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# The Beige Book

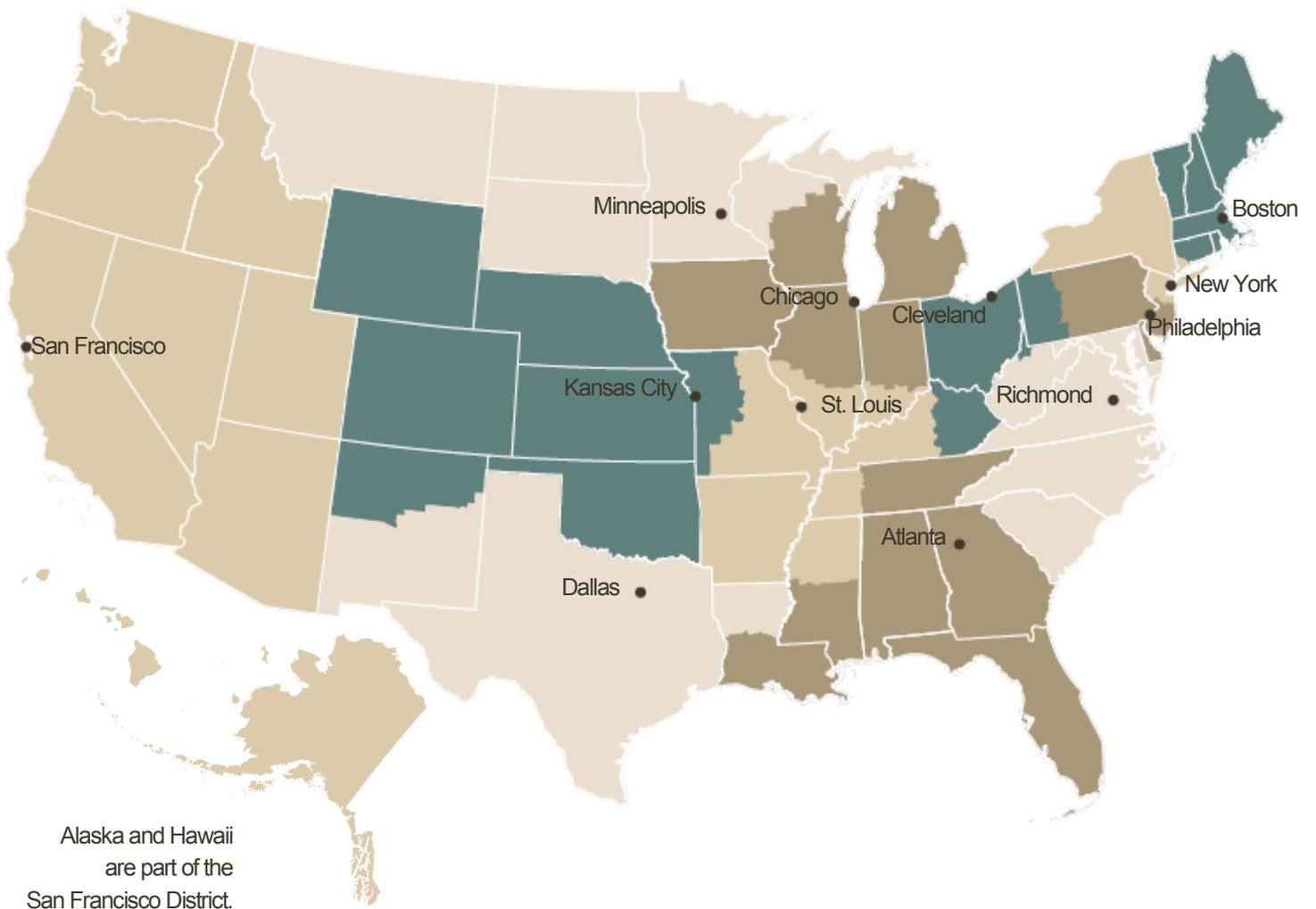
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Summary of Commentary on Current Economic Conditions

By Federal Reserve District

February 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 New York based on information collected on or before February 17, 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 ■ February 2017

## Overall Economic Activity

Reports from all twelve Federal Reserve Districts indicated that the economy expanded at a modest to moderate pace from early January through mid-February. Consumer spending expanded modestly since the last report. Retail sales increased at a subdued pace across most of the nation, with a number of Districts noting an ongoing shift from in-store to internet purchasing. Auto sales varied widely, but were said to be up in most Districts. Tourism activity was mixed but mostly stronger. Manufacturing activity accelerated somewhat, with most Districts characterizing the pace of growth as moderate. The energy sector showed modest growth in early 2017, and transportation activity was steady to somewhat higher across the nation. Home construction and sales continued to expand modestly in most Districts, while residential rental markets were mixed. Home prices were steady to up modestly in most Districts, and a number of Districts noted low inventories of existing homes. Commercial real estate construction grew modestly, and sales and leasing activity grew moderately. Lending activity was steady to somewhat higher. Businesses were generally optimistic about the near-term outlook but to a somewhat lesser degree than in the prior report.

## Employment and Wages

Labor markets remained tight in early 2017, with some Districts noting widening labor shortages. Employment grew moderately in most of the nation, though three Districts characterized growth as modest and two reported that it was little changed. A number of Districts noted that staffing firms were seeing brisk business for this time of year, and one noted more conversions from temporary to permanent workers. In general, wages in most Districts rose modestly or moderately, with a few reporting some pickup in the pace of wage growth. A number of Districts noted that shortages of skilled workers—particularly engineers and IT workers—were driving up their wages, and there were also some reports of labor shortages in the leisure and hospitality, construction and manufacturing industries.

## Prices

Pricing pressures were little changed from the prior report. Most Districts reported that selling prices were up modestly or moderately, though four indicated that prices had largely leveled off. Input prices were up modestly, on balance. Energy prices and farm prices were mixed but mostly steady, on balance, while prices for construction materials climbed in a number of Districts. Overall, businesses said they expected both input prices and selling prices to increase modestly in the months ahead.

## Highlights by Federal Reserve District

### Boston

Business contacts in most sectors reported modest to moderate year-over-year increases in activity in recent weeks. Staffing firms, by contrast, cited modest declines in revenues. Some respondents expressed concern about policy changes in the new administration and associated uncertainty. Most contacts nevertheless cited a positive outlook.

### New York

Economic activity has accelerated to a modest pace. Labor markets have strengthened, hiring has picked up, and wages continued to rise modestly. Input cost increases have become more widespread, and selling prices have accelerated somewhat. Housing markets have continued to weaken at the high end, while commercial real estate markets have picked up.

### Philadelphia

Overall, economic activity continued to rise modestly with pickups to growth emerging from manufacturers and homebuilders. However, activity was essentially flat in several other sectors. Many contacts remained cautiously optimistic even as their uncertainty increased. In general, employment, wages, and prices continued to rise at a modest pace.

### Cleveland

Economic activity, which had picked up some after the election, continued to rise at steady pace into February. The expansion was attributed to rising consumer and business confidence, although this confidence is only reflected in a limited increase in business spending. Retaining high-skilled workers is increasingly difficult. Product pricing pressures diminished slightly.

### Richmond

Economic activity grew moderately since the previous Beige Book. Manufacturers reported increased shipments, along with stronger growth in new orders and greater capacity utilization. Additionally, record volumes of container traffic passed through the ports in recent weeks. Commercial leasing increased, particularly for industrial and retail space. In commercial construction, multi-family and mixed use development dominated.

### Atlanta

Economic activity expanded modestly. The labor market remained tight. Overall, wages and non-labor cost pressures were subdued. Retailers cited flat sales, while auto sales increased. Home prices increased modestly. Demand for commercial real estate continued to improve. Manufacturers noted an increase in new orders and production.

### Chicago

Growth picked up to a moderate pace. Employment, wages, business spending, and manufacturing production all grew at moderate rates, consumer spending increased modestly, and construction and real estate activity rose slightly. Financial conditions were little changed, prices increased modestly, and farm incomes improved slightly.

### St. Louis

Economic conditions have continued to expand at a modest pace. Manufacturing contacts reported an uptick in activity in the first quarter, while auto dealers reported a slight decline in sales. The general outlook for 2017 among business contacts remained optimistic, even improving slightly since mid-November.

### Minneapolis

Economic activity grew modestly. Employment rose, but certain retail sectors saw significant closures and layoffs. Activity in North Dakota slowed, though activity in the Bakken was improving. Winter tourism conditions were spotty. Manufacturing activity and outlook improved. Commercial construction slowed, but residential construction had a strong January. Home sales were mixed across metro regions.

### Kansas City

Economic activity continued to expand modestly, and contacts in most sectors expected additional gains in the months ahead. Retailers and auto dealers anticipated a pickup in sales in the next few months, and manufacturers' expectations for future activity were at their highest levels in over twelve years. The energy sector continued to expand, but the agriculture sector remained weak.

### Dallas

Economic activity grew moderately, and outlooks remained optimistic. The energy sector noted improved demand and signs of a pickup in hiring. Manufacturing and service-sector activity continued to expand, although there was increased uncertainty surrounding the new administration's policy changes. Loan activity increased and housing demand remained solid.

### San Francisco

Economic activity continued to expand at a moderate pace. Sales of retail goods picked up, and activity in the consumer and business services sector slowed slightly to a moderate pace. Manufacturing conditions remained mixed, and activity in the agriculture sector was largely unchanged. Activity in the housing market was unchanged from the prior period, but remained strong.



## Summary of Economic Activity

First District businesses contacted in early February reported modest to moderate increases in activity from a year earlier. Retailers cited flat or single-digit increases in sales, while two-thirds of responding manufacturers saw revenue gains. Staffing firms mostly saw slight year-over-year declines in revenues, attributable in part to tight labor supply. Commercial real estate markets in the region were steady, with “good but not great” office leasing activity in Boston, Portland, and Providence. Residential real estate markets across the region saw increased median sales prices and mixed sales results, partially attributable to ongoing inventory shortages. Across most sectors, input and selling prices were stable, although staffing firms have raised bill and pay rates. While some responding firms expressed concern about increased uncertainty, most continued to say they were upbeat about 2017.

### Employment and Wages

Retail firms cited a continuing tight labor market for positions involving information technology. Retailers planning to open new stores expect to hire sales associates and front-office personnel in line with that growth. Manufacturing respondents reported that employment was up, although for most it was a very minor change. Manufacturers continued to say they had difficulty finding skilled engineers and one added that the shortage of engineers was a problem overseas as well. No manufacturers reported any significant wage pressure. Among responding staffing firms, all observed strong overall labor demand and tight labor supply. Two firms mentioned lower demand from the manufacturing sector; sectors with particularly low labor supply were IT, accounting, and healthcare. Staffing firms indicated that bill and pay rates had increased since the previous quarter; most reported little pushback to increasing bill rates.

### Prices

Retailers indicated that selling prices and vendor prices were level or up 1 percent to 2 percent. Manufacturers reported no exceptional pricing pressure from either customers or suppliers. A manufacturer of milk products said that it was the most stable pricing environment in the industry in 10 years. A chemical manufacturer noted that increased global production of olefins had driven down the price.

### Retail and Tourism

Retail contacts consulted for this round reported that year-over-year sales growth in January to mid-February ranged from flat to low single-digit increases. One furniture retailer reported that its January sales were up 4 percent year-over-year, but severe winter weather in the Northeast during the first two weeks of February deterred shoppers. Demand for footwear, outerwear, women’s apparel, and outdoor goods was reportedly strong, but there was some softness in sales of men’s and children’s apparel. Contacts expect to see modest growth (in the low single digits) in 2017.

Boston area hotels posted an 81.1 percent occupancy rate and another consecutive record high daily average room rate for 2016. Based on advance hotel bookings, projections for 2017 were similarly upbeat. However, some hotel and restaurant groups feel that the executive order limiting travel from certain countries may have adverse business effects as the United States may not be perceived as a welcoming country. Adding this worry to other concerns raised by a strong U.S. dollar, the possible effect of Brexit on the British exchange rate, and the outcomes of upcoming elections in key European countries creates some significant uncertainty about how the tourism sector will fare in 2017.

### Manufacturing and Related Services

Of nine manufacturing contacts, six reported sales gains versus the same period a year earlier, two noted little

change and one reported lower sales. For those reporting growth, it was generally stable. One of the firms reporting no growth said it reflected an exceptionally strong start to 2016.

Although contacts were generally positive about the near-term outlook, many expressed concerns about policy changes from the new administration. Three mentioned that the border adjustment tax would present a problem for them. A manufacturer of semiconductor equipment said that restrictions on the H1B visa program would affect its ability to staff positions. Another said that uncertainty about policy was the problem; for example, a border adjustment tax would have a big effect on where they located future production facilities and they would be reluctant to commit to new investment without some resolution of the issue. One contact noted that a risk in the coming year was that a plateauing of sales in the auto industry would lead to discounting of new cars and resulting pricing pressure on suppliers.

### **Staffing Services**

New England staffing services contacts reported mixed changes in year-over-year revenue. Unlike recent reports, most firms saw declining year-over-year revenue; nonetheless they said that the economy remained strong and they were optimistic about the future of their firms. Facing supply shortfalls, most contacts were trying out new ways to fill their open positions, including partnering with local non-profits, offering sign-on bonuses, and increasing their social media presence. While all firms expressed optimism about the next few months, several were concerned about policy uncertainty with the new administration. One healthcare staffing firm, for example, lost a substantial number of listings a few weeks ago when one of its clients issued a hiring freeze in Boston, waiting to see what happens with Obamacare.

### **Commercial Real Estate**

Commercial real estate activity was mostly unchanged in the First District. In Connecticut, office leasing activity was limited while industrial leasing was steady if not robust, and one contact expects further development of large retail fulfillment centers in the state in 2017. Demand for industrial property appeared to increase more broadly across the District, driving new build-to-suit construction in numerous locations. In Boston, Portland, and Providence, office leasing activity was described as good but not great, and vacancy rates remained low to very low. A Boston contact says that the city's office absorption pace slowed in recent months, a fact attribut-

ed partly to a longer-term trend among employers of reducing the space allotted per worker. Office construction remains limited across the First District, and contacts cite high building costs and a modest demand outlook as restraining factors. Boston's investment sales market saw steady demand and prices remained high by historical standards, but investors continued to express caution over the future direction of prices, especially in light of rising interest rates. Construction activity continued to increase in Rhode Island but was concentrated in multi-family, hospitality, and infrastructure projects. Investment sales remained strong in Portland but continued to cool in Connecticut. Contacts offered mixed reports on the retail leasing environment: the region's mid-market malls saw increased store closings while demand for core urban retail and high-end mall space remained strong. Contacts are cautiously optimistic that fundamentals will hold steady or improve in 2017.

### **Residential Real Estate**

The end of 2016 continued recent trends for residential real estate markets in the First District. Closed sales for single-family homes increased in three of the six First District states and decreased, though only moderately, in the other three and in the Boston metro area. (Five of the six First District states and Boston reported changes from December 2015 to December 2016, while Maine reported year-over-year changes to January 2017). For condos, closed sales increased in four states and decreased modestly in Massachusetts, New Hampshire and the Boston metro area. Despite sales being down year-over-year, a Boston contact reported that the optimism going into 2017 is "overwhelming." Record numbers of homes were sold in December in Rhode Island and in 2016 as a whole in Maine. Pending sales were also generally up, which indicated a good outlook going into 2017. Many contacts again cited low inventory as a strain on the market. Inventory decreased for single-family homes and condos in every reporting region.

Median sales prices rose year-over-year for single-family homes and condos in every reporting state and the Boston metro area. A Rhode Island contact commented that "as prices rise, more people will see gains in home equity which will give them more freedom to move. That should provide some relief to our supply shortage." Overall, contacts were optimistic about housing markets going into 2017. ■

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 picked up since the last report, expanding at a modest pace, and labor markets have strengthened. Increases in both input costs and selling prices have become more widespread. Manufacturers noted a brisk pickup in business activity in early 2017, while service-sector contacts have continued to report steady to moderately expanding activity. Consumer spending has been subdued in recent weeks, despite a surge in consumer confidence. Housing markets have been mixed, with weakness continuing at the high end, while commercial real estate markets were steady to stronger. Residential construction has remained sluggish, though office construction has picked up slightly and industrial construction remains fairly robust. Banks reported that loan demand retreated and that delinquency rates rose modestly.

### Employment and Wages

The labor market has strengthened in early 2017. Hiring activity has picked up—especially among service firms. In particular, businesses engaged in education and health, information, professional and business services, and wholesale trade reported that they have increased staffing levels. On the other hand, manufacturers report steady employment, and leisure and hospitality firms mostly indicated steady or declining employment. Businesses in almost every industry sector plan to add staff in the months ahead, on net.

Contacts at employment agencies reported that the labor market has remained tight and that hiring activity has been fairly brisk for this time of year. One contact in upstate New York noted a recent pickup in hiring at manufacturing and tech firms, while an agency in New York City reported brisk hiring from small to medium sized financial firms.

Contacts in most industries reported continued modest wage growth, though contacts in the leisure and hospitality sector noted a more significant pickup. Contacts at major employment agencies across the District report that starting salary offers have generally been steady to rising modestly, though they have risen more noticeably for some high-skill workers that are in short supply. While it is too early to assess any overall effects on wages and employment resulting from the January 1

increase in New York State's minimum wage schedules, a couple of contacts in the leisure and hospitality industry indicated that they have faced some challenges.

### Prices

Business contacts in all major industry sectors reported widespread increases in input prices—generally more so than in the last report. Contacts in most industries anticipate further increases in the months ahead, except in the transportation sector, where input costs are expected to remain steady. Selling prices are reported to be rising in the wholesale trade and leisure and hospitality industries but generally stable in other sectors, notably retail trade.

### Consumer Spending

Retail merchandise sales were generally characterized as sluggish in January and early February. However, online sales have reportedly been robust, with one major chain noting double-digit percentage growth over the past year. Two contacts attribute some of the recent weakness in seasonal merchandise to unseasonably mild weather. Despite the disappointing sales performance, inventories were said to be at satisfactory levels. Retail contacts continued to express concern about the near term sales outlook, with one noting that a number of store closings are in the works across the District.

Auto dealers in upstate New York reported that sales of new vehicles were steady at a strong level in early 2017,

while sales of used vehicles picked up further. Inventories of new vehicles have come down but remain somewhat elevated. Retail and wholesale credit conditions were reported to be in good shape.

Consumer confidence in the Middle Atlantic states (NY, NJ, PA) continued to climb in January, reaching its highest level in more than a decade.

### **Manufacturing and Distribution**

Manufacturers reported that business activity has picked up sharply in early 2017, with new orders, unfilled orders, and shipments rising noticeably. Manufacturing contacts also continued to express widespread optimism about the near-term outlook. Businesses in the wholesale trade and transportation industries reported more modest improvement but remain widely optimistic about future business conditions.

### **Services**

Service-sector businesses continued to report mixed but, on balance, steady business conditions in early 2017. Contacts in both the finance and health & education sectors noted a pickup in activity, while those in leisure and hospitality and information sectors reported some softening. Looking ahead, service-sector businesses remained generally optimistic about the outlook—particularly those in the professional & business services industry. Tourism activity has shown signs of continued softening, with Broadway theaters reporting sharp declines in attendance in January and especially February, and hotels generally reporting lower occupancy rates.

### **Real Estate and Construction**

Housing markets have been mixed across the District since the last report, with the high end of the market continuing to lag. New York City's rental market has weakened further. Rents on larger apartments have continued to decline, while rents on smaller units have been flat; moreover, landlords have been offering more generous concessions in early 2017. Apartment rents have been flat in the areas around New York City but have continued to edge up across upstate New York. Rental vacancy rates have edged down in New York City, reportedly due, in part, to the increased concessions. Across the District overall, vacancy rates have been mostly steady.

New York City's co-op and condo resale market has been flat in early 2017. There was a pickup in activity in January, but that has subsided in the first half of February. Prices on larger units—especially new development—have continued to slip, while prices on smaller apartments have been steady to up slightly. The inventory of newly developed units has continued to rise; the

inventory of resale units has risen but remains exceptionally low. Bidding wars have largely subsided.

Elsewhere across the District, market conditions have been more favorable. Home sales in the suburbs around New York City have been quite robust; prices have remained flat in northern New Jersey and Westchester but have begun to pick up on Long Island. In upstate New York, the market has continued to strengthen, with brisk sales activity, rising prices, and extremely tight inventory.

Commercial real estate markets have been steady to somewhat stronger in the first few weeks of 2017. Office markets were little changed—both in and around New York City, as well as in upstate New York—and asking rents have mostly been stable. However, the market for industrial space has continued to strengthen. Across the New York City metro area, industrial vacancy rates have declined further and rents have continued to rise. In upstate New York, vacancy rates have been steady, while rents have moved up noticeably.

New home construction—both single-family and multi-family—has been sluggish across most of the District. New office construction has picked up somewhat but remains fairly subdued. However, there continues to be a good deal of office construction in progress in New York City. Industrial construction has been fairly strong.

### **Banking and Finance**

Small to medium sized banks in the District reported weaker demand for consumer loans and residential mortgages, but no change in demand for commercial mortgages or C&I loans. Bankers reported that credit standards were unchanged across all loan categories. Spreads of loan rates over cost of funds were unchanged across all loan categories except residential mortgages, for which bankers reported widening spreads. Respondents also reported an increase in the average deposit rate. Finally, bankers reported higher delinquency rates across all loan categories except commercial mortgages, for which bankers reported no change in delinquency rates. ■

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 continued at a modest pace during the current Beige Book reporting period. Notable shifts in activity included manufacturing and homebuilding, which improved to a moderate pace of growth. Four sectors — nonauto consumer spending, lending, and nonresidential construction and leasing — were essentially unchanged, after growing at a modest pace in the prior period. Existing home sales appeared to have declined. According to most contacts, employment, wages, and prices continued to grow at a modest pace. Expectations for firm growth have risen recently; however, the anticipated pace of growth over the next six months remains moderate on average.

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### Employment and Wages

Employment has continued at a modest pace of growth since the prior report. Manufacturing firms continued to note increases in employment and in the length of average hours worked. Employment indicators from nonmanufacturing firms remained positive overall, but with smaller net increases as a growing percentage of firms reported a decrease in full-time and part-time workers.

Staffing firms described themselves as busy. In some cases, activity picked up immediately following the holiday lull and continued at a steady pace.

Wage pressures continued to be modest with little shift in reporting on wage levels or labor market tightness. Staffing contacts noted little change in overall wage pressures. A somewhat lower percentage of nonmanufacturing contacts reported wage increases than during the prior period.

### Prices

On balance, price levels continued to rise modestly. About two-thirds of firm contacts reported no change at all in prices paid and prices received. Of the remaining firms, more reported increases than decreases with the exception of prices received by nonmanufacturing firms, which were almost evenly balanced. Contacts in banking

and other large service-sector firms noted no signs, nor fear of inflation. Homebuilders continued to note the greatest price pressures for their inputs, especially for subcontracted labor. Overall, the sales prices of existing homes decreased slightly, if at all, although this varies across markets and price categories.

Looking ahead one year, manufacturers anticipate a 2.0 percent increase in prices received for their own goods and services, and nonmanufacturers expect a 2.5 percent increase. Manufacturers also reported expectations of 2.2 percent annual inflation for consumers — slightly higher than last fall, while nonmanufacturers continue to expect 2.0 percent inflation.

### Manufacturing

A greater percentage of firm contacts in a broader range of sectors reported increased manufacturing activity than in the previous period, suggesting moderate growth overall. Contacts reported that new orders picked up to a moderate pace of growth, while shipments continued at a modest pace.

Overall, gains in activity were indicated by most major sectors, including the makers of lumber products, paper products, chemicals, primary and fabricated metal products, industrial machinery, and electronic products.

More than half of the manufacturing contacts were optimistic that orders, shipments, and general activity would grow over the next six months, similar to the prior Beige Book period. About one-third of the contacts expressed expectations for increased capital expenditures, although this was a bit lower than the prior period.

### Consumer Spending

Nonauto retail sales grew slightly at best during the period, according to several analysts. One area chain reported that sales were a little lower than the prior two months, and a bit below expectations but the contact was not yet worried about a changing trend.

Auto dealers noted concern this period, as sales only slightly increased over last year after adjusting for much milder weather (sales were hurt last year by a significant January 2016 snowstorm). Dealers worry about too much inventory and getting squeezed between manufacturers' ongoing supply and slightly slumping demand.

Tourism contacts generally indicated a continuation of modest growth and positive prospects for the year ahead. A Poconos contact indicated that the snow season had opened early and that there was a good base of snow for Presidents' Day, which coincides with the area's biggest winter week because so many schools have vacations. Meanwhile, area water parks continue to attract an increasing number of visitors year-round. Contacts at the Jersey Shore indicated that peak summer bookings are filling up earlier each year. Even casino revenues in Atlantic City have finally begun to register some year-over-year gains on a more consistent basis.

### Nonfinancial Services

Overall, Third District service-sector firms continued to report moderate growth in general activity; moreover, the pace was somewhat faster than the prior period. Specifically, contacts noted a pickup in the moderate pace of sales and new orders. A transportation analyst reported that truck freight was growing a bit better than the prior period, as its market tightened at year-end. Spot rates for hiring trucks had increased, so contract rates will likely follow, according to the analyst. Along with steady growth, one contact noted that the incidence of consumers not paying their monthly bills continues to fall. Generally, the high expectations of future growth reported in the prior period were tempered this period — retreating to more average levels.

### Financial Services

Third District financial firms reported little or no change in overall loan volumes, after posting modest increases during the prior Beige Book period. This excludes the typically large seasonal decrease observed in credit card volumes, which follows the annual holiday season.

Consumer lending (other than for credit cards and autos) was the only loan category to grow significantly during the period. Commercial real estate loan volume grew a bit, but less so than the same period last year. Home equity loans and auto loans decreased slightly, while volumes of home mortgages and of commercial and industrial loans were mostly unchanged.

Most contacts continued to note the increased optimism of Wall Street investors and larger Main Street businesses but also noted increased uncertainty, especially for consumers and small businesses. In general, banking contacts continued to express cautious optimism for slow, steady growth.

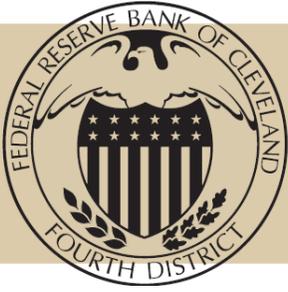
### Real Estate and Construction

On balance, homebuilders were pleased to report that the new year began with moderate increases in traffic, contract signings, and construction backlogs. Mild winter weather helped year-over-year comparisons, but activity has also outperformed firms' expectations.

Brokers in most major Third District housing markets reported a modest decline in existing home sales following moderate growth last period. They report no signs yet that the very low inventory levels will be replenished in time to boost sales this spring.

Nonresidential real estate contacts covering much of the Third District reported little change overall to the relatively high levels of construction and leasing activity. Contacts reported strong growth for projects associated with energy and pipelines and some ongoing growth for the office market in and around Philadelphia. However, contacts have begun to voice concerns as to whether the industrial/warehouse market might be near a peak, as they have previously said for multifamily construction. ■

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 moderately on balance across the Fourth District during the current reporting period. Labor markets continued to show signs of tightening, with moderate wage gains. Upward pressure on prices paid and prices received dampened slightly. Consumers continued to favor Internet and mobile shopping over brick and mortar. Motor vehicle sales spiked higher in January. Production picked up at manufacturing plants. Nonfinancial services firms experienced slight revenue growth overall, but demand was strong for IT and data analytics services. The housing market improved, with higher unit sales and higher prices. Commercial builders believe 2017 will be a solid year for their industry, though some expect that 2017 will also be the peak of the current construction cycle. Lending pipelines remain relatively strong.

### Employment and Wages

Reports indicated continued tightening in labor markets. Staffing increases were prevalent in the nonfinancial services and the real estate and construction industries. Manufacturing saw a pickup in hiring after reporting flat or lower payrolls since late last summer. Attracting and retaining qualified employees in the skilled trades and technical positions such as engineering and data analytics remain challenging and are fueling wage and benefit increases across industry sectors. One large manufacturer noted that the average time required to fill skilled production or professional job openings has risen from two months to six months. Reports of average wage increases during 2017 are generally expected to fall within the 2 percent to 3 percent range, but there were a few reports of 3 percent to 5 percent increases.

### Prices

Upward pressure on prices paid and prices received has dampened over the period. Several nonfinancial services providers reported that they are holding their billing rates in check, excluding inflation adjustments, because of pushback from clients when they attempted to raise rates. Similarly, suppliers of healthcare products sold to hospitals indicated that they are holding their prices in check until potential changes in the Affordable Care Act

are clearer. A data analytics firm reported that brick-and-mortar retailers generally are experiencing 1.5 percent to 3 percent price declines. One factor driving the declines is competition from their Internet counterparts. An auto dealer noted that the average transaction price is approaching a historic high mainly because of the popularity of light trucks, which have higher sticker prices than cars. He believes that rising interest rates will help temper further sticker price increases. Manufacturers are seeing modest increases in raw material prices, which they attributed to the rising cost of steel products and suppliers finally raising prices after having delayed such increases during the past few years. Wellhead prices for natural gas continue to trend slowly higher, but they remain below the threshold that would significantly boost upstream activity.

### Consumer Spending

Reports indicated that Internet retailers are experiencing strong revenue growth, while same-store sales were flat. Although traditional brick-and-mortar retailers are investing in ecommerce, their combined sales have increased at a slower pace than the sales of Internet specialists. That said, a furniture chain reported a significant boost in post-election consumer confidence, which when com-

bined with low interest rates contributed to fourth quarter revenues at a historic high. Strong sales continued into January. Similarly, car dealers reported a spike in unit sales of new and used vehicles during January when compared to those of the same time period a year earlier and when compared to December's transactions. One dealer attributed the increase in sales to an ongoing post election boost in consumer confidence and to rising OEM incentives. Unit sales increases are reportedly around 12 percent, with light trucks dominating sales.

### **Manufacturing**

Factory output picked up slightly since our last report. Activity for suppliers to the aerospace, construction, and motor vehicle industries remains elevated. Manufacturers of food service and warehouse automation equipment cited strong growth during 2016. Factors tempering output growth for other manufacturing industries include ongoing weakness in the oil and gas industry and the strong dollar. The auto industry is concerned about the possible impacts of a border-adjustment tax. Auto parts cross borders multiple times prior to final assembly. A border tax policy would likely result in higher sticker prices and an increase in OEM incentives.

### **Nonfinancial Services**

Activity in the nonfinancial services sector grew slightly over the period. Strongest demand was seen in the IT and data analytics, commercial real estate services, and management consulting segments. Several contacts observed that clients were in a wait-and-see mode prior to the presidential election and that demand for services picked up post election. An engineering design firm reported that through much of 2016, clients had been hesitant to move forward with projects, especially large projects. That said, there was a noticeable pickup in project feasibility studies since the presidential election. Similarly, a law partner noted that demand for legal services was stable through most of 2016. However, in the fourth quarter, his firm saw a broad-based uptick in demand. A landscape architecture firm reported a large spike in RFPs during December, especially for nontraditional services. The firm indicated that many of these projects had been postponed for years and that property owners are now feeling confident about the economy.

### **Real Estate and Construction**

Unit sales of new and existing single-family homes for all of 2016 increased almost 7 percent compared to those of a year earlier. The average sales price rose 4.5 percent. Realtors reported that rising consumer confidence

and the likelihood of higher interest rates are factors motivating buying decisions. Low inventory of existing homes for sale is helping boost prices. Estimates of single-family construction starts for 2016 were higher in Ohio and eastern Kentucky, compared to those of a year earlier.

Overall activity in the commercial construction market remains elevated. Contacts expect that 2017 will be a solid year for their industry, though some noted that 2017 may be the peak of the current construction cycle and that they anticipate uncertainty surrounding business activity in 2018. General contractors are seeing strong demand from healthcare and industrial customers. The latter group's demand is especially pronounced for warehousing and distribution facilities. An Internet retailer announced plans to construct a major hub in the District. A commercial real estate services contact noted a large post election spike in commercial property transaction fees after business had been flat for most of 2016. General contractors cited two issues that may be dampening multifamily construction: First, uncertainty about the administration's tax policies is causing worry among sellers of affordable housing tax credits. Even though no new tax policies are in place, firms are holding off on purchasing tax credits because of speculation that they won't need to offset their taxes as much as in the past. Second, banks are moving more cautiously when considering financing multifamily developments out of concern that some hotter markets may be overbuilt. As a result, developers are being required to hold equity positions that are about 10 percentage points higher compared to requirements of a couple of years ago.

### **Financial Services**

Bankers reported that lending pipelines remain relatively strong. The outlook is more positive since the presidential election because of an increase in consumer and business confidence that bankers believe will fuel increased demand for their products and services. However, the boost in demand may not occur until after mid-year 2017. In contrast, potential changes in US trade policies could restrain the business activities of corporate clients with large global business models. Another reported concern is that non amortizing loans issued to commercial developers prior to the financial crisis are coming due. Already there are some developers turning over collateral rather than repaying loans because many retail properties are worth less than the loan value. ■



## Summary of Economic Activity

Economic activity in the Fifth District grew moderately since the previous Beige Book report. Labor demand continued to increase and there were more reports of employees being converted from temporary to permanent workers. Prices rose somewhat more rapidly at services firms, while increases in manufacturing prices received were modest. Manufacturing input price growth moderated slightly. Manufacturing strengthened, and producers anticipated continued improvement during 2017. Retail sales rose on balance. Tourism grew at a normal seasonal pace. Residential real estate activity increased slightly, while commercial leasing rose moderately. In banking and finance, commercial loan demand rose and residential mortgage demand softened to typical seasonal levels. At non-financial services firms, revenues continued to rise at a modest pace. Energy markets strengthened modestly and agricultural conditions were largely unchanged at seasonal levels.

### Employment and Wages

Labor demand remained moderate, although hiring increased at a slightly slower pace since the previous Beige Book because of usual seasonal slowing at the beginning of the year. District contacts reported modest increases in wages in recent weeks. Recruiters continued to report tight labor markets, with strong demand, particularly for higher-level skilled workers. Staffing firms reported that the volume of worker conversion from temporary to permanent increased modestly. Tourism and hotel contacts were planning typical levels of seasonal hiring but were experiencing shortages of applicants; some businesses were offering higher wages or incentives to fill those positions.

### Prices

Services firms' prices rose at a moderately faster pace in recent weeks while retail prices grew more robustly, according to our most recent surveys. Manufacturers reported modest growth in prices received and a slight slowdown in average input price growth. Home prices inched up, on balance. Residential home builders reported a modest increase in lot prices in some areas. Grain, livestock, and poultry prices rose marginally but remained below historical averages. Beef prices, however, continued to decline slightly. Coal prices remained at the

slightly elevated levels previously reported, while natural gas prices edged lower in recent weeks.

### Manufacturing

Manufacturers reported increased shipments, along with stronger growth in new orders and greater capacity utilization since the prior Beige Book. Food producers and metals fabricators were among those indicating greater strength. A steel producer reported double-digit growth in quotes. Additionally, an executive from a paper products company said demand had increased for pulp and specialty products. A producer of aerospace products expected his output to double in 2017. Surveyed manufacturers anticipated stronger business conditions during the next six months.

### Ports and Transportation

Port officials reported record strength in container volume since the previous Beige Book. At one port, volume was described as "off the charts," and another had its best month ever for loaded containers. Imports of furniture, building supplies, and auto parts were strong. Auto imports remained at high levels, but exports of used cars to oil producing regions softened, which was attributed to falling oil prices in those destinations. Exports of construction and agricultural equipment remained weak.

Executives at trucking firms in the District said that demand for freight hauling services was somewhat softer in recent weeks, but one contact noted that expectations were for an improvement in the second half of the year. A railroad industry source commented that capacity had begun to tighten in freight transportation.

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

Retail sales rose on balance, particularly for building supply and home and garden establishments, as well as hardware stores. In contrast, sales at convenience and grocery stores were lower. Auto sales remained strong. Low fuel prices continued to spur sales of pick-up trucks and reduce demand for compact cars. A large auto dealer said that unit sales were down but gross profit per unit was up.

Tourism grew at a normal seasonal pace in recent weeks. A Virginia ski resort reported strong weekend bookings and few cancellations, even during warm weather, because of available alternate activities. A contact on the outer banks of North Carolina said tourism was little changed at usual off-season levels. According to sources at coastal locations, advance bookings were at typical levels for this time of year.

### **Real Estate and Construction**

Residential real estate sales increased modestly since the previous report. Contacts reported good levels of buyer traffic in recent weeks; however some sources said snow storms reduced buyer traffic in affected areas. Brokers reported that inventories generally remained at low levels, although a few contacts noted slight increases for some price ranges. Nonetheless, new listings sold quickly. Residential builders reported that home starts and closings increased to moderate levels.

Commercial leasing increased moderately in recent weeks and was stronger than a year ago according to contacts. Rents rose moderately while vacancy rates edged down. Real estate agents said that industrial and retail leasing remained robust, and available space was limited. Meanwhile, office leasing increased modestly. Overall, commercial construction remained steady at modest levels, although a large general contractor reported the largest backlog in his firm's history. Multi-family and mixed used developments continued to dominate new commercial construction projects.

### **Banking and Finance**

Since our previous beige book, loan demand grew moderately. Overall, bankers said that consumer and commercial demand was increasing at a healthy rate with the exception of some small rural areas throughout the District and in coal regions of West Virginia. In the District on the whole, residential mortgage demand softened slightly to a typical seasonal level. Commercial loan demand grew at a moderately faster pace. Demand for small business loans and lines of credit continued to rise at a modest pace. Credit quality was unchanged on balance but varied by region; a West Virginia banker said credit quality remained at an acceptable level while a South Carolina lender said quality was at an all-time high. Interest rates rose slightly in recent weeks. A lender in Virginia noted a sense of urgency from business to borrow before interest rates increase further. Competition among banks remained fierce. The trend in mergers and acquisitions continued. Bankers expressed optimism that regulatory changes under the new administration would be more favorable.

### **Non-Financial Services**

Revenues at services firms increased at a modest pace. Entertainment venues, accountant services, and trades associated with home-building reported increases. Healthcare organizations reported robust demand since the previous Beige Book. An executive at a large healthcare organization said capital projects were being considered to handle the growth. One hospital reported the opening of many new physician practices associated with the facility.

### **Agriculture and Natural Resources**

Energy markets strengthened modestly in recent weeks. Coal production picked up marginally as the pricing and regulatory environment improved for them. Natural gas production was unchanged. A utility executive in Maryland reported a modest increase in energy demand from commercial customers but a slight decline in residential connections. Agriculture conditions were largely unchanged at typical seasonal levels. Demand for poultry rose moderately. Some expansions were reported at poultry farms in North Carolina. ■



## Summary of Economic Activity

Business contacts indicated that economic activity in the Sixth District continued to expand, albeit modestly, from the previous report. The outlook among contacts for the next three to six months remains positive.

The labor market remained tight and wage pressures were mostly subdued. Overall, non-labor input costs remained modest. Retailers cited steady sales since the previous report. Automobile dealers indicated sales were better than expected. Tourism activity improved. Residential real estate builders indicated that construction activity was up, and new home sales and inventory levels were flat to slightly up compared with a year ago. Residential real estate brokers reported that existing home sales increased and inventory levels were down from a year earlier. Home prices continued to modestly improve. Demand for commercial real estate continued to improve and commercial construction activity increased. Manufacturers noted increases in new orders and production.

### Employment and Wages

Contacts reported ongoing tightening in the labor market since the previous report. Firms continued to struggle finding workers across various fields and skill levels. Firms continued to note growing partnerships with area workforce development organizations, community colleges, and universities to develop customized training programs to help develop larger pipelines of talent. Additionally, many firms continued to increase investment in internal training programs to develop existing personnel, rather than seek qualified labor across a limited pool of external candidates. Turnover picked up in banking and finance, manufacturing, and construction, where some industry contacts indicated they had to evaluate and adjust compensation structures, such as, increasing bonuses and incentive pay, to retain high-quality workers. There were scattered reports of plans to increase employee headcounts over the next 12 months, though overall, contacts indicated that they intend to keep employment levels steady. Wage growth continued to be evident in select geographic locations and particular occupations.

### Prices

Most contacts reported modest non-labor input cost pressures, except for manufacturing purchasing managers who noted greater increases in commodity prices. According to the Atlanta Fed's survey of business infla-

tion expectations, year-over-year unit costs were up 1.7 percent in February. The survey respondents indicated they expect unit costs to rise 2.0 percent over the next 12 months.

### Consumer Spending and Tourism

On balance, District retailers reported that sales levels grew at a steady pace since the last report. Merchants noted that on-line sales levels continued to rise, while brick and mortar sales remained sluggish. Automotive dealers reported stronger-than-expected sales in December.

Hospitality contacts across the District reported growth in business, leisure, and group travel since the last report. Georgia contacts stated that business travel and convention bookings continued to be strong. The total number of visitors to the state of Florida increased over the reporting period, however, there continued to be a slowdown in the number of international visitors. Louisiana reported increases in hotel occupancies, average daily rates, and revenue per available rooms since the last report. The outlook remains optimistic with healthy advanced bookings through the first quarter of this year.

### Construction and Real Estate

Reports from District residential real estate contacts continued to indicate slow but steady growth in January. Most builders noted that construction activity was up

from the year-ago level. Builders continued to indicate that home sales were flat to slightly up relative to the year-earlier level, while brokers reported an increase in home sales over the same period. The majority of builders and brokers noted that buyer traffic was equal to or higher than the previous year's level in January. Brokers reported that inventory levels were down relative to a year ago, while most builders indicated that inventory levels were flat or rising. Builders and brokers continued to note modest gains in home prices. Home sales expectations improved in January, with most brokers and builders anticipating sales to 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. Many commercial contractors indicated that the pace of nonresidential construction activity had increased from a year ago, with many reporting backlogs greater than one year. Reports on the pace of multifamily construction continued to be 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, the majority of District commercial real estate contacts expect the pace of nonresidential and multifamily construction activity to increase slightly over the next quarter.

### **Manufacturing**

District manufacturing contacts indicated that overall business activity expanded since the last report. New orders and production levels continued to increase. Supply delivery times were slightly longer, while finished inventory levels fell. Expectations for future production rose with nearly two-thirds of firms expecting higher production levels over the next six months.

### **Transportation**

Transportation activity in the District was relatively unchanged since the last report. District ports cited continued growth in shipments of containers, autos, and machinery. Trucking freight volumes declined further since the previous report, and carriers indicated they are working to reduce capacity to improve pricing. Rail contacts, however, reported that total traffic was flat compared with year-earlier levels following several months of declines. Intermodal traffic was down slightly.

### **Banking and Finance**

Credit remained readily available for most qualified borrowers. However, some small and medium-sized businesses continued to have difficulty obtaining credit. Some contacts noted that development projects were being funded by hedge funds and private equity sources, rather than banks.

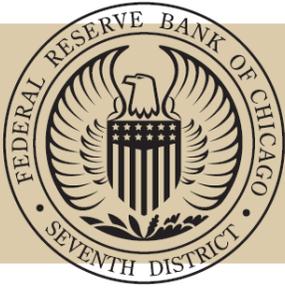
### **Energy**

Reports from District energy contacts indicated that liquefied natural gas exports from the Gulf Coast region increased. Refinery contacts reported that interstate pipeline reversals have eased some of the transportation costs for moving oil and gas to Gulf Coast refiners. Contacts noted crude oil inventories remain at historically high levels. Utility industry contacts continued to upgrade power generation plants to natural gas, and there has been continued activity to expand wind generation power.

### **Agriculture**

Agriculture conditions across the District were mixed. By early February, rain brought some improvement to drought conditions. However, much of the District continued to experience varying degrees of drought with small areas of north central Alabama and northeastern Georgia categorized in extreme drought. Florida's February orange forecast was down from January, remaining below last season's production. On a year-over-year basis, prices paid to farmers in December were up for cotton, soybeans, and broilers, but down for corn, rice, beef, and eggs. ■

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



## Summary of Economic Activity

Growth in economic activity in the Seventh District picked up to a moderate pace in January and early February, and contacts expected activity to continue rising at a moderate pace over the next six to twelve months. Employment, wages, business spending, and manufacturing production all grew at moderate rates, consumer spending increased modestly, and construction and real estate activity rose slightly. Financial conditions were little changed, prices increased modestly, and farm incomes improved slightly.

### Employment and Wages

Employment growth picked up to a moderate rate over the reporting period, and contacts expected it to continue to rise at 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 difficulty filling positions at all skill levels. A staffing firm again reported little change in billable hours and ongoing difficulty filling orders at the wages employers were willing to pay. Wage growth remained at a moderate pace. Some contacts noted larger wage increases for high-skilled occupations, while a number indicated that they raised wages nearly equally for all employees. Many contacts also reported rising healthcare costs.

### Prices

Overall, prices rose modestly in January and early February. Despite reports of heavy promotional activity, retail prices generally increased modestly. Most metals prices rose again, and an increasing number of firms reported that rising materials costs were leading them to increase their prices.

### Consumer Spending

Growth in consumer spending remained modest over the reporting period, with sales results weaker than expected. Contacts reported stronger sales in the food and beverage, health and personal care, and general merchandise sectors and weaker sales in the apparel, grocery, and e-commerce sectors. Light vehicle sales slowed somewhat, but the pace was still strong and incentives remained aggressive. Used vehicle sales held steady.

### Business Spending

Growth in business spending continued at a moderate pace in January and early February. Most retailers indicated that inventories were at comfortable levels. Manufacturing inventories were also at desired levels overall, though steel service center inventories were very low. 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, though there was an increase in the number of firms reporting spending for expansion.

### **Construction and Real Estate**

Construction and real estate activity increased slightly on balance over the reporting period. Residential building increased slightly, with growth concentrated in the single-family segment and in urban locations. Home sales increased modestly, while home prices increased slightly. Demand for nonresidential construction edged up, with growth concentrated in the industrial and infrastructure sectors. The pace of commercial real estate activity continued to be robust and even quickened some, with growth in both the for-sale and for-lease segments. One contact noted that banks continue to be conservative about lending in the sector. Commercial rents, availability of sublease space, and commercial vacancy rates were little changed.

### **Manufacturing**

Manufacturing production again grew at a moderate pace in January and early February. Growth was widespread across sectors, and even picked up for some long-struggling sectors. Specialty metals manufacturers reported increased shipments and steady growth in order books. Demand for steel remained modest, but there were early signs of a pickup as steel service centers began to replenish low inventories. Heavy machinery manufacturers reported an increase in sales overall, with slow but steady improvements in construction demand outweighing weak agricultural demand. Manufacturers of construction materials also reported slow increases in shipments, in line with the modest pace of improvement in construction. Activity in the autos and aerospace sectors slowed some but remained at a high level.

### **Banking and Finance**

Financial conditions were little changed on balance over the reporting period. Market participants again reported steady growth in equity prices and low volatility. Loan volumes to middle-market businesses increased slightly, which contacts attributed to refinancing in anticipation of higher interest rates rather than an increase in underlying demand. Contacts reported low delinquency rates, with the exception of the energy and agriculture sectors. Consumer loan demand was little changed overall, though one contact reported an increase in auto loans. An auto dealer also expressed concerns that standards were loosening further for sub-prime auto financing. Credit card volume was steady and delinquencies were up a bit.

### **Agriculture**

Prospects for farm income in 2017 improved slightly in January and early February, although the agricultural sector continued to operate under stress. Futures prices moved up enough so that – given expected costs – some corn and most soybean operations could lock in small profits for 2017. With profit margins looking to be higher for soybeans than for corn, contacts expected a shift in the mix of planting this year, with one reporting an attendant pickup in sales of soybean seeds. Cattle, dairy, and hog operations all benefitted from price increases . ■

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



## Summary of Economic Activity

Economic conditions have continued to expand at a modest pace since our previous report. General retail sales growth was modest, while manufacturing activity showed signs of strengthening. Conversely, reports from auto dealers indicated a slight decline in first-quarter sales. Business contacts surveyed in mid-February continued to hold an optimistic outlook for growth in 2017. On net, 57 percent of contacts expect District economic conditions in 2017 to be better or somewhat better than last year. This was a slight improvement since contacts were surveyed in mid-November.

### Employment and Wages

Employment has increased modestly since the previous report. On net, 25 percent of business contacts surveyed in mid-February reported that first-quarter employment was higher or slightly higher than a year ago; 18 percent reported hours worked were higher or slightly higher. District contacts continue to report that the labor market remains tight. Manufacturing, real estate, and construction contacts in St. Louis reported difficulties finding qualified candidates, and contacts in Memphis and Louisville reported an inability to fill key positions.

Contacts reported moderate wage growth since the previous report. On net, 63 percent of contacts reported wages were slightly higher or higher than a year ago. Contacts in Little Rock reported that wages for skilled workers continue to increase slowly, with more employees changing employers for higher wages. Contacts in Memphis and Louisville reported upward pressure on wages for both skilled and unskilled positions.

### Prices

Price pressures have increased modestly since our previous report. A greater share of business contacts surveyed reported higher prices charged to consumers than in previous surveys. On net, 33 percent of contacts reported prices were slightly higher than a year ago and a similar share expect price increases during the second

quarter. On net, 44 percent reported non-labor input costs were slightly higher or higher.

A contact in the Louisville manufacturing sector reported their raw material input costs were slightly higher due to supply shortages of certain chemicals needed higher in their supply chain. Since the previous report, cash prices of rice and corn have declined slightly, while the prices of sorghum and soybeans were slightly higher and coal prices were modestly higher. House prices across the District also increased moderately. A residential real estate contact in the St. Louis area reported raw material prices have climbed.

### Consumer Spending

General retail sales growth has been modest since our previous report and contacts continued to hold an optimistic outlook for 2017. Most general retailers reported a slight increase in year-over-year sales halfway through the first quarter. Similarly, the majority of hospitality contacts in St. Louis, Memphis, and Little Rock indicated that sales during this period met expectations and that they anticipate sustained growth in the months to come. On the other hand, a hospitality contact in Louisville reported that occupancy rates are projected to decrease this year after a strong 2016. Reports from auto dealers indicate a slight decline in year-over-year sales in the first quarter. Half of surveyed auto dealers reported a

shift in demand toward used vehicles, and the remaining dealers reported no change.

### **Manufacturing**

Manufacturing activity has increased at a moderate pace since our previous report. Several companies reported capital expenditure and facility expansion plans in the District, including motor vehicle, food product, and wood product manufacturers. In a recent survey, contacts reported an improvement in manufacturing conditions. A strong majority reported that production, new orders, and capacity utilization increased in the first quarter relative to one year ago. This is an improvement from our previous survey, when most contacts reported no change in activity from one year earlier. Contacts were also optimistic about the second quarter, with three-fourths expecting further growth in production, new orders, and capacity utilization. Despite the optimistic outlook, some contacts expressed concerns about labor shortages and possible trade restrictions.

### **Nonfinancial Services**

Responses from the service sector have been positive since the previous report. In particular, several firms that provide information technology services, leisure and hospitality services, and healthcare announced plans to build new or expand current facilities and hire new employees. Reports from the transportation sector were positive, with two large employers hiring new employees and renovating facilities. Reports from the professional business services and warehousing sectors were mixed—some existing employers reduced employment while new companies began hiring. About two-thirds of service and transportation contacts reported sales met or exceeded expectations in the current quarter, and two-thirds of contacts expect dollar sales to be higher in the second quarter than at the same time last year.

### **Real Estate and Construction**

Residential real estate activity has improved slightly since our previous report. Real estate contacts reported mixed home sales activity, indicating little change in overall sales. Nearly half of respondents indicated that sales fell short of expectations midway through the first quarter, citing reasons such as low inventory levels and higher mortgage rates. Still, many real estate contacts expect demand to improve in the second quarter, pushing single-family sales above one year ago. Residential construction activity has improved slightly since the previous report. December construction starts ticked up, while there was a minor decrease in permit activity. A

slim majority of local real estate contacts reported that residential construction activity was slightly higher than a year ago halfway through the first quarter, and a similar fraction of respondents expect construction to continue to increase into the second quarter.

Commercial real estate activity has improved at a moderate pace since the previous report. A majority of respondents indicated an increase in demand for both office and industrial properties compared with the same time last year. Meanwhile, most contacts reported no change in demand for retail and multifamily properties. These trends are expected to continue in the coming months. Commercial construction activity improved modestly. Local construction contacts continued to report a rise in demand for office and retail properties.

### **Banking and Finance**

Banking conditions in the District have improved at a moderate pace since the previous report. Banking contacts report moderate to robust year-over-year growth in demand for business and mortgage loans. District bankers also indicate that the credit quality of applicants for these two loan categories was markedly higher during the relevant period compared with last year. Since the previous report, there has been an uptick in the number of bankers reporting deteriorating credit quality among agricultural loan applicants. Nevertheless, contacts indicate that delinquency rates were slightly improved across all loan categories. The overall outlook among banking contacts is positive, with contacts citing expectations of modestly higher loan demand and the possibility of regulatory relief reducing compliance costs.

### **Agriculture and Natural Resources**

Agriculture conditions were unchanged from the previous report. As of the end of January, more than 94 percent of District winter wheat was rated fair or better, a slight improvement over crop condition at the end of January 2016 and the current crop's condition at the end of December. However, contacts reported that lower grain prices continued to affect farmers in the area, who have further reduced investment in land and equipment.

Natural resource extraction conditions improved slightly from the previous report, with coal production stabilizing and higher coal prices helping profits. District seasonally-adjusted coal production was little changed from December to January, while production was 10 percent above 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 grew moderately, accompanied by moderate wage and price pressures. The District economy showed growth in manufacturing, residential construction, energy, and mining. But real estate and consumer spending were mixed, commercial construction slowed, and agriculture remained weak.

### Employment and Wages

Employment grew moderately since the last report. Ad hoc employer surveys in a Minneapolis-St. Paul suburb and in Michigan's Upper Peninsula found that more than one-quarter were adding headcount, while only 5 percent were cutting jobs. A monthly manufacturing index showed strong increases in hiring expectations in December and January for Minnesota and the Dakotas. Initial unemployment insurance (UI) claims in January were about one-fourth lower compared with a year earlier. A staffing agency in southern Minnesota said that client calls and overall business were increasing, and another in Minneapolis-St. Paul said job orders were flat in January, but clients expected activity to pick up. Job fairs were held by a frac sand mine in western Wisconsin and oil companies in the Bakken oil patch; a builders' group in Minnesota held a job fair to fill 200 openings. However, January online job openings in North Dakota continued to decline compared to previous-month and previous-year levels. Major upheavals continued in retail, where national outlets have seen significant layoffs in Minneapolis-St. Paul, Fargo, N.D., Sioux Falls, S.D., and elsewhere. A South Dakota manufacturer announced "substantial" but unspecified layoffs, and the closure of an engineering facility in Minneapolis-St. Paul will affect up to 72 workers.

Wage pressure was moderate to strong since the last report. A Minnesota state official noted that wages grew 4 percent in 2016, and manufacturing paychecks rose by even more. Ad hoc surveys of employers in two regions suggested that average wages in these locations grew about 3 percent in 2016. Their wage expectations for 2017 were slightly lower; however, given tight labor conditions, a lower wage outlook for 2017 might stem from historical expectations of long-standing wage stagnation. The owner of a southern Minnesota staffing agency expected manufacturing wages in the region to grow 8 percent to 10 percent in the coming year.

"There's a huge demand and low supply. Wages need to match in order to supply workforce."

### Prices

Price pressures were moderate since the last report. Sources in the construction sector noted that mounting labor and materials input prices were driving up construction costs. An industry report indicated that Minneapolis-St. Paul construction prices were expected to increase 3 percent in 2017, a faster pace than in 2016. A utility was increasing gas and electric rates. Most prices received by farmers decreased in December from a year earlier, with the exception of soybeans, milk, chickens, and hogs.

## **Consumer Spending**

Consumer spending across the District was mixed since the last report. A Minnesota-based retailer reported weaker sales due to a continuing shift toward online shopping. Two large national retailers and two nationwide clothing retailers closed their doors in the Twin Cities market due to poor sales. However, analysts report reason for optimism in the Twin Cities retail sector overall. In Sioux Falls, S.D., retailers saw a slight uptick in spending, “but not by much,” a retailer commented. A mall manager in Montana reported that the mall was expanding by 40,000 square feet, effectively doubling the size of a mid-priced department store, while also refurbishing the mall with updates and new amenities. Reports from grocers were mixed; for instance, Minnesota was seeing the entrance of new grocers, while a large grocery retailer posted a loss in earnings since the last report. A North Dakota-based construction and farm equipment dealership announced the closure of eight stores in the Dakotas and Minnesota.

## **Tourism**

Tourism conditions were mixed. Snow conditions in the northernmost regions of the Ninth District provided steady recreational tourism activity, according to industry officials. Regions to the south saw a decline in recreational activity since the last report due to poor snow conditions. Elsewhere, casino-related revenues in Deadwood, S.D., suffered a significant decline—as much as 25 percent at some operators—leaving one industry spokesperson to comment that the drop was “alarming.” At the same time, a large gaming firm was expanding and improving its resort in South Dakota, stating confidence in the local industry and an interest in catering to changing consumer tastes.

## **Construction and Real Estate**

Construction activity was mixed since the last report. Commercial construction slowed. Projects out for bid in early January were below levels of a year ago but subsequently increased and by early February were on par with last year, according to an industry database. January commercial permitting was lower compared with a year earlier in most District metros. However, sources were optimistic about near-term activity, especially in Minneapolis-St. Paul, where major projects were waiting to break ground. In Montana, \$144 million in previously suspended road construction projects moved forward. In North Dakota, preliminary work has begun on a \$250 million airport in Williston and a \$2.1 billion flood

diversion project in Fargo. Residential construction was strong. Permitted units in January for both single- and multi-family units were significantly higher than a year earlier in Minneapolis-St. Paul and Sioux Falls. Residential construction was also higher in Fargo, but lower in Billings, Mont., and Rochester, Minn.

Commercial real estate remained healthy, with some softening. Vacancy rates in Minneapolis-St. Paul were low but have risen recently in the retail and office categories. Industrial vacancies there remained low, with significant new space either under construction or in development. Home sales in January were mixed from a year earlier. They were slightly higher in western Wisconsin and the Flathead, Mont., region, and flat in Sioux Falls and northern Wisconsin. Home sales were slightly lower in Minneapolis-St. Paul, though it was the third-strongest January since 2005. Several sources attributed the softness to late-2016 sales, as consumers locked in rates before a mid-December rise in the Fed Funds rate.

## **Manufacturing**

District manufacturing activity increased moderately since the last report. An index of manufacturing conditions produced by Creighton University indicated increased activity in January compared to a month earlier in Minnesota and South Dakota; the index indicated decreased activity in North Dakota. Two contract equipment manufacturers reported an increase in orders in late 2016 and optimistic expectations for 2017. A boat maker received a large contract to produce barges. A Minnesota candy maker opened a new production facility.

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

District agricultural conditions remained weak since the previous report. Respondents to the Minneapolis Fed’s most recent (January) survey of agricultural credit conditions indicated that farm incomes and capital spending fell in the fourth quarter of 2016 relative to a year earlier, with similar expectations for the coming three months. Activity in the energy and mining sectors increased since the last report. As of mid-February, oil and gas drilling in the Bakken region of North Dakota was up slightly from a month earlier. Federal regulators granted a license to a potential \$1 billion project in Montana that would store energy from wind production and other sources. Production at operating District iron ore facilities was near full capacity, with an idled facility scheduled to resume production in coming months. ■



## Summary of Economic Activity

District economic activity continued to expand modestly compared to the previous survey period, and contacts in most sectors expected additional gains in the months ahead. Consumer spending in January was modestly above year-ago levels, with retailers and auto dealers expecting stronger sales in the next few months. The manufacturing sector continued to expand moderately, and contacts in the professional, high-tech, transportation and wholesale trade sectors reported increased sales. District real estate conditions were mixed as activity in the residential sector fell slightly and the commercial real estate sector expanded modestly. Energy activity increased moderately, and energy contacts remained optimistic, although some noted concerns about labor availability and increases in the costs of oilfield services. District farm income remained subdued, and agricultural credit conditions weakened modestly. Employment and employee hours edged up in January, and wages increased slightly. Prices rose slightly since the previous survey.

### Employment and Wages

Employment and employee hours edged up in January. Respondents in the professional and high-tech services, real estate, health services and manufacturing sectors noted an increase in employment levels since the previous survey, while respondents in the transportation, restaurant, and tourism sectors noted a decline. Employment in the retail sector was higher than year-ago levels, and employment in the auto sector remained steady. Contacts across all sectors, except auto and tourism, expected an increase in employment in the coming months. Average employee hours picked up in both the manufacturing and service sectors since the previous survey period, and additional gains were expected in the next few months. Respondents noted a shortage of commercial drivers, salespeople, and service workers.

Contacts in most sectors reported that the pace of wage growth slowed compared to the prior survey, but wages still rose slightly. In addition, moderate wage growth was anticipated in the coming months.

### Prices

Overall, input prices rose slightly compared to the prior survey period, and contacts expected additional price increases in the months ahead. Respondents in the retail sector reported slightly higher input prices but held sell-

ing prices steady. Restaurant input prices were stable, while menu prices edged up. In the transportation sector, input prices rose moderately and selling prices increased modestly. Both input and selling prices were expected to grow moderately in the months ahead in the transportation sector. Construction prices rose slightly, and moderate price increases were anticipated in the coming months. Manufacturers reported steady prices for finished goods, while raw material costs continued to edge up. Manufacturers anticipated slight increases in both finished goods and raw materials prices in the next few months.

### Consumer Spending

Consumer spending increased modestly in January compared to year-ago levels, and respondents expected additional gains in the months ahead. Retail sales remained above year-ago levels, despite being lower than the previous survey period. Several retailers noted an increase in sales for household appliances and sale items, while luxury and seasonal products sold poorly. Retailers anticipated sales to rise moderately in the next few months, and inventory levels were expected to increase slightly. Auto sales decreased since the previous survey, but remained modestly above year-ago levels. Dealer contacts expected a solid pickup in sales in the months ahead. Auto inventories were mostly flat but

were expected to rise slightly. Restaurant sales in January were above year-ago levels, and contacts in the restaurant sector expected sales to remain relatively flat heading forward. District tourism activity was well above year-ago levels, but contacts expected a slight decline in activity heading into the spring months.

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

Manufacturing activity continued to expand moderately, and other business contacts reported increased sales. Manufacturers reported considerable improvement in durable goods production since the previous survey, particularly for metals, electronics, and machinery, while nondurable goods plants expanded at a modest pace. Production, shipments, and new orders all increased compared to the previous survey. Manufacturers' capital spending plans expanded moderately, and firms' expectations for future activity were at their highest levels in over twelve years.

Outside of manufacturing, contacts in the professional, high-tech, and transportation sectors reported moderate increases in sales, with strong gains anticipated in future months. Wholesale trade contacts noted a slight uptick in sales and expected activity to increase sharply heading forward. 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**

District real estate activity was mixed as residential real estate conditions deteriorated slightly while the commercial real estate sector expanded modestly. Residential home sales declined slightly, and inventories moved moderately lower since the previous survey period. Contacts expected a moderate increase in sales during the spring months due to seasonal factors. Home prices increased strongly, and sales of low- and medium-priced homes outpaced sales of higher-priced homes. Housing starts declined, but construction supply sales increased. Respondents expected overall residential construction activity to increase in the months ahead. Activity across the commercial real estate sector expanded modestly in January and early February as vacancy rates declined and absorption, completions, construction underway, sales and prices increased. Contacts expected the commercial real estate sector to expand further in the coming months.

### **Banking**

Most bankers reported steady overall loan demand in January and early February. A majority of respondents indicated a steady demand for commercial and industrial, commercial real estate, residential real estate, agricultural and consumer installment loans. Most bankers indicated loan quality was unchanged compared to a year ago. 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. Finally, a majority of respondents reported stable deposit levels.

### **Energy**

Energy activity across the District increased moderately in January and early February, and the outlook remained optimistic. The number of active oil and gas drilling rigs continued to increase modestly, primarily in Oklahoma and New Mexico as activity focused on the Oklahoma SCOOP and STACK plays and the Permian Basin in New Mexico. Respondents expected global markets to balance by mid-year, and thus, projected oil prices to increase further throughout 2017. However, they remained cautious given the rapid increase in domestic activity. Some respondents expressed concern about labor availability and increases in the costs of oilfield services. On the natural gas side, spot prices fell somewhat in January amid warmer-than-usual temperatures. However, lower natural gas production was expected to keep prices from falling significantly.

### **Agriculture**

Farm income remained subdued in the Tenth District, and farmland values declined modestly since the last reporting period. Cattle, wheat, and corn prices were lower than a year ago in early February and continued to weigh on farm income in the District, despite slight improvements in hog and soybean prices. All District states reported slightly lower farm income and expected further declines in the coming months. Farmland values and cash rental rates for farmland continued to trend lower at a modest pace and were also expected to decline further in the months ahead. Alongside persistent declines in farm income and farmland values, agricultural credit conditions weakened modestly, as farm loan repayment rates edged lower and demand for short-term financing remained strong. ■

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[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 demand strengthened, and activity among nonfinancial services firms increased. Retail sales generally rose, although there were some reports of weakness. Housing demand was solid, with gains in home sales. Loan demand increased, and the energy sector improved modestly. The agricultural sector improved thanks to favorable weather and rising crop and cattle prices. Employment and wages increased, as did prices. Outlooks generally improved.

### Employment and Wages

Overall employment rose, with hiring relatively strong in manufacturing and relatively weak in retail. Energy contacts reported that layoffs were mostly done, and that there were even several signs of hiring activity ramping up. Reports of skilled labor shortages continued, particularly in manufacturing and construction, and restaurant contacts said hiring qualified people remains a huge problem. Upward wage pressures were similar to the last reporting period. One contact remarked that increases in health care costs are more than they can pass on to employees.

### Prices

Input costs continued to rise during the reporting period, with relatively strong upward pressure in manufacturing raw materials prices. Selling prices generally rose, with more widespread inflation reported among manufacturers and retailers. Some services companies noted that input price increases remained difficult to pass along. Railroad contacts noted downward pressure on prices due to excess capacity. Oil prices held steady while natural gas prices drifted downward. Agricultural commodity prices generally increased.

### Manufacturing

The manufacturing sector expanded again over the past six weeks. Output growth remained a bit stronger for durable goods than nondurables, although weakness persisted in fabricated metals—a segment with strong ties to the energy industry. However, a few fabricated metals manufacturers indicated activity has begun to increase in 2017. Exports remained a source of weakness for firms that sell internationally, with the strong dollar and softness in Mexico's economy hurting sales. Overall, outlooks remained positive. A few manufacturing contacts said their customers held a "wait and see" approach and that there is considerable uncertainty, including over the potential impacts related to policy changes from the Trump Administration.

Gulf Coast refiners noted seasonally strong utilization rates, despite lower margins in January. The competitive advantage of domestic chemical manufacturers (who use natural gas instead of oil as an input) has increased in 2017 thanks to a larger spread between oil and natural gas prices. The outlook for chemical firms remained healthy because this feedstock cost advantage is expected to persist. Refinery business is not expected to fare as well in 2017 as in 2016, as large inventories and expectations of moderate demand growth will keep

margins modest.

### **Retail Sales**

Retail demand continued to rise during the reporting period, although at a slightly slower pace than the prior period. One clothing retailer said sales in border cities and energy-related areas remained sluggish. Auto sales declined, with one auto dealer noting that the January seasonal decline was greater than normal. Overall, outlooks among retailers remained mostly optimistic.

### **Nonfinancial Services**

Demand for nonfinancial services generally continued to increase over the past six weeks, with numerous reports of rising business activity. Most staffing services firms saw a pickup in demand. Staffing demand remained particularly strong in Dallas, with a surge in information technology, and rose slightly in Houston, including in the oil and gas sector. Professional and technical services firms noted increased revenues, while several reports from leisure and hospitality firms cited declines. Transportation services firms noted mixed movements in cargo volumes. Overall, most services firms noted improved outlooks. However, several expressed concern about uncertainty surrounding the new administration's potential policy changes and the resulting impact of those changes.

### **Construction and Real Estate**

Home sales rose during the reporting period, with contacts noting a good start to 2017. Lot prices continued to escalate in DFW, were steady to up in Austin, and flat to down in Houston. Home prices remained elevated, although some discounting was noted in Houston, and contacts there said it was becoming difficult to pass through further increases. Outlooks were positive, but contacts expressed some concern about downward pressure on builders' margins and the potential impact of rising mortgage rates.

Apartment demand stayed solid, and occupancy rates generally remained high. In Houston, despite better-than-expected demand overall, occupancy dipped and rent concessions continued to be offered. This was particularly the case for class A product due to a surplus of new deliveries and completions. Rents rose further in most major metros, but contacts expect rent growth to moderate this year. Austin and DFW office markets remained strong, while continued weakness was noted in Houston. Industrial availability was tight in most major metros.

### **Financial Services**

Loan demand increased over the past six weeks. Most respondents noted increased total loan balances, paralleled by improvement in general business activity. Commercial real estate and mortgage loans were among the better performing categories over the reporting period, and consumer loan demand ticked up. Lenders involved in auto loans noted that delinquency rates continued to rise. Contacts reported higher interest rates charged on loans as well as higher interest rates paid on deposits. Respondents expressed optimism about loan demand and general business activity over the next six months.

### **Energy**

Demand for oilfield services increased in the Permian Basin, and the district rig count increased. Outlooks for 2017 were more positive than in the last reporting period, but remain slightly guarded. Contacts were unanimously negative in their expectations about the impact of the proposed border adjustment tax on their firms. Regarding price risks for the year, firms noted a downward bias, with inventories keeping a lid on oil prices at around \$60 per barrel and lingering uncertainty around OPEC's ability to achieve its targeted production cuts for the first half of 2017.

### **Agriculture**

Moisture levels remained favorable across the district. The wheat crop was in great shape, and row crop producers began field preparation in many areas and even started planting in some of the southern parts of Texas. Cattle prices continued to rally, due in part to seasonality but also a combination of ample demand and a tighter supply of cattle ready for market. Contacts noted an increase in beef exports. Cotton exports have been trending up so far this quarter, thanks in part to the strong quality of the 2016 cotton crop. Cotton prices were relatively strong, and contacts expect a large increase in cotton acreage this year. Other crop prices trended up over the reporting period. Wheat prices still generally remained below breakeven prices, but corn and sorghum prices rose to a profitable level for many producers. ■

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



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## Summary of Economic Activity

Economic activity in the Twelfth District continued to expand at a moderate pace during the reporting period of mid-January through February. Overall price inflation was mild, while upward wage pressures strengthened. Sales of retail goods picked up, and activity in the consumer and business services sector slowed slightly to a moderate pace. Conditions in the manufacturing sector remained mixed, and activity in the agriculture sector was largely unchanged. Contacts reported continued vigorous activity in residential real estate markets, while activity in the commercial sector expanded at a moderate pace. Lending activity grew at a moderate pace.

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### Employment and Wages

Wage pressures intensified in general as labor market conditions remained tight throughout much of the District. Seasonal job loss in the retail sector was less pronounced at the end of the holiday season than in previous years. Talent shortages in the technology industry have increased the time required to fill positions and the cost per hire. Contacts in the agriculture sector noted that proposed changes in immigration policy could limit labor supply, particularly during harvest season, and drive up wage costs. In the financial services industry, shortages of skilled bankers and credit analysts have boosted wages for those occupations. One contact in the hospitality industry reported a continued shortage of workers across all job categories despite wage increases, signing bonuses, and increased recruiting efforts. Shortages of construction workers and contractors persisted.

### Prices

Overall price increases were mild during the reporting period. Prices of building materials increased from an already elevated level. While global prices remained low for many agricultural commodities, contacts reported that prices for some grains recently picked up. Pressure from online sellers slowed price inflation somewhat in parts of the retail sector. Contacts in the apparel industry noted that implementing a border tax could have a significant impact on the prices of imported apparel products.

### Retail Trade and Services

Retail sales picked up from the previous period. On balance, contacts continued to report that e-commerce sales were strong, and retailers continued to shift investment away from traditional brick-and-mortar establishments towards online channels. Retail supermarkets experienced solid sales volumes, and major chains continued to improve online retail and store pickup options. Demand for apparel products was moderate and flat relative to the previous reporting period. Sales of automobiles softened somewhat but remained comparable to last year's average pace.

Activity in the consumer and business services sector slowed slightly to a moderate pace. Robust demand for cloud computing services and investments in data centers continued to support strong growth in the technology service sector. While demand for health-care services expanded at a strong pace, and providers continued to innovate delivery systems, uncertainty surrounding federal health-care policy slowed capital investment. Tourism picked up to a strong level, but contacts voiced concerns that changes in immigration policy would reduce international visits. Activity in the hospitality industry weakened slightly, but advance bookings for the summer months at Southern California hotels were above levels experienced in the prior year. Contacts in the nonprofit sector noted that uncertainty around environmental and alternative energy policy remained a major concern for growth prospects over the near term.

### **Manufacturing**

Conditions in the manufacturing sector remained mixed. New orders and production of manufactured pharmaceuticals remained strong. Conditions in the semiconductor industry stabilized, but exporters remain concerned about the value of the dollar and potential trade conflicts. Contacts reported that steel mill capacity utilization remained below its long-run average, as a strong dollar and weak global demand slowed exports and boosted imports. Orders of commercial aircraft dipped, and deliveries were flat compared with the same period last year. Contacts in the metals fabrication industry noted that heavy equipment sales were weak, reducing demand for manufactured parts and accessories.

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

Activity in the agriculture sector was little changed from the previous reporting period. Demand for timber remained strong, and contacts reported that domestic wood products manufacturers expanded production as input costs were low and margins remained favorable. A major buyer of barley notified producers in Idaho that their purchases would decrease by 30 percent in 2017. Weak global prices and increased production costs in California further reduced rice plantings. Overall, the elevated dollar continued to suppress agriculture exports. Wet winter conditions increased snowpack in the Sierra Nevada, and contacts expected increased water supplies to boost harvests later this year.

### **Real Estate and Construction**

Real estate market activity grew at a vigorous pace as in the previous reporting period. On balance, activity in the housing market remained strong, but conditions varied by region. Shortages of land, labor, and materials in many major cities in the West somewhat tempered the rapid pace of construction activity, while a few rural regions noted that tight financial conditions remained a barrier to new construction. House prices edged up further in much of the District, with contacts in Los Angeles reporting that many communities expect significant gentrification in the coming years. Rents continued to climb in parts of the District, making homeownership relatively more attractive. Commercial construction activity expanded at a moderate pace, except in downtown Sacramento, where construction activity continued to be robust.

### **Financial Institutions**

Lending activity continued to expand at a moderate pace over the reporting period. Loan demand grew at moderate pace, similar to the prior period. One contact noted that consolidation in the financial services industry had reduced financing options for small businesses. On balance, deposits ticked up. Credit quality remained strong, and liquidity was ample. ■



