

For use at 2:00 PM EDT

Wednesday

March 4, 2020

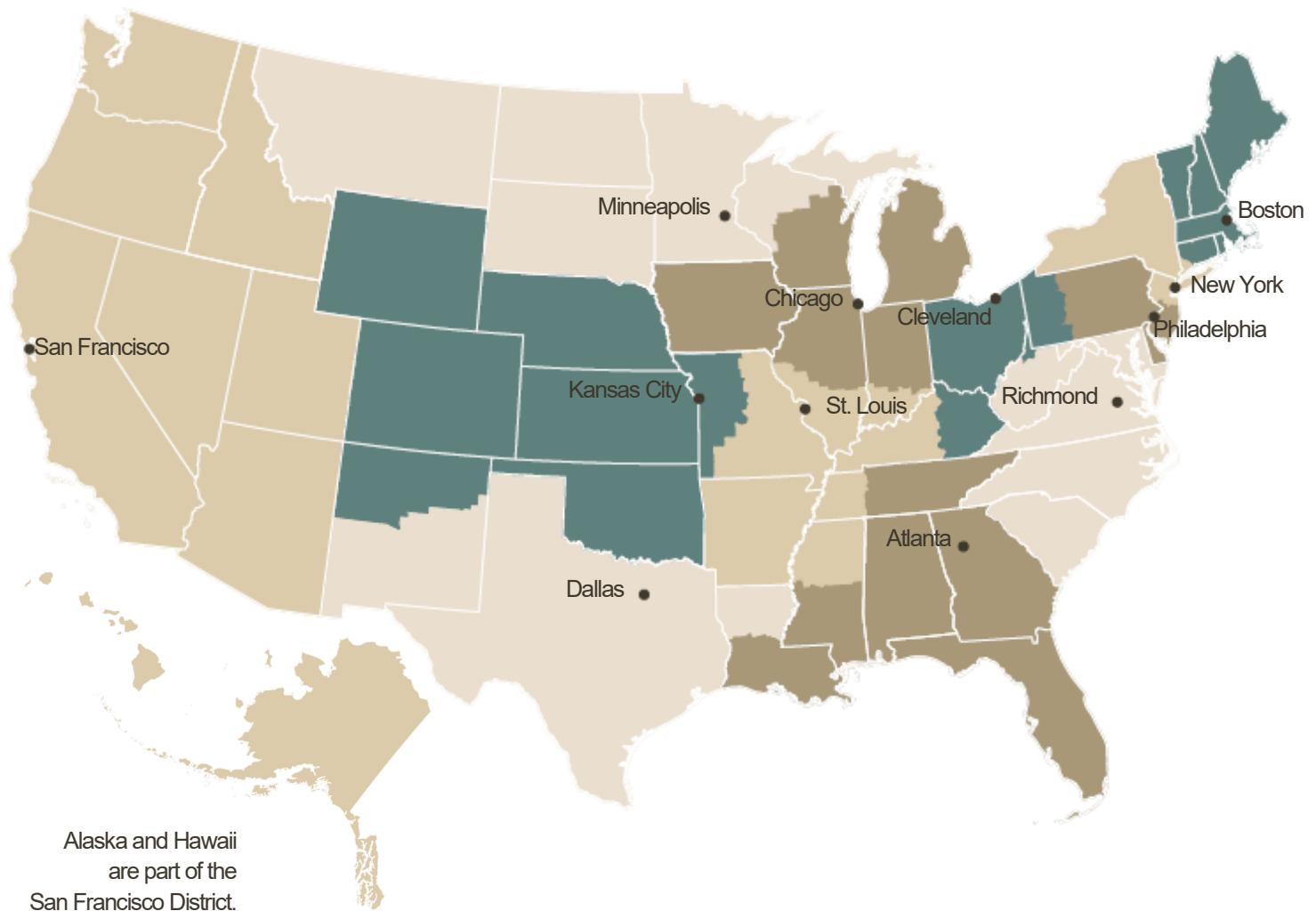
# The Beige Book

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Summary of Commentary on Current Economic Conditions  
By Federal Reserve District

February 2020

## 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.

<b>National Summary</b>	<b>1</b>	<b>What is The Beige Book?</b> 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.
<b>Boston</b> First District	<b>A-1</b>	
<b>New York</b> Second District	<b>B-1</b>	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.
<b>Philadelphia</b> Third District	<b>C-1</b>	
<b>Cleveland</b> Fourth District	<b>D-1</b>	<b>How is the information collected?</b> 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.
<b>Richmond</b> Fifth District	<b>E-1</b>	
<b>Atlanta</b> Sixth District	<b>F-1</b>	<b>How is the information used?</b> 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.
<b>Chicago</b> Seventh District	<b>G-1</b>	
<b>St. Louis</b> Eighth District	<b>H-1</b>	
<b>Minneapolis</b> Ninth District	<b>I-1</b>	
<b>Kansas City</b> Tenth District	<b>J-1</b>	
<b>Dallas</b> Eleventh District	<b>K-1</b>	
<b>San Francisco</b> Twelfth District	<b>L-1</b>	This report was prepared at the Federal Reserve Bank of Richmond based on information collected on or before February 24, 2020. This document summarizes comments received from contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.



# National Summary

The Beige Book ■ February 2020

## Overall Economic Activity

Economic activity expanded at a modest to moderate rate over the past several weeks, according to the majority of Federal Reserve Districts. The St. Louis and Kansas City Districts, however, reported no change during this period. Consumer spending generally picked up, but growth was uneven across the nation, including mixed reports of auto sales. Overall, growth in tourism was flat to modest. There were indications that the coronavirus was negatively impacting travel and tourism in the U.S. Manufacturing activity expanded in most parts of the country; however, some supply chain delays were reported as a result of the coronavirus and several Districts said that producers feared further disruptions in the coming weeks. Transportation activity was generally flat to up slightly aside from some Mid-Atlantic ports that saw strong volume growth. U.S. nonfinancial services firms generally experienced mild to moderate growth. Overall loan growth was flat to up modestly, according to most Districts; notable exceptions were St. Louis, New York, and Kansas City, where declines were reported. On the whole, residential home sales picked up modestly. Nonresidential real estate sales and leasing activity varied across Districts. Agricultural conditions were little changed in recent weeks while some declines in natural resource extraction were reported. Outlooks for the near-term were mostly for modest growth with the coronavirus and the upcoming presidential election cited as potential risks.

## Employment and Wages

Employment increased at a slight to moderate pace, overall, with hiring constrained by a tight labor market. Insufficient labor lowered growth for many firms and led to delays in construction projects. Several employers changed from temporary to permanent workers in order to attract talent, and firms made efforts to retain workers such as keeping seasonal workers on staff in the off-season. While employment grew across most sectors, manufacturers, retailers, and transportation companies reported lower demand for labor in some Districts. Wages grew at a modest to moderate rate in most Districts, similar to last period, and contacts expected wage growth to continue in this range. Firms reported that the tight labor market and minimum wage increases were putting upward pressure on wages. Companies also spent more on benefits, as the cost of benefits rose and as employers expanded benefits to attract and retain workers.

## Prices

Most Districts reported modest growth in selling prices, as well as in nonlabor input prices. Some firms, particularly manufacturers, were optimistic that the Phase One trade deal with China would reduce goods prices, but some still struggled with tariffs and were concerned about how the coronavirus might affect prices. Oil and gas prices decreased across the country, which was largely attributed to weak demand from China because of the coronavirus. Retail prices were up in much of the country although some retailers had lower costs due to improved trade conditions. Meanwhile, agriculture price changes varied.

## Highlights by Federal Reserve District

### Boston

The regional economy continued expanding in early 2020. A majority of manufacturers and retailers reported revenue increases from a year earlier. Staffing firms also reported revenue growth; some said growth was slower than in recent past periods and some said it was faster than expected. Business contacts continued to mention tight labor markets but little wage pressure. Prices stayed flat to up slightly. Outlooks remained positive.

### New York

Growth in the regional economy picked up to a moderate pace. With tight labor markets, wage growth picked up but job creation remained sluggish. Both input prices and selling prices rose moderately. Housing markets firmed, while commercial real estate markets weakened further. Business contacts have grown somewhat more optimistic about the near-term outlook.

### **Philadelphia**

On balance, business activity resumed a modest pace of growth during the current Beige Book period after a lull last period. Tight labor markets continued to constrain employment growth to slight increases, but wage pressures ebbed to a modest pace. Price increases remained modest, and firms optimistic, but the coronavirus has increased uncertainty about future growth.

### **Cleveland**

Economic activity in the Fourth District increased modestly thanks to growth in retail and professional and business services. Manufacturing demand held steady, but firms noted weaker demand because of the Boeing 737 Max production halt and concern about COVID-19's impact on supply chains. Home and auto demand increased. Employment and wages rose modestly overall. Inflation pressures remained modest.

### **Richmond**

The Fifth District economy grew moderately in recent weeks. Manufacturing activity picked up, as did port volumes and retail sales; however, some concerns were expressed about the coronavirus lowering imports of inputs and retail goods from China in coming months. Also, employment increased and wages continued to rise. Price growth for inputs and selling prices, on the other hand, slowed to a modest rate.

### **Atlanta**

Economic activity grew modestly. The labor market remained tight and wages were steady, on balance. Nonlabor costs continued to rise. The pace of retail and auto sales growth was flat. Home prices were steady, and commercial real estate activity continued to grow. Manufacturing declined, as new orders and production levels fell. Banking activity was stable.

### **Chicago**

Economic activity increased modestly. Consumer spending and employment increased modestly, while construction and real estate activity increased slightly. Business spending and manufacturing were little changed. Wages increased modestly, prices increased slightly, and financial conditions were unchanged. Farmers' income prospects deteriorated some. The coronavirus outbreak has had little effect to date.

### **St. Louis**

Reports from contacts indicate that overall economic conditions have been mixed but are generally unchanged since our previous report. Overall inflation pressures increased slightly, although there were some signs of further softening. Reports from manufacturing contacts indicate somewhat of a rebound in activity after consecutive reports of slowing growth.

### **Minneapolis**

Ninth District economic activity grew at a moderate pace. Employment and wages increased moderately. Following a slowdown in 2019, manufacturing activity appears to have increased recently. Favorable snow conditions across much of the District boosted winter tourism, with some exceptions. Commercial and residential construction and real estate increased. Agricultural conditions were stable at low levels.

### **Kansas City**

The District economy was largely unchanged in January and February, but activity levels were above year-ago levels in most sectors. Consumer spending slowed slightly and construction activity held steady, while manufacturing activity edged up in February for the first time since last summer. Energy activity continued to decline due primarily to low oil and natural gas prices, while the agriculture sector remained weak.

### **Dallas**

Economic activity expanded moderately, with broad-based growth seen in services (excluding retail) and manufacturing but declining activity in the energy sector. Housing demand continued to rise broadly. Employment growth slowed to a modest pace. Input prices continued to rise while selling prices were mixed. Outlooks generally improved, though the coronavirus introduced new uncertainty into the business environment.

### **San Francisco**

Economic activity in the Twelfth District expanded at a modest pace. Employment increased some and wages rose further. Price inflation was stable. Sales of retail goods increased markedly, and consumer and business services activity was up somewhat. The manufacturing sector contracted minutely on net, but activity in the agriculture sector increased slightly. The residential real estate market expanded modestly, while commercial real estate activity was mixed. Lending grew further.



# Federal Reserve Bank of **Boston**

The Beige Book ■ February 2020

## Summary of Economic Activity

First District firms continued to report increases in economic activity heading into 2020. Retailers reported mixed but mostly positive results, while restaurateurs saw solid revenue gains. Most manufacturers experienced revenue increases ranging from mid single-digit percentages to more than 20 percent, but two respondents cited revenue declines, both attributed in part to disruptions related to the coronavirus outbreak in China. Staffing firms continued to report moderate to strong revenue gains, although a couple cited slowing growth or fewer job requests compared with last year. Residential real estate markets remained tight in the region, with inventories of both homes and condos decreasing as sales and prices rose. Commercial real estate markets were mixed across sectors and locations. Outlooks continued to be positive, with the coronavirus and the presidential election cited as risk factors.

### Employment and Wages

Labor markets in the First District remained tight. Retailers noted that minimum wages went up in some states; those increases, in combination with a generally tight labor market, have pushed up operating costs. Employment increased year-over-year at five contacted manufacturing firms; headcount was down modestly year-over-year at one manufacturer and flat at four. Almost all the manufacturers who were actively hiring reported difficulties finding workers for nearly all positions ranging from skilled executive assistants to experienced woodworkers and engineers; competition was said to be particularly fierce for higher skilled jobs in northern New England. Staffing firms reported that low unemployment rates gave workers less incentive to look for new temporary or permanent positions; at the same time, a dearth of fresh college graduates and young workers with two to three years of experience further limited the available pool of qualified talent. A majority of contacted staffing firms reported bill and pay rates that were either holding steady or rising only modestly in line with inflation or increases in benefits costs.

### Prices

Prices were mostly unchanged or up modestly. Retailers said prices largely remained steady in recent months. Restaurateurs noted that menu prices were up 3.1 percent year-over-year, while wholesale food prices rose 1.6 percent, a spread that caused some consumers to reduce spending on eating out. Prices at most manufac-

turing firms stayed level since last quarter, and were flat or up in the very low single digits year-over-year. One notable exception was a dairy producer who reported increased input costs of 6 percent over the past quarter, following a 9 percent increase the prior quarter; they expect prices to level off into 2020.

### Retail and Tourism

First District retail respondents reported comparable-store sales ranging from a decrease of a few percentage points to increases in the mid-single digits year-over-year. Two retail contacts plan significant business expansion, as reflected in their capital spending plans for 2020. One retailer noted that their inventory levels were impacted by the coronavirus in China, which slowed production at some manufacturing plants. Consumer sentiment remained strong.

Anecdotally, Massachusetts restaurant sales through the first seven weeks of 2020 have been good, fueled by the redemption of gift cards and mild winter weather. Through December—the latest month with hard data on state meals-tax receipts—Massachusetts restaurants saw total sales increase 4.2 percent year-over-year. But when adjusting for the record number of restaurant units in operation, the underlying sales trend is likely a much more modest 1.1 percent increase. Industry contacts remained concerned that the intense competition for customers amid rising operating costs means that the current number of restaurant units is not sustainable.

The outlook for 2020 is cautionary, as the higher advertising costs associated with a presidential election year increase operating expenses.

### **Manufacturing and Related Services**

Reports from manufacturers were mostly positive, with seven of ten respondents reporting increased sales compared to the same period last year. Two semiconductor-related manufacturers reported the greatest gains: driven primarily by a buildup in 5G-related technology, revenues were up more than 20 percent compared to last year. A veterinary care supplier and a dairy manufacturer both reported revenue growth around 11 percent year-over-year. Two other contacts reported low double-digit growth from a year ago, including a furniture manufacturer, who cited large hotel orders as well their most successful Presidents' Day weekend in several years. A biotech firm saw sales and revenue growth in single digits. On the down side, a textile manufacturer reported flat sales, and two firms, in advanced sensors and chemicals, pointed to disruptions related to uncertainty and supply chain challenges from the coronavirus as factors leading to their slower 2020 start. Seven of ten manufacturers did not mention disruptions from the virus to date. A handful of contacts pointed to uncertainty related to the election as a potential risk factor later in the year.

### **Staffing Services**

New England staffing firms ended 2019 on a positive note: some contacts reported higher-than-projected revenue growth; one firm cited a year-over-year growth rate of 47 percent. Some companies saw declines in revenue growth; they indicated the slowdowns were within a tolerable range. Most contacts cited a steady and healthy demand for labor, still outweighing labor supply. Two firms cited a slight drop in the total number of job requests compared to a year ago. One contact shared anecdotally that help-wanted signs were prevalent at a range of local businesses. A number of firms shared favorable projections and most are guardedly, if not highly, optimistic going into the second quarter.

### **Commercial Real Estate**

Commercial real estate contacts in the First District reported mixed performance across market sectors, with strong demand for industrial space, mixed office leasing activity across locations, and troubles in the retail sector. Evidence of the latter is coming partly from value write-downs for national mall operators, but contacts also saw rising retail vacancy rates in both the greater Boston and greater Hartford areas. Industrial space remains in high demand throughout the region: the Hartford area saw significant large-format warehouse leasing and construc-

tion activity, and in Rhode Island the combination of robust demand and scarce inventory contributed to increases in industrial property values on the order of 40 percent in the past two years. Office leasing activity varied across markets: stable but very limited in the Hartford area, resulting in slightly negative absorption for 2019, moderate but slowing in greater Providence, and robust in Boston. A Boston contact reported with astonishment that office rents had increased by up to 50 percent in just the past 3 to 4 years and office vacancy rates are as low as 4 percent in some urban neighborhoods.

Investment sales demand was seen as stable throughout the District and remained stronger in Boston than in other areas. Speculative office construction activity increased further in the Boston area—although completions are still a few years off; in other parts of the District, construction activity was dominated by multifamily and mixed-use developments. Contacts expected conditions to remain stable for the most part, although the retail sector is expected to see further weakness and downside macroeconomic risks were cited in relation to the coronavirus outbreak and the presidential election.

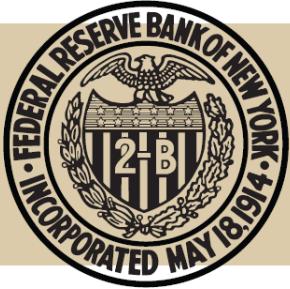
### **Residential Real Estate**

Residential real estate markets in the First District ended the year of 2019 on a strong note. Rhode Island, Massachusetts, and Boston reported year-over-year changes from December 2018 to December 2019, while New Hampshire and Maine reported January statistics. Connecticut and Vermont data were unavailable.

Closed sales increased by double-digit percentages in all reporting areas for both single-family homes and condos. Median sales prices generally increased. Inventories of both homes and condos decreased in all reporting areas, with home inventories dropping sharply.

Contacts noted that 2019 was a strong year for real estate, citing a favorable interest rate environment and positive economic conditions as the main reasons. However, low inventory and high demand pushed prices up. Looking forward, contacts expressed optimistic outlooks. ■

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



# Federal Reserve Bank of **New York**

The Beige Book ■ February 2020

## Summary of Economic Activity

The Second District economy picked up to a moderate pace of growth in the latest reporting period. The labor market remained tight, and wage growth picked up somewhat, though hiring activity was sluggish. Businesses report that both input prices and selling prices picked up somewhat and rose at a moderate rate. Manufacturing activity picked up noticeably, while most service industries reported some pickup. Consumer spending has remained sluggish, following a mixed holiday season, while auto dealers reported a fairly good start to the year. Tourism has weakened more than the seasonal norm in early 2020. Home sales markets have picked up somewhat so far this year, and the residential rental market has remained tight. Commercial real estate markets have weakened further. New commercial construction has largely dried up, while new multi-family residential construction has been steady at a moderate pace. Banks reported some pickup in loan demand and little change in delinquency rates, while financial sector contacts more broadly noted flat to slightly declining activity. Finally, business contacts in most sectors have grown a bit more sanguine about the near-term outlook.

### Employment and Wages

The labor market has remained stable and tight across the District, while hiring has been restrained. Employment agencies have noted ongoing trouble finding workers in occupations ranging from IT workers to customer service reps. A major payroll firm noted that job growth at small businesses has slowed across New York State. Reports from business sectors were mixed. Retail, finance, and transportation firms reported declining employment, on balance, but contacts in manufacturing, wholesale trade, professional & business services, and information reported modest net hiring.

Looking ahead, businesses in almost all major industry sectors indicated that they planned to add staff, on net. The one sector anticipating job reductions was retail trade. Businesses in most service sectors, as well as employment agencies, reported that wage growth has picked up a bit. Only in finance did contacts report flat wages. A number of businesses in both the manufacturing and service sectors noted that the latest rise in New York's minimum wage has had ripple effects, boosting wages even for workers well above the minimum.

### Prices

Businesses mostly reported that both input costs and selling prices picked up somewhat, rising at a moderate pace. In terms of prices paid, much of this pickup was reported in manufacturing, transportation, information and retail trade. In terms of prices received, the most widespread acceleration was reported from contacts in transportation, information, and leisure & hospitality. Broadway theater ticket prices have receded slightly in early 2020 and were little changed from a year ago. Looking ahead, businesses in all sectors except finance plan to raise their selling prices, on net, in the months ahead.

### Consumer Spending

Retailers reported that sales were mostly flat thus far in 2020, and contacts generally expected lackluster sales for the months ahead. Some upstate New York retailers offered a more favorable assessment, characterizing customer traffic and sales as solid, helped by mild weather. Retailers generally indicated that inventories were in fairly good shape, aside from an overhang of cold-weather outerwear.

Sales of both new and used vehicles have remained fairly strong in early 2020, helped by mild winter weather. Consumer confidence in the Middle Atlantic States (NY, NJ, PA) rebounded in early 2020, after falling to a nearly two-year low in December.

## Manufacturing and Distribution

Manufacturers reported a fairly brisk pickup in business activity and especially in new orders. On the distribution side, reports were also fairly positive: wholesalers reported continuing moderate growth in activity, while transportation contacts noted a rebound in business.

Looking ahead, manufacturers indicated that they project moderate growth in the months ahead, while wholesalers and transportation firms foresee more subdued growth. Contacts in these sectors have expressed concern about the latest round of minimum wage hikes, and there has been ongoing concern about tariffs. One manufacturing contact noted problems with supply disruptions and shipment delays related to the coronavirus.

## Services

Service industry contacts generally noted a pickup in activity following flat business in late 2019. However, contacts in the education & health service sector indicated that activity was flat. Tourism activity was mixed. A few contacts reported that the coronavirus has deterred visitors, though New York City hotels have continued to report good business. Broadway theaters reported that business slowed by more than the seasonal norm, following a brisk December. Both attendance and revenues fell well below comparable year-ago levels.

Looking ahead to the first half of 2020, contacts in most major service industries were fairly upbeat, though businesses in education & health were more guarded in their optimism.

## Real Estate and Construction

Home sales markets across the District have been mixed but, on balance, a bit firmer since the last report. Prices of New York City condos and co-ops leveled off but remained below a year ago. In particular, a sizable inventory glut at the high end of the market, most notably for new development, has continued to depress prices. However, prices at the lower to middle segments of the market have been steady to up modestly. Suburban markets, in both downstate and upstate New York, have been more robust, with low inventories boosting prices. Sales activity has picked up somewhat across the District.

New York City's residential rental market has been mixed: Manhattan's market has continued to strengthen—especially at the higher end, as apartment-seekers have shied away from the sales market. In the outer boroughs, however, excess inventories of new rental developments have held back rents. Overall, rents have risen at a roughly 2-3 percent pace, while concessions have receded, except at the high end. An industry contact noted concern among real estate professionals about recent efforts to ban charging fees to new renters.

Commercial real estate markets across the District have softened further. Office availability rates have climbed modestly across most of New York State, while they have been steady in northern New Jersey, Fairfield County, CT, and the Lower Hudson Valley. Office rents have held steady, on balance, across the District. Industrial markets have been mixed, with both rents and vacancy rates on the rise. The market for retail space has continued to soften, though asking rents have remained somewhat elevated, especially in New York City.

New multi-family construction starts have remained fairly robust across the District, and ongoing multi-family construction activity has remained brisk. By contrast, new office construction has weakened, while industrial construction has been mixed, picking up in upstate New York but remaining flat or falling elsewhere.

## Banking and Finance

Financial sector contacts reported flat to weaker activity, and expressed ongoing concern about the business outlook. Small to medium-sized banks in the District reported lower demand for consumer loans but higher demand for residential mortgages, including refinancing, as well as commercial loans and mortgages. Bankers reported unchanged credit standards for all loan categories, narrowing spreads on residential mortgages and commercial mortgages, and widespread decreases in the average deposit rate. Finally, bankers reported little change in delinquency rates across the board. ■

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



## Summary of Economic Activity

Aggregate Third District business activity resumed a modest pace of growth during the current Beige Book period, after a lull last period. Growth for manufacturing and nonfinancial services firms picked up to a modest and moderate pace, respectively. Financial services and residential construction continued to grow modestly, as did nonauto consumer spending; however, auto sales and tourism slowed from a slight pace of growth to a modest decline and to no change, respectively. Residential construction and existing home sales grew modestly, while nonresidential construction and leasing activity held steady. Labor markets remained tight throughout the District, generating slight employment increases, while wage growth appeared to ebb to a modest pace. Overall, price pressures remained modest. A positive outlook for modest growth over the next six months tended to narrow among nonmanufacturing firms and broaden among manufacturers; however, contacts expressed concerns about potential supply chain disruptions from the coronavirus.

### Employment and Wages

Employment continued to grow slightly during the current Beige Book period; however, a slower pace is evident, as the share of firms reporting staff cuts edged up. Nearly two-thirds of the firms reported no change in staff. Average work hours held steady at manufacturing firms and edged up at nonmanufacturing firms.

Difficulty hiring and retaining qualified workers remained a common thread from many firms as they continued to report tight labor market conditions, but the comment was less frequent. Some firms reported offering more competitive wage and salary packages; many firms are automating where possible.

Staffing firms continued to report demand for new job placements from clients and an insufficient supply of qualified labor to fill the orders. One staffing contact noted that many clients were converting current temporary workers to permanent staff and not placing new temp orders.

On balance, firms reported modest wage growth – slower than the prior period's moderate pace. The share of nonmanufacturing firms reporting wage and benefit increases fell. One contact noted raising staff wages in January – earlier than the firm's typical March adjustment.

### Prices

Most firms continued to report modest increases for both input prices and prices received for their own goods and services. The share of nonmanufacturers reporting higher prices paid retreated after a sharp rise in the prior period. The share of firms reporting no change in prices remained near three-fourths for manufacturers and rose to about three-fifths for nonmanufacturers.

Looking ahead six months, the anticipation of higher prices lessened somewhat among manufacturers. About 40 percent of the firms expected higher prices; about 5 percent expected prices to fall. This was true for prices firms expected to pay as well as for prices firms expected to receive for their own goods.

### Manufacturing

On balance, manufacturers reported modest growth, with steadily improving reports throughout the period versus the slight growth reported during the prior period. The percentage of firms reporting increases in shipments and new orders rose to nearly one-half, and the percentage reporting decreases in new orders edged down.

Positive expectations of activity over the next six months broadened among manufacturers. Nearly three-fifths of the firms expected shipments and new orders to increase. However, expectations diminished for future

employment and held steady for planned capital spending.

Despite the growth and bullish expectations, several firms cautioned that the emerging coronavirus may disrupt supply chains in the near future. Two firms have already reported delays in receiving needed production inputs. Inquiries and orders to source parts domestically were increasing because of tariff uncertainty and are continuing because of the coronavirus. However, contacts explain that it can take three months to get a part into production, and longer for testing and redesign.

## Consumer Spending

Retail contacts continued to report modest growth in restaurants and other nonauto retail sales. Most contacts noted that consumers remained confident but suggested that low gas prices and unseasonably warm weather had also helped sales. Retailers noted no supply disruptions because of the coronavirus.

New car sales appear to have declined modestly on a year-over-year basis. In New Jersey, sales fell modestly through mid-February, although sales had been so unseasonably strong in January 2019 that sales through mid-February 2020 were negative by comparison. Pennsylvania auto dealers (of new and used cars) reported modest gains in January.

Tourism activity appeared to hold steady – after growing slightly in the prior period. A tourism analyst noted that most metrics for the Philadelphia area were positive for 2019, but that national travel was slowing a bit, and the coronavirus was causing headwinds. In addition to fewer tour groups from China, local customers have been avoiding some of Philadelphia's Asian restaurants and shops, as unfounded fears spread. Area ski resorts have managed with manmade snow, while Atlantic City casino revenues appear to have benefited from unseasonably warm weather in January.

## Nonfinancial Services

On balance, activity at service-sector firms grew moderately – a substantial pickup from the prior period. The share of firms reporting increased revenues and new orders rose, and the share reporting decreases in both measures fell significantly. The coronavirus has entered the list of concerns, which still includes tariffs and tight labor markets. One business services firm has already noted disruptions to its vendor's supply chain. A bank contact was aware of delays that a customer had faced for key production equipment. Over one-half of the firms – less than in the prior period – expect growth over the next six months.

## Financial Services

Financial firms continued to report modest growth in overall loan volumes (excluding credit cards) on a year-over-year basis. Credit card lending also remained at a modest pace.

During the current period (reported without seasonal adjustments), volumes appeared to grow robustly for commercial real estate and other consumer loans (not elsewhere classified). Home mortgages grew moderately, commercial and industrial loan volumes grew modestly, and auto lending appeared flat. No major category was negative on a year-over-year basis.

Banking contacts continued to express few concerns over credit quality and lending standards at their own institutions, but some were critical of "crazy deals," especially from nonbank competitors. One large bank noted that loan quality was "eerily quiet." Most banking contacts were optimistic about the overall health of the U.S. economy going forward but expressed concerns over the potential impact of the coronavirus.

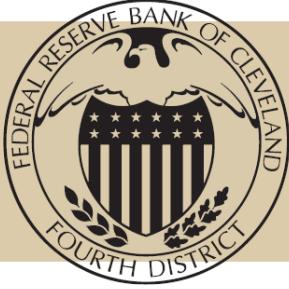
## Real Estate and Construction

Homebuilders continued to report modest growth in contract signings, but with some improvement. One builder noted that traffic through the company's showrooms was normal but that more people were deciding to buy. Contacts cited low interest rates, warm weather, and a strong stock market as factors spurring purchases. Current sales should keep contractors busy well into September.

Inventory levels for existing home sales dropped to two months – less in the Lehigh Valley. The constrained low level of sales appears to have hit a bottom, as most local markets reported modest increases in year-over-year sales – central Pennsylvania sales were strong. Still, an area broker noted that a lack of new single-family home construction and high student debt were constraining supply and demand, respectively.

On balance, commercial real estate construction appeared to hold steady at relatively high levels, as did sales and leasing activity. Contacts noted that multifamily development was as busy as ever, architects noted a year-end pickup, and accountants to the industry reported no emerging problems. Construction activity is somewhat constrained by available labor. ■

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



# Federal Reserve Bank of **Cleveland**

The Beige Book ■ February 2020

## Summary of Economic Activity

Economic activity in the Fourth District increased modestly, albeit at a slightly slower pace than in the prior round. Manufacturing demand held steady, although some producers noted weaker demand because of the Boeing 737 Max production halt. Others expressed concern about supply-chain implications of factory shutdowns in parts of China caused by the outbreak of COVID-19. Retail demand was relatively strong thanks to mild weather, strong consumer confidence, and low interest rates. Professional and business services, a long-standing bright spot in the District, continued to report strong demand for legal, IT, and advisory services. Loan demand was stable, with some improvement in mortgage lending because of low interest rates. Freight haulers said that cargo volumes remained low. On balance, contacts expected that customer demand will improve slightly in the near term. Hiring and wage growth continued at about the same modest pace as in the previous survey period. Contacts indicated that labor was still in short supply, while often noting that they do not believe larger wage increases will attract more applicants. Both nonlabor input costs and selling prices rose modestly.

### Employment and Wages

District employers increased staff levels slightly, and firms expect a similar pace of hiring in the near term. Employment gains were concentrated in services. The majority of professional services firms added workers to meet growing customer demand, as has been the case for a number of months. Banking employment edged up after several periods of losses thanks to a few pockets where loan demand had increased. Retail reports were mixed. Warmer weather led a few food and hospitality firms to increase staff levels. However, one large department store reduced employee numbers as part of a restructuring. Transportation firms continued to pare payrolls because of weak cargo volumes and increased operational efficiencies. Most manufacturers held staff levels steady, and the few that added workers added finance and sales analysts and engineers to design new products.

Wages rose modestly and in line with the trend during the past several periods. A greater share of professional and business services raised wages to attract and retain talent. Retail wages moved up in line with an increase in Ohio's minimum wage. However, a number of freight haulers held wages flat and reduced hours and benefits. Wage growth did not change meaningfully in other sec-

tors. Despite low unemployment, contacts cite modest inflation as a reason for not granting larger wage increases. Contacts often noted that they do not believe larger wage increases will attract more applicants. Many firms that were hiring workers with general skills were concerned they would not be able to pass through the higher costs to customers. Among firms that were hiring skilled or professional workers, many were enhancing other benefits in lieu of more substantial wage increases.

### Prices

Inflation pressures remain modest. Upward pressure on manufacturers' input costs softened somewhat, in part because of lower contract prices for steel. Also, a number of manufacturers reported that weaker demand from China weighed on commodity prices, with one global capital goods manufacturer pointing to the factory shutdowns caused by COVID-19 as a cause. Transportation firms reported lower diesel fuel prices. Clothing and department store retailers commented that a reduction in incremental tariffs on Chinese imports eased cost pressures.

District firms raised selling prices modestly. On balance, manufacturers nudged their prices higher, with producers raising prices modestly on select customers or select

products or mixing increases on some products with decreases on others. On the consumer side, competition kept retail, food, and hospitality price increases minimal.

### **Consumer Spending**

On balance, retailers reported relatively strong demand. Contacts highlighted mild weather relative to last year as keeping activity strong after the holiday shopping season. Auto dealers reported strong sales thanks to elevated consumer confidence and low interest rates, although used-vehicle sales were rising more quickly than new-vehicle sales. Apparel retailers reported steady customer demand. One discount food and drug store noted that competition from online retailers had led to lower sales. Retailers were upbeat that strong economic conditions would continue to buoy customer demand in the near term.

### **Manufacturing**

Conditions in the manufacturing sector remained stable. One steel producer noted that the bottoming of steel prices led to an increase in demand. Also, for some manufacturers, demand improved because of a usual seasonal pickup that follows a quiet holiday season. Aerospace parts manufacturers and those who serve them noted dampened demand as a result of the Boeing 737 MAX production halt. Many contacts commented on general sluggishness in the global economy and voiced concern about the outlook given the spread of COVID-19 and the resulting effective shutdown of many commercial centers in China. Just more than a quarter of respondents reported that capacity utilization was lower than normal, citing slower demand and excess capacity in the market as the reasons.

### **Real Estate and Construction**

Construction and real estate contacts indicated that overall demand continued to increase at a modest and slightly slower pace in recent weeks. At least part of the slower growth was attributed to typical seasonal effects. On the residential side, contacts cited a generally strong economy, low mortgage interest rates, and confident customers as contributing to ongoing housing demand. Looking forward, residential realtors and builders suggested that these solid fundamentals would continue to bolster housing demand in the coming months.

Nonresidential building activity remained strong, and firms expected strong conditions to persist well into 2020. A few contacts said that investment capital continued to flow into commercial real estate and development, and one commercial builder indicated that he had seen more bid opportunities in recent weeks as developers began planning for the spring. That said, contacts

expect the growth rate of commercial building may slow somewhat after a few years of exceptional growth.

### **Financial Services**

Overall, loan demand was stable. On the consumer side, while some bankers reported that lower interest rates spurred growth in mortgage demand, others noted the usual first-quarter decline in consumer credit card balances. On the commercial side, loan demand was balanced. One banker noted that some new capital projects were initiated at the beginning of the year, while others reported slower demand for commercial credit as trade tensions and weakness in the manufacturing sector weighed on business activity. Some contacts noted a sense of caution among their commercial clients; a few mentioned that the typical first quarter decline in deposits was less severe than usual. Contacts speculated there is a possibility that businesses are holding more cash reserves because of uncertainty about the outlook.

### **Professional Business Services**

Activity in the professional and business services sector remained strong but has moderated somewhat from that of recent months. Contacts noted that favorable economic conditions were encouraging firms to spend on legal, advisory, and IT services. Contacts expect demand for their services to remain strong going into the second quarter.

### **Freight**

Overall demand for freight services was stable after declining slightly in the previous period. One logistics firm reported that its customers were replenishing inventories after a successful holiday shopping season. However, some freight executives reported that excess truck capacity and weakness in manufacturing had negatively affected their markets. One contact remarked that new entrants with significant amounts of capital have been taking market share. Transportation firms expressed concern about the potential for supply-chain bottlenecks as a result of COVID-19. The virus aside, transportation firms expect conditions to improve slightly in the near future as rising consumer spending leads to increases of merchandise shipments. ■



# Federal Reserve Bank of **Richmond**

The Beige Book ■ February 2020

## Summary of Economic Activity

The Fifth District economy grew at a moderate pace since our previous Beige Book report. Manufacturers' shipments and new orders increased modestly. They were encouraged by recent trade negotiations with China, but expressed some concerns about the coronavirus delaying some shipments of inputs. This sentiment was echoed by port contacts despite their reporting strong growth in volumes over the past several weeks. Meanwhile, trucking volumes rose slightly and shipping rates remained soft. Retail sales grew moderately, while travel and tourism strengthened further in recent weeks. Realtors said that 2020 was off to a stronger start than 2019 and that existing home sales picked up modestly. Also, a low inventory of homes for sale along with low interest rates reportedly contributed to the strong demand for new residential construction. In addition, commercial real estate leasing improved moderately while construction of industrial and multifamily properties remained strong. Bankers reported a slight increase in loan demand, overall, with more activity coming from residential real estate and consumer lending than commercial lending. Nonfinancial services firms reported moderate growth in revenues and demand in recent weeks. Employment increased at a modest rate, overall, while wages grew moderately. Prices of finished goods decelerated, as raw materials price growth eased and competition and pricing transparency made it difficult for firms to raise prices.

### Employment and Wages

Overall, employment increased at a modest rate in recent weeks. Firms indicated that the demand for labor was strong and turnover rates declined slightly; however, employment growth was being restrained by a tight labor supply. Difficulties filling open positions were cited by employers across a wide variety of industries. One employment agency said that they encouraged clients to seek direct hires because it was harder to recruit workers without a guarantee of a full-time job. Wage growth remained moderate, overall, with higher wage growth reported for certain occupations in high demand. In addition, there were continued reports of firms offering non-wage benefits, such as flexible work schedules, to recruit and retain workers.

### Prices

Since our previous Beige Book report, price growth slowed to a modest rate. According to our most recent surveys, growth slowed for prices paid and for prices received in both the manufacturing and service sectors. A few service firms said that it was difficult to raise prices because of competition and because customers can go online and compare prices. In contrast, a metals manufacturer said that steel prices had risen in recent months and a landscaping company raised prices after keeping them flat for several years.

### Manufacturing

On balance, manufacturers in the Fifth District reported a modest increase in shipments and new orders in recent weeks. Food, auto parts, and furniture manufacturers reported stable, strong demand. Several manufacturers were encouraged by trade negotiations with China. However, many firms noted that while conditions were improving, their markets remained soft. Some manufacturers were able to raise prices. Others reported higher costs of inputs in some cases due to tariffs that squeezed profit margins. Also, the coronavirus led to concerns about delays in the arrival of inputs.

### Ports and Transportation

Fifth District ports had strong growth in shipment volumes in recent weeks. Growth of export volumes was particularly strong, with notable increases in plastic, meat, and auto exports. Import volumes also increased, but more modestly, as several ports saw an increase in blank sailings—that is shippers cancelling ports of call—particularly from China. Port officials were optimistic about recent trade negotiations with China but expressed concern over the potential impact of the coronavirus on imports, although they were currently uncertain about the magnitude of that impact.

Trucking volumes increased slightly since our last report but remain lower than a year ago. This trend was consistent across industrial and retail shipments. Spot market activity rose slightly, while rates remained fairly soft. Most firms were optimistic about the coming year. One company looked to invest in new equipment and another considered hiring after a year of reducing staff. A few firms expressed concerns about market competition, low profit margins, and uncertainty associated with an election year.

## Retail, Travel, and Tourism

Retail sales in the Fifth District grew moderately since our last report. While customer traffic was soft in some places, demand, sales, and profitability were generally higher. Some retailers continued to struggle with higher costs of products resulting from tariffs, but others saw relief after trade negotiations. Sales of both new and used autos were strong, although dealers expressed uncertainty from elections and the coronavirus.

Travel and tourism strengthened slightly in recent weeks. Hotel occupancy and room rates increased. In Asheville, North Carolina, growth in hotel revenue surpassed growth in short-term rental revenue. In contrast, a Virginia ski resort struggled with slow business resulting from warm weather. The greatest concern among most tourism contacts was lack of staffing, which in some cases led services to be cut. In the District of Columbia, some groups canceled travels because of the coronavirus. Firms around the Fifth District were fairly optimistic about continued strength in the coming year.

## Real Estate and Construction

Fifth District home sales increased modestly since our last report. Realtors said that 2020 was off to a stronger start than 2019 and noted particularly strong demand in the low to mid-price range but a low inventory of these homes. Buyer traffic remained strong, but days on the market increased slightly in some areas, returning to more normal averages. Single family construction was strong amid low inventories. One contact noted that a low inventory of rentals was causing difficulties for people looking for somewhere to live while waiting to close on homes. Home prices were fairly stable but growth rates varied across locations and home types.

The Fifth District commercial real estate leasing increased moderately in recent weeks. Demand for industrial space was high across the District, with little vacant space in some markets. Both speculative and built to suit construction for industrial spaces were solid. Office occupancy rates were high, leading to low supply and increasing rental rates. Brokers reported strong multi-

family construction. Demand for retail space was fairly stable, although one contact noted that many large chain restaurants were closing and were replaced by new restaurants that occupied less space.

## Banking and Finance

Overall, loan demand grew slightly since our previous Beige Book. Bankers indicated that commercial real estate and commercial and industrial lending improved slightly, though several banks mentioned that much of commercial borrowing now is outside the traditional banking system and that most of their new lending was for refinancing existing debt rather than new capital expenditures. Residential mortgage lending, auto loans, and demand for other consumer credit grew moderately, attributed in part to low rates. Meanwhile, credit standards, delinquencies, and credit quality were reportedly unchanged at good levels. Despite several bankers citing fierce competition, deposits increased modestly in recent weeks.

## Nonfinancial Services

On the whole, nonfinancial services firms indicated a moderate increase in revenue and demand in recent weeks. There were some reports of strong growth from firms engaged in construction-related services, legal services, advertising, and IT consulting services. Contacts in the healthcare sector also saw solid growth. One hospital administrator said that they were investing in brick and mortar facilities to meet demand, and in IT infrastructure for productivity gains. Also, a product design firm said that entrepreneurship was at a 20-year high, and the number of patents issued last year was up considerably. ■



# Federal Reserve Bank of Atlanta

The Beige Book ■ February 2020

## Summary of Economic Activity

Sixth District business contacts reported that economic activity grew modestly from January to mid-February, and the outlook remained positive, on balance. Reports of tightness in the labor market persisted. A majority of firms noted a steady pace of wage growth outside of specialized jobs and those in high demand. Nonlabor costs continued to increase modestly. Retail and automotive contacts noted flat sales growth over the reporting period. Hospitality contacts saw year-over-year increases in the number of visitors to the region. Residential home prices remained steady and demand was healthy. Commercial real estate conditions were solid. Overall manufacturing activity weakened as new orders and production levels declined. District financial institutions reported stable conditions; loan growth, while positive, moderated somewhat.

### Employment and Wages

A majority of firms continued to report tight labor market conditions. A shortage of workers for lower-skilled positions, as well as for some specialized occupations such as software developers, nurses, and engineers, was noted. The continued lack of available construction labor was said to be lengthening project timelines. Many employers noted productivity concerns as the lack of available skilled labor required more in-house training and supervision.

Most contacts expect overall wage growth to remain steady, with larger wage increases going to positions in high demand or those deemed critical.

### Prices

Most contacts continued to report modest increases in nonlabor costs while tariff concerns lessened over the reporting period. Some contacts noted having pricing power with select goods and services, but most reported difficulty in passing through rising costs. The Atlanta Fed's Business Inflation Expectations survey showed year-over-year unit costs were up 1.5 percent in February. Over the next twelve months, survey respondents indicated they expect unit costs to rise 1.7 percent, and the majority of firms expect overall costs to put moderate upward pressure on prices.

### Consumer Spending and Tourism

On balance, retail contacts and auto dealers reported flat sales growth since the last report. Contacts from both segments expect an increase in uncertainty in their industries over the next few months due to sourcing constraints for merchandise and auto parts from China.

District travel and hospitality contacts reported a healthy start to the year, with an uptick in the number of visitors to the region over the first five weeks of the year compared with the same period last year. Although no material impacts have yet been seen, tourism contacts are closely watching for potential negative effects on the industry resulting from the coronavirus outbreak.

### Construction and Real Estate

Low mortgage rates and healthy job growth continued to support demand for housing in the District. Price appreciation was firm while single-family sales activity was constrained by limited inventory and lower levels of housing starts. Despite low interest rates, concerns over affordability remained as many expect price appreciation to continue and inventories to remain limited. Although mortgage loan quality remained stable, some markets saw a slight uptick in delinquencies over the past year and a rise in the share of mortgages with higher debt-to-income ratios.

Commercial real estate (CRE) contacts reported steady leasing and sales activity throughout the District during

the reporting period. Data indicated that sector vacancy rates increased slightly across most major markets in the District; however, contacts noted a recent acceleration in leasing and sales inquiries. Local market conditions, such as growth in population and jobs, continued to positively influence CRE activity. Overall, most CRE segments experienced positive dynamics as rents continued to grow at a modest pace. Contacts noted that growing construction costs were impacting the start of some new projects, although capital was readily available via banks and non-bank entities for financing CRE projects. Non-bank entities remained aggressive in financing both construction and stabilized CRE projects. Modestly growing amounts of leverage and some loosening in underwriting standards were reported.

### **Manufacturing**

Manufacturing firms reported a decline in overall activity. Contacts indicated that new orders and production levels decreased since the last reporting period, while purchasing managers indicated little to no change in supply delivery times. Finished inventory levels continued to decline, but at a somewhat slower pace since the previous report. Optimism for future production levels was reflected, however, in over one-half of contacts expecting higher levels of production over the next six months.

### **Transportation**

District transportation firms reported varying levels of activity since the previous report. Air cargo contacts noted healthier year-over-year volumes and revenues from increased exports. However, due to the coronavirus, cancelled flights to China have reduced air cargo capacity significantly, which is expected to negatively affect first quarter revenues. Port contacts saw continued strength in container traffic, but weakness in breakbulk cargos, particularly steel and aluminum, owed to tariffs. Railroad contacts reported sustained declines in shipments of industrial freight, mostly non-metallic minerals, metallic ores and coal; intermodal shipments were also down from year-earlier levels. Most transportation contacts remain somewhat confident in their outlook, despite geopolitical uncertainties.

### **Banking and Finance**

Conditions at financial institutions remained stable. Margins at banks were steady as lower loan yields were offset by a decline in interest expense. Loan growth was positive but continued to moderate as demand for commercial and industrial loans weakened, and banks tightened underwriting standards for credit cards and vehicle lending. Loan growth was lowest among smaller community banks. Asset quality remained strong, as there was little change in the level of nonperforming assets.

### **Energy**

The continued rise in global supplies of crude oil and liquefied natural gas (LNG) was further augmented by slowing demand from China in the wake of the coronavirus outbreak. Chemical plant and refinery expansions continued to pick up across the District. Utilities companies reported steady demand in commercial and industrial segments, as well as increased infrastructure investments, largely in electric segments, but also in renewables units and nuclear projects. Solar plant construction projects, particularly in Florida, continued to develop.

### **Agriculture**

Agricultural conditions remained mixed. Most of the District remained drought free, but recent heavy rain resulted in some flooding conditions. On a month-over-month basis, the February production forecast for Florida's orange crop was down while the grapefruit production forecast increased; both forecasts remain ahead of last year's production. On a year-over-year basis, prices paid to farmers in December were up for corn, soybeans, beef, and milk but down for cotton, rice, broilers, and eggs. On a month-over-month basis, prices increased for corn, cotton, soybeans, beef, broilers and milk but declined for rice 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)



# Federal Reserve Bank of **Chicago**

The Beige Book ■ February 2020

## Summary of Economic Activity

Economic activity in the Seventh District increased modestly overall in January and early February, and contacts expected growth to continue at a similar pace over the next 12 months. Consumer spending and employment increased modestly, while construction and real estate activity increased slightly. Business spending and manufacturing production were little changed. Wages increased modestly, prices increased slightly, and financial conditions were unchanged. The outlook for crop farmers' incomes deteriorated some. Few contacts indicated that the coronavirus outbreak had affected their business operations to date, but there were concerns about supply chain issues going forward.

### Employment and Wages

Employment increased modestly over the reporting period, but contacts expected a slightly faster rate of growth over the next 12 months. Hiring was focused on professional and technical workers and managerial workers. As they have for some time, contacts indicated that the labor market was tight and that it was difficult to fill positions at all skill levels. Manufacturers facing slow demand again reported cutting hours rather than laying off workers because they were worried the tight labor market would make it too difficult to hire when demand recovered. A staffing firm that primarily supplies manufacturers with production workers reported no change in billable hours. Wage growth increased modestly overall, and contacts expected a similar growth rate over the next 12 months. Contacts reported wage increases across most occupations, with multiple contacts again highlighting growing wage pressures for entry-level workers. Benefit costs increased slightly.

### Prices

Prices increased slightly on balance in January and early February, and contacts expected prices to rise modestly over the next 12 months. Retail prices ticked up, and one contact noted that retailer margins had tightened some, largely due to higher shipping costs. There were again reports of an increase in grocery price inflation. Producer

prices were flat. Contacts indicated little change in producers' input costs on net; for example, one said that increased shipping costs had offset decreased raw materials costs.

### Consumer Spending

Consumer spending increased modestly over the reporting period, and contacts expected a similar pace of growth over the next 12 months. Nonauto retail sales rose modestly, led by gains in the grocery, apparel, and general merchandise sectors. Contacts again reported solid growth in e-commerce and slow growth for brick and mortar general merchandise stores. New light vehicle sales were flat, while sales of used light vehicles moved higher and leasing activity remained robust.

### Business Spending

Business spending was little changed in January and early February. Retail inventories were generally comfortable, though GM dealers indicated that inventories were still not fully replenished following the run-offs that occurred during the UAW strike. Most manufacturers said that inventories were at comfortable levels. Some manufacturing contacts reported low inventories of inputs produced in China due to disruptions from the coronavirus outbreak; while most said the impact had been minimal so far, many expected a larger effect if the dis-

ruptions continued much longer. Similarly, one retail industry contact believed that if not resolved soon, the outbreak could affect inventories in the sector during the second half of 2020. Capital spending declined some, though contacts expected spending to increase modestly over the next 12 months. Outlays were primarily for intellectual property and IT equipment. About half of contacts reported that their newly purchased capital was intended to increase capacity. Demand for transportation services was little changed, though there were reports of decreased international trade related to the coronavirus. Energy consumption was slightly lower for both commercial and industrial users, with reports of weakness in manufacturing, particularly in the auto sector.

### **Construction and Real Estate**

Construction and real estate activity increased slightly overall over the reporting period. Residential construction edged up across all price segments. Contacts in southeast Michigan noted that the price gap between new and existing homes continued to widen. Residential real estate activity increased modestly, with growth primarily coming from homes at low to moderate price points. Home prices and rents moved up modestly. Nonresidential construction increased slightly. Contacts again indicated that rising costs were holding back growth, emphasizing a shortage of skilled workers and rising land development costs. Commercial real estate activity ticked up, led by the office and industrial sectors. Contacts noted that new office space absorption rates had slowed, but remained healthy. In contrast, the retail sector continued to struggle. Overall, commercial rents were unchanged, while vacancies and the availability of sublease space edged up.

### **Manufacturing**

Manufacturing production was little changed overall in January and early February. Auto production was unchanged, but continued at a solid level. Steel production also was flat. Heavy machinery demand decreased overall, as a slowdown in demand in China—apparently due to the coronavirus—more than offset robust demand in the US. Heavy truck demand decreased, but contacts expected a turnaround in growth as the year progressed. Specialty metals orders were flat overall, with reports of lower sales to the auto and aerospace industries. Manufacturers of construction materials reported a slight increase in shipments, in line with growth in home building.

### **Banking and Finance**

Financial conditions were unchanged over the reporting period. Participants in the equity and bond markets reported little change in conditions on balance, citing the positive impact of low interest rates but the negative

impact of the coronavirus outbreak. Business loan demand increased slightly overall. Contacts reported increased volumes in the commercial real estate, trucking, construction, and auto sectors, though some of the increase appeared to reflect greater borrowing needs due to lower revenues. Loan quality was little changed overall, though one contact said that the warm winter had led to greater delinquencies for natural gas producers. Lending standards were generally unchanged. Consumer loan demand increased modestly, led by growth in mortgage volumes for home purchases and refinancing; loan quality and standards were little changed.

### **Agriculture**

The outlook for crop farmers' incomes deteriorated some in January and early February. Corn and soybean prices moved lower, though they remained higher than a year ago. There were reports of farmers holding onto their stocks of crops with hopes of higher prices later in the year. Contacts expressed frustration that Chinese purchases of US agricultural goods had not yet materialized following the announcement of the Phase One trade deal and were concerned that the coronavirus outbreak would be used as an excuse for missing future trade targets. Contacts reported that the Market Facilitation Program was providing crucial income support to cushion the effects of the trade challenges with China and poor 2019 yields in much of the District. Milk and hog prices were down over the reporting period but were up compared to a year ago. Egg prices rebounded some, but cattle prices moved lower. ■



# Federal Reserve Bank of St. Louis

The Beige Book ■ February 2020

## Summary of Economic Activity

Reports from District contacts indicate that overall economic conditions have been mixed but generally unchanged since our previous report. Labor market conditions continued to show improvement with modest employment gains and steady wage gains. Overall inflation pressures increased slightly, although there were some signs of softening. Reports from manufacturing contacts indicate a modest rebound in activity after consecutive reports of slowing growth. Reports on consumer spending, real estate, and construction were all mixed. District banking contacts reported slightly weaker loan demand. Overall, the outlook among contacts improved after steadily weakening for seven consecutive quarters. On net, contacts expect conditions in 2020 to be better or somewhat better than in 2019. Contacts were uncertain about the impact of coronavirus on their business; no contacts reported a significant impact, but some have experienced travel and shipment delays.

### Employment and Wages

Employment has increased modestly since the previous report. On net, 18 percent of survey respondents reported that employment was higher than a year ago. Firms spanning several industries—including healthcare, information technology, and manufacturing—reported difficulty hiring workers due to the tight labor market. Employers reported lowering their hiring expectations and coordinating with educational programs to increase their applicant pools. One nursing program in Arkansas recently doubled its student enrollment but characterized the expansion as a “drop in the bucket” compared with employer demand. Smaller employers particularly continued to struggle to hire, with survey-based measures showing more mixed employment trends among small firms.

Wages have increased moderately since the previous report, though small-firm wage growth has been more muted. On net, 39 percent of survey respondents indicated that wages were higher than a year ago, with multiple contacts ascribing this to the scarcity of workers; contacts reported improving benefits and increasing variable compensation for similar reasons.

### Prices

Prices have increased slightly since the previous report. On net, just 6 percent of business contacts reported that prices charged to consumers were higher in the current quarter relative to the same time last year. Two-thirds of contacts reported that their price changes over the past three months met expectations. The remaining contacts who had to deviate from their pricing plans were equally split between increasing prices less than planned or cutting prices more than planned. In addition to the slight price growth, business contacts noted that the cost of obtaining funds was lower in the current interest rate environment. On net, 22 percent of contacts reported increasing nonlabor costs. This is below average for the past two years. Several contacts in the manufacturing sector noted tariffs as a source of increased cost. Coal prices are down slightly since the previous report and modestly since last year.

### Consumer Spending

Reports from general retailers, auto dealers, and hospitality contacts indicate consumer spending activity has increased slightly since our previous report. January real sales tax collections increased in Kentucky, Arkansas, and West Tennessee and decreased in Missouri relative to a year ago. District general retailers reported that sales were flat or slightly higher compared with the same

time last year. District auto dealers also reported flat or slightly stronger sales in comparison with the same time last year. The overall outlook among general retailers was optimistic for the coming quarter, and the outlook among auto dealers was generally pessimistic. Dealers cited higher new vehicle prices and credit constraints as potential deterrents to consumer confidence. Hospitality contacts indicated mixed tourism activity over the past two months.

### **Manufacturing**

Manufacturing activity has rebounded after a period of weakening growth, which started last summer. In a recent survey, contacts reported a modest improvement in manufacturing conditions. On net, production, new orders, and capacity utilization improved relative to one year ago. Most contacts were optimistic about the next quarter, with net majorities expecting growth in production, new orders, and capacity utilization. Other survey-based indexes indicate that Arkansas and Missouri manufacturing activity expanded moderately from December to January. New orders and production grew at a moderate rate in both states.

### **Nonfinancial Services**

Activity in the services sector has slightly improved since the previous report. On net, 51 percent of contacts reported similar or greater dollar sales over the past quarter. Also, 68 percent of respondents expect similar or improved sales in the next quarter. In the transportation industry, major logistics firms are conducting job fairs to fill a wide array of positions for existing and planned distribution centers. Overall labor conditions are improving, as professional service job vacancies have risen year-to-year District-wide. In particular, contacts in IT services expect stronger revenue growth due to improving labor supply. In healthcare, expansion and consolidation of hospitals in the District point to favorable conditions, but shortages in personnel continues to be an issue.

### **Real Estate and Construction**

Residential real estate activity has been mixed since the previous report. Seasonally adjusted home sales decreased slightly in January across the four largest MSAs in the District. However, most real estate contacts reported an increase in demand for single-family homes relative to a year ago. Contacts indicated that expectations for first-quarter sales had been met. Inventory levels in the region increased slightly relative to the previous month but remained well below levels from a year ago.

Residential construction activity increased slightly. December permit activity across District MSAs have re-

mained unchanged since the previous month. Survey respondents reported slightly higher construction activity relative to the same time last year and expect continued growth in the next quarter.

Commercial real estate activity has increased slightly since the previous report. Contacts reported a slight increase in the demand for office and industrial space and a slight decrease in demand for retail space relative to one year ago. Contacts noted slightly higher demand for multifamily properties. A contact in Louisville stated that the increase in remote workers was hurting office building demand.

Commercial construction activity was mixed. Contacts reported slightly higher demand for office and industrial property construction and slightly lower demand for retail property construction. On net, 30 percent of respondents reported that quarterly sales fell short of expectations. A contact in St. Louis noted a positive effect of low interest rates on construction demand and consumer confidence.

### **Banking and Finance**

Banking conditions in the District have weakened slightly since the previous report. Demand for mortgages, commercial and industry loans, and auto loans all decreased slightly relative to one year ago. Bankers expect no change to overall loan demand in the second quarter of 2020. Credit standards were little changed compared with year-ago levels but are expected to tighten slightly in the next quarter. Delinquencies increased on a year-over-year basis and are expected to remain unchanged in the second quarter.

### **Agriculture and Natural Resources**

District agriculture conditions have declined slightly from the previous reporting period. The number of acres of winter wheat planted this season declined slightly from acreage planted in 2019. Farmers continue to emphasize the importance of Market Facilitation Program payments for supporting the industry. Contacts raised questions and expressed concerns regarding trade with China, including when the trade agreement provisions will apply and what impact coronavirus will have on commodity prices and agricultural purchases.

Natural resource extraction conditions declined modestly from December to January, with seasonally adjusted coal production falling 4 percent. January production decreased nearly 16 percent from a year ago. ■

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



# Federal Reserve Bank of Minneapolis

The Beige Book ■ February 2020

## Summary of Economic Activity

Economic activity in the Ninth District increased moderately since the last report. Employment rose moderately, and wage pressures were also moderate overall, while price pressures remained modest. The District economy saw growth in consumer spending, tourism, commercial and residential construction and real estate, and manufacturing. Energy activity held steady, while agricultural conditions were stable at low levels.

### Employment and Wages

Employment rose moderately since the last report. Hiring demand appeared to be quite strong to start the year. Job postings rose across District states, with North Dakota seeing a double-digit increase in January over a year earlier. Two January hiring indexes saw notable improvements in Minnesota and the Dakotas over the previous month. Multiple surveys and ad hoc polls in January by the Minneapolis Fed had similar findings. A poll of firms across the District found a greater share were increasing employment levels compared with those reporting decreases. An ad hoc poll of St. Paul-area businesses found that 75 percent were hiring or expecting to hire in the coming six months. A large majority of construction firms polled in Minnesota and Wisconsin said they were trying to add to their head count, with varying success rates given tight labor markets. Surveys of manufacturing, tourism, and hospitality businesses in Minnesota in January found that hiring demand was more muted, but still solidly net-positive overall. Initial unemployment insurance claims fell by almost 8 percent across District states over the first five weeks of the year (through early February), with Minnesota and Wisconsin both seeing steep declines compared with the same period a year earlier. The number of mass layoff events, as well as the number of workers affected, were lower in Minnesota and Wisconsin in January compared with the previous year.

Wage pressures were moderate overall. A majority of firms across multiple surveys and ad hoc polls in January reported that wages grew by less than 3 percent over the past year, and they reported similar expectations for the coming year. There was variation in each poll, however. A small majority of construction firms said wage increases were above 3 percent, but increases were more modest at manufacturing, tourism, and hospitality firms. Benefit increases were also reported. A Montana accounting firm reported that more businesses were starting to put in retirement plans to help recruit workers, and a nonprofit in that state implemented half-day Fridays in lieu of salary increases "as a creative way to keep staff."

### Prices

Price pressures remained modest since the previous report. Three in five respondents to a recent survey of tourism and hospitality contacts reported that retail prices increased by 2 percent or less over the past year. However, some contacts in the industry reported that they were passing increased labor costs on to customers, particularly in food service. Retail fuel prices as of late February were slightly lower in most areas of the District relative to the previous reporting period. Prices received by farmers in December increased from a year earlier for corn, soybeans, dry beans, milk, cattle, hogs, and turkeys, while prices for wheat, lentils, hay, chickens, and eggs decreased.

## Consumer Spending

Consumer spending increased modestly overall since the last report. January gross sales in South Dakota and Wisconsin both grew about 1 percent to 2 percent compared with a year earlier; January sales tax receipts in Minnesota were also slightly higher than forecast. A handful of regional airports reported that January activity showed strong increases over the previous year, with most seeing double-digit increases. Preliminary results of a survey of Minnesota tourism and hospitality firms showed that activity from December through mid-February was soft overall compared with a year earlier, but firms were optimistic about expected activity in the coming months. Vehicle sales at dealerships in the western portion of the District rose modestly overall in December and January (year over year), with new vehicle sales seeing slightly better performance over the two-month period. However, sales of both recreational and powersport vehicles were lower across District states in the fourth quarter.

Snow conditions have generally been favorable across the District, benefiting snowmobile and ski tourism. However, ice conditions have been less favorable this season in Minnesota and Wisconsin, cutting into spending from fishermen and snowmobilers in areas where trails cross lakes. The Montana ski season has reportedly been good. One resort had to discontinue selling walk-up tickets because it had “too many customers.” Accommodation and lodging taxes in Montana were also slightly higher in January versus a year ago.

## Construction and Real Estate

Commercial construction grew moderately since the last report. Construction starts in December and January increased compared with a year earlier, according to industry figures. The number of new and active projects as of mid-February was slightly lower than the same period a year ago, but still at strong levels. Ad hoc polls of construction firms in Minnesota and Wisconsin found higher overall activity of late compared with the same period a year earlier. A large majority also expected the first half of 2020 to be stronger than last year.

Anecdotally, contacts were reporting strong project backlogs, and January commercial permits offered additional evidence, with Rochester, Minn., Bismarck, N.D., and Sioux Falls, S.D., all seeing strong activity. Residential construction was modestly higher on the strength of the Minneapolis-St. Paul market, which saw strong January gains in single-family permits compared with a year earlier. Elsewhere in the District, however, residential building was mostly flat or slightly lower for

the month.

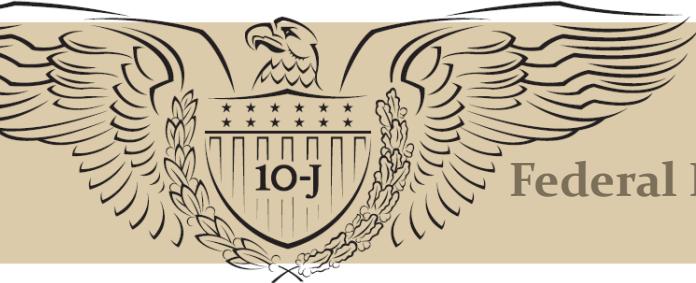
Commercial real estate was modestly higher. Industrial property in Minneapolis-St. Paul continued to see strong demand, pushing vacancy rates to very low levels. Despite strong multifamily development across the District, vacancy rates remained very low in most markets, and rent growth has been healthy. The office market in Minneapolis-St. Paul has been seeing redeveloped properties come back onto the market, which has pushed up vacancy rates somewhat, but overall leasing and space absorption rates have been healthy, according to industry sources. Retail markets continued to experience flux. A national retail chain announced the closure of 15 stores across the District. Residential real estate was modestly higher. Higher January home sales were seen across Minnesota, northern and western portions of Wisconsin, and Sioux Falls. But lower or flat sales were seen in Fargo, N.D., and larger Montana markets.

## Manufacturing

District manufacturing activity increased moderately relative to the last report. An index of manufacturing conditions indicated increased activity in January compared with a month earlier in Minnesota and the Dakotas. Several electronic component producers reported a substantial uptick in orders and production recently. Producers of home fixtures and residential building inputs continued to report solid business. In contrast, a manufacturer of food truck and mobile concessions equipment noted that new orders fell.

## Agriculture, Energy and Natural Resources

District agricultural conditions were stable at low levels. More than half of Ninth District agricultural lenders reported that farm incomes decreased in the previous three months relative to a year earlier, while 60 percent reported decreased capital spending, according to the Minneapolis Fed's fourth-quarter 2019 survey of agricultural credit conditions (conducted in January 2020). District oil and gas exploration activity held steady since the previous report. The number of active drilling rigs as of mid-February was up slightly from the last report, but the most recent figures (as of December) indicated that oil production decreased slightly from its recent peak. District ethanol producers reported steady demand and increased production. ■



# Federal Reserve Bank of Kansas City

The Beige Book ■ February 2020

## Summary of Economic Activity

Tenth District economic activity was largely unchanged in January and February, but was expected to expand in the months ahead outside of the energy and agriculture sectors. Consumer spending slowed slightly since the previous survey, but retail, restaurant and tourism sales were well above year-ago levels. After declining for several months, manufacturing activity appeared to be stabilizing with a slight uptick in activity in February, despite nearly half of firms noting some negative effect from the coronavirus spread. Transportation and wholesale trade contacts reported higher revenues and sales, while professional and high-tech sales rose in January but slowed slightly in February. District real estate conditions continued to hold steady, but contacts expected activity to edge higher moving forward. District energy activity declined further, and expectations were generally downbeat about the months ahead. The agriculture sector also remained subdued, but showed signs of stabilizing as farmland values rose slightly. District employment held steady since the previous survey period, while employee hours expanded modestly. Wages continued to rise at a modest pace, but gains were expected to increase in the months ahead. Both services and manufacturing contacts reported modestly higher input and selling prices.

### Employment and Wages

Overall District employment held steady since the previous survey period, while employee hours increased modestly. All reporting sectors, with the exception of manufacturing, retail trade, auto sales, and professional and technical services, noted higher employment levels, and a majority of contacts expected a faster pace of employment gains in the months ahead. Employee hours picked up modestly across most sectors.

A majority of contacts continued to report labor shortages across all skill levels. Specifically, respondents noted shortages for truck drivers, auto-technicians, hourly food-services positions, IT personnel, nurses, accountants, and skilled-construction and machinist trades. Additionally, a majority of respondents reported that they had to raise wages more than normal to attract or retain workers for some positions. Overall wages rose at a modest pace, and strong gains were expected in the months ahead.

### Prices

Input and selling prices continued to grow modestly in January and February in the services and manufacturing sectors, and contacts in both sectors expected prices to rise further in the months ahead. Retailers noted strong growth in input prices and moderate growth in selling prices since the previous survey period. Input and selling

prices rose modestly in the restaurant sector, and both were strongly higher than year-ago levels. Similarly, manufacturers reported modestly higher prices for both finished products and raw materials, and anticipated modest gains in the next few months. Construction supply respondents noted a slight increase in selling prices after a slight decline during the previous survey period. However, transportation contacts noted moderate declines in both input and selling prices, with continued decreases expected in the coming months.

### Consumer Spending

Consumer spending declined slightly compared to the previous survey period, but sales were well above year-ago levels in most sectors. Retail sales grew slightly compared to the previous survey period but were strongly above year-ago levels. In addition, contacts expected sales to increase at a faster pace in the coming months. Auto sales edged down compared to the previous survey period and declined modestly compared to year-ago levels. Respondents anticipated auto sales to continue to decline in the months ahead. Small SUVs sold well, while sedans and large SUVs sold poorly. Restaurant sales were down modestly compared to the previous survey period, but were strongly above year-ago levels. Tourism sales fell slightly compared to the previous survey period, but also remained well above year-ago levels. Both restaurant and tourism contacts expected

strong sales growth in the coming months.

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

Manufacturing activity was mostly unchanged in January, followed by a slight uptick in February. The increase in recent activity was across both durable and nondurable goods factories, despite nearly half of firms reporting some negative effect from the coronavirus spread. Expectations for future activity also remained positive. Order backlogs declined for District manufacturers, but new orders improved in February, especially for durable goods firms. Capital spending was above year-ago levels, with positive growth expected over the next six months.

Outside of manufacturing, firms in the transportation and wholesale trade sectors reported increased revenue and sales. Sales for professional and high-tech services sectors grew in January but slowed somewhat in February. Sales for all three sectors remained above year-ago levels. Contacts in the transportation sector anticipated sales to edge down in the coming months, whereas sales were expected to rise in the wholesale trade and professional and high-tech services sectors.

### **Real Estate and Construction**

District real estate activity held steady in January and February, and contacts expected activity to inch up in the months ahead. Residential sales increased compared to the previous survey period and year-ago levels. However, residential construction activity was mixed as housing starts and traffic of potential buyers both rose slightly while construction supply sales continued to fall. Contacts in the residential construction sector expected activity to increase in the months ahead. Commercial real estate activity continued to edge up as absorption, completions, construction underway and sales increased while vacancy rates remained flat. Commercial real estate contacts anticipated overall activity to continue expanding at a slow pace over the next few months.

### **Banking**

Overall loan demand declined modestly in the District since the previous survey due to modest decreases in the demand for consumer, commercial real estate, and commercial and industrial loans. Bankers indicated less movement in the demand for agricultural and residential real estate loans, with a slight downturn in the demand for agricultural loans and a slight uptick in the demand for residential real estate loans. Loan quality improved modestly over the past year, and bankers expected a slight increase in loan quality in the next six months. Compared to the previous survey period, credit standards remained stable and deposits increased modestly.

### **Energy**

District energy activity continued to decline since the previous survey period. Expectations for future drilling and business activity remained negative, with many firms not expecting rig counts or employment levels to pick up in the near term. While the number of active oil rigs in the District was unchanged, the number of active gas rigs eased slightly. Production levels remained high, but regional oilfield services firms have begun to feel the effects of fewer rigs operating across the District. Low prices for oil, natural gas, and natural gas liquids continued to negatively affect firms and were listed as a primary factor driving future business plans. Energy contacts also listed sluggish credit conditions, smaller profit margins, and less drilling and business activity as concerns.

### **Agriculture**

The District farm economy remained subdued but showed signs of stabilizing. Farmland values strengthened slightly in the most recent survey period, providing some stability for the sector. Regional contacts reported that farm income and agricultural credit conditions generally remained weak, but deteriorated at a slower pace than previous survey periods. However, despite some signs of stabilization, geographic disparities persisted across the region. Farm real estate values increased modestly on the eastern side of the District, while farm income and credit conditions were moderately weaker in the western portion. Some bankers commented that trade relief payments provided notable support to farm finances, but many also indicated that ongoing financial challenges continued to be driven by low agricultural commodity prices. ■



# Federal Reserve Bank of Dallas

The Beige Book ■ February 2020

## Summary of Economic Activity

The Eleventh District economy expanded moderately over the reporting period. Solid growth continued in nonfinancial services, and expansion in the manufacturing sector picked up to a more moderate pace. Housing demand continued to rise broadly, and sharply higher residential real estate lending boosted overall loan growth. Retail sales growth stalled out over the reporting period, and activity in the energy sector eroded slightly. Employment growth slowed to a modest pace, with a majority of hiring firms noting difficulty finding qualified workers. Upward wage pressures remained elevated. Input prices continued to rise while selling prices were mixed—holding steady in manufacturing but increasing in the service sector. Outlooks generally improved, though the coronavirus introduced new uncertainty into the business environment.

### Employment and Wages

Employment growth slowed to a modest pace overall. Hiring continued at a moderate pace in the services sector but stalled in manufacturing, and layoffs continued in the oil and gas sector. Most energy contacts expect headcounts to fall further, albeit only slightly. A February Dallas Fed survey of roughly 375 Texas businesses in the services and manufacturing sectors showed that nearly two-thirds were currently trying to hire. However, 80 percent of those trying to hire were having problems finding qualified workers. Some contacts noted that lack of labor availability was a drag on business growth. However, there were scattered reports that softness in the energy sector has alleviated some labor pressures in the low-skilled and contract worker segments.

Wages continued to increase, with upward wage pressures holding slightly above average. The energy sector is an exception, as contacts report no wage pressure. Some contacts said they implemented cost of living adjustments to supplement their recruitment and retention efforts, and one contact said labor costs increased due to overtime pay for existing staff.

### Prices

Input prices continued to rise outside the energy sector. However, in manufacturing, upward pressure on raw

materials costs remained below average. Selling prices were largely flat in manufacturing but have started rising again in the service sector after stalling out late last year. Particularly strong price increases were seen in retail in February. Airline ticket prices were up compared to a year ago, partially due to the grounding of the Boeing 737 Max, which has constrained capacity.

### Manufacturing

Expansion in the manufacturing sector picked up to a moderate pace in January and February. Several firms reported a stronger than expected start to the year, and the acceleration spanned both durables and nondurables. Refinery utilization increased over the reporting period. Machinery manufacturing was a weak spot, with declining output over the reporting period. Also, softness continued at cross-border manufacturing plants in the El Paso area, with contacts saying they don't expect significant increases in activity or capital spending plans following the ratification of the USMCA.

Several contacts noted that the coronavirus was negatively impacting their supply chain, particularly in high-tech and chemical manufacturing. While companies' outlooks were slightly more optimistic than they had been over the past few months, uncertainty picked up.

## Retail Sales

Retail sales growth stalled out over the reporting period, with weakness led by autos and sales among nondurable goods wholesalers. An auto dealer remarked that maintaining a positive margin on new vehicle sales is impossible. Overall retail outlooks weakened slightly, with some contacts voicing concern over the coronavirus and its impact on supply chains and overall demand.

## Nonfinancial Services

Solid expansion continued in the nonfinancial services sector, with many contacts reporting strong momentum at the start of 2020. Growth was led by professional and business services. Staffing services contacts noted solid broad-based demand, though most reported weak demand growth year over year. Multiple staffing contacts said that companies are slowing down hiring due to election uncertainty. In transportation services, airline demand remained strong and air and ground cargo volumes increased. A railroad contact voiced concern that the coronavirus could reduce shipments from China.

Outlooks continued to improve, though the coronavirus and the upcoming presidential election were noted as increasing uncertainty.

## Construction and Real Estate

Housing demand continued to rise broadly, with contacts noting that sales were off to a good start this year and ahead of year-ago levels. Some builders were able to push through price increases to cover higher construction costs, though this exacerbated affordability problems in some metros. Rain delayed development and building activity in some areas. Outlooks remained favorable.

Conditions in the apartment market were stable, though contacts noted ongoing rent concessions due to supply-driven softness in Class A properties. Industrial demand remained robust and construction elevated. Office demand stayed solid in Dallas but was mixed in Houston.

## Financial Services

Growth in loan demand increased moderately over the reporting period. Overall, loan volumes increased, driven primarily by a sharp rise in residential real estate loans. Commercial and industrial loan volumes decreased over the reporting period. Loan pricing continued its marked decline, and a majority of bankers continued to report no change in credit standards. Growth in general business activity picked up notably, and expectations for activity in the next six months improved significantly.

## Energy

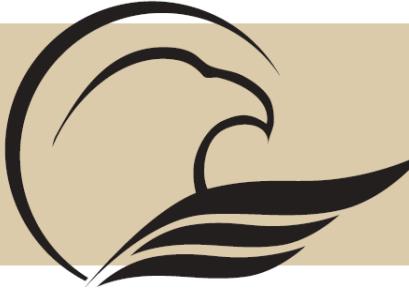
Drilling and well completion activity in the Eleventh District eroded slightly over the reporting period, but most

contacts contend that activity is likely at or near a soft bottom. The industry remained distressed with limited access to capital. Contacts noted that the coronavirus has pushed oil prices down and is a big source of uncertainty. Most contacts expect that oilfield activity will hold roughly near December 2019 levels through the end of 2020, and they express modest optimism about 2021.

## Agriculture

More than a third of Texas remained abnormally dry or in drought, though recent rainfall in some areas prompted optimism among producers heading into the new crop season. Row crop prices declined over the reporting period while cheese and milk prices trended higher. Agricultural lenders said farmers generally came out of 2019 in pretty good shape with the help of government support payments, but that there is some concern going forward as income from government assistance has been on the rise the past couple of years, making farmers more vulnerable to policy changes. Contacts said uncertainty regarding demand and prices for agricultural commodities was discouraging, and while producers were optimistic about trade developments, there is still a fair amount of concern about follow through in the Phase One deal with China as well as the impact of the coronavirus on commodity prices. ■

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 modest pace during the reporting period of January through mid-February. The labor market remained tight, employment increased somewhat, and wages rose further. Reports on prices suggested inflation was largely stable. Sales of retail goods increased markedly, and activity in consumer and business services was up somewhat. On balance, commerce in the manufacturing sector contracted minutely, and activity in the agriculture sector picked up slightly. While the residential real estate market expanded modestly, commercial real estate activity was mixed. Lending grew further.

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### Employment and Wages

The labor market remained tight, with persistent worker shortages reported across various skill levels and industries. Hiring increased somewhat, despite limited availability of workers. Businesses in several sectors, including information technology, finance, payment processing, and legal services, reported larger payrolls. Other contacts in the construction, utilities, manufacturing, and health-care sectors reported that the pace of hiring was flat. They attributed the lack of additional hiring primarily due to continued difficulties in finding and employing workers. Some businesses mentioned seeking new hires to fill only positions vacated due to retirements or voluntary departures. A few contacts highlighted their firms' efforts to avoid having to rehire workers in the future, with a manufacturer in the aerospace sector reducing layoffs to a minimum despite weakened activity, and a transportation services provider keeping typically seasonal employees on the payroll during the off-season. Others reported increasing their investment in offshoring and automation to combat labor shortages. Some employers characterized low worker availability as a significant deterrent to business expansion.

Wages continued to rise over the reporting period, as companies tried to attract and retain qualified workers. The reported main drivers behind increased compensation pressures were heightened labor market competition and increased minimum wage requirements. Some employers mentioned failing to match wage and benefit

packages requested by candidates. A health-care provider reported being unable to attract individuals from outside the labor force and into entry-level positions due to unattractive wages. A hotelier in Southern California raised concerns about wage compression resulting from new minimum wage legislation, highlighting smaller wage increases for middle-level staff than those for either entry-level or top-level workers. A few employers in the finance sector noted slightly lower wage pressures for specific sets of expertise due to improved labor availability in those particular skill areas.

### Prices

Business contacts suggested that price inflation was mostly unchanged from the previous reporting period, on balance. Many reports mentioned no significant changes in prices, including those from the finance, energy, health-care, and professional services sectors. Other businesses, such as builders, hotels, and food service providers, experienced some uptick in prices due to increases in input costs. In the agriculture and natural resources sectors, some grape and lumber producers reported a more noticeable rise in prices over the reporting period, while grain and potato prices remained stable. A contact in Washington highlighted double-digit price increases for professional landscaping services. A banker in California mentioned negotiating with vendors to lower automatic price increases, specifically to bring those increases more in line with the national inflation rate.

## Retail Trade and Services

Sales of retail goods increased markedly. Most reports indicated that consumer demand was robust over the reporting period. Retailers continued to note that online sales grew faster than brick-and-mortar sales. Auto dealers reported a brisk rise in activity, especially in the used vehicle market. Specialized retailers focused on home improvement products, pet care items, or pharmaceuticals also reported continued solid activity. One contact in California mentioned some difficulty in replenishing inventory due to lingering trade tensions.

Activity in consumer and business services increased somewhat. Food service providers reported continued solid activity but noted that the rate at which new restaurants opened has decelerated somewhat due to higher input costs. Tourism was mixed, with some decline in airline travel associated with the COVID-19 outbreak. Nonetheless, a hotelier in Southern California reported modest growth expectations for early 2020. A legal practitioner in Hawaii and a health-care provider in Nevada highlighted generally stable conditions within their respective sectors.

## Manufacturing

Activity in the manufacturing sector contracted minutely, on balance. Energy use by manufacturers in the Pacific Northwest increased, and across the District, production and sales of manufactured wood products and building materials accelerated due to increased construction of residential units. However, activity in the aerospace sector weakened following the announcement of delays in planned production from a large Northwestern manufacturer. Additionally, the COVID-19 outbreak led to decreased aircraft demand from China and Southeast Asia, with one supplier reporting no orders received in January. Solar energy equipment manufacturers also experienced delayed order fulfillment due to supply chain disruptions related to the COVID-19 outbreak.

## Agriculture and Resource-Related Industries

Activity in the agriculture sector increased slightly, on net, with domestic sales remaining at healthy levels. Log and lumber sales benefited from attractive mortgage rates and a pickup in residential construction across the District. Export sales continued to falter somewhat due to international developments. On the one hand, contacts welcomed international trade deals and the prospects of easing tariffs on products including dairy sold to the Chinese market. On the other hand, reports mentioned that the COVID-19 outbreak has already started to nega-

tively affect exports of nuts and other California crops. One contact in central California mentioned that precipitation levels so far this year are lagging somewhat relative to historical averages, which could affect future almond and cherry yields. In the energy sector, reports noted generally flat sales, expectations for increased capital expenditure to bolster resiliency, and low capacity utilization apart from renewable sources.

## Real Estate and Construction

Residential real estate activity grew modestly. Contacts from most areas within the District continued to report brisk buyer demand, low inventories for single-family homes, and high occupancy rates for multi-family units. Construction activity increased on the back of agreeable weather, but at a somewhat slower pace than the previous reporting period due to labor and land costs constraints. A financier from the Pacific Northwest noted that construction activity in rural areas also expanded recently. A few other areas within the District reported less robust sales and flat construction activity. Home prices accelerated in many regions, intensifying affordability concerns.

Conditions in commercial real estate markets were mixed. Some contacts continued to highlight sluggish demand for retail and office space. Reports out of California pointed to higher retail vacancies, as well as longer periods in between leases. A building materials supplier mentioned the conclusion of large construction projects connected to the technology sector in the San Francisco Bay Area, leading to expectations of slower activity in the immediate future. Industrial construction and warehouse leasing activity in some other areas increased somewhat. One contact in the Pacific Northwest noticed brisk commercial construction activity in the area.

## Financial Institutions

Lending activity grew further. Reports noted stronger demand for new mortgages, refinancing credit, and auto loans. Lending to the commercial sector also increased relative to the previous reporting period, especially for industrial real estate. Agricultural lending weakened in the Pacific Northwest. Overall, capital levels and asset quality remained high. Tighter competition for loans narrowed net interest margins and profitability. Credit availability was generally stable, and underwriting standards tightened somewhat. An investment financier in California reported stable private equity conditions. ■



