for labor.

### Prices

Price pressure was modest since the last report. The majority of respondents to the Minneapolis Fed's manufacturing survey reported that prices were unchanged over the past year, but one-third expected to increase their prices in 2017. One manufacturer noted that steel prices have been flat for two years, but cement prices have increased around 15 percent. Home heating costs were expected to be as much as 30 percent higher this winter than last year, due to a combination of colder weather and higher fuel prices. Most prices received by farmers decreased in November from a year earlier, with the exception of chickens and soybeans.

### **Consumer Spending**

Consumer spending across the District was down modestly since the last report. A mall manager in Minneapolis-St. Paul reported a “very odd” holiday season for consumer spending in recent months; overall spending was down roughly 2 percent to 3 percent. Contributing factors included unfavorable weather, holiday timing that corresponded with a weekend, and increased online shopping. Weather was warm in November, “so there was no Christmas feel in the air” and weather in December was “too cold to encourage shopping.” Conditions were similar in Fargo, N.D., where consumer spending was down 4 percent to 5 percent, according to a mall manager there. “Cold weather and storms deterred many shoppers, especially because 40 percent of our mall shoppers live outside of the city limits.” Clothing retailers, in particular, have seen a drop in sales; one national clothing retailer has closed five stores in the Minneapolis-St. Paul region. Automotive sales were modest since the last report. A car dealership in Devils Lake, N.D., reported that new car sales were down slightly, but used-car sales made up for the small loss. “We’re all pretty optimistic for 2017; 2016 ended up doing pretty well.”

### **Tourism**

Tourism conditions were up moderately since the previous report. Snowy weather had a positive impact on winter tourism activity. Ski lodges and restaurants in Montana, Minnesota, and Michigan’s Upper Peninsula reported ideal conditions for winter activity, including low fuel prices for travelers. Since the last report, hotel occupancy rates have flattened as reported by owners in Billings, Mont., and Minneapolis-St. Paul. A tourism official in northern Wisconsin reported that December businesses experienced strong demand. A tourism official in the Upper Peninsula said, “We are having a terrific start to the new year; looks like we will have the best winter conditions that we’ve had in five years.”

### **Construction and Real Estate**

Construction activity was mixed since the last report. Projects out for bid through mid-December were at similar levels to a year earlier, according to an industry database. Industrial and retail space currently under construction in Minneapolis-St. Paul was higher than a year ago, while office space construction was significantly lower. Multifamily permits in November-December rose considerably over a year earlier in Minneapolis-St. Paul and Rochester, Minn., along with

Rapid City and Sioux Falls, S.D. Activity in highway and other heavy construction sectors was slower. A construction supply contact in Minnesota said firms working on infrastructure projects statewide “are feeling the pinch” because of delayed public funding. A Montana source said the building sector there “has been fairly robust,” but the highway sector has slowed significantly because of lower-than-expected state fuel tax collections. This has curtailed maintenance projects and postponed project lettings. Residential construction slowed, as total single-family permits fell in November-December compared with a year earlier in Billings, Fargo, Bismarck, N.D., Minneapolis-St. Paul, and Rochester. Only Sioux Falls saw a slight uptick over this period.

Real estate activity was moderate to strong since the last report. Sales of office, industrial, and apartment properties in Minneapolis-St. Paul were strong, though office vacancy rates there have ticked higher as several major tenants vacated space for new, build-to-suit space. Home sales in November were higher relative to a year earlier, including double-digit increases in 18 northern Wisconsin counties, the Flathead Valley region in Montana, and across Minnesota.

### **Manufacturing**

District manufacturing increased modestly since the previous report. An index of manufacturing conditions produced by Creighton University indicated increased activity in December in Minnesota and the Dakotas. Although respondents to the Minneapolis Fed’s annual manufacturing survey indicated that 2016 demand and production was flat to slightly down, respondents expected orders, production, investment, productivity, and profits to increase in the coming year. A supplier of machinery used in producing heavy equipment for forestry and other uses indicated recent demand was up dramatically.

### **Agriculture, Energy and Natural Resources**

District agricultural conditions remained weak, with bountiful harvests offset by low commodity prices. Some District logging operations were reducing production in response to low timber prices. Activity in the energy sector was up slightly. Regulators approved an environmental permit for a large wind power development in South Dakota. District oil and gas drilling as of late-December was roughly unchanged from a month earlier; however, reports indicated that multiple firms were hiring oilfield service crews. ■



## Summary of Economic Activity

Economic activity in the Tenth District increased modestly in late November and December, and most sectors were optimistic about growth in the next few months. Consumer spending increased with retail, auto and tourism contacts reporting stronger sales than the previous survey period. Manufacturing activity expanded moderately due to stronger activity in both the durable and nondurable goods sectors. Contacts in transportation, professional, and high-tech firms reported increased sales, but firms in the wholesale trade sector noted a continued moderate decline in activity. District real estate conditions were modestly weaker as residential real estate activity declined and commercial real estate activity remained flat. Energy activity across the District experienced moderate growth, and expectations remained positive. District farm income remained subdued as low crop and livestock prices persisted. Employment increased slightly since the previous survey period, and contacts reported modest wage growth. Input prices were up slightly in most sectors, and selling prices were mixed.

### Employment and Wages

Employment and employee hours rose slightly since the previous survey period. Contacts in the transportation, professional and high-tech, real estate, education and manufacturing sectors noted increased employment levels in late November and December, while employment declined in the wholesale trade sector. Additionally, employment in the retail and auto sectors was below year-ago levels, but was flat in the restaurant sector. Employment in the energy sector increased, although remained below year-ago levels. Contacts across all sectors expected stable-to-increasing employment levels over the next six months. Average employee hours worked increased slightly in the service and manufacturing sectors. Respondents noted a shortage of commercial drivers, skilled technicians, and service workers.

Contacts in most sectors continued to report modest wage growth, and anticipated moderate wage growth in the months ahead.

### Prices

Input prices were up slightly in most sectors compared to the previous survey period, while selling prices were mixed. In the retail sector, input prices edged up, while selling prices fell modestly. Both input and selling prices declined in the restaurant industry, but were expected to

increase in the coming months. Respondents in the transportation sector reported slightly higher input prices, but selling prices held steady after contracting during the prior survey period. Prices in the construction sector rose, with additional moderate increases expected in the coming months. Manufacturers reported a modest rise in finished goods prices after falling in the previous survey, while raw material costs edged up. Manufacturers expected a slight increase in both finished goods and raw materials prices over the next few months.

### Consumer Spending

Consumer spending increased modestly in late November and December, and was expected to increase moderately in the next six months. Retail sales rose moderately since the previous survey and were considerably above year-ago levels. Winter and holiday items sold particularly well, while sales of luxury products were sluggish. Retailers anticipated sales to rise in the next few months, and inventory levels were expected to increase slightly. Auto sales rebounded modestly over the survey period, but remained below year-ago levels. However, dealer contacts expected a strong pickup in sales during the months ahead. Auto inventories increased and were expected to rise slightly in the coming months. Restaurant sales fell modestly and were slightly below year-ago levels. Respondents in the restaurant

sector expected a moderate increase in activity heading forward. District tourism activity remained above year-ago levels, and a strong increase in activity was expected moving into the winter months.

### **Manufacturing and Other Business Activity**

District manufacturing activity expanded moderately since the previous survey period, while the pace of other business activity varied. Manufacturers reported considerable improvement in both durable and nondurable goods production, particularly in metals, machinery, and food products. Production, shipments, and new orders grew at their fastest pace in over two years. Manufacturers' capital spending plans expanded moderately, and many contacts expressed signs of optimism heading forward.

Outside of manufacturing, professional, high-tech, and transportation firms reported moderate sales increases, with strong improvements expected in future months. Wholesale trade contacts noted a continued moderate decline in activity but were optimistic about future sales. Professional, high-tech, and wholesale trade firms reported favorable capital spending plans, while transportation contacts expected capital spending to continue to fall.

### **Real Estate and Construction**

Overall District real estate conditions were modestly weaker as residential real estate activity declined and commercial real estate activity remained flat. Residential sales and inventories were moderately lower than the previous survey period, but contacts expected sales to increase over the coming months as adverse seasonal factors abated and buyers sought to purchase homes at low interest rates. Home prices remained moderately higher in late November and December and were expected to rise further. Residential construction activity declined since the previous survey, with flat housing starts and moderately lower construction supply sales. Contacts anticipated residential construction activity to increase moderately in the months ahead. Contacts in the commercial real estate sector reported similar conditions since the previous survey period as absorption and completions increased slightly, but construction under-way, sales, vacancy rates and prices were flat. Commercial real estate expectations were modestly positive.

### **Banking**

Most bankers reported steady overall loan demand in late November and December including steady demand for commercial and industrial, commercial real estate, residential real estate, agricultural and consumer installment loans. Loan quality was unchanged compared to a year ago according to most bankers. In addition, a majority of respondents expected loan quality to remain essentially the same over the next six months. Credit standards remained largely unchanged in all major loan categories, and a majority of respondents reported stable deposit levels.

### **Energy**

District energy activity increased moderately in late November and December, and expectations remained positive. The number of active oil and gas drilling rigs continued to pick up modestly across the District. Oil prices rose moderately to reach eighteen-month highs after OPEC announced a lower oil production target in late November 2016. However, the majority of survey contacts expected actual production to exceed the target. Most firms projected U.S. oil production to be above previous forecasts due to continued expectations of higher oil prices. Natural gas prices were slightly higher due to strong seasonal demand. Local firms expected natural gas prices to be near current levels through 2017, but not high enough to substantially increase drilling activity.

### **Agriculture**

Farm income expectations weakened slightly as most agricultural commodity prices remained lower than a year ago. In the livestock sector, cattle prices declined from the previous year due to growing inventories, and hog prices also remained lower than year-ago levels. In the crop sector, large corn and wheat inventories kept prices subdued, but strong yields in some areas helped to offset losses from low prices. However, strong export demand boosted soybean prices moderately from a year ago. With the exception of soybeans, livestock and crop prices remained below the cost of production for some producers. District contacts reported weaker loan repayment rates than the previous year as farm income and cash flow continued to tighten. Weaker farm income and credit conditions also continued to pressure farmland values downward modestly. ■

For more information about District economic conditions visit:  
[www.KansasCityFed.org/Research/RegionalEconomy](http://www.KansasCityFed.org/Research/RegionalEconomy)





## Summary of Economic Activity

Economic activity in the Eleventh District expanded moderately over the past six weeks. Manufacturing activity increased, and demand for nonfinancial services strengthened. Retail and automobile sales rose, although there were some reports of weakness. Housing demand grew and commercial leasing activity expanded in most markets. Loan demand was stable, and the energy sector saw further improvement. Agricultural producers faced mixed conditions, as record grain yields pressured prices, despite firm demand. Prices, employment and wages increased. Outlooks generally improved.

### Employment and Wages

Overall employment rose, although hiring in manufacturing remained weak and there were reports of layoffs in health care. Some energy service firms reported higher employment levels and a recruiter for oilfield services firms said they had some orders for hiring and training new employees for 2017. A retailer said they will likely layoff some employees in 2017 if soft sales persist. Reports of skilled labor shortages continued, particularly in construction. Upward wage pressures were similar to the last reporting period.

### Prices

Input costs and selling prices rose during the reporting period. Staffing firms said pricing was flat, although one firm said they were renegotiating certain contracts at lower rates. Air fares edged up, while downward pressure on rail shipping rates was noted. Oilfield service firms reported an increase in prices, reflecting a pickup in demand for their services. Oil and natural gas prices rose, as did retail gasoline and diesel prices. Cotton and grain prices remained depressed. Cattle prices rebounded slightly and dairy prices generally increased but remained below profitable levels for smaller producers.

### Manufacturing

The manufacturing sector expanded during the reporting period. Output rose for durables, although continued weakness was seen in fabricated metals manufacturing. Demand for construction materials was stable, and a brick manufacturer said that year-over-year demand was flat in Dallas, but down in Houston and Austin and up in San Antonio. Nondurable manufacturing production was flat to down, but food manufacturers noted increases. Outlooks remained positive, although a few contacts cited the strong dollar as a headwind for exports.

Gulf Coast refiners noted seasonally strong utilization rates, and said that large inventories and modest growth in demand will likely pressure margins this year. Chemical manufacturers noted a positive outlook for 2017, as they expect to receive better margins due to the wider spread between oil and natural gas prices—domestically, chemicals are produced with natural gas and have a cost advantage over oil-based production in other parts of the world.

### Retail Sales

Retail demand rose during the reporting period, although one respondent said that the holiday season was very competitive. Contacts cited sluggish sales in border

cities and energy-related areas. Still, outlooks were mostly optimistic. Automobile sales increased modestly on net, although there were reports of softness due to energy-related weakness.

### **Nonfinancial Services**

Demand for nonfinancial services generally increased over the past six weeks at a slightly faster pace than in the prior period. Most staffing services firms saw a pickup in demand. Orders for temporary and contract workers remained solid, while demand for direct hires was mixed. Professional and technical services firms noted mixed activity, although revenues increased on net. Reports from food service firms varied as well, with some contacts noting continued growth, while others cited a decline in activity. Airlines saw an increase in passenger demand, which was driven by continued strength in domestic travel and a slight uptick in travel to South America. Cargo volumes were stable to up over the reporting period. Rail cargo increased, led by strong gains in grain shipments, although petroleum and coal shipments continued to decline. Seaport cargo volumes rose in large part due to strength in container traffic, while air shipments dipped to a slower pace than earlier in the year. Most services firms noted improved outlooks, although some expressed concern about the uncertainty surrounding the incoming administration.

### **Construction and Real Estate**

Growth in home sales picked up during the reporting period, although respondents noted continued softness at the higher end. Several contacts attributed the increase to a post-election surge and higher mortgage rates. There were reports of pushback from builders on lot pricing. Home prices were flat to up slightly, and some contacts said builders were beginning to focus on bringing more affordable product to the market.

The DFW apartment market continued to lead other major Texas metros, with nearly full occupancy and strong rent gains, despite large deliveries. Demand in Houston was better than expected noted one contact, although it has been unable to keep up with supply, resulting in further declines in rents and occupancy rates. Rent growth slowed markedly in Austin and occupancy dipped, while rents and occupancy rose in San Antonio. Contacts noted that financing for new multifamily properties has become more difficult to obtain.

Office leasing demand remained solid in DFW, particularly for new product or recently built space. Rents ticked up, despite elevated construction. Leasing activity re-

mained sluggish in Houston, but office sublease inventory fell after growing rapidly during the past two years. Industrial demand was solid in DFW, but moderated in Houston.

### **Financial Services**

Loan demand was stable over the past six weeks, with most contacts reporting increases in total loan balances. Real estate and auto loan categories continued to perform well; however, demand for commercial and industrial loans was soft. Some contacts cited slight increases in interest rates on loans following the December federal funds rate hike. Two contacts noted a dip in non-interest income, driven in part by the poor performance of oil and gas firms and fewer mortgage refinancings because of higher rates. Credit quality remained solid and most respondents cited an uptick in deposit volumes. Outlooks were mostly optimistic, mainly due to elevated hopes for regulatory and tax relief following the presidential elections.

### **Energy**

Drilling activity and demand for oilfield services improved modestly over the reporting period, with the increase largely driven by a pickup in Permian Basin activity. Outlooks were more optimistic than earlier in the year, although several contacts were skeptical about the implementation of the recent OPEC production cuts. Firms expect oil prices to be higher a year from now, and anticipate steady increases in activity over that period.

### **Agriculture**

Record grain yields in 2016 have created burdensomely high stock levels, despite firm demand, keeping prices below the cost of production for most producers. Very strong cotton yields in West Texas led to another upward revision of Texas (and U.S.) cotton production, putting further downward pressure on prices which were already near breakeven or sub-profitable levels. Still, cotton prices are relatively better than feed grain or wheat prices, and contacts expect an increase in cotton acreage in 2017. Beef exports have increased, and low feed costs are helping producers' bottom lines. ■

For more information about District economic conditions visit: [www.dallasfed.org/research/texas](http://www.dallasfed.org/research/texas)



## Summary of Economic Activity

Economic activity in the Twelfth District continued to expand at a moderate pace during the reporting period of mid-December through early January. Overall price inflation increased modestly, while upward wage pressures strengthened. Sales of retail goods picked up, and growth in the consumer and business services sectors remained strong. Manufacturing activity changed little on balance, and conditions in the agriculture sector were largely stable. Contacts reported continued strong activity in residential real estate markets, while conditions in the commercial sector strengthened. Lending activity grew at a moderate pace.

### Employment and Wages

On balance, wage pressures strengthened. Labor shortages in the technology, health-care, and financial industries boosted wages for skilled workers. Minimum wage legislation increased compensation for unskilled workers across the District. One contact in the media and entertainment industry reported that some companies were postponing filling vacant positions in order to offset rising costs from minimum wage increases. Wage growth for skilled and unskilled labor in the construction industry picked up further, and contacts reported substantial labor shortages among contractors in metropolitan areas.

### Prices

Overall, price inflation increased modestly over the reporting period. Contacts in the hospitality and restaurant industries reported increasing the price of goods and services to offset rising labor costs. Price increases for branded drugs and some generic drugs moderated somewhat from a strong pace. In general, prices for commodities and agricultural goods increased minimally and remained relatively low. However, one contact reported that steel prices strengthened from a low level after a modest pick-up in demand.

### Retail Trade and Services

On balance retail sales picked up over the reporting period, but reports varied somewhat by sector. Holiday

sales of beverage products were strong, particularly in the Mountain West, where consumer spending was boosted by a tight labor market and rising wages. Sales at apparel retailers were on par with the prior year's holiday season. Demand for personal computing devices slowed slightly from the same period last year. Strong growth in e-commerce continued to reduce foot traffic at traditional brick-and mortar retailers, with one contact reporting that an apparel retailer planned to close 15 percent of their store locations.

Activity in the consumer and business services sector generally grew at a strong pace. Demand for IT business services remained strong, and expectations of future increases in the demand for cloud computing services boosted infrastructure investment in data centers. Sales of gaming products picked up, particularly for games sold through online channels. Growth in e-commerce sales increased demand for transportation services, with one contact noting that holiday sales had nearly doubled volumes from their typical daily level. Contacts in the tourism industry noted that air travel demand was around the same level as the previous year's holiday season. Hotel bookings grew moderately compared with last year's holiday season, and one contact noted that advance 2017 holiday bookings have already surpassed



levels experienced as of this time last year. Contacts observed that demand for restaurant and dining services remained sluggish, in part due to adverse holiday weather in the Pacific Northwest. Uncertainty surrounding fiscal policy and the future of the Affordable Care Act reduced providers' demand for some health-care goods and services.

### **Manufacturing**

Manufacturing activity was mixed across sectors but largely flat on balance over the reporting period. Production of pharmaceuticals continued to grow at a strong pace, and contacts reported robust merger and acquisition activity throughout the industry. Demand for energy generation from manufacturers picked up from a low level. Deliveries and new orders for commercial aircraft declined relative to the same period a year earlier. In the steel manufacturing sector production was suppressed by increased global supply, dollar appreciation, and sluggish demand growth from domestic energy producers.

### **Agriculture and Resource-Related Industries**

Activity in the agriculture sector was mixed over the reporting period. Demand for timber products remained strong. Harvests of cherries and apples grew at a moderate pace. Profit margins in the dairy industry improved somewhat. However, contacts noted that dairy producers' investment in equipment was sluggish and focused on replacing aging machinery. Dollar appreciation slowed beef exports, and profitability remains a concern for many producers. Contacts reported that some farmers in California took land out of production due to drought conditions and labor shortages.

### **Real Estate and Construction**

Real estate market activity continued to grow at a strong pace. On balance, activity in the housing market remained strong, yet the pace of growth in metropolitan centers outpaced that in rural areas. Contacts in the Pacific Northwest and Mountain West reported that, while housing demand remained high, construction activity was constrained by shortages in available land, labor, and materials. Demand for new commercial construction strengthened, and one contact noted that activity in the Sacramento area remained robust. Overall, the pace of price increases in the housing market picked up further, yet a few contacts noted that the pace in their regions had slowed slightly. Prices for commercial real estate increased, and vacancy rates remained at historical low levels.

### **Financial Institutions**

Lending activity grew at a moderate pace over the reporting period. Loan demand expanded, and competition for borrowers remained elevated. On balance, deposits grew at a moderate pace, with one contact in the Mountain West noting that strong economic growth led to a surge in deposits at banks in the region. Credit quality strengthened, and liquidity remains ample. Contacts noted that regulatory costs continued to constrain profitability at community banks in some regions. ■



