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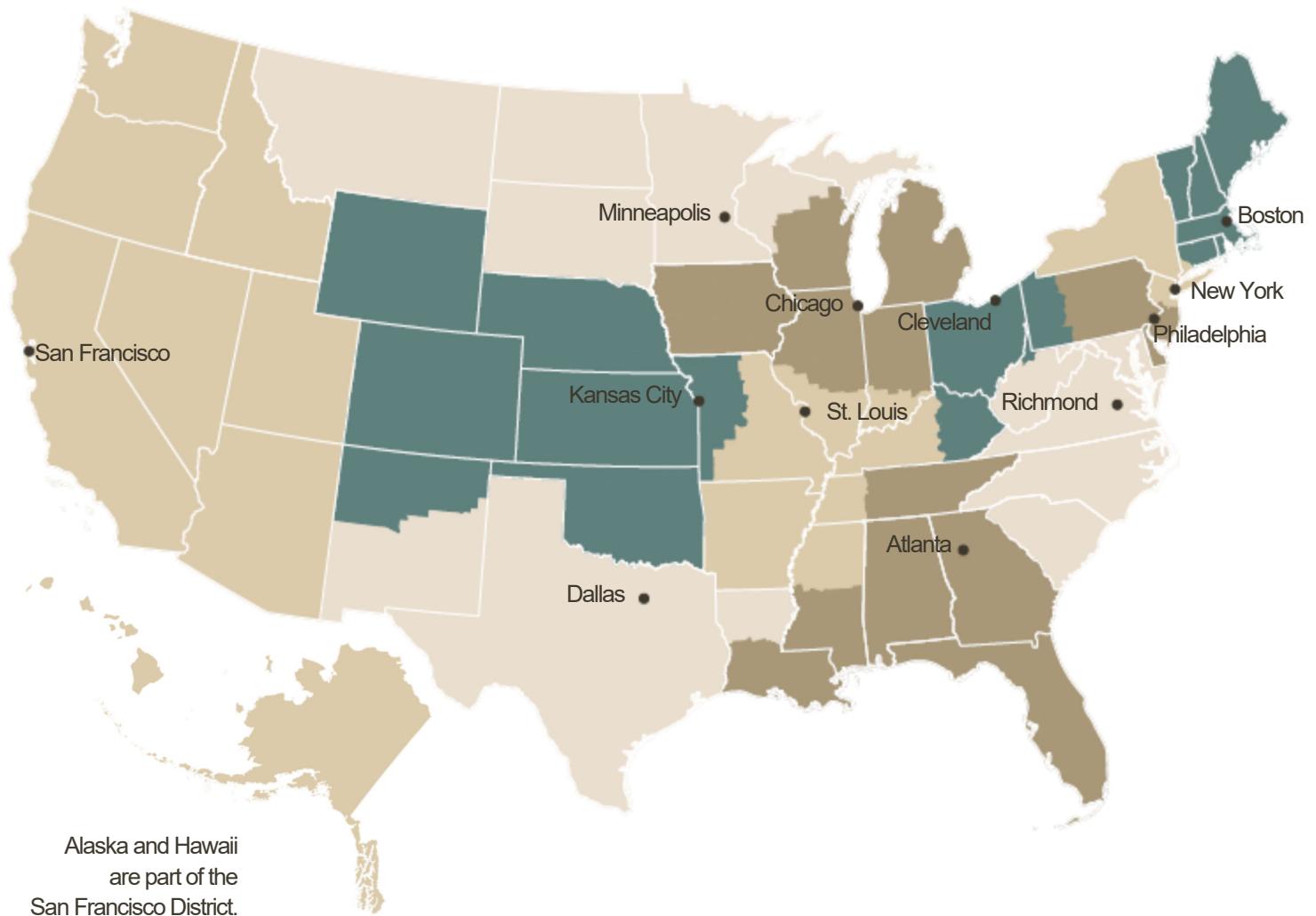
January 15, 2020

The Beige Book

Summary of Commentary on Current Economic Conditions
By Federal Reserve District

January 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.

National Summary	1	What is The Beige Book? The Beige Book is a Federal Reserve System publication about current economic conditions across the 12 Federal Reserve Districts. It characterizes regional economic conditions and prospects based on a variety of mostly qualitative information, gathered directly from District sources.
Boston First District	A-1	
New York Second District	B-1	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.
Philadelphia Third District	C-1	
Cleveland Fourth District	D-1	How is the information collected? Each Federal Reserve Bank gathers anecdotal information on current economic conditions in its District through reports from Bank and Branch directors, plus phone and in-person interviews with and online questionnaires completed by businesses, community contacts, economists, market experts, and other sources.
Richmond Fifth District	E-1	
Atlanta Sixth District	F-1	How is the information used? The anecdotal information collected in the Beige Book supplements the data and analysis used by Federal Reserve economists and staff to assess economic conditions in the Federal Reserve Districts. This information enables comparison of economic conditions in different parts of the country, which can be helpful for assessing the outlook for the national economy. The Beige Book also serves as a regular summary of the Federal Reserve System's efforts to listen to businesses and community organizations.
Chicago Seventh District	G-1	
St. Louis Eighth District	H-1	
Minneapolis Ninth District	I-1	
Kansas City Tenth District	J-1	
Dallas Eleventh District	K-1	
San Francisco Twelfth District	L-1	This report was prepared at the Federal Reserve Bank of New York based on information collected on or before January 6, 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 ■ January 2020

Overall Economic Activity

Economic activity generally continued to expand modestly in the final six weeks of 2019. The Dallas and Richmond Districts noted above-average growth, while Philadelphia, St. Louis, and Kansas City reported sub-par growth. Consumer spending grew at a modest to moderate pace, with a number of Districts noting some pickup from the prior reporting period. On balance, holiday sales were said to be solid, with several Districts noting the growing importance of online shopping. Vehicle sales generally expanded moderately, though a handful of Districts reported flat sales. Tourism was mixed, with growth reported in the eastern seaboard Districts but activity little changed in the Midwest and West. Manufacturing activity was essentially flat in most Districts, as in the previous report. Business in nonfinancial services was mixed but, on balance, growing modestly. Transportation activity was also mixed across Districts, with a majority reporting flat to weaker activity. Banks mostly characterized loan volume as steady to expanding moderately. Home sales trends varied widely across Districts but were flat overall, while residential rental markets strengthened. Some Districts pointed to low inventories as restraining home sales. New residential construction expanded modestly. Commercial real estate activity varied substantially across Districts. Agricultural conditions were little changed, as was activity in the energy sector. In many Districts, tariffs and trade uncertainty continued to weigh on some businesses. Expectations for the near-term outlook remained modestly favorable across the nation.

Employment and Wages

Employment was steady to rising modestly in most Districts, while labor markets remained tight throughout the nation. Most Districts cited widespread labor shortages as a factor constraining job growth, and, in a few cases, business expansion. A few Districts noted brisk demand for professional, technical, and managerial workers. A number of Districts reported job cuts or reduced hiring among manufacturers, and there were scattered reports of job cuts in the transportation and energy sectors. Wage growth was characterized as modest or moderate in most Districts—similar to the prior reporting period—and there were scattered reports of wage increases from year-end hikes in minimum wages. A few Districts also noted the use of benefits, incentives, training programs, and automation to reduce vacancies.

Prices

Prices continued to rise at a modest pace during the reporting period, as did input costs. A number of Districts reported that retail selling prices rose at a slightly faster, but still subdued, pace. A few Districts indicated that some businesses were passing along tariff costs to consumers—mostly in retail but also in construction. Some Districts noted that restaurants were being pressured by rising food prices. There were scattered reports of declining prices in some manufacturing industries, as well as in the energy sector. Those Districts reporting on price expectations indicated that prices were expected to continue to rise in the months ahead.

Highlights by Federal Reserve District

Boston

Economic activity expanded at a modest to moderate pace in the closing weeks of 2019. Software and IT services firms cited relatively strong growth; manufacturers and retailers also reported revenue increases from a year earlier. Residential real estate markets saw continued inventory shortages. Labor market tightness persisted. Outlooks were positive.

New York

The regional economy expanded at a modest pace. The labor market remained tight, though hiring activity was subdued and wages grew modestly. Manufacturing activity picked up. Loan demand grew, though financial sector contacts more broadly reported weakening activity. Both input prices and selling prices continued to rise modestly.

Philadelphia

On balance, business activity slowed to a slight pace of growth during the current Beige Book period. Labor markets remained tight throughout the District—slowing employment growth and raising wage pressure. Still, price increases remained modest. Most firms expressed cautious optimism.

Cleveland

The Fourth District economy continued to expand at a modest pace as a result of continuing strength in some key sectors and waning headwinds from manufacturing and freight. Retailers reported better-than-expected holiday sales amid tight labor markets, modest wage gains, and improved consumer confidence. Meanwhile, selling prices advanced at a steady, modest rate.

Richmond

On balance, the Fifth District economy grew moderately. Retail, travel, and tourism picked up. Home sales and commercial real estate leasing and construction remained strong. However, manufacturing slowed slightly as tariff and other trade policy uncertainties continued. Labor markets were strong and wages rose moderately. Price growth remained moderate, overall.

Atlanta

Economic conditions improved modestly. Labor market tightness continued, and wage pressures increased for some positions. Non-labor input costs rose, in line with expectations. Retail sales and tourism activity were strong. Residential real estate conditions improved, and commercial real estate activity remained positive. Manufacturing activity slowed during the reporting period.

Chicago

Economic activity increased modestly. Consumer spending increased modestly, while business spending and construction and real estate activity increased slightly. Manufacturing and employment were little changed. Wages and prices rose slightly and financial conditions improved modestly. The prospects of a trade deal with China boosted farmers' outlooks.

St. Louis

Reports from contacts indicate that economic conditions have slightly improved since our previous report. St. Louis region general retailers had mixed accounts of holiday sales. Area tourism and hospitality contacts generally cited that business activity met expectations over the holiday season.

Minneapolis

Ninth District economic activity grew at a modest pace. Employment was mixed across states in the region. Consumer spending rose, with initial reports on holiday sales coming in positive. Manufacturing activity was flat overall, as slower recent activity contrasted with optimistic expectations for 2020. Commercial and residential construction grew modestly. Oil and gas drilling activity held steady.

Kansas City

District economic activity edged up in late November and December, driven by robust retail spending during the holiday season and stronger sales in the professional and high-tech services and wholesale trade sectors. In contrast, manufacturing activity and sales in the transportation sector continued to decline. Economic activity in the energy and agriculture sectors also remained weak.

Dallas

Economic activity expanded solidly, with growth increasing in most sectors. Home sales continued to rise while energy activity remained weak. Hiring continued at a steady pace. Selling prices were largely flat, even as input prices rose. Outlooks generally improved, with reduced trade uncertainty boosting optimism.

San Francisco

Economic activity in the Twelfth District expanded at a modest pace. The labor market remained tight, and wages increased further. Price inflation was up slightly. Sales of retail goods increased moderately, and consumer and business services activity was up modestly. Commerce in the manufacturing sector was stable, and activity in the agriculture sector was mixed. The residential real estate market expanded strongly, while commercial real estate activity softened a bit. Lending grew steadily.



Federal Reserve Bank of **Boston**

The Beige Book ■ January 2020

Summary of Economic Activity

Economic activity continued to expand in the First District at the close of 2019. Retailers and manufacturers cited modest to moderate revenue increases from a year earlier, while results for software and information technology services firms were stronger. Respondents in these three sectors also reported continued tight labor markets, but none mentioned increasing wages (other than scheduled minimum wage rises in some states). Price increases continued to be modest according to contacts. Inventory shortages persisted in New England residential real estate markets, and median sales prices for single-family homes and condos rose across the region in November. Greater Boston's commercial real estate market continued to be robust, while commercial activity in the Providence area was moderate. Business outlooks ranged from very positive to cautiously optimistic, mostly reflecting expectations that recent trends will continue into 2020.

Employment and Wages

Contacts in all sectors reported that labor markets remained tight in many areas. Retailers noted that minimum wage increases in effect January 1 in some states further raise labor costs. While two contacts in the software and IT services industry noted that acquisitions made in the past year led to increased headcounts, only one mentioned that this could lead to future restructuring. Most of the software and IT services hiring is for replacement only; while many contacts cited tight labor markets as hurdles for filling vacancies, one noted that there appeared to be no shortage of entry-level labor. One manufacturer, a biotech firm, reported significant hiring plans; they plan to roll out a new drug and need additional staff. Other manufacturing contacts continued to report difficulties hiring new workers.

Prices

Business contacts reported that prices had risen modestly or not at all. Retailers indicated that their price increases were very minimal in recent months. For most software and IT services firms, pricing was unchanged over the past year, but two contacts reported price increases of 3 percent to 5 percent year-over-year on contract renewals for their larger enterprise customers. Manufacturers cited muted pricing pressure. A fish producer said that tariffs had stabilized but the resulting costs were difficult to pass on to supermarkets.

Retail and Tourism

Retailers consulted for this round reported that year-over-year comparable-store sales results ranged from flat to up a few percentage points. Black Friday and Cyber Monday results were very strong, while Green Monday (December 9) was a bit softer, in what was a very short holiday sales season. Contacts expressed some concern that higher costs, whether related to labor markets or tariffs, in combination with a very competitive retail environment, will put a damper on revenue growth. However, capital spending plans for 2020 are on pace with or exceeding investment expenditures in 2019. An auto industry contact reported that November vehicle sales were 2 percent higher than a year earlier, continuing at a fairly slow but steady pace.

Travel industry contacts reported that in November, occupancy rates were down very slightly compared to 2018; for 2019 as a whole, occupancy rates were also expected to post a slight decrease. However, lodging revenues were up year-over-year. In one tourist market, this reflected an increase in the average nightly room rate. In the Boston area hotel market through November, room rates were virtually unchanged from 2018 but new hotel rooms increased the supply, with more new hotels planned. The travel industry expects 2020 to be a good year; large conventions booked in Boston will help, as will the greater number of H2B visas issued to fill staffing requirements.

Manufacturing and Related Services

Reports from manufacturing contacts were generally positive. The number of responding firms was small in this round. All four contacts reported higher sales versus the year-earlier period and two said sales growth exceeded their expectations. A packaging manufacturer attributed the strong growth to retail sales and a defense contractor said that orders were high. A frozen fish producer said strong revenue growth largely resulted from a change in the mix of sales to higher priced goods.

Three contacts reported lower capital investment but in two of those cases the reduction was expected after unusually high investment in recent years.

All manufacturing respondents had a positive outlook. Only one, the packaging firm, said it had revised its outlook up in recent months, citing a soft period last year that appears to have ended.

Software and Information Technology Services

The New England software and IT services industry ended 2019 on a strong note according to contacts. Across the board, demand growth was positive, both year-over-year and quarter-over-quarter, with most contacts seeing year-over-year demand growth in the double digits. Cloud and subscription-based offerings continued to perform well, but growth was attributed to an overall strong industry rather than specific product lines. Overall, contacts were mostly optimistic. While political and macroeconomic uncertainty remained a factor, many respondents were confident about their ability to execute their business plans in the coming quarters and expected that the strong demand seen at the end of 2019 would carry through to 2020.

Commercial Real Estate

Commercial real estate activity in the First District has continued to strengthen despite some variation across areas. The leasing market in Boston was robust in the last quarter of 2019. Most contacts reported that they experienced higher activity than at the end of 2018. Activity levels picked up from November to December, and rents continued to rise. Vacancies were low and construction was robust. Life sciences were strong contributors to growth in 2019. The investment sales market in Boston was strong and liquid. Contacts said the commercial real estate market in Boston was a yield generator and the outlook was very positive.

In the Providence area, by contrast, the leasing market was moderate. Existing construction projects continued as scheduled, but few new projects have been undertaken. Rents rose in both the office and industrial leasing

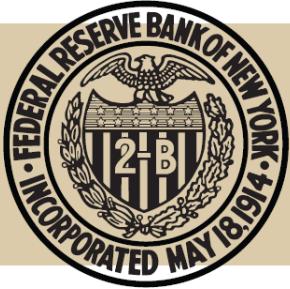
markets. The investment sales market was also moderate, and capitalization rates remained stable. The outlook for Providence was cautious; one contact mentioned that uncertainties associated with the 2020 election may cause businesses to be more reserved in making long-term decisions.

Residential Real Estate

Most residential real estate markets in the First District experienced declines in closed sales in November. For single-family homes, closed sales decreased in Rhode Island, Massachusetts, Boston, and Maine while increasing slightly in New Hampshire. Median sales prices increased moderately in all areas. For condominiums, closed sales were down in all areas except Maine. Condo prices dropped in New Hampshire while increasing or staying flat elsewhere in the region. Based on combined statistics for single-family homes and condominiums, Vermont experienced a moderate decrease in closed sales and an increase in prices.

Inventory shortages prevailed. In particular, Rhode Island, Massachusetts, New Hampshire, and Maine experienced double-digit drops in inventory for both single-family homes and condos. According to the Massachusetts respondent, many potential sellers are concerned about having nothing to buy after a sale because inventories are so low. Contacts expressed cautious optimism for the coming months. ■

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



Federal Reserve Bank of **New York**

The Beige Book ■ January 2020

Summary of Economic Activity

The Second District economy grew at a modest pace in the latest reporting period. The labor market remained tight, though hiring activity was subdued and wages grew modestly. Businesses reported that both input prices and selling prices have continued to rise modestly. Manufacturing activity picked up slightly, while most service industries reported little change in business activity. Business contacts in most sectors were cautiously optimistic about the near-term outlook. Consumer spending was mixed, with retailers giving mixed reports on holiday-season sales, but auto dealers noting a fairly vibrant end to the year. Housing markets have been mixed but, on balance, steady, while the residential rental market has remained on a positive trend. Commercial real estate markets have weakened further. New commercial construction has remained sluggish, while multi-family residential construction has picked up. Finally, banks reported some pickup in loan demand and little change in delinquency rates, while financial sector contacts more generally reported weakening activity.

Employment and Wages

The labor market has remained tight across the District, while hiring has been restrained. Employment agencies have noted ongoing trouble finding workers in a wide variety of occupations, such as creative IT workers, financial controllers, project managers, paralegals, and delivery truck drivers.

Businesses in most sectors continued to report flat employment. Contacts in manufacturing, education & health, and leisure & hospitality reported modest net hiring; in contrast, contacts in the transportation and finance sectors noted some declines in staffing levels. Retailers noted that seasonal hiring was about the same as a year earlier, though some contacts said they had trouble finding enough seasonal help. Businesses in most sectors reported that wage growth has been modest and little changed, though contacts in finance reported flat wages overall.

Looking ahead, businesses in manufacturing and most service sectors still planned on adding to staff; however, businesses in the finance and transportation sectors projected flat employment, and retailers reported plans to reduce staff, on net.

Prices

Businesses in most sectors reported that both input costs and selling prices have continued to rise at a modest pace. However, contacts in education & health and wholesale & retail trade have noted fairly widespread escalation in the prices they pay. In terms of selling prices, the largest price hikes were reported by retailers, wholesalers, and transportation firms. Education & health providers also noted a leveling off in the prices they charge. Broadway theater ticket prices moved up during the busy holiday season and were up slightly from a year ago.

Looking ahead, businesses in all sectors plan to raise their selling prices in 2020. The most widespread hikes were anticipated in transportation, retail trade, professional & business services, and real estate, while the least widespread were in finance, education & health, and leisure & hospitality.

Consumer Spending

Retailers reported mixed results for the holiday season, with overall sales mostly flat and on plan, while contacts were mildly pessimistic, on balance, about the outlook for 2020. A major retail chain reported that same-store sales were down slightly from last year but roughly on

plan. Upstate New York retailers were somewhat more upbeat, noting fairly solid shopper traffic and satisfactory sales volume, amidst heavy discounting. A growing proportion of holiday shopping was done online, as in-store sales lagged. Most retailers indicated that inventories were in fairly good shape.

Sales of both new and used vehicles have strengthened further, helped by manufacturer incentives, heavy promotion, and solid credit conditions, according to dealers in upstate New York. Consumer confidence in the Middle Atlantic States (NY, NJ, PA) fell to a nearly two-year low in December, though it remained fairly elevated.

Manufacturing and Distribution

Manufacturers reported that business activity has picked up modestly. On the distribution side, reports were more mixed: wholesalers reported continuing moderate growth in activity, while transportation contacts noted a modest downturn in business.

Looking ahead, manufacturers and wholesalers indicated that they project modest growth in the months ahead, on balance, whereas transportation businesses anticipate flat activity. Some contacts in these sectors have continued to express concern about tariffs and trade uncertainty, as well as minimum wage hikes.

Services

Businesses in most service industries indicated that activity was essentially flat, on balance, since the last report. As in the prior report, one notable exception was the leisure & hospitality sector, where contacts continued to note moderate growth in activity. Broadway theaters reported a typical seasonal pickup in business in December, though both attendance and revenues were down modestly from comparable year-ago levels.

Looking ahead to the first half of 2020, however, contacts in all the major service industries expressed optimism—particularly in the information and professional & business service sectors.

Real Estate and Construction

Housing markets across the District have been mixed but, on balance, steady since the last report. Prices of New York City condos and co-ops continued to weaken and were down modestly from a year earlier. The steepest declines have continued to be at the high end of the market. The inventory of existing homes has risen further, reaching a fairly high level in Manhattan and moderate levels in Brooklyn and Queens. In contrast, housing markets in the suburban areas around New York

have shown signs of strengthening, with sales activity holding up fairly well, prices rising moderately, and inventories generally stable. Similarly, the sales market in upstate New York has remained solid, with inventories steady at very low levels, prices running moderately ahead of a year earlier, and homes selling fairly quickly.

The residential rental market has remained on a positive trend. Rent growth has slowed in New York City's outer boroughs, as many newly developed properties have come on line. In Manhattan, rents have risen modestly, mainly at the high end. A local real estate expert attributed this to a shift from purchasing to renting, as well as a decline in investor interest. Rental vacancy rates remain quite low across New York City, though the shadow inventory is reported to be somewhat higher. Landlord concessions remain fairly sizable on new apartments.

Commercial real estate markets across the District have continued to soften. Office availability rates have climbed modestly throughout New York State, while they have been steady in northern New Jersey. Office rents have remained essentially flat across the District. Industrial markets have been mixed: rents have continued to trend up, though at a decelerating pace, while availability rates have edged up. The market for retail space has continued to soften, with asking rents drifting down and vacancy rates rising to multi-year highs.

New multi-family construction starts have picked up across the District, while ongoing multi-family construction activity has remained brisk. New office and industrial construction has continued to weaken modestly.

Banking and Finance

Financial sector contacts generally noted further weakening in activity and expressed ongoing concern about a deteriorating business climate. Small to medium-sized banks across the District reported increased demand for all categories of loans, except commercial and industrial. Refinancing activity was little changed. Banks reported narrowing spreads, unchanged credit standards, and stable delinquency rates across all major loan categories. ■

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



Summary of Economic Activity

Aggregate Third District business activity edged back to a slight pace of growth during the current Beige Book period. Manufacturing slowed to a slight pace of growth, and financial services slowed to a modest pace. On balance, nonfinancial services continued growing modestly, but the pace seemed to ebb a bit. Nonresidential construction declined slightly after holding steady in the prior period. In contrast, homebuilders and auto dealers experienced slight-to-modest growth after a prior period of slight decline and no growth, respectively. Commercial leasing activity held steady, and sales of existing homes continued to decline at a moderate pace. Labor markets remained excessively tight throughout the District, and wages continued growing moderately. While contacts describe increased wage pressure, they continued to report slight employment increases. Overall, price pressures remained modest. The firms' outlook for growth over the next six months remained positive, though cautious, and broadened further among nonmanufacturing firms.

Employment and Wages

Employment continued to grow slightly during the current Beige Book period. About two-thirds of the nonmanufacturing firms and four-fifths of the manufacturers reported no change in staff. While the share of manufacturers reporting a higher number of employees fell, the share among the much larger nonmanufacturing sector rose somewhat. Average work hours have continued to edge down since the prior period at manufacturing firms but rebounded at nonmanufacturing firms.

The firms continued to report tight labor market conditions. Lack of available labor has constrained production and expansion plans, according to various manufacturing and service-sector firms. Staffing firms reported continued demand for new job placements from clients but an insufficient supply of qualified labor to fill the orders. Turnover rates are rising, and nonstandard shifts are most difficult to fill. One staffing contact noted that some clients simply canceled orders from the fall that had gone unfilled. Another noted that a new hire took another job during the firm's onboarding orientation.

On balance, wage growth continued at a moderate pace, and many contacts noted a resumption of rising wage pressure. One staffing firm reported that its wage rates were up 4 to 5 percent year over year. Another staffing firm noted that \$15 an hour was now the minimum re-

quired to attract workers for a manufacturing/warehousing job but that these workers were being drawn from other employers. On average, the share of nonmanufacturing contacts who reported increases in wage and benefit costs remained near 44 percent; just 3 percent reported decreases.

Prices

Most firms continued to report modest increases for both input prices and prices received for their own goods and services. However, the share of nonmanufacturers reporting higher prices paid rose significantly – well above its average. The share of firms reporting no change in prices rose to about three-fourths for manufacturers but fell to about half for nonmanufacturers.

Looking ahead six months, the anticipation of higher prices has broadened among manufacturers. About half of the firms expected higher prices; almost none 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 slight growth in activity – easing from the modest pace reported during the prior period. The percentage of firms reporting increases in shipments and new orders slipped to one-

third; the percentage reporting decreases also dipped for shipments but rose to one-fourth for new orders.

Comments remain mixed. Primary metals firms continued to note that some customers are beginning to source parts domestically again. However, downstream fabricators continued to note uncertainty, delayed or canceled expansions, and fewer orders from their customers. One contact did note that settling the new trade agreement with Canada and Mexico provided greater certainty and should increase some domestic production.

Manufacturers' expectations of activity over the next six months eased somewhat. Expectations of shipments and of new orders edged lower but remained above long-term nonrecession averages. Planned capital spending also fell, yet expectations of future employment increases rose.

Consumer Spending

Contacts for malls and convenience stores continued to report modest growth in nonauto retail sales. Although the holiday sales season began late this year, mall store operators noted that activity appeared strong from Black Friday through mid-December across most retail segments. Mall shoppers seemed to focus on a single store's promotion, then make return trips for other stores' sales. Contacts also noted that shoppers are increasingly returning their online sales to local stores, which has boosted mall traffic. Convenience store contacts continued to report modest sales growth and no lull in the morning coffee runs of construction workers. Retailers expressed positive outlooks for 2020.

Most auto dealers reported that sales were flat to up slightly, although the pace appeared to wane near year-end. Dealers noted that sales were stronger in more profitable segments, such as SUVs, than in sedans. The profitable used car market also remained strong. Early estimates of total 2019 sales growth were positive for most New Jersey and Pennsylvania dealers, and they expressed optimism for another good sales year in 2020.

Nonfinancial Services

On balance, activity at service-sector firms continued at a modest pace of growth. However, activity weakened a bit, as the percentage of firms reporting increases in new orders decreased significantly, while the share of firms reporting decreases in current revenues doubled. Proposed tariffs on European wine prompted an area merchant to stock up with over 35,000 cases to beat the February sanction and minimize price hikes. Over two-thirds of the firms – more than in the prior period – expect growth over the next six months.

Financial Services

Financial firms reported modest growth in overall loan volumes (excluding credit cards) on a year-over-year basis – a bit slower than in the prior period. Credit card lending also edged back to a modest pace.

During the current period (reported without seasonal adjustments), volumes appeared to grow robustly for home mortgages and commercial real estate, and modestly for other consumer loans (not elsewhere classified). Home equity lines and commercial and industrial loan volumes declined, while auto lending appeared flat.

Banking contacts continued to express few concerns over credit quality; however, one contact noted that mortgage delinquencies had ticked up but were still at good levels. Of greater concern was an observation that as interest rates fell, many homeowners took additional cash with their refinanced mortgages – raising the question for banking contacts of whether the cash was for additional investment or was taken out of necessity to pay down other debt. Most banking contacts remained optimistic about continued growth through 2020.

Real Estate and Construction

Homebuilders reported a pickup to modest growth in contract signings, noting ongoing strength in 55+ communities and renewed interest in the luxury market. Apartment and condo construction has helped offset the difficulty of building affordable single-family units.

Existing home sales continued to decline moderately on a year-over-year basis across most local markets, with exceptions of slight growth at the Jersey shore. Inventory constraints persisted. An area broker confirmed that potential listings of existing homes may be lost to investors converting houses to rentals and to developers razing houses, then rebuilding new units, to a greater degree than normal, especially in Philadelphia.

On balance, commercial real estate construction appeared to ease slightly, while leasing activity held steady – both at relatively high levels. Contacts reported continued strength in the industrial market, with ongoing demand for new construction; however, a few contacts noted that some warehouses are not being used to capacity. Most contacts remain optimistic about office space leasing and construction, but one noted that Philadelphia's construction activity has fallen slightly and may remain a bit below prior-year levels. ■

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



Federal Reserve Bank of **Cleveland**

The Beige Book ■ January 2020

Summary of Economic Activity

The Fourth District economy continued to expand at a modest, relatively steady pace recently. The growth resulted from continuing strength in a few key sectors and waning drags from manufacturing and freight. As has been the case for several reporting periods, professional and business services firms provided a steady source of support for the broader economy. Construction and real estate activity remained strong, on balance, particularly on the nonresidential side. Meanwhile, consumer spending picked up as the holiday shopping season progressed. Bankers indicated that loan demand was stable on net. Although manufacturing activity did not expand during the reporting period, it did not contract either, as it had for much of 2019 as factories adjusted to weaker global economic growth and trade-related uncertainties. Turning to the outlook, firms remained optimistic about demand for their goods and services in coming months, albeit a little less optimistic than during the prior reporting period. Labor demand remained firm, while wages and selling prices increased at a modest pace.

Employment and Wages

On balance, aggregate employment increased slightly in recent weeks. Professional and business services firms continued to add workers because demand for their services increased from already robust levels. At the same time, construction and real estate firms suggested that labor demand remained solid at a time of year when firms are often experiencing a seasonal slowdown in construction and sales. Reports from manufacturers suggest that payrolls were relatively stable as demand for factory goods was flat. Retailers indicated that seasonal hiring was largely unchanged from a year earlier. Outside of a seasonal pickup in hiring for holiday fulfillment, transportation and freight contacts generally suggested that employment was flat to down in the sector. Some lenders reduced payrolls because overall loan demand was flat and they sought to increase efficiencies. Looking forward, firms were more bullish about their near-term hiring expectations than they were during the prior reporting period.

Wages increased at a modest pace, on net, similar to that of the prior reporting period. Firms across most industry segments reported that wages were increasing, particularly in geographies and occupations where competition for workers was significant. A few firms reported

paying higher yearend bonuses, and one implemented a new profit-sharing plan to help retain workers.

Prices

On average, selling prices in the District rose modestly in recent weeks. Output price increases were most often reported by contacts in the retail, professional and business services, and construction industries because of persistent strength in demand. By contrast, manufacturers indicated that output prices continued to move lower, although at a slower pace, while a downward trend in freight prices paused recently. Nonlabor input costs increased at a slightly faster pace in recent weeks. Retailers said that tariffs continued to put upward pressure on costs, as did increases in some commodity prices. Higher food prices were reported by a few restaurateurs. Freight contacts noted materially higher (nonhealthcare) insurance costs because insurance claims against trucking companies have increased dramatically while insurance capacity has dwindled. Manufacturers indicated that, on balance, materials costs have stabilized after trending lower in earlier months. Meanwhile, reports from professional and business services firms suggest that upward (nonlabor) cost pressures may have eased somewhat.

Consumer Spending

Consumer spending increased solidly; retailers reported significant sales gains that exceeded the typical holiday season pickup. One large department store contact said that Black Friday turnout lifted November sales to "abnormally strong" levels. Furthermore, auto retailers reported that new-vehicle sales were up 10 percent from a year earlier, boosted by manufacturers' incentives and strong performance of the stock market. Most retailers expected sales to slow back to normal levels heading into the first quarter of 2020. A hospitality contact indicated that investment in local construction projects had boosted demand for hotel rooms in his region.

Manufacturing

The overall level of manufacturing activity did not change meaningfully, but individual firms' reports varied considerably. Several contacts indicated that demand increased as the year drew to a close. Moreover, they seemed optimistic about the near-term outlook for demand and planned their capital expenditures accordingly. Meanwhile, others noted that ongoing trade-related uncertainty, weak industrial activity, and a typical seasonal slowdown constrained demand. These manufacturers indicated that their backlogs were soft, and they relayed reports that their customers did not expect that demand would soon return to levels seen in recent years. To cope with weaker demand, these manufacturers were watching spending carefully, resulting in less ambitious capital spending plans, reduced hours for workers, and less use of workers from temporary help agencies.

Real Estate and Construction

Overall construction and real estate activity edged up in recent weeks in spite of a typical seasonal slowdown in some segments. This seasonal slowdown was particularly notable on the residential side where both homebuilders and residential real estate contacts indicated that cold weather and the holidays combined to slow activity as 2019 drew to a close. However, one residential broker indicated that while sales activity slowed from two months earlier, it remained more robust than during the same period a year earlier.

By contrast, nonresidential builders and real estate firms indicated that demand remained very firm in spite of the expected seasonal slowdown. One contractor summarized the sentiment in the industry by stating that "times are good and people are building." On the commercial real estate side, one contact indicated that growth in some of his economically vibrant markets was being augmented by emerging growth in one of his lagging metro markets. Another said that rising costs for new

construction helped boost leasing activity because tenants sought lower-cost alternatives to new construction. On balance, nonresidential construction and real estate activity was expected to remain robust into 2020.

Financial Services

Reports from bankers were mixed but generally pointed to flat loan demand. Lower interest rates spurred an uptick in auto loan demand and home mortgage activity. However, that growth was offset by weaker demand for business loans. Bankers expected that the first quarter of 2020 would remain soft, citing the usual seasonal factors. Most bankers indicated that core deposits increased, but several noted that this was typical at the end of the calendar year.

Professional and Business Services

Activity in the professional and business services sector held steady at robust levels since the previous report. Most industry contacts indicated there had been no recent changes in their activity levels, although a consulting firm in the online commerce industry reported a significant improvement in business conditions over the holiday period. A wealth advisor noted a slight increase in activity in recent months and identified his clients' confidence in the economic outlook for 2020 as the driving factor. Overall, the majority of contacts in professional and business services expected favorable conditions to persist into the first quarter of 2020.

Freight

Reports from the transportation sector remained mixed but generally pointed to a slower contraction in freight volumes. Contacts commonly indicated that overall freight volumes remained lower in most industries and noted that the fall shipping season as a whole was softer than normal. Freight executives cited low commodity prices and tariffs on imported goods from China as factors contributing to the ongoing weakness. Several freight firms reported increases in their freight volumes since the previous report. However, these companies cited improved internal management and advertising as the drivers of the gains rather than a broader strengthening in demand. Expectations for future freight activity remained soft. ■



Federal Reserve Bank of **Richmond**

The Beige Book ■ January 2020

Summary of Economic Activity

Overall, the Fifth District economy grew moderately in recent weeks. Manufacturing activity, however, softened slightly as firms continued to face headwinds from tariffs, other trade policies, and labor availability. Port activity varied by commodity, while trucking shipments rose modestly, compared to recent months, but remained below last year's level. Travel and tourism grew moderately, with particular strength in business travel. In addition, retailers reported moderate growth in sales as holiday shopping was even with or above the year-ago level. Home sales and mortgage lending remained fairly strong, as were commercial real estate leasing and construction. Business lending, according to bankers, was modest, as some firms were reluctant to invest due to uncertainty. Nonfinancial services firms gave mixed reports with some education and health services firms reporting growth while firms providing professional and business services reported softer demand. Farmers generally had good crop yields and solid demand in recent weeks, but faced tighter margins. The demand for labor remained strong across skill levels, and wage increases were moderate. Price growth picked up slightly for services, but remained muted, overall.

Employment and Wages

The demand for labor remained strong in recent weeks and businesses continued to report labor shortages across skill levels. The tight labor market led some firms to increase benefits and wages, ease background screening requirements, and invest in labor-saving technology. To retain workers, firms have increased wages, training, and talent development. Overall, wage increases were moderate with some larger raises cited for specific job categories, such as electricians and other skilled trades.

Prices

On balance, price growth remained moderate since our previous Beige Book report. Manufacturers reported little change in annual growth of prices paid and prices received in recent weeks with both increasing at rates slightly below two percent, on average. Several manufacturers said that tariffs continued to impact the cost of raw materials. Meanwhile, services sector firms reported an uptick in price growth for prices paid and prices received, with both exceeding two percent but remaining within a moderate range.

Manufacturing

Fifth District manufacturing softened somewhat since our last report. On balance, contacts reported drops in both shipments and new orders. Many manufacturers cited uncertainty regarding trade policies as a major concern. Several increased prices of final goods but struggled with low profit margins due to tariffs on raw materials. Some manufacturers saw strong demand but had output constrained by labor shortages. However, a Virginia food manufacturer met demand by and investing in new equipment.

Ports and Transportation

Import and export volumes varied by commodity in recent weeks. For example, port contacts noted a decline in soybean exports to Asia, but expected shipments to rise after an announced trade deal with China. Exports of metals and hardware to Europe were weak, but pork exports were strong. Imports of furniture and other commodities were soft, but auto and apparel imports remained strong. Despite continued concerns about trade policy, port executives were optimistic and continued to invest in capital expansion projects.

Fifth District trucking rates continued to soften, and while shipments were lower than last year, they were slightly above the previous few months. Retail shipments were fairly strong for the holiday season. Some trucking companies picked up both business and labor from a major company closure as well as from continued closures of smaller companies. Low fuel prices helped margins amid softening rates, but one executive is struggling with increasing costs of liability insurance. Trucking firms expressed concerns about political uncertainty going into an election year, but continued to make long-term investments and were optimistic that business would remain solid.

Retail, Travel, and Tourism

Overall, Fifth District travel and tourism grew moderately since our last report. Business travel was particularly strong. Hotel rates and occupancy generally remained solid around most of the District amid high demand, even as more rooms opened. One exception was a hotel in Greenville, South Carolina, that attributed a drop in occupancy to increased supply of both hotels and short-term rental properties. Additionally, hotels in Charleston, West Virginia, reported low occupancy despite stronger tourism in the state as a whole.

Retailers in the Fifth District reported moderate sales in recent weeks. Stores had solid customer traffic for the holidays, and many retailers reported that holiday sales were level with or up from last year. Auto dealers had increasing sales, amid high manufacturer incentives, and noted a shift towards smaller down payments and longer term financing. Some dealers said that rising costs were leading them to raise prices, and there were mild concerns about tariffs and online competition. However, other dealers have continued to invest and expand, as they expect to see strong growth in 2020.

Real Estate and Construction

Home sales in the Fifth District remained fairly strong in recent weeks, apart from a slight seasonal softening. Some real estate agents noted an increase in days on the market as home prices rose but said activity is strong overall. Inventory levels remained low, particularly in lower price ranges. Demand for construction of new homes was high, but construction was limited by availability of workers. Contacts expected buyer traffic and demand to increase in the coming months.

Commercial real estate leasing remained strong since our last report. Brokers reported strong demand for industrial and retail space but slightly lower demand for

office leasing. Occupancy of multifamily properties increased. Rental rates were generally described as steady to increasing slightly across property types. Office vacancy rates were stable, although some brokers expect them to increase in the coming months. Commercial real estate sales and sale prices showed modest growth, boosted by low interest rates, and construction remained strong across most types of properties, even though construction costs are high.

Banking and Finance

Overall, loan demand grew slightly in recent weeks. Bankers said that moderate growth in residential mortgages and commercial real estate loans was due, at least in part, to low rates. Although some bankers noted that the number of C&I loans in the pipeline rose modestly, a few respondents stated that firms seem to be holding back on capital spending. On balance, residential refinancing activity, home equity lines, and other consumer loans grew modestly. Applicant credit quality and loan delinquencies were reportedly unchanged, but bankers reported a slight decline in underwriting standards. Core deposits remained unchanged despite comments about increased competition from non-bank financial institutions.

Nonfinancial Services

Reports from nonfinancial services firms were mixed. Universities reported growth in healthcare, IT, and computer science programs. Also, a health service provider experienced growth and investment in ambulatory and urgent care facilities. A marketing firm, on the other hand, reported a slowdown that was partly due to the holidays and partly because potential clients were taking a long time to make decisions. In addition, a couple of firms in D.C. noted that political uncertainties, including a potential government shutdown, hampered demand for IT consulting and teleservices.

Natural Resources

Recent reports on the natural resources sector varied. Agriculture contacts were mostly positive because of good crop yields and solid demand; however, farmers faced tighter profit margins due to low selling prices and rising prices for labor, equipment, and land. Coal production reportedly picked up slightly, but several firms remain in bankruptcy proceedings. Finally, the oil and gas industry was negatively affected by low selling prices, excess supply, and stalled pipeline construction. ■

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



Federal Reserve Bank of Atlanta

The Beige Book ■ January 2020

Summary of Economic Activity

On balance, economic activity in the Sixth District expanded at a modest pace since the previous report, and the outlook among contacts remained positive. Labor market tightness continued to limit growth in some sectors. Wage pressures persisted for lower-skilled positions, and some contacts expect higher wages in the coming year. In line with expectations, nonlabor costs continued to slowly rise. Retailers cited healthy holiday sales levels; however, automotive dealers saw relatively flat sales levels compared to a year earlier. District tourism contacts noted strong leisure travel activity. Residential real estate conditions continued to improve, and commercial real estate firms cited steady sales and leasing activity. Manufacturing activity decelerated as new order levels fell slightly and production levels declined. District bankers noted that financial conditions remained healthy, and the pace of loan growth was positive.

Employment and Wages

Firms reported that attracting and retaining quality talent remained a challenge, which, for employers in the construction, banking, technology, and food services industries, continued to limit growth. While some manufacturing contacts also described this as a challenge, other manufacturers reported a slowing pace of hiring over the reporting period. Businesses reported continuing to explore new recruiting and retention tactics, such as offering a variety of benefits, paying for training and certifications, and clearly demonstrating potential career paths. Many firms continued to pursue investments in automation and technology, which are expected to ultimately reduce headcount requirements.

On average, firms maintained merit increases of 2.5-4 percent, though wage pressure continued to build for lower-skilled positions. Some contacts indicated they expect wages and health insurance costs to accelerate in 2020.

Prices

As reported previously, nonlabor costs continued to rise, although still in line with expectations. Contacts noted pricing power with goods impacted by tariffs and in construction. Some contacts reported that the use of pricing transparency tools by consumers and businesses was causing downward pricing pressure. The Atlanta Fed's Business Inflation Expectations survey showed year-

over-year unit costs were up 1.6 percent in December. Survey respondents indicated they expect unit costs to rise 1.9 percent over the next twelve months.

Consumer Spending and Tourism

In line with expectations, District retailers reported healthy sales levels during the holiday season. Online sales levels continued to dominate overall sales activity. Automotive dealers reported relatively flat sales levels in November compared to the same period last year.

On balance, District travel and tourism contacts noted a strong holiday travel season with year-over-year growth in leisure travel. The outlook for 2020 remained positive with healthy advance bookings through the first quarter of the year.

Construction and Real Estate

Low mortgage rates continued to help support demand for housing across much of the District. Price appreciation was firm while single-family sales were up from the previous year. The limited inventory of existing homes for sale, as well as the level of starts, suggested that supply remained constrained. Some contacts noted concerns that further price appreciation and low inventories may adversely affect affordability, despite low interest rates. Mortgage loan quality remained stable across the District, although Mississippi saw a slight uptick in delinquencies over the past year.

Commercial real estate (CRE) contacts reported leasing and sales activity remained steady during the reporting period, although some contacts mentioned growing uncertainty as a concern. Overall, most sectors experienced positive dynamics as rents continued to grow and vacancies trended downward at a modest pace. However, some CRE contacts did report that continued growth in construction costs was impacting the start of a modest number of new projects. Contacts continued to report that capital for CRE projects was readily available via banks and non-bank entities, with non-bank entities remaining aggressive in financing both construction and stabilized CRE projects. Modestly growing amounts of leverage, loosening of underwriting standards, and an increase in covenant-lite structures were noted.

Manufacturing

Manufacturing firms reported a deceleration in overall business activity since the last reporting period. New order levels fell slightly and notable decreases in production levels were reported. Finished inventory levels declined, and purchasing managers noted that supply delivery wait times were slightly longer. Optimism for future production levels increased among manufacturing contacts, with just over one-quarter of contacts expecting higher levels of production over the next six months, compared to one-fifth in the last reporting period.

Transportation

District transportation firms cited mixed results since the previous report. Port contacts reported sustained growth in the shipments of containers, automobiles, and heavy equipment. Logistics firms noted substantial increases in ecommerce activity over the reporting period as compared with year-earlier levels. District railroads, however, noted continued year-over-year softness in freight volumes across most commodities, and further declines in intermodal traffic. Air cargo carriers saw lower year-over-year freight volumes.

Banking and Finance

Conditions at District financial institutions remained healthy. Earnings improved over the previous quarter as increases in noninterest income helped offset an ongoing decline in the net interest margin. Asset quality remained stable as most financial institutions reported that they resisted loosening underwriting standards despite increased competition. Though moderating, loan growth continued to be positive.

Energy

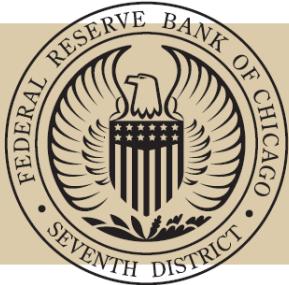
Oil and gas contacts indicated that production was steady to slightly up over the reporting period; however, firms that service oil-producing wells reported slowing activity. Some chemical manufacturers described contin-

ued softening in output, largely related to declining activity in manufactured goods sectors in addition to soft global economic growth. Strong growth continued in the renewable energy sector, particularly in wind and solar. Utilities contacts reported slowing momentum among certain industrial segments.

Agriculture

Agricultural conditions remained mixed. Recent rains improved drought conditions for most of the District, although parts of Florida, Georgia, and Louisiana experienced abnormally dry or moderate drought conditions. The December production forecast for Florida's orange crop was unchanged 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 November were up for corn, rice, soybeans, eggs, and milk but down for cotton and broilers; beef prices were unchanged. However, on a month-over-month basis, prices increased for cotton, rice, beef, eggs, and milk but declined for corn, soybeans and broilers. ■

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



Federal Reserve Bank of **Chicago**

The Beige Book ■ January 2020

Summary of Economic Activity

Economic activity in the Seventh District increased modestly overall in late November and December, and contacts expected growth to continue at a similar pace over the next 12 months. Consumer spending increased modestly, while business spending and construction and real estate activity increased slightly. Manufacturing and employment were little changed. Wages and prices rose slightly and financial conditions improved modestly. The prospects of a trade deal with China boosted farmers' outlooks.

Employment and Wages

Employment was little changed over the reporting period, though contacts expected a modest rate of growth over the next 12 months. Current hiring remained focused on professional and technical, sales, 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 reported a moderate increase in billable hours. Wages increased slightly. Contacts were most likely to report increases for administrative, professional and technical, and managerial workers. Multiple contacts reported greater wage pressures for entry-level workers. Benefit costs increased modestly.

Prices

Prices increased slightly in late November and December, and contacts expected modest increases over the next 12 months. Retail prices increased slightly overall. One contact noted a small pickup in grocery price inflation. In addition, the contact reported that retailers were passing a greater share of freight- and tariff-related costs onto customers. Producer prices edged up, with contacts generally reporting small growth in input costs.

Consumer Spending

Consumer spending increased modestly over the reporting period. Nonauto retail sales were up modestly, with gains reported in the electronics, entertainment, furniture, and jewelry sectors. Overall, holiday sales met retailers' expectations. Contacts again reported strong growth in e-commerce and slow growth for brick and mortar general merchandise stores. New and used light vehicle sales increased moderately. Contacts continued to report shortages of GM replacement parts following the UAW strike.

Business Spending

Business spending increased slightly in late November and December. Retail inventories were generally comfortable, though GM dealers reported that restocking following the end of the UAW strike was proceeding slower than expected. Most manufacturers indicated that inventories were at comfortable levels and fewer contacts noted higher-than-desired levels. One heavy machinery dealer reported elevated inventory due to slower sales. Capital spending increased slightly and contacts expected a modest increase in spending over the next 12 months. Current outlays were primarily for IT equipment and intellectual property. Three-quarters of contacts reported that their newly purchased capital was intended to increase capacity. Demand for transportation

services declined slightly. Energy usage edged down, largely due to lower demand from the industrial sector.

Construction and Real Estate

Overall, construction and real estate activity increased slightly over the reporting period. Residential construction contacts reported a small increase in building. Residential real estate activity was unchanged, as growing demand for starter homes was offset by declining demand for high-end homes. Home prices and rents increased slightly. Nonresidential construction activity was little changed, and contacts again noted that rising costs were holding back growth. Commercial real estate activity increased slightly on top of a strong level. Contacts highlighted growth in the flex-office and industrial sectors but continued to report difficulties for big box and mall retailers. Rents ticked higher, vacancy rates inched lower, and the availability of sublease space increased marginally.

Manufacturing

Manufacturing production was flat in late November and December. Steel demand increased slightly, supported by increased demand from the auto sector following the end of the GM strike. Auto production was little changed overall, but continued at a solid level. GM suppliers reported that orders returned in line with expectations after the strike ended. Demand for heavy trucks decreased, and contacts expected continued declines over the next year. Heavy machinery manufacturers reported modest increases in sales. Demand for specialty metals was flat overall, with increased orders from the aerospace, defense, and energy sectors offset by decreased orders from the agriculture and heavy trucks sectors. Manufacturers of building materials reported little change in sales.

Banking and Finance

Financial conditions improved modestly over the reporting period. Participants in the equity and bond markets reported moderately better conditions, citing lower interest rates, "stabilization" of the yield curve, and progress in trade talks between the US and China as positive developments. Business loan demand decreased slightly overall, with contacts reporting a slowdown in commercial real estate activity. Loan quality deteriorated slightly, but standards were little changed. Consumer loan demand increased modestly, led by continued growth in mortgage refinancing; loan quality and standards were little changed.

Agriculture

The prospects of a trade deal with China created some optimism in the farm sector. One contact called the potential deal a "key market driver." The final results for the 2019 harvest varied from average to well below normal across the District, yet they were better than had been expected in light of poor weather during both planting and harvesting. Corn and soybean prices moved higher, with both prices above year-ago levels. That said, lower-than-usual corn quality and higher-than-usual drying costs cut into crop farmers' profits. Overall, with extra government payments boosting farm income, the District's agricultural sector was in about the same financial shape as it was a year ago. Increases in milk and cattle prices provided a boost to dairy and livestock producers. ■



Federal Reserve Bank of St. Louis

The Beige Book ■ January 2020

Summary of Economic Activity

Reports from contacts indicate that economic conditions have slightly improved since our previous report. Firms reported employment levels were unchanged. Overall, wage pressures have increased moderately, with contacts citing minimum wage increases as a contributing factor. Reports on consumer spending were generally positive, although reports on holiday sales were mixed. Activity in the manufacturing sector continued to decline, although there are signs of stabilization. District banking contacts reported positive growth in loan volumes. Agriculture conditions remain unchanged, although overall conditions remain weak in this sector.

Employment and Wages

Employment has remained largely unchanged since the previous reporting period. Contacts across the District frequently emphasized the tight labor market. Firms continue to raise benefits, lower hiring standards, automate positions, and increase existing employees' responsibilities due to chronic worker shortages. However, many firms are hesitant to invest in training new employees, fearing that they would expend resources developing workers and lose them to better-paying jobs. Small and rural business contacts report having an especially difficult time recruiting workers. Survey-based indicators also continue to show employment declines in Missouri and Arkansas manufacturing. However, overall employment remains strong, with St. Louis contacts emphasizing that employers continue to expand their workforce whenever possible.

Wages have increased moderately since the previous report. Contacts continued to link this to the tight labor market, raising wages to both attract new workers and limit turnover. Firms' reported ability to raise wages remains positively related to their size, with smaller firms struggling to increase wages. Arkansas, Illinois, and Missouri minimum wage increases have also come into effect with the new year. Uncertainty over how this will impact market wages of various positions has led some

Missouri contacts to delay hiring for at least a month. An Arkansas contact reported multiple retailers are hiring fewer workers to counteract the increase in labor costs.

Prices

Prices have increased slightly since the previous report. Business contacts noted that fuel and energy costs have been declining, and coal prices in particular have shown modest declines since the previous report. Auto industry contacts noted slight increases in the prices of used vehicles, but also the availability of more low-interest financing options with low down payments.

Construction contacts reported that prior price increases from tariffs on building materials, such as steel and aluminum, have now been passed on to consumers. Steel prices have increased by 12 percent since the previous report, but are down 26 percent year over year. Contacts in the retail and restaurant industries said that prices were unchanged, but that increasing food prices are putting cost pressures on businesses.

Consumer Spending

Reports from general retailers, auto dealers, and hospitality contacts indicate consumer activity has improved slightly since the previous report. November real sales tax collections increased in Missouri, West Tennessee, Arkansas, and Kentucky relative to a year ago. Consum-

er sentiment in West Tennessee regarding both current economic conditions and economic conditions over the next six months has improved since September. Little Rock area general retailers reported slight increases in business activity during the second half of 2019. St. Louis area general retailers had mixed accounts of sales over the holiday season, noting a strong shift toward online shopping. Little Rock area auto dealers reported steady sales over the previous quarter, and they continued to observe particularly strong demand in the used car market. St. Louis region hospitality contacts generally reported that business activity met expectations over the holiday season, and they remain cautiously optimistic about the months ahead, encouraged by several major events taking place in the region during the first quarter of 2020.

Manufacturing

Overall manufacturing activity has declined slightly since our previous report. Survey-based indexes suggest that Arkansas manufacturing activity remained stable. New orders remained stable, while production decreased slightly from last month. Manufacturing activity in Missouri declined relative to one month ago. New orders and production decreased slightly. Contacts in the steel and landscape equipment industries reported plans to increase capital investment in 2020. One large U.S. manufacturing company announced plans to open a manufacturing/distribution facility in the region.

Nonfinancial Services

Activity in the services sector has slightly improved since the previous report. The transportation industry has experienced increased activity since the previous report. Major logistics firms plan new distribution centers; however, one firm has announced layoffs. Traffic on waterways and highways is largely unchanged. Contacts noted falling river barge prices resulting from excess supply of river barges due to declining exports of soybeans. However, in airports, passenger traffic increased by 3 percent year-to-year.

Real Estate and Construction

Residential real estate activity has decreased slightly since the previous report. Seasonally adjusted home sales decreased modestly from October to November in Little Rock, decreased slightly in St. Louis and Memphis, and were unchanged in Louisville. Inventory levels in the region remained depressed.

Residential construction activity increased slightly. There was a slight uptick in November permit activity across District MSAs relative to the previous month. Contacts in St. Louis reported that, while year-to-date permit levels

are down slightly in the area compared with this time last year, builders remain confident that housing demand will remain robust due to low mortgage rates.

Commercial construction activity has increased modestly since the previous report. The number of commercial construction projects increased moderately from October to November across most of the states in the District. A contact in Little Rock noted that they had never seen a construction boom as strong and as long-lasting as the current one.

Banking and Finance

Banking conditions in the District have improved modestly since the previous report. According to reports from bankers, outstanding loan volumes grew by 4 percent in the fourth quarter relative to one year ago, which was a departure from a recent slowing in the rate of loan growth. Commercial and industrial lending growth remained stable, growing by 2 percent year-over-year. Commercial real estate lending maintained a positive and slightly slower growth rate compared with the previous quarter. Residential real estate lending also increased slowly, which is in contrast to the prior quarter, when lending growth declined slightly.

Agriculture and Natural Resources

District agriculture conditions remain unchanged from the previous reporting period. The percentage of winter wheat in the District rated fair or better remained approximately unchanged at 93 percent from the end of October to the end of November. This is roughly the same level of winter wheat rated fair or better at the end of 2018. Contacts reported that continued low crop prices and trade disputes have harmed the industry. Several reports indicated the federal assistance to farmers via the market facilitation program has helped farmers remain in business.

Natural resource extraction conditions improved modestly from October to November, with seasonally adjusted coal production increasing 1.8 percent. November production declined 7 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 ■ January 2020

Summary of Economic Activity

The Ninth District economy grew at a modest pace since the last report. Employment was mixed across the region, while wage pressures were moderate overall and price pressures remained modest. The District economy saw growth in consumer spending, commercial construction and real estate, residential construction, and energy. Manufacturing and energy activity was flat. Residential real estate fell slightly, while agricultural conditions remained weak.

Employment and Wages

Employment was mixed since the last report. Minnesota and Wisconsin both saw seasonally adjusted employment fall in November, while other District states saw slight-to-moderate gains. Job postings rose by double digits in the Dakotas, but were lower in Minnesota and Michigan's Upper Peninsula. Unemployment insurance initial claims were higher overall during the most recent six-week period (through mid-December) compared with the same period a year earlier, with claims increasing notably in Minnesota and Wisconsin, but falling in the Dakotas. A poll of Minnesota staffing firms by the Minneapolis Fed found that recent job orders and hours booked were modestly higher; unfilled job orders were also higher due to tight labor supply. Staffing contacts in eastern North Dakota and Michigan's U.P. also said job orders were higher. A Montana staffing contact said job orders were lower, but the company has also been more selective. "We are no longer writing job orders we know we can't fill." A survey of employer hiring sentiment found more optimism across the District for the first quarter of 2020 compared with the same survey a year ago. However, two other regional hiring indexes that include Minnesota and the Dakotas had softer outlooks, including one that suggested contraction in manufacturing employment. A poll by the Minneapolis Fed of greater Minnesota firms found generally soft hiring activity, particularly compared with a similar poll in mid-2019.

Wage pressures were moderate overall, with considerable variation. Fewer than half of staffing firms polled by the Minneapolis Fed said wages grew by more than 3 percent over the past 12 months, though more than 60 percent said they expected wage increases above 3 percent over the coming year. Close to 70 percent of firms in the aforementioned greater Minnesota poll said wages grew by less than 3 percent over the past year, with future wage expectations only slightly higher. However, a contact in Michigan's U.P. said housekeeping positions have recently seen wage increases of 10 percent or more, while a call center and manufacturer there increased wages by more than 5 percent. A construction contact said workers were getting recruited regularly, and a 3 percent raise "isn't good enough" to retain good employees. In contrast, a manufacturer of hardwood products with plants in Wisconsin that has been "significantly affected" by tariffs cut wages by 10 percent.

Prices

Price pressures remained modest since the previous report. Respondents to a recent survey of Minnesota economic development officials reported that retail prices among their business contacts were mostly little changed over the past year; however, the outlook for the coming year was for prices to increase slightly faster than normal. Retail fuel prices as of early January were slightly lower in most areas of the District relative to the

previous reporting period. Prices received by farmers in November increased from a year earlier for corn, soybeans, dry beans, milk, hogs, eggs, and turkeys, while cattle prices were unchanged and prices for wheat, hay, and chickens decreased.

Consumer Spending

Consumer spending increased moderately since the last report. Most reports on holiday shopping and other spending were positive. Sources in major markets in Montana and the Dakotas reported good foot traffic in stores. One source noted that a shorter holiday shopping season this year provided steadier business overall. But firms in greater Minnesota reported flat holiday sales. Gross sales in South Dakota saw a healthy bump in November compared with a year earlier, and the state's gambling handle also increased by almost 4 percent. Sales tax collections in Minnesota grew by more than 3 percent in November, but gross sales in Wisconsin saw a 4 percent decline. Poor snow conditions across much of Montana meant slower activity early in the ski season. Nevertheless, the broader winter skiing economy was reportedly "booming" in Montana, with resorts making significant capital investments in new lifts, accommodations, and other amenities. However, Snow conditions in northern Minnesota and Wisconsin were reportedly good in December, with "quite a few snowmobilers out on the trails" in some locations. Hotel occupancy rates and revenue per room in Minnesota rose slightly in November.

Construction and Real Estate

Commercial construction grew modestly since the last report. Construction spending saw a notable uptick in November compared with a year earlier, according to an industry database, with increases seen in every District state except Wisconsin. A second industry database showed that the number of new and active projects over the most recent six-week period (through mid-December) were notably higher than during the same period a year ago. Commercial permitting in the District's larger markets in November saw a modest increase overall compared with a year earlier, with Rapid City and Sioux Falls, S.D., continuing to see strong activity overall. Individual contacts have generally reported strong backlog. A Minnesota contact said commercial construction was "bouncing along the top," and while there was some expectation of a possible decrease in 2020, "the market is still operating at high levels."

Residential construction grew modestly overall. The value of November residential permits was widely higher, with the notable exception of Minneapolis-St. Paul, which broke a string of months with robust single- and

multifamily permitting.

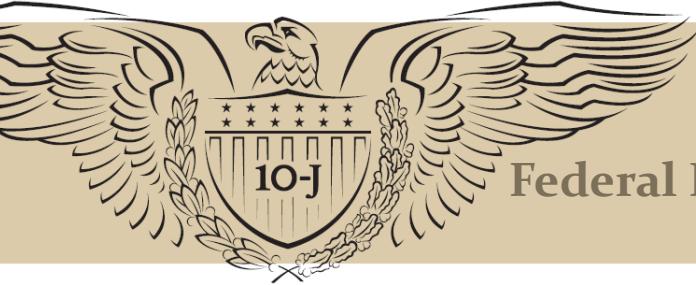
Commercial real estate was modestly higher. Vacancy rates in most subsectors in Minneapolis-St. Paul remained stable. Despite persistent new construction of multifamily units, continued low vacancy rates have led to rising rents—roughly 5 percent in the past 12 months, according to one source. Residential real estate fell slightly overall, with mixed sales activity across the District in November compared with a year earlier. Northern and western counties of Wisconsin located in the District saw higher sales, and Great Falls, Mont., saw particularly robust activity. However, sales in Minnesota were largely flat, while small declines were seen in Bozeman and Missoula, Mont., and Sioux Falls, S.D. Fargo and Grand Forks, N.D., experienced larger declines.

Manufacturing

District manufacturing activity was flat on balance from the last report. Preliminary results from a survey of Ninth District manufacturers indicated that firms generally reported a slight decrease in orders, production, and investment over the past year. However, expectations for the coming year were generally positive. An index of manufacturing conditions indicated increased activity in December compared with a month earlier in South Dakota, while activity was nearly flat in Minnesota and decreased in North Dakota. In contrast, a Montana staffing contact reported that manufacturers were increasing their hiring late in the year. Producers of construction inputs also reported solid recent sales.

Agriculture, Energy, and Natural Resources

District agricultural conditions remained weak. Industry contacts reported that trade conflicts combined with poor weather put continued pressure on farm households, with federal aid payments and insurance the only source of relief for many producers. One contact called 2019 "the mother of all disasters." In contrast, a dairy industry source reported that the sector has begun to rebound, and producers were becoming more bullish; Montana wheat producers also had a strong year. District oil and gas exploration activity was steady since the previous report. The number of active drilling rigs as of early January fell slightly from a month earlier, but the most recent figures (as of October) indicated that oil production hit a new record. ■



Federal Reserve Bank of Kansas City

The Beige Book ■ January 2020

Summary of Economic Activity

Tenth District economic activity edged up in late November and December, although conditions remained mixed across sectors. Consumer spending rose modestly, driven by robust retail sales during the holiday shopping season. Contacts in the wholesale trade and professional and high-tech services sectors also reported modestly higher sales, while sales in the transportation sector decreased. Manufacturers continued to note slight declines in overall activity with ongoing weakness in durable goods factory activity. District real estate conditions held steady since the previous survey period, and contacts expected conditions to remain stable moving forward. District energy activity fell further, and contacts expected further declines in the months ahead. The agriculture sector remained weak despite rising commodity prices, and higher revenue from rising prices was not expected to significantly improve farm finances. District employment rose modestly since the previous survey period while employee hours held steady, and labor shortages were cited as the single biggest problem among a majority of respondents. Wages continued to expand at a modest pace, and contacts expected moderate growth in the months ahead. Services sector contacts continued to note higher input and selling prices since the previous survey period, while manufacturers and construction supply contacts noted slightly lower prices.

Employment and Wages

District employment rose modestly since the last survey period, while employee hours held steady. Contacts expected modest gains in employment and flat employee hours in the months ahead. Respondents in all reporting sectors noted job gains in late November and December, except for the transportation and manufacturing sectors. In addition, employment was above year-ago levels in all reporting sectors with the exception of the auto sales sector.

A majority of survey contacts cited labor shortages as the single most important problem currently facing their business. Specifically, contacts noted shortages for hourly retail and food services positions, mechanics, truck drivers, skilled construction, software developers, pharmacists and nurse practitioners. Wages continued to rise modestly since the previous survey period, and moderate gains were expected in the months ahead.

Prices

Input and selling prices continued to rise modestly in late November and December in the services sector, while manufacturers and construction supply contacts noted slightly lower prices. Both input and selling prices were expected to increase in the months ahead for all services sectors, while manufacturers projected steady prices. Respondents in the retail trade sector reported modestly

higher input prices and slightly lower selling prices, although both were above year-ago levels. Input and selling prices rose modestly in the restaurant sector, and both were strongly higher than a year ago. Transportation contacts noted slightly higher input and selling prices since the previous survey, but expected selling prices to decline in the months ahead. Prices in the construction supply sector decreased slightly, but remained above year-ago levels. Construction supply prices were projected to decrease modestly in the next few months. Manufacturers reported slightly lower prices of finished products and raw materials, but prices were expected to hold steady moving forward.

Consumer Spending

Consumer spending increased modestly in late November and December as gains in retail and auto sales offset spending declines in the restaurant and tourism sectors. Retail sales increased robustly during the holiday shopping season compared to both the previous survey period and year-ago levels. Contacts noted that lower-priced and promotionally priced items sold well, while higher-priced items sold poorly. Auto sales grew moderately this survey period, however sales were slightly below year-ago levels. A majority of auto respondents noted a decrease in net profit compared to the previous year, and contacts anticipated sales to decline slightly in the coming months. Restaurant and

tourism sales dropped compared to the previous survey period, but remained above year-ago levels. Restaurant contacts anticipated strong sales growth in the coming months, while tourism contacts expected moderate gains in the months ahead.

Manufacturing and Other Business Activity

Manufacturing activity continued to fall slightly in late November and December primarily due to ongoing contractions in durable goods factory activity. However, manufacturers expected a slight increase in activity in the months ahead. Both durable and nondurable goods plants experienced decreases in production, but shipments and new orders were up slightly at nondurable goods plants compared to the previous survey period. Capital spending was slightly above year-ago levels, and contacts anticipated this rate of growth to continue in the months ahead.

Outside of manufacturing, firms in the transportation sector experienced modestly lower sales, while sales increased modestly for both the wholesale trade and professional and high-tech services sectors. 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 continue to rise in the wholesale trade and professional and high-tech services sectors.

Real Estate and Construction

District real estate activity remained at similar levels to the previous survey period, and contacts expected conditions to remain at current levels in the months ahead. Residential real estate sales continued to hold steady in late November and December compared to the previous survey period and to year-ago levels. Residential construction activity also remained flat as housing starts rose while construction supply sales and traffic of potential buyers fell. Contacts in the residential construction sector expected overall activity to decline in the months ahead. Commercial real estate activity edged up as sales, absorption, construction underway, and completions rose while vacancy rates held steady. Expectations for commercial real estate activity were for its current pace of growth to continue over the next few months.

Banking

Overall loan demand decreased slightly since the previous survey period, although the change in demand was mixed across categories. Bankers indicated a slight decline in commercial real estate and agricultural loans and reported a modest decrease in consumer and commercial and industrial loans. Demand for residential real estate loans increased slightly. Respondents indicated a slight improvement in loan quality compared to a year ago and expected a slight increase in loan quality over the next six months. Credit standards remained stable across all loan categories. Overall deposit levels increased modestly, but a number of respondents indicated demand for certificate of deposits remained low during the survey period.

Energy

District energy activity continued to decrease since the previous survey period, and expectations for future drilling and business activity remained downbeat. While the number of active gas rigs held steady across District states, the number of active oil rigs eased lower. Oil and gas production slowed slightly, but remained at high levels. Employment in the energy sector was below levels from a year ago, and most regional firms expected additional decreases. Low commodity prices were listed as the biggest factor driving business plans over the next six months. Credit conditions for District energy firms also remained more difficult than a year ago. Despite lower profit levels and less drilling and business activity, District firms expected revenues to pick up over the next six months.

Agriculture

The Tenth District farm economy generally remained subdued despite a modest increase in agricultural commodity prices. The prices of most major crops increased moderately since the previous reporting period and crop production in the Tenth District was expected to be similar to a year ago, resulting in expectations of slightly higher revenues compared with the previous year. In the livestock sector, cattle prices also increased modestly in December and hog prices remained relatively stable, which could provide additional support. The slight increase in agricultural prices and revenues, however, was not expected to significantly improve the financial condition of producers in the District. ■



Federal Reserve Bank of Dallas

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Summary of Economic Activity

The Eleventh District economy expanded solidly over the reporting period, with growth increasing in most sectors. The energy sector remained weak, although drilling activity ticked up. Home sales continued to rise, even beating some expectations. The agriculture picture remained mixed. Employment growth was moderate, and upward wage pressures continued as labor availability remained a key concern. Selling prices were largely flat, while input prices continued to rise. Outlooks generally improved, with reduced trade uncertainty boosting optimism.

Employment and Wages

Employment expanded at a moderate pace overall, although layoffs continued in the oil and gas sector. Most energy contacts expect headcounts to fall further in 2020. Outside of the energy sector, hiring remained a key challenge for many companies, with some contacts expecting the lack of labor availability to continue to be a drag on business growth. Some contacts also mentioned that muted labor inflows from international and domestic sources were contributing to worker shortages.

Wages continued to increase. A survey of more than 300 Texas businesses showed that 2019 wage growth was 3.9 percent, on average, down from 4.5 percent in 2018 but about the same as in 2017. Expectations among surveyed firms were for 3.8 percent wage growth in 2020, on average.

Prices

Input prices continued to rise, except in the energy sector where they remained near a cyclical bottom. Some contacts noted that progress on trade agreements decreased uncertainty around future costs. Selling prices were largely flat, although a slight pickup was seen in the service sector, particularly among retailers. Most contacts expect increases in input costs to continue to outpace selling price increases in 2020.

Manufacturing

Modest expansion in the manufacturing sector resumed in December after stalling out in November. Most measures of manufacturing activity—including new orders and capital expenditures—ended the year on a slightly positive note. Food manufacturing was a particular bright spot, while energy-related manufacturing activity declined.

Refinery utilization was steady, although refiners and chemical producers indicated that softening global demand, tariffs, and ongoing trade policy uncertainty were keeping downward pressure on margins. Chemical contacts noted that the phase-one trade agreement with China would remove tariffs from some forms of plastic but leave tariffs in place on many other products.

Nearly two-thirds of manufacturing contacts expect higher production this year versus 2019, and uncertainty regarding outlooks abated notably at yearend.

Retail Sales

Retail sales growth increased over the reporting period, led by auto dealers and nondurable goods wholesalers. Some contacts pointed to trade resolutions as a driver of increased retail activity. Retail outlooks improved notably. Half of retail contacts expect higher sales in 2020.

versus 2019, and 35 percent expect sales to be about the same.

Nonfinancial Services

Solid expansion was seen in nonfinancial services activity, a slight pickup from the prior reporting period. Growth was led by transportation services, with small parcel cargo volumes posting particular strength. Staffing services contacts indicated increased demand. Weaker activity centered on the softness in the oilfield.

Outlooks continued to improve, although political uncertainty remained a concern. Several contacts noted that the passage of the USMCA should bolster growth by giving more certainty to the business environment. Overall, a majority of contacts expect stronger revenues this year.

Construction and Real Estate

Home sales rose broadly, with demand exceeding expectations in some areas thanks to healthy job growth and low mortgage rates. Builders' margins mostly held steady, as builders were able to push through price increases to cover increases in construction costs. Development in previously less desirable locations has accelerated as builders focus on expanding offerings at more affordable price points. Outlooks were favorable, although a few contacts noted concern about the impact of the 2020 elections on home buying activity.

Apartment demand remained healthy, with occupancy flat to up year over year and rent growth holding above long-term averages across most major Texas metros. Activity in the office market was mixed in Houston, while San Antonio and Dallas-Fort Worth saw steady demand. Industrial demand generally remained strong, particularly in DFW. New development of retail space remained modest and was driven by grocery-anchored shopping centers. Investor interest remained high for commercial properties in Texas' major markets.

Financial Services

Growth in loan demand increased over the reporting period. Loan volume growth was broad based across all lending categories, with real estate lending (both commercial and residential) continuing to lead growth. Bankers reported that loan pricing continued to decline, and the vast majority noted no change in credit standards and terms. Business activity improved since the last reporting period, and expectations for activity six months from now have improved slightly.

Energy

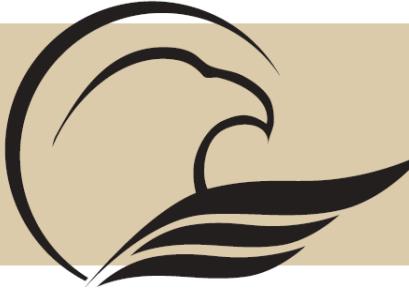
Drilling activity in the Eleventh District ticked up slightly over the reporting period, after several months of de-

clines. Contacts indicated that the rig count was likely near a soft bottom, although further declines are possible. The industry remained distressed as access to capital was limited, especially for small firms. Bankruptcies were likely to rise, according to contacts. However, U.S. crude oil production is still projected to grow in 2020.

Agriculture

More than half of Texas remained abnormally dry or in drought, although drought severity eased somewhat over the reporting period. Agricultural producers expressed concern over dry conditions damping crop production next year. This is especially pertinent given relatively low crop prices, as above-average production is needed in order for farmers to achieve profitability. Cotton exports were quite strong, and lower U.S. and world supplies boosted price outlooks. The signing of the USMCA alleviated some uncertainty among agricultural producers, and progress on U.S. and China trade disputes added optimism. ■

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



Summary of Economic Activity

Economic activity in the Twelfth District expanded at a modest pace during the reporting period of mid-November through December. The labor market remained tight, employment growth picked up modestly, and wages rose further. Reports on prices suggested inflation was up slightly on balance. Sales of retail goods increased moderately, and activity in consumer and business services was up modestly. The pace of commerce in the manufacturing sector was stable, and activity in the agriculture sector was mixed. While the residential real estate market expanded strongly, commercial real estate activity softened somewhat. Lending grew steadily.

Employment and Wages

The labor market remained tight, and employment growth was up modestly on balance. Demand for workers remained elevated, though shortages of qualified candidates somewhat stymied hiring growth. Businesses in several sectors including health care, finance, and information technology continued to experience difficulties in hiring high-skilled workers. Similarly, firms in retail, agriculture, and construction reported increased job vacancies across skill levels. A few contacts characterized worker shortages as a significant deterrent to business expansion. Worker turnover remained high, with firms reporting increased investment in job training and automation as ways to enhance productivity. In the Pacific Northwest, business services and manufacturing firms instituted shorter interview processes to counteract the increased competition for workers. Conversely, some firms in the consulting, counseling, and utilities sectors reported stable hiring levels. Community bankers in Oregon and Southern California saw a tick up in hiring after some large banks in these regions laid off some of their high-skilled payroll.

Wages rose further across the District as companies tried to attract and retain qualified workers. Wages picked up across skill levels as labor markets remained highly competitive. In the Mountain West, a contact in the banking sector noted paying more than double the prevailing market rate for some positions. Entry-level wages also rose in many sectors including finance,

tourism, and retail despite reports of decreasing labor quality. A few employers in Seattle and Southern California highlighted regulatory increases in minimum wages as an additional source of upward wage pressures. A business services provider in the Pacific Northwest and a hotelier in California each raised concerns about wage compression in the face of increasing entry-level and minimum wages. Employers across the District also observed that benefit packages expanded, further increasing total labor costs.

Prices

Reports on prices suggested that inflation was up slightly on balance. Many businesses such as professional service providers and financiers reported increased prices due to a pickup in labor costs. Fees for transportation and logistics services continued to increase. Firms in the technology and retail sectors highlighted that brisk competition limited their ability to pass through wage increases to final prices. Prices for telecommunications services, health care, and utilities remained mostly unchanged. Some building materials producers reported lower prices over the reporting period, but others noted being able to charge higher prices following a pickup in construction activity. Contacts in metals manufacturing reported price declines.

Retail Trade and Services

Sales of retail goods increased moderately. Most reports indicated that consumer demand was robust over the

holiday season, with online sales growing faster than brick-and-mortar sales. Retailers attributed strong sales this season to consumers' high disposable income, adequate product inventory levels, and improved in-store services and discounts. Luxury retailers reported a brisk rise in sales, as did those in other specialized markets such as home improvement products and pet pharmaceuticals. A few businesses that depend primarily on brick-and-mortar sales noted a shorter holiday shopping season and less foot traffic relative to previous years.

Activity in the consumer and business services sectors was modestly stronger. Demand for health services and insurance remained robust across the District, the latter especially boosted by more comprehensive benefit packages in the face of tight competition for workers. Restaurants and food service providers reported solid sales over the holidays, though a major quick service restaurant in the Pacific Northwest witnessed a slight dip in sales over the reporting period. Holiday activity in the tourism sector was mixed, with bookings for leisure cruises and airline travel rising noticeably, while year-end occupancy rates at Southern California hotels were down from earlier in the year.

Manufacturing

Conditions in the manufacturing sector were stable on net. Production in the metals recycling industry increased over the reporting period, though weak sales abroad were still a drag. A more active housing market and less competition from foreign producers stabilized demand for domestic wood products. Contacts reported that productivity increased and capacity utilization was above historical averages. Metal manufacturers in the Pacific Northwest reported healthy domestic demand and less competition from abroad, but activity was down somewhat on net. Activity in the electronics sector declined near year-end due to weakness in new orders.

Agriculture and Resource-Related Industries

Activity in the agriculture sector was mixed. Reports from contacts in the Central Valley of California indicated most crop yields performed well despite reported water shortages. Domestic agricultural product sales remained at healthy levels, while sales abroad continued to suffer from issues related to trade disputes and slowing foreign economies. For example, sales of lumber increased domestically following a rebound in the housing market, but lower selling prices squeezed profits from export markets. One report also mentioned slower activity in the market for grapes. Activity in the livestock sector decreased somewhat, with demand for cattle and swine products ticking down a bit. In the energy sector, a contact reported expectations for increased infrastructure

investment but also mentioned continued excess generating capacity.

Real Estate and Construction

Residential real estate activity expanded strongly. Reports from across the District noted that buyer demand remained robust amid low inventories for both single-family and multi-family housing. Contacts attributed the brisker demand to the low interest rate environment, despite a recent tick up in mortgage rates in some areas. Construction activity was up but somewhat restrained by labor shortages. Some suppliers noticed elevated costs for building materials due to high demand, but a few others noted that materials' availability had improved. Contacts highlighted that home prices grew further, noting that affordability concerns have led some buyers to look for homes outside main urban areas. A financier from Southern California mentioned slower demand for high-end properties, noting that their development was constrained by tighter financing options and longer processing times. A multi-family housing provider in Nevada added that tenant demand for add-ons such as concierge and parcel services had also increased notably, even as rents increased.

Activity in commercial real estate markets softened somewhat. Demand for retail and office space in California weakened, with some reports noting little new construction. Commercial permitting also decreased in the Central Valley of California over the reporting period, though it remained stable in the Pacific Northwest. In contrast, demand for industrial spaces, like warehouses and distribution centers, remained elevated. Contacts noted that very low vacancy rates and increased leasing costs have spurred construction of new industrial spaces across the District. In the Pacific Northwest, public infrastructure construction also increased.

Financial Institutions

Lending activity grew steadily. Most reports noted a further pickup in demand for credit, especially mortgage and personal credit. The commercial lending sector was relatively less active, with most loans focusing on refinancing into lower interest rate contracts as opposed to new investment or construction. In general, capital levels and asset quality remained high, though lower interest rates put some pressure on banks' net interest margins and profitability. Competition for loans continued to be brisk, while that for deposits was comparatively mild. A few banks reported tighter underwriting standards for new loans. A financial technology company that lends primarily to small businesses saw better than expected activity and low default rates. ■



