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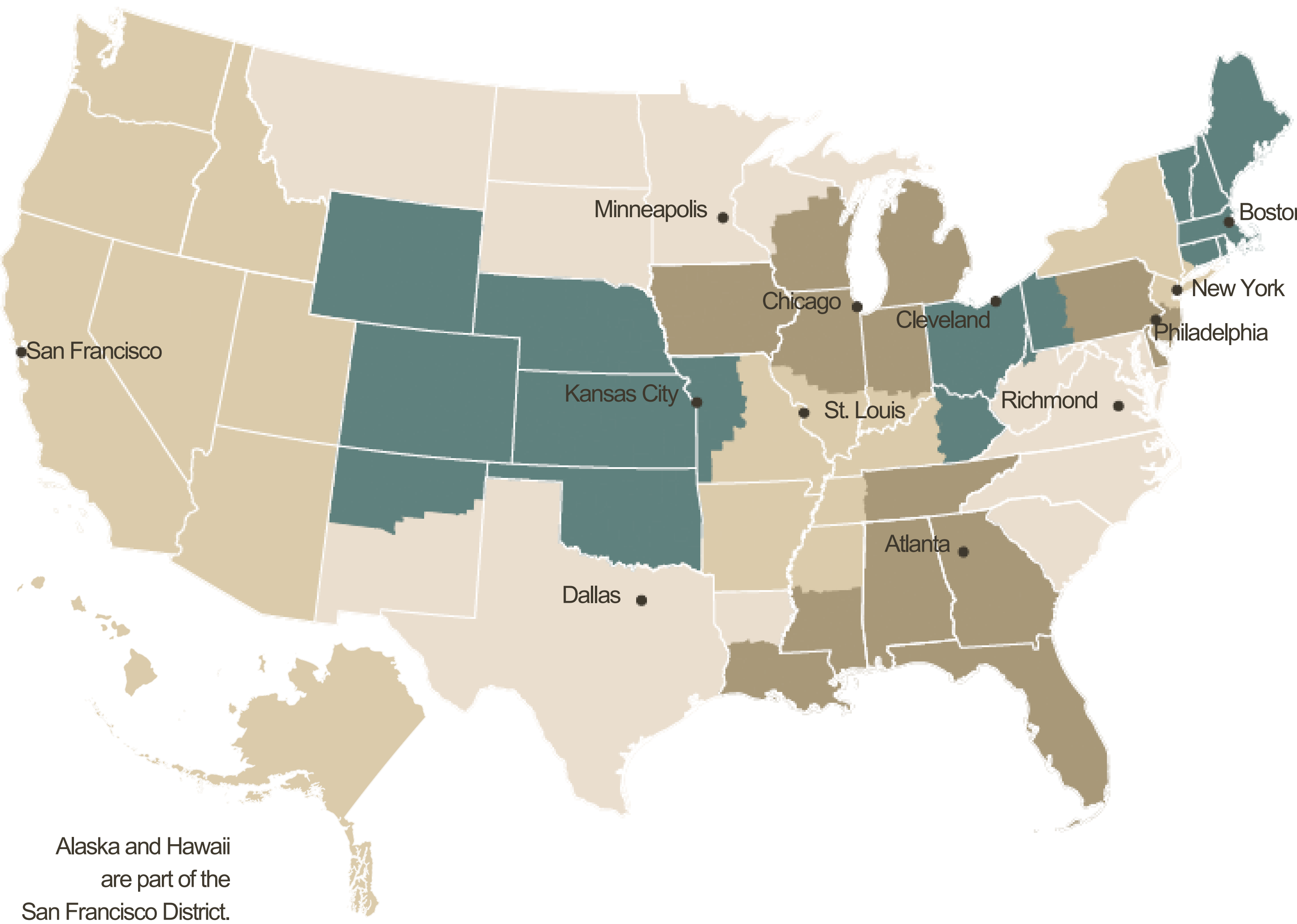
# The Beige Book

Summary of Commentary on Current Economic Conditions
By Federal Reserve District

June 2017

# Federal Reserve Districts




Alaska and Hawaii
are part of the
San Francisco District.

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.

## What is The Beige Book?

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

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

## How is the information collected?

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

## How is the information used?

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

This report was prepared at the Federal Reserve Bank of Kansas City based on information collected on or before June 30, 2017. This document summarizes comments received from contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.

# National Summary



### Overall Economic Activity

Economic activity expanded across all twelve Federal Reserve Districts in June, with the pace of growth ranging from slight to moderate. In addition, the majority of Districts expected modest to moderate gains in the months ahead. Consumer spending appears to be rising across a majority of Districts, led by increases in nonauto retail sales and tourism. However, many Districts noted some softening in consumer spending, particularly in auto sales which declined in half of the Districts. Manufacturing and nonfinancial services activity continued to grow, with most Districts reporting modest to moderate gains since the last report. Loan demand was steady to increasing in most Districts. Residential and nonresidential construction activity was flat to expanding in most Districts. Most Districts cited low home inventory levels in certain market segments which were constraining home sales in many areas. Agricultural conditions were mixed across the nation as moisture conditions varied considerably; several Districts continued to report weakness in dairy and some crop sectors due to low prices. Energy activity generally improved since the last survey, particularly for oil and natural gas. Coal production remained sluggish although higher than year-ago levels.

### Employment and Wages

Employment across most of the nation maintained a modest to moderate pace of expansion, although the Atlanta and St. Louis Districts noted flat employment levels. Labor markets tightened further for both low- and high-skilled positions, particularly in the construction and IT sectors. Contacts across a broad range of industries reported a shortage of qualified workers which had limited hiring. Wages continued to grow at a modest to moderate pace in most Districts, and many firms attributed these wage gains to tighter labor market conditions. Wage pressures generally trended with employment conditions, and rising wage pressures were noted among both low- and high-skilled positions. A few Districts also reported rising costs of benefits and variable pay.

### Prices

Prices continued to rise modestly in the majority of Districts, and a few Districts noted that price pressures had eased slightly. Several Districts reported higher construction materials costs and freight prices, while gasoline prices fell. Retail prices held steady or slightly increased, and the manufacturing sector noted steady to modestly rising input costs. Low agricultural prices were causing stress for some farmers, although some food retailers reported improved margins due to lower commodity prices. Home prices continued to increase in most Districts.

## Highlights by Federal Reserve District

### Boston

Economic activity in the First District expanded at a modest pace in recent weeks. Hiring activity was mixed, proceeding at a moderate pace on average. Wage increases remained moderate with not much variation. Prices were mostly stable with some noteworthy exceptions. Contacts were cautiously optimistic concerning prospects for further growth.

### New York

Economic growth has picked up to a modest pace in recent weeks. Labor markets have tightened further, as hiring has picked up. Input cost pressures have become somewhat less widespread, while selling prices continued to rise modestly. Housing markets have strengthened, whereas commercial real estate markets have softened slightly.

**Philadelphia**
Overall, economic activity appeared to slow to a slight pace of growth, as consumer spending declined sharply for apparel, and demand softened for autos, new home construction, and nonresidential construction. Most other sectors continued to grow at a modest pace. On balance, employment and wages continued to grow modestly, and prices grew only slightly.

**Cleveland**
Reports from business contacts were somewhat less positive, and the overall pace of growth was modest. Price and cost pressures eased slightly. Labor markets continued to tighten. Manufacturing activity increased, but at a slower pace, especially for consumer packaged products. Demand for IT services was particularly strong.

**Richmond**
Economic activity expanded modestly, but at a somewhat faster pace. The manufacturing sector improved further, which boosted the transportation sector as more goods were moved through ports and around the country. Retail sales increased and tourism and travel reports were mostly upbeat. Construction and real estate markets continued to improve modestly. Labor markets remained tight, and price increases were modest.

**Atlanta**
Economic activity modestly expanded since the previous report. Labor market tightness continued. On balance, wage growth remained steady. Input costs were subdued. Consumer spending softened. Home sales increased and prices appreciated modestly. Nonresidential construction increased; however, multifamily construction showed signs of slowing. Manufacturing activity grew, albeit at a slower pace.

**Chicago**
Growth picked up to a moderate pace and prices rose modestly. Employment, business spending, and manufacturing grew at moderate rates, while consumer spending and construction and real estate activity increased modestly. Conditions were little changed in the financial and agricultural sectors.

**St. Louis**
Economic activity has slightly improved since our previous report. Employers reported minimal hiring due to difficulties finding qualified candidates putting upward pressure on both wages and benefits. There were positive developments on consumer spending as contacts reported a rebound in sales after a string of weak reports.

**Minneapolis**
Ninth District economic activity increased modestly during the reporting period. Professional services, commercial construction, manufacturing, energy, and mining saw growth, while employment was held back by tight labor availability. The already struggling agricultural sector weakened as severe drought conditions spread through the Dakotas and Montana.

**Kansas City**
Economic activity in the Tenth District expanded moderately in June, and most sectors expected additional gains in the months ahead. Consumer spending, manufacturing, services, construction and energy activity increased since the previous survey. The pace of growth in the energy sector was anticipated to ease slightly. The agriculture sector remained weak, with subdued farm revenue and low commodity prices.

**Dallas**
Economic activity grew moderately in the Eleventh District, and outlooks remained positive. Growth in retail sales decelerated, but there were reports of sales improving in energy-related areas and in the border region. Activity in the energy sector expanded further, partly driving increased manufacturing production. Demand for staffing services remained strong. Apartment demand improved following a sluggish first-quarter.

**San Francisco**
Economic activity in the Twelfth District continued to expand at a moderate pace. Overall price inflation was flat, while upward wage pressures strengthened. Sales of retail goods were modest, and growth in the consumer and business services sectors remained strong. Conditions in the manufacturing sector improved. Activity in the residential housing market was robust. Conditions in the financial services sector remained solid.

## Summary of Economic Activity

Business activity in the First District expanded at a modest pace on average, but reports were mixed across firms and industries. Revenues are up by moderate margins on average among manufacturing and retail contacts, with year-over-year gains that varied from slight to robust. Software and information services firms reported year-over-year growth figures that ranged from a modest decline in one case to double-digit gains. Commercial real estate activity was flat or up slightly across the District, while residential real estate sales were held back by declining inventories despite robust demand. Some firms planned to increase headcounts by moderate or even large margins, while others expect to hold employment fixed. Planned wage increases remained moderate, and price increases were small to moderate, with some exceptions. Contacts expect either flat activity moving forward or further growth consistent with their own recent results.

### Employment and Wages

Hiring plans among First District contacts ranged from flat to robust, and planned wage increases were stable at a slow-to-moderate pace. Some retail contacts found it slightly harder to hire workers, but were not much concerned by that fact. Employment was flat or increasing at manufacturing firms. A furniture manufacturer reported difficulty in retaining production workers but not salespeople. A manufacturer of cardboard boxes was hiring additional workers without raising wages, but noted that finding qualified workers was difficult because production jobs increasingly involve using computers. Manufacturing firms reported year-over-year wage growth in the vicinity of 3 percent. A data storage firm plans to make double-digit percentage increases in its net headcount in 2017, while a healthcare IT firm expects a more modest 2 percent personnel increase. One enterprise software firm is keeping its headcount flat, but shifting its hiring focus to growth areas such as the internet of things. Another software firm is hiring at a moderate pace and has had to increase starting salaries for engineers and sales positions. Firms are struggling to hire engineers and fill technical positions in greater Boston. On average, software and IT firms are budgeting for moderate wage increases.

### Prices

Reports on price movements were mixed. Most manufacturing contacts reported stable prices. However, a cardboard box manufacturer increased its prices by 10 percent in response to a 10 percent increase in the price of linerboard, a key input, and a frozen fish manufacturer expects pollock prices to fall in the coming year. Retail output prices saw very little movement, although some retailers plan to post moderate price increases for premium fall merchandise and small price increases for basic goods.

### Retail and Tourism

Retail contacts reported that recent sales numbers reflect increases over one year ago ranging from roughly 2 percent to almost 10 percent, results that helped balance lackluster sales in early 2017. All retail contacts feel that the outlook rests on positive consumer sentiment translating into actual sales. One noted that the movement of consumers away from in-store shopping and towards online shopping is accelerating faster than anticipated. For the first four months of 2017, the hotel occupancy rate for the Boston area was up 0.9 percent from the same period a year earlier, and the average room rate was up 1 percent. However, not including activity at new hotel rooms, the hotel occupancy rate for Boston was effectively flat year-over-year, a marked contrast to the robust annual increases seen over the last six years. At the same time, contacts perceive that, between mid-May and late June, Boston experienced strong tourism activity. The recently concluded Sail Boston event boosted area restaurants in particular. The midyear outlook is that hotels will end 2017 with a net increase in annual revenues, but may not achieve the 5 percent increase in average room rates initially predicted for 2017.

### Manufacturing and Related Services

Of the 7 firms contacted, all but one reported higher sales. The exception was a drug company, which attributed flat sales to increased competition. A cardboard box manufacturer reported 10 percent year-over-year growth resulting from increased e-commerce. A manufacturer of sensors reported strong sales growth largely due to demand from the auto industry. A manufacturer of power supply devices reported a major revision to capital spending plans. After many years of reconfiguring existing plants to meet demand, the firm will build a new, highly automated plant in New England, in order to save on labor costs and bring engineers in close proximity to production. The outlook among contacts remains positive but cautious. The drug manufacturer remained uncertain about the prospects for the health care industry, and the sensor manufacturer expressed concerns about slower growth moving forward in the auto industry.

### Software and Information Technology Services

Software and IT firms reported year-over-year revenue growth ranging from -2 percent to 10 percent. A data storage and security firm experienced strong revenue growth, spurred by the high cyber-threat environment. A healthcare software provider also had strong year-over-year revenue growth. A manufacturing enterprise software provider had flat revenue, but anticipates increased demand moving forward. Data backup and healthcare IT contacts were optimistic about future growth. Contacts expressed concerns and doubts about the impact of proposed national policy changes on business, and uncertainty related to health care policy was seen as putting a damper on business for health care IT firms.

### Commercial Real Estate

Conditions in the First District's commercial real estate markets were mostly unchanged in recent weeks. Office leasing activity remained very light in Hartford and light-to-moderate elsewhere in the District. In Boston, leasing demand remains uneven across submarkets within the city. Investment sales demand held steady across the District, and Boston's premier properties remain in favor among foreign investors. In both Portland and Providence, demand for industrial space exceeds the very limited supply, but the impetus for new construction remains low in light of high construction costs relative to rents. In Connecticut, however, plans were announced for construction of significant new warehouse space. Also, a modestly-sized user-built office building is slated for downtown Portland, and in and around Portland three hotel projects are underway. Contacts expect stable (if slow) leasing demand going forward, as well as ongoing changes in the retail landscape favoring entertainment and services over goods-selling businesses.

### Residential Real Estate

Residential real estate markets in the First District headed into the summer with continued upward pressure on prices and depleted inventories. Four of the six First District states reported year-over-year changes to May 2017, while Vermont and the Boston area reported year-over-year changes to April 2017. For single family homes, closed sales were down by moderate margins on average in four of the six states and in the Greater Boston area, but increased by moderate-to-robust margins in Rhode Island and Connecticut. The lower sales numbers were attributed to declines in inventories over the same period rather than weak demand—inventories declined year-over-year in all six states while median sale prices increased by modest-to-robust margins in all states except Vermont, which reported a moderate decline in prices. Pending sales increased in every reporting state but Rhode Island and the Greater Boston area. In Rhode Island, single family home sales posted an all-time high since the association began keeping records in 1998. For condos, closed sales increased in every state but Massachusetts and Maine. In a promising sign for inventories, Massachusetts experienced an increase in new listings for the first time in over a year.

Most contacts seemed optimistic about market activity and continued strong buyer demand, despite the low inventories. Many noted that low unemployment has helped spur consumer confidence, which contributes to demand for residential real estate. Despite the fact that interest rates have increased, contacts noted that rates are still relatively low and that prospective homeowners are eager to buy now before they increase more. Some expressed concern that continued upward pressure on prices will price out first-time home buyers.■

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

## Summary of Economic Activity

Economic activity in the Second District has expanded at a modest pace since the last report, while labor markets have tightened further. Input price pressures have eased slightly, while selling prices have continued to rise modestly. Manufacturers noted a pickup in business activity, while the various service industries indicated mixed results. Consumer spending has picked up a bit since the last report, and consumer confidence has remained close to a cyclical high. Housing markets have strengthened, while commercial real estate markets were mixed but slightly softer. New residential construction activity has been steady at a subdued level, while commercial construction has picked up modestly. Banks reported that loan demand was steady to softer, while delinquency rates continued to decline.

### Employment and Wages

The labor market has continued to tighten since the last report. Contacts at employment agencies noted that hiring has picked up and that jobs have become harder to fill. A major New York City employment agency noted a pickup in hiring, especially from financial firms. In upstate New York, there has been a pickup in demand for both full-time and temporary workers—particularly for administrative and customer-care workers. Contacts also noted an ongoing shortage of software developers and skilled workers more generally.

Manufacturers have continued to add jobs but at a somewhat slower pace than in the last report. Businesses in the finance, wholesale trade, real estate and construction sectors report that they are hiring, on net, while those in the restaurant & hotel industry indicated some cutbacks in staffing levels. Businesses in manufacturing and most service industries expected to add jobs, on net, in the months ahead.

Overall, wages are reported to have risen moderately, though contacts in the transportation, warehousing, wholesale trade, and leisure & hospitality industries report more widespread increases in wages.

### Prices

Businesses generally reported upward pressure on input prices but to a lesser degree than in the last report, while selling prices continued to rise modestly. Those in the wholesale and transportation industries reported modest increases in selling prices, on balance, while businesses in other sectors indicated little change.

General merchandise retailers reported that prices have been steady, while New York City hotels indicated that room rates have slipped modestly. In contrast, Broadway theaters noted rising ticket prices, with the average price up 10-15 percent from a year earlier.

### Consumer Spending

Retailers reported that sales have weakened, on balance, while they expect business to be generally steady for the second half of the year. Retailers in upstate New York reported that both shopper traffic and sales have been flat at weak levels. A major retail chain noted that sales were roughly on plan, though they weakened a bit from May to June. Retail business in New York City, which had been particularly soft, improved slightly. Inventories were generally at or below normal levels, while prices were steady to up modestly.

Auto dealers in upstate New York reported that sales of new vehicles picked up in May and early June and were up from a year ago. Vehicle inventory levels have crept up, but dealers are generally optimistic about the outlook. One contact noted that used vehicle sales have picked up, while another reports that they are steady. Retail and wholesale credit conditions were characterized as favorable, but credit remains tight on sub-prime auto loans.

Consumer confidence in the Middle Atlantic states (NY, NJ, PA) edged down in June but remained near its cyclical high set in March.

## Manufacturing and Distribution

Manufacturers reported that business activity has picked up substantially since the last report. Businesses in the wholesale trade and transportation industries, however, continued to report subdued growth. Similarly, while manufacturers remain broadly optimistic about the outlook for the second half of this year, those in transportation and wholesale trade remain only mildly upbeat.

## Services

Businesses in most service industries reported steady to moderately growing business activity. Contacts in professional and business services noted a pickup in activity and expressed widespread optimism about the near-term outlook. Contacts in education & health services noted a slowdown in growth, while information industry contacts reported little change in activity.

The leisure & hospitality sector has been mixed. A number of contacts have reported a pullback in activity, coupled with increased pessimism about the outlook. While tourism activity in New York City has remained fairly buoyant, advanced travel bookings are reported to be down, especially from abroad. In general, visitors are reported to be spending less—partly reflecting a shift toward more domestic and fewer international visitors. On a more positive note, Broadway theater attendance and revenues were reported to be fairly strong in May and June. Tourism was described as strong in the Finger Lakes region of upstate New York.

## Real Estate and Construction

Housing markets across the District have strengthened somewhat. Sales volume has picked up throughout the New York City area—particularly for moderately-priced, single-family homes in outlying areas. In contrast, sales activity has slowed a bit in parts of upstate New York, restrained by a lack of homes on the market.

A real estate contact in upstate New York State reported continued escalation in home prices, with homes in more sought-after areas often selling for above the list price. Selling prices of both single-family homes and apartments have also picked up in and around New York City, though prices of Manhattan condos and co-ops have risen only marginally. New York City's rental market has remained mostly steady. Rents remain flat overall—rising on smaller, less expensive units but declining on larger and pricier apartments. Landlord concessions have stopped rising but are more prevalent than usual.

Commercial real estate markets have been mixed but slightly softer on balance. The market for office space has been steady to slightly weaker: availability rates edged up, while asking rents slipped in New York City but were little changed elsewhere. However, the industrial market has strengthened further, with availability rates declining and asking rents up roughly 10 percent over the past year. In contrast, the market for retail space has continued to slacken, with vacancy rates rising to multi-year highs and asking rents little changed.

Both single-family and multi-family new home construction has been steady at a fairly subdued level, though there is still a good deal of multi-family development under construction. Commercial construction, on the other hand, has picked up. New office construction has expanded noticeably in northern New Jersey and New York City's outer boroughs but has been fairly restrained in other parts of the District. Industrial construction has picked up in northern New Jersey but has remained flat and fairly subdued elsewhere.

## Banking and Finance

Small to medium sized banks reported weaker demand for consumer loans, but no change in demand for residential mortgages, commercial mortgages, or commercial & industrial loans. Refinancing activity decreased for all types of loans. Bankers reported slightly easier credit standards for residential mortgages, and unchanged standards in other loan categories. Bankers indicated narrowing spreads of loan rates over cost of funds for all types of loans. Respondents also noted an increase in the average deposit rate. Banks reported lower delinquency rates across all loan categories—particularly on consumer and residential mortgage loans. ■

For more information about District economic conditions visit:
**www.newyorkfed.org/data-and-statistics/regional-data-center/index.html**

## Summary of Economic Activity

Aggregate business activity in the Third District grew slightly over the current Beige Book reporting period — a retreat from modest growth that had occurred during the prior period. Manufacturing continued at a moderate pace of growth, while nonfinancial services, new home sales, and tourism continued to grow modestly. However, auto sales and construction activity exhibited essentially no growth, if not a slight decline, and nonauto retail sales declined modestly. On balance, employment and wages continued to grow at a modest pace, while prices edged only slightly higher. Overall, firms appear to have lowered their expectations somewhat to modest growth over the next six months.

### Employment and Wages

Employment has continued at a modest pace of growth. Manufacturing firms reported little change in employment and in the average hours worked compared with the prior period. Employment indicators from nonmanufacturing firms were mixed, as contacts noted more net additions to full-time staff, fewer net additions to part-time staff, and a slight increase in hours.

On balance, wage pressures continue to be muted; the percentage of nonmanufacturing firms that noted rising wage and benefit costs is as low as any time in the past three years. Wage pressures continued to be greater in those markets with low unemployment rates.

Pennsylvania staffing firms struggled to find qualified and committed workers. Staffing contacts reported spending more time and money on recruiting labor and refilling positions after the initial hire quit, sometimes after just a few days. Workers appear to have less loyalty to the job, and more job-hopping is showing up on résumés. However, one large retailer reported having no difficulty getting quality job candidates in locations throughout the District after raising its base wage last year.

### Prices

On balance, price levels rose slightly as price pressures appeared to have eased off a prior modest pace. Of contacts responding, about two-thirds reported no change at all in prices paid and prices received. Generally, prices have held firmer for raw inputs to and intermediate goods from manufacturers, while nonmanufacturing contacts reported significant drops in prices paid for their inputs and received for goods sold.

Retailers and food service providers noted that ongoing low commodity prices have helped their margins, while homebuilders are facing 20 percent higher lumber costs caused by trade tariffs against Canada. Contacts noted that the added cost can be more easily absorbed while building high-end homes, but can make low-end homes less viable to bring to market.

### Manufacturing

On balance, manufacturing firms continued to report moderate growth in general activity; however, the pace eased off once more. During the prior period, the pace of new orders lessened; this period, the pace of shipments slowed. Still, the pace of activity appears somewhat stronger than is typical of expansionary periods in the Third District.

The makers of paper products, chemicals, fabricated metal products, and industrial machinery continued to note gains in activity; these were joined by gains reported by the makers of electronic products. Firms in the primary metal sector appeared to be gloomier, noting reductions of new orders and shipments.

Generally, manufacturing contacts continued to expect growth over the next six months; however, the percentage of firms expecting future increases edged down slightly for employment, capital expenditures, and general activity.

### Consumer Spending

Nonauto retail contacts noted modest declines in sales overall, as apparel sales "continued to be hammered." Operators of outlets and traditional malls have been buffeted by a surge in retail bankruptcies. Even convenience store contacts noted that sales growth was below expectations, as lower-income households have continued to reduce spending.

On balance, auto dealers reported a slight decline in year-over-year sales during the current period, with Pennsylvania sales edging up and New Jersey sales declining modestly relative to last year's high levels. Falling used car prices have been a contributing factor to softer demand for new cars. Dealer profitability continued to be a struggle, and some dealers and analysts are revising year-end sales totals downward.

Tourism activity continued to grow at a modest pace, according to several contacts. Delaware shore contacts noted exceedingly heavy traffic on the roads and significant tourist spending, but that last-minute bookings had not lifted hotel occupancies as much as expected. Still, bookings remained ahead of last season. Atlantic City casino revenues also remained up over the prior year.

### Nonfinancial Services

Service-sector firms continued to report modest growth in general activity, with some notable improvement in sales (or revenues) over the prior period. One large service-sector firm noted that growth remained slow and a bit below expectations, prompting the firm to institute discretionary delays in filling vacant positions. An area advertiser noted lower demand from local auto dealers, but more demand from the health-care and financial sectors.

Expectations about future growth have ebbed further since the prior Beige Book period but have remained positive with a little over 50 percent of the firms anticipating increased activity.

### Financial Services

Financial firms reported slight growth of overall loan volumes (excluding credit cards) — a bit slower than the modest growth that had occurred during the prior Beige Book period. Commercial real estate loans and auto loans exhibited strong growth in loan volume; in contrast, mortgages and home equity loan volumes were essentially flat, while commercial and industrial loan volumes declined. Credit card volumes are highly seasonal but have grown over the year at a modest rate and grew during this Beige Book period at a robust pace similar to the change observed over the same period last year.

Banking contacts tended to describe the economy as stable and their loan portfolios as healthy with low delinquencies and few areas of concern.

### Real Estate and Construction

Homebuilders generally reported a slight decline in activity, following moderate growth in the prior period, although one builder noted a pick-up in mid-June. Contacts reported ongoing difficulty in securing skilled labor but stated that as long as overall demand for new construction remains soft, so too will the wage pressures.

Brokers in most major Third District housing markets continued to report modest growth of existing home sales, but no increase of inventories. In the Greater Philadelphia area, pending sales of houses (under contract) dropped slightly. Overall, existing home prices continued to edge up with some variance across markets and price categories.

Nonresidential real estate contacts reported essentially no change in construction activity, which had grown modestly last period, although individual markets do vary by sector and geography. One contact noted that the construction pipeline may have begun to diminish. Leasing activity continued to exhibit little change overall. Rents were rising nearly everywhere for industrial/warehouse space; contacts noted plenty of demand and that new buildings continue to lease up before completion. However, rent concessions have emerged for multifamily units in the city of Philadelphia. ■

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

## Summary of Economic Activity

Growth in economic activity across the Fourth District slowed to a modest pace during the reporting period. Labor markets continued to expand, with wage pressures noted primarily for high-skilled workers. Upward pressures on prices paid and received eased slightly. Contacts facing higher input prices experienced little pushback from customers when raising their selling prices. Consumer spending at brick-and-mortar establishments remained stable, while new motor vehicle sales rose. Production increased at manufacturing plants, although at a slower pace than in the previous reporting period. Nonfinancial services firms experienced moderate revenue growth overall, but demand was strong for IT and management consulting. Housing market activity picked up as year-to-date unit sales remained above year-ago levels and selling prices were higher. Activity in the commercial real estate market remains elevated. Lending pipelines were satisfactory, but contacts noted softer loan demand in select categories.

### Employment and Wages

District payrolls continued to expand, although at a slightly slower pace than in the previous reporting period. Increases were notable in the construction and nonfinancial services industries. Brick-and-mortar retailers again noted decreases in staffing levels. Banking contacts mentioned tight labor market conditions and wage pressures for skilled workers, including personnel in compliance and statistical modeling positions. Building contractors experienced difficulty hiring workers in skilled trades, especially drywallers. Construction contacts also noted increased hiring for management and office staff positions. Freight haulers mentioned difficulty recruiting enough qualified drivers despite increasing driver wages recently. Manufacturing contacts experienced little change in hiring, which was mostly replacements or normal turnover. Staffing firms noted an increase in the number of listings for both temporary and permanent positions, especially for occupations requiring specific skills or advanced degrees, while workforce development officials observed rising job placements for workers with less than four-year degrees.

### Prices

Upward pressures on prices paid eased during the period. Some manufacturers remarked that changes in input costs were modest. Construction contacts mentioned higher prices for lumber and other materials such as copper and steel, and several contacts saw rising construction subcontractor prices. Freight haulers saw rising tire prices. Similar to observations made in the previous period, contacts in the manufacturing and construction sectors noticed they were able to pass on increased costs to customers. Freight haulers reported improved pricing ability, and some contacts cited rising rates because of tightening capacity. Retail contacts observed little change in shelf prices except for some declines in food items. Similarly, retailers saw little change in vendor prices except for lower prices for some raw food ingredients.

### Consumer Spending

Consumer spending at District brick-and-mortar retailers remained largely unchanged from that of the previous reporting period. Sales of fresh food items were doing well, whereas electronics were selling poorly. Sales of apparel items at large chain retailers were soft. Retail inventories were generally in good shape. Year-to-date sales of new motor vehicles through May increased more than 3 percent compared to those of the same period a year ago. Dealers saw higher-than-usual inventories because of lower demand for passenger cars.

### Industrial Production

Manufacturing output grew at a slight pace during the reporting period, somewhat slower than earlier. The small pickup in demand from energy-related companies was more than offset by a decline in the motor vehicle and consumer packaged-product industries. Demand from the construction sector remains strong. Year-to-date production through May at District auto assembly plants fell about 9 percent when compared to that of the same time period during 2016. The large majority of manufacturing contacts were allocating capital spending budgets toward maintenance, although some contacts were also allocating monies toward new equipment and technology.

Reports through May indicate that the number of drilling rigs operating in the District continued to increase compared with that of a year ago. A contact remarked that investment in regional oil and gas is up, and both pipelines and mid-stream plants are being built. Contacts credited increases in natural gas demand in part to additional demand in gas-fired power generation. Contacts indicated that coal production declined during the reporting period because of reduced demand, but they anticipate higher output in the coming months.

### Real Estate and Construction

Year-to-date unit sales through May of new and existing single-family homes increased 2 percent compared to those of a year earlier. The average sales price rose 5 percent. Homebuilders described the housing market as improving at a steady pace, with higher unit sales compared to a year ago. One builder attributed strong sales to a strengthening labor market. Another builder observed that although demand is quite adequate, it is difficult to meet demand across price points because of rising costs for land, lot development, and construction.

Nonresidential real estate activity remains strong at elevated levels. Nonresidential contractors report strong demand for education and healthcare related buildings and for commercial buildings for ecommerce distribution. In contrast, contacts noted low demand for retail space in both enclosed malls and shopping centers. Contacts reported little change in overall inquires and backlogs from the previous reporting period.

### Financial Services

Bankers generally reported that loan demand for the first half of 2017 is below expectations. Businesses and consumers may be looking for more clarity on potential changes to the tax code and regulatory reform before proceeding with spending plans. While most lending categories are slowing, CRE loans and residential purchase mortgages are performing relatively well. While most contacts cited stable consumer loan demand, some contacts noted softer demand, especially for credit cards, and indicated that consumers are deleveraging. Some contacts stated that credit standards for consumer loans, including credit cards, have eased somewhat. There has been some credit tightening for financing multifamily and retail developments and for subprime auto loans. Bankers noted generally improving loan quality for both commercial and consumer loans.

### Nonfinancial Services

Activity in the nonfinancial services sector grew at a moderate pace during the period. Strongest demand was for IT, management consulting, and logistics services. IT consulting contacts noticed opportunities among retailers that are incorporating ecommerce into their business models.

The pickup in freight volume seen during the past few months has diminished; however, the volume remains above year-ago levels. Freight haulers saw increased demand from oil and gas and strong demand from construction material producers. ■

## Summary of Economic Activity

The Fifth District economy expanded modestly, and at a somewhat faster pace since the last report. Labor demand remained firm but hiring was constrained by worker shortages. Prices rose slightly, on balance. Manufacturers' shipments increased but new orders softened due to a typical seasonal slowdown. The volume of freight moving through district ports was robust and continued to increase, while trucking firms reported renewed momentum in shipments. Retail sales increased and reports on tourism and travel spending were mostly upbeat. Home sales were up, despite labor shortages in homebuilding and low existing home inventories. On balance, commercial construction and real estate leasing picked up moderately. Loan demand increased, and while overall credit quality was said to be good, some lenders expressed concern over lenient terms for auto loans and leases. Non-financial services firms saw modest increases in revenues.

### Employment and Wages

Labor demand strengthened moderately in recent weeks, and firms increased their focus on retaining and recruiting qualified employees. Employment agencies reported a moderate seasonal increase in new job openings across all sectors, but only a slight increase in applicants. Wage increases remained modest for most firms. Several transportation industry executives, however, noted recent moderate wage increases and stronger wage pressures compared to the previous report. Employment agencies said that entry-level salary offers increased at a higher rate across all job categories, since the previous report.

### Prices

In general, prices were little changed to up modestly since our previous report. According to our most recent manufacturing survey, input prices increased slightly, and a little faster than final goods prices. Meanwhile, our services survey showed slight price increases overall, with the pace of growth in retail goods outpacing that in non-retail services. However, transportation executives noted that spot freight prices were rising, in some cases significantly. Most agriculture and energy prices varied slightly, with the notable exception of a moderate increase in metallurgical coal prices.

### Manufacturing

Manufacturing firms reported modest increases in shipments, while new order volumes slowed somewhat due to a typical summer slowdown. Machinery manufacturers and producers of primary and fabricated metal noted improved business conditions in recent weeks. Additionally, textile mills indicated higher production. A few firms reported increased productivity resulting from recent new equipment purchases, and they expected further efficiency gains once employees were trained on operating the equipment. Most firms expect orders to increase in the next six months.

### Ports and Transportation

Since our last report, freight volumes through district ports were very strong and continued to increase modestly, on balance. Moreover, the gains were reported to be evident in imports and exports, and were widespread across shipping categories. Meanwhile, momentum appeared to be building in truck transportation as executives in the industry reported stronger than seasonal increases in shipments during the second quarter. In addition to being more robust, growth had also become less volatile, with sequential increases in shipments in the March through June timeframe, following a prolonged period during which freight was "up one month, down the next." While trucking firms expect some seasonal slowing in the third quarter, most executives indicated that conditions feel better than they have in a very long time.

### Retail, Travel, and Tourism

Retail sales increased in recent weeks, with somewhat mixed results across segments. Hardware and home improvement stores reported strong sales, including for big-ticket and seasonal items. A home furnishings store attributed an increase in sales to more people buying and building homes. Auto sales were mixed, with a dealer in central Virginia reporting a pickup in new car sales in June, while a dealer in western North Carolina saw a decline over the month. Clothing and shoe sales were said to be flat to down in recent weeks, despite a good Father's Day weekend.

Tourism in coastal North Carolina was stronger in recent weeks relative to the same time last year, prompting higher retail sales and restaurant spending. Rental rates remained flat, but included more offers of extra amenities. In western North Carolina, growth in tourist activity had slowed relative to the fast-paced growth of prior years, but room rates were holding steady as hotel supply continued to grow. An outdoor recreation facility in western Virginia experienced increased bookings from both leisure and business groups. In Washington, DC, conference activity remained at normal seasonal levels, while average daily rates on hotels increased.

### Real Estate and Construction

Residential real estate sales increased modestly since the previous report. Generally, real estate agents reported that buyer traffic was down due to a typical seasonal slowdown. Inventories remained low, and Realtors were working harder to attract sellers into the market. Average days on the market decreased modestly. Brokers reported that demand for lower to mid-range homes remained strong, with multiple offers and rising selling prices. Residential developers also noted that homes in the $200,000 price range were in high demand. Homebuilders continued to report that new home starts were constrained by labor shortages.

On balance, commercial real estate leasing and construction rose moderately. Industrial leasing transactions and speculative construction picked up, while retail leasing and sales remained strong. Office leasing was still constrained in most locations, with some agents reporting rising demand for Class A space. Rental rates increased modestly in most industrial, retail, and office markets. Retail and mixed-use construction remained strong. Multifamily construction continued at a moderate pace, although a few contacts noted fewer announced new projects in urban areas with previous high levels of multifamily development. Lastly, residential and commercial real estate prices continued to rise at a modest pace, overall.

### Banking and Finance

On balance, loan demand continued to grow at a moderate pace. Residential mortgage demand remained solid while refinance and home equity lending softened slightly. On the commercial side, loan demand continued to grow moderately; however, multifamily lending slowed slightly and a rising number of retail establishments were reportedly seeking to lease rather than purchase. Auto lending remained robust, but some bankers expressed concerns over an industry-wide trend towards negative equity financing and extended purchase and lease terms. Competition among banks intensified slightly, according to a contact in North Carolina, as credit unions have begun competing for commercial deals in some markets. Credit standards were generally unchanged and credit quality remained strong. Short term interest rates rose slightly but long term rates remained stable.

### Non-Financial Services

Services firms generally reported modest revenue growth, according to our most recent survey. Specifically, engineering, architectural, accounting, and housing related services such as landscaping, home improvement, and pest control reported revenue growth in recent weeks. Demand for self-storage units rose moderately. A few contacts in D.C. and Maryland cited concerns over slowing federal procurement spending.

### Agriculture and Natural Resources

Reports on energy markets were somewhat positive. Coal production was little changed in recent weeks but rose moderately compared to the same time last year. Exports remained elevated, particularly for thermal coal. Meanwhile, agriculture conditions were unchanged as the planting season got underway. ■

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

## Summary of Economic Activity

On balance, reports from Sixth District business contacts indicated that economic activity continued to expand at a modest pace from mid-May through June. The outlook among businesses remains positive as most expect an increase in activity over the next year. District firms continued to report difficulties filling positions of all calibers. Wage growth, aside from wages for jobs in high demand, remained steady. Businesses reported muted non-labor input costs. District merchants noted sales activity softened since the previous reporting period. The pace of vehicle sales slowed from a year ago. The tourism sector continued to report softness in activity in parts of the District. Reports from residential brokers and builders indicated home sales increased from year earlier levels. Real estate contacts also noted that home prices modestly appreciated. Commercial real estate contacts continued to cite improved demand for most property types and construction increased from a year ago. Manufacturing activity grew, albeit at a slower pace than the previous report. Bankers noted credit continued to be available for qualified borrowers.

### Employment and Wages

Contacts continued to describe a tightening labor market in which they struggled to find and hold onto quality workers, a narrative that has broadened across job types and skill levels, from construction, information technology (IT), finance, and transportation to low to mid-skill and professional positions. Several contacts maintained that labor market tightness was a major barrier to growth. Some contacts reported that planned changes to immigration policy made it more difficult to hire and retain high-skill immigrants, including engineers, technicians, and IT workers. Firms continued to deploy various tactics in an effort to find and develop pipelines of talent and retain workers; for example, developing partnerships with workforce development entities, schools, and military bases, expanding internal and external training and apprenticeship programs, strengthening recruiting efforts, and seeking out retirees to return to work. Some firms also enhanced compensation and benefits packages, particularly variable pay, healthcare contributions, flexible work arrangement offerings, and added vacation time. Additionally, firms continued to explore or deploy technology as viable future replacements for labor, especially in hard-to-fill jobs. Contacts report that wage pressures remained mostly stable, however there were also continued reports of rising starting salaries for lower-skill entry-level positions and ongoing upward wage pressure for some high-skill, low-supply positions.

### Prices

In general, growth in input costs was restrained. Some contacts reported ability to pass along commodity input increases as they occurred. According to the Atlanta Fed's Business Inflation Expectations survey, year-over-year unit costs were up 1.9 percent in June. Survey respondents indicated they expect unit costs to rise 2.0 percent over the next twelve months.

### Consumer Spending and Tourism

District retail contacts reported that sales levels were softer than expected in May. Retailers noted that overall sales activity during Memorial Day weekend was at or slightly below expectations and sales levels from international shoppers weakened since the last report. Automotive dealers reported a slow-down in the momentum of auto sales from a year ago.

On balance, tourism and hospitality contacts across the District reported slightly softer than expected activity during the start of the summer season, which they attribute poor weather conditions. However, with the exception of South Florida, hotel occupancy and revenue per available room were up year over year. Year-to-date Mississippi casino gaming revenues decreased compared with the same time period last year. The outlook among most contacts for the remainder of the summer season remains optimistic.

## Construction and Real Estate

Reports on activity in May from District residential real estate contacts continued to signal modest but steady growth. Most builders said construction activity increased from the year-ago level. Brokers and builders continued to report that home sales were up relative to one year earlier. The majority of builder and broker contacts noted that buyer traffic was up from the previous year's level. Many residential contacts indicated that inventory levels were down from the year-ago level. Both builders and brokers reported modest gains in home prices. Home sales expectations remained positive in May, with most brokers and builders anticipating that sales would hold steady or increase slightly over the next three months compared to the year-earlier level. Most builders expect construction activity to match or exceed the current pace over the next three months.

Many District commercial real estate contacts reported improvements in demand that have resulted in rent growth and increased absorption, but they continued to caution that the rate of improvement varied by metropolitan area, submarket, and property type. The majority of commercial contractors indicated that the pace of nonresidential construction activity had increased from one year ago, with many reporting increasing backlogs. While most reports indicated that the pace of multifamily construction matched or exceeded the year-ago level, a growing share of contacts are reporting that multifamily construction is down. Looking forward, the majority of District commercial construction contacts expect nonresidential construction activity to increase, while expectations for the pace of multifamily construction was mixed.

## Manufacturing

On balance, manufacturing contacts continued to report growth in overall activity. New orders and production levels continued to rise, but at a slower pace than the previous reporting period. Purchasing agents indicated that supply delivery times continued to get longer and finished inventory levels increased slightly. The outlook for future production decreased somewhat, with just under half of firms expecting higher production levels over the next six months.

## Transportation

Most District transportation contacts reported an expansion of activity during the reporting period. Logistics companies noted steady growth in ecommerce shipments, and trucking contacts reported notable increases in freight volume and tonnage. District ports cited continued strength in shipments of automobiles and machinery, and record container volumes. Rail contacts reported a slight uptick in intermodal traffic; however, year-over- year rail traffic was relatively unchanged since the previous report.

## Banking and Finance

Credit remained readily available for most qualified borrowers. Competition for loan customers increased among financial institutions. Overall loan growth varied – some institutions reported flat to slow growth while others indicated strong growth. Small business loans were up year over year at some institutions. Credit card usage increased yet delinquency levels remained stable. Deposit levels were up at many institutions.

## Energy

Reports from energy contacts indicated that Tropical Storm Cindy caused limited disruptions to oil and gas operations in the Gulf of Mexico. Contacts noted that trends in continued gains in energy efficiency has slowed growth among residential and commercial gas customers. Reports indicated that natural gas demand was below normal and inventories remained above average levels. Contacts reported that Gulf Coast refineries ran at record high levels and crude oil inventories remained above average levels.

## Agriculture

Agriculture conditions across the District were mixed. By mid-June, rains had significantly improved drought conditions in much of the District. However, recent heavy rainfall due to Tropical Storm Cindy exacerbated areas' crop moisture conditions in much of the District that were already categorized as abnormally moist to excessively wet, and there were early indications of some crop damage. During the reporting period, the District's cotton crop was mostly on par with the five-year averages and soybean planting in Louisiana, Mississippi, and Tennessee was ahead of their five-year averages. The June forecast for Florida oranges was up slightly from May but remained considerably lower than last season's production. On a year-over-year basis, prices paid to farmers in April were up for cotton, soybeans, and broilers but remained down for corn, rice, beef, and eggs. ■

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

## Summary of Economic Activity

Growth in economic activity in the Seventh District picked up to a moderate pace in late May and June and respondents' outlooks for growth over the next 6 to 12 months also improved some. Prices rose modestly. Employment, business spending, and manufacturing grew at moderate rates, while consumer spending and construction and real estate activity increased modestly. Conditions were little changed in the financial and agricultural sectors.

### Employment and Wages

Employment growth continued at a moderate rate over the reporting period, and contacts expected it to continue at that pace for the next 6 to 12 months. Contacts indicated that the labor market was tight and that it was generally harder to fill high-skilled positions than low-skilled positions. Hiring was focused on professional and technical, sales, and production workers, and there was an increase in the number of contacts hiring sales workers. A staffing firm that primarily supplies manufacturers with production workers reported a slight decline in billable hours. Wage growth was modest overall, with increases more likely for high-skilled occupations. A number of contacts with union workers reported wage increases that were well above inflation. Many contacts said that the cost of benefits increased.

### Prices

Overall, prices again rose modestly in late May and June. Retail prices increased slightly, with the exception of gasoline and food prices, which declined a bit. Materials costs were little changed overall and freight costs were up slightly.

### Consumer Spending

Consumer spending increased modestly over the reporting period. Non-auto retail sales were up modestly, with growth in the building materials, gardening equipment, food and beverage, and personal care segments. Tourism and entertainment contacts reported that the seasonal pickup in activity was proceeding as expected. The pace of auto sales changed little on net, with reports of a pickup in May followed by a slowdown in June. Used-vehicle sales were steady. Contacts indicated that low fuel prices continued to shift the vehicle mix toward light trucks and away from cars. Low fuel prices also helped spur increased sales of recreational vehicles.

### Business Spending

Growth in business spending remained at a moderate pace in late May and June. Retail inventories generally were at comfortable levels, although stocks appeared high for certain models of autos. Manufacturing inventories were at comfortable levels overall, though inventories at steel service centers remained low. Growth in capital spending continued at a moderate pace, and contacts expected growth to continue at that pace for the next 6 to 12 months. Outlays were primarily for replacing industrial equipment, IT equipment, and renovating structures, though there was an increase in the number of contacts reporting spending for expansion. Demand for electricity was little changed and shipping volumes increased slightly.

### Construction and Real Estate

Construction and real estate activity increased modestly over the reporting period. Residential construction increased slightly across home types and locations. Home sales increased a bit and house prices increased modestly on balance. Demand varied by price range, with strong demand and tight inventories for homes under $500,000 and modest demand and abundant inventories for houses over $500,000. Nonresidential building changed little. A highway construction contractor in Illinois reported that they would stop work on all state-funded projects at the beginning of July because the state does not have a budget and that they have already laid off some workers who were preparing for new projects. The pace of commercial real estate activity remained strong and even picked up a bit, led by gains in the industrial sector. Activity was especially strong in West Michigan, and a contact there reported that activity had increased moderately over the reporting period. Commercial rents edged up, as vacancy rates and the availability of sublease space decreased slightly.

### Manufacturing

Manufacturing production continued to grow at a moderate rate in late May and June. Growth in steel production remained at a moderate pace, as increased demand from the energy and machinery industries offset softer demand from the auto industry. Heavy machinery manufacturers themselves reported increased demand, driven by the energy and mining sectors, particularly from overseas customers. Heavy truck manufacturers also reported a pickup in demand. Sales for specialty metals manufacturers increased overall, with greater demand coming from the aerospace, energy, and defense sectors. That said, some contacts noted that recent growth had been uneven, which raised concerns about future sales prospects. Production in the auto sector declined some, but remained at a solid level.

### Banking and Finance

Financial conditions were little changed on balance over the reporting period. Financial market participants noted that volatility continues to be low. Business loan demand ticked up overall, and there was little change in loan standards or quality. Contacts reported an increase in demand for capital equipment and real estate loans. Demand for consumer loans was little changed on balance. Home loan volume rose faster than the usual spring seasonal pattern and pricing was little changed. Home loan quality remained strong. Demand for auto loans decreased slightly and there was no notable change in quality.

### Agriculture

The agricultural sector continued to operate under stress in late May and June, with reports of some crop and dairy operations exiting or filing for bankruptcy. Crop conditions and maturity lagged that of last year's bumper crop, but the overall harvest is still expected to be around trend. Contacts expected a smaller corn harvest than last year, but there is a small chance that the soybean harvest will be larger because the wet spring led some farmers to switch acreage from corn to soybeans. Hog prices moved up, but cattle prices dropped. Milk prices were lower, which contributed to mounting losses for many dairy operations. ■

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

## Summary of Economic Activity

Reports from contacts suggest economic conditions have slightly improved since our previous report. Employers reported little hiring and moderate wage pressures due to difficulties finding qualified candidates. Retailers indicated that consumer spending modestly improved since our previous report. Manufacturing contacts continued to report modest growth. Real estate contacts indicated that, while demand remained strong, residential activity continued to decline amid supply constraints. Banking contacts indicate generally strong growth in loan demand from both businesses and households. Reports from the District's agriculture sector suggest modest improvement after flooding last period, but that generally conditions remain weak amid low prices.

### Employment and Wages

Anecdotal evidence suggests employment is little changed since the previous report. Many contacts reported a desire to hire, but they have been unable to find suitable employees. Manufacturing contacts in Louisville and Memphis reported difficulties finding experienced or qualified employees, with some citing candidates' inability to pass drug tests or to consistently report to work. Hospitality contacts in Louisville noted that both entry-level and experienced workers have been challenging to find, and skilled positions in technical fields such as information technology and engineering remain difficult to fill.

Contacts reported moderate growth in wages since the previous report, as tightness in the labor market has resulted in upward pressure on wages. In addition, several contacts reported enhancing benefits in an effort to attract employees. However, some employers noted factors holding back wage increases. A science and technology contact reported that rising costs of benefits have limited increases in wages, and a hospitality contact in Louisville noted that wages remain unchanged because any increases would result in higher prices charged to customers.

### Prices

Price pressures in the District remained moderate. Low commodity prices continue to put pressure on the agriculture sector. Since the previous report, cash prices of wheat and sorghum have increased moderately and prices of rice have increased slightly; there was no change in the price of coal, and prices of soybeans, corn, and cotton decreased modestly. A contact in Little Rock reported farm equipment prices are down.

Across the District, home prices continued to increase moderately. Contacts reported increased price pressures on new homes from rising construction costs due to the shortage in labor supply. Price changes of construction materials were mixed. Contacts in the Little Rock area reported solid wood prices decreased modestly due to increased supply, whereas a contact in the Memphis furniture industry reported higher wood and foam prices were putting upward pressure on the price of their finished goods.

### Consumer Spending

Reports from general retailers, auto dealers, and hoteliers indicate consumer spending has grown modestly since our previous report. May sales tax collections in Arkansas, Kentucky, Missouri, and Tennessee were higher than one year ago. Multiple auto dealers reported an increase in sales, albeit at a slower pace relative to a year ago. Furthermore, dealers in north Mississippi reported a shift in demand toward used vehicles. Hospitality contacts in Missouri indicated that business activity has increased since our previous report, while hotel occupancy rates continue to decline in downtown Louisville.

### Manufacturing

Manufacturing activity has increased modestly since our previous report. Manufacturing activity was stronger than one month earlier in both Missouri and Arkansas, although the pace of growth slowed sharply in Missouri and slowed slightly in Arkansas. In addition, contacts in the furniture manufacturing industry reported a decrease in orders. Several companies reported new capital expenditure and facility expansion plans in the District, including firms that manufacture fabricated metal products, paper products, and plastic and rubber products. A contact in the aluminum industry reported record high capital expenditures.

### Nonfinancial Services

Reports of plans in the service sector have been positive, on balance, since the previous report. Firms that provide transportation, warehousing, utilities, and information technology services reported plans to expand facilities and hire employees. In the St. Louis area, reports from the education sector were negative, as two major universities announced layoffs due to budget cuts and declining enrollment. News from the healthcare industry is mixed. Some providers are cutting costs, leading to closures in healthcare-related businesses; however, other providers continue to expand operations in urban areas.

### Real Estate and Construction

Residential real estate activity has declined modestly since the previous report. Seasonally adjusted home sales for May decreased slightly from the previous month in most of the District's four major MSAs. Local real estate contacts continued to report that significant shortages in inventory have hindered sales while demand remains strong. Most contacts indicated that changes in interest rates have had little to no impact on the market.

May permit activity in District MSAs declined slightly relative to the previous month. A Memphis contact indicated that little new construction is occurring, while a Little Rock contact noted that homebuilding in the region is approaching levels consistent with fundamentals.

Commercial real estate activity has remained flat since the previous report. Demand for industrial properties continued to be robust, and a Louisville contact reported that there is essentially no warehouse space available in the area. Multifamily demand remained stable, but some contacts reported an increase in demand for senior living facilities. Contacts reported that rising interest rates have had very little impact on commercial real estate markets.

Commercial construction activity continued to be strong. Several Memphis contractors indicated that they are optimistic about their future prospective projects. Industrial construction activity remained robust, particularly in Louisville. Contacts across the District expressed concerns over the number of new hotels under construction.

### Banking and Finance

Lending activity in the Eighth District has expanded at a robust pace since the previous report and markedly outpaced the nation. Commercial real estate loan volumes grew at a strong pace, rising by 14 percent on a year-over-year basis. District bankers reported that consumer loans—which comprise credit card, auto, medical, and student loans—experienced robust growth and have risen by 28 percent relative to year-ago levels. Commercial and industrial lending exhibited moderate growth over the period, though slightly softer than in recent quarters. District bank deposits expanded at a moderate pace and have been growing at roughly three times the national rate over the past three years.

### Agriculture and Natural Resources

Agricultural conditions improved modestly by the end of June as row-crop farms recovered from flooding. Contacts reported a few Arkansas fields had still not dried up enough to replant and many fields would be replanted with soybeans because other crops' planting windows had passed. As of June, the percentages of District corn and soybeans rated fair or better were below their 2016 values, but corn improved slightly from a month prior. The percentage of rice rated fair or better was above the year- and month-ago values, while the cotton percentage was slightly better than a year prior and slightly worse than a month prior.

Natural resource extraction conditions declined slightly from April to May, with seasonally adjusted coal production decreasing 3 percent. However, production was still 7 percent higher than one year ago. ■

For more information about District economic conditions, visit:
**www.research.stlouisfed.org/regecon/**

## Summary of Economic Activity

Since the last reporting period, the Ninth District economy experienced modest growth. Employment grew modestly, held back by poor labor availability. Wages grew moderately to strongly, while price pressures remained modest. The District economy showed growth in professional services, residential construction, manufacturing, energy, and mining. Commercial and residential real estate, along with commercial construction, were mixed. Tourism activity was flat overall, while consumer spending fell, and agricultural conditions weakened.

### Employment and Wages

Employment grew modestly since the last report, held back by poor labor availability. While total employment grew across District states, it grew by less than normal for this time of year. Job demand continued to be strong. A Minnesota construction contact said, “Everyone is hiring in all markets.” A Montana staffing contact said second quarter orders overall were “stagnant,” but June orders have seen an uptick. A staffing firm in southeastern Minnesota said job openings over the previous two months grew by 14 percent over the same period a year earlier, and a general labor shortage had clients “concerned that this was going to impact growth of their business.” Tourism businesses across the District reported difficulty finding workers; three Minnesota resorts reported close to 200 unfilled openings. Initial unemployment insurance claims over the most recent six-week period dropped by 13 percent in the District over the same period a year earlier, with continuing claims dropping by 10 percent. An employer survey in District states found a small increase in the share of companies expecting to hire more staff in the coming quarter compared with the current quarter; the share of firms expecting to cut staff was low and roughly unchanged. Job losses continued from large retailers, and hiring in eastern North Dakota continued to be soft, while employers in the western, oil-producing region of the state were reportedly “hungry to hire,” according to a regional source.

Wages grew moderately to strongly overall since the last report. A central Minnesota contact said wage pressure is “a big deal for companies with entry level jobs,” and a regional survey there found that half of respondents were increasing wages to deal with a tight labor market. Average wages for 18 Minnesota construction unions saw annual increases of between 3.3 percent and 5 percent in recent three-year contracts negotiated in May. A Minnesota food processing company increased union worker wages by close to 3 percent annually over four years; a Montana natural resource company increased wages by a total of 5 percent over a two-year period. In North Dakota, state budget difficulties have resulted in a freeze in salaries for many state and higher education workers.

### Prices

Price pressures remained modest since the last report. Pressure on construction materials prices has eased, according to industry contacts. Recent bids for a large highway construction project in Minnesota came in 18 percent below expectations. Iron ore prices have fallen in recent months, while scrap metal prices, by contrast, have been on an upward trend since late last year. Retail fuel prices in District states decreased slightly in June compared with a month earlier. Most prices received by farmers decreased in May from a year earlier, with the exception of hay, milk, cattle, chickens, and eggs.

## Consumer Spending and Tourism

Consumer spending was down slightly since the last report. May sales tax collections in South Dakota were down 2 percent from a year earlier. Recent sales of passenger vehicles decreased, according to auto dealer contacts, while sales of trucks increased slightly. In contrast, a contact at a North Dakota mall reported that sales were up slightly. A regional big box retail chain and a supermarket chain were planning to add stores.

Tourism activity was flat overall since the last report. May visits to national parks in the District were down 2 percent from a year earlier. Demand for hotel lodging in Minnesota was flat in May from a year earlier. In contrast, gaming revenues in Deadwood, S.D., increased 8 percent in May.

## Services

Activity in the professional services industry increased moderately since the last report. According to preliminary results from an annual survey of District services firms, respondents reported that sales, productivity, and employment all increased over the past year; firms expected more growth over the coming year. An accounting firm reported increased activity, even as the busy tax season subsided. Contacts in the trucking industry reported flat activity over recent months.

## Construction and Real Estate

Commercial construction was mixed since the last report. According to industry figures, commercial building and nonbuilding construction activity in May was lower than a year earlier. A separate database of construction projects out for bid across several District states through mid-June was flat compared with a year earlier. But a Minnesota industry association contact said most members “seem to be having good years with full or potentially full calendars of work.” Commercial permit values in May grew considerably over a year earlier in several larger cities in the Minneapolis-St. Paul region, including the core cities; however, they were flat or lower in a large majority of other larger cities in the District. In Rochester, Minn., construction was described as “fairly subdued,” but was expected to change. Residential construction grew modestly. Single-family permits in May rose in only a small majority of large District cities compared with a year earlier. Multi-family construction continued its strong activity, with more than 900 units permitted in May across the Minneapolis-St. Paul metro, the highest monthly figure in almost four years.

Commercial real estate was mixed since the last report. A contact in Rapid City, S.D., said transaction activity there has been strong. “Apartment complexes get sold within a week of listing.” Retail vacancy was described as “pretty stable,” while office vacancy appeared to be rising thanks to new space coming to the market. Retail vacancy rates have continued to rise slowly in Minneapolis-St. Paul, thanks to a significant amount of space vacated by large retailers. However, another source noted that retail space under construction was lower than a year earlier and grocery expansion continued to eat up available space. Despite strong construction activity, multi-family vacancy rates remained low in the region, and rents were rising. Residential real estate was mixed. Closed sales rose in northern and western Wisconsin counties located in the District compared with a year earlier; sales also grew in Sioux Falls, S.D. Sales were mixed in Montana—strong in the Flathead region, flat in Missoula, but lower in Helena. In Minneapolis-St. Paul, May sales fell by almost 2 percent, while sales in the rest of the state were flat, attributed largely to low inventories of homes for sale.

## Manufacturing

District manufacturing activity increased moderately since the last report. An index of manufacturing conditions produced by Creighton University indicated increased activity in May compared with a month earlier in Minnesota and the Dakotas. Several contacts in the metal-fabricating industry reported very strong recent activity; one contact had record sales in May and was expecting a similar level in June. A dealer of capital equipment and services reported that orders were up. An electronics producer announced a major new facility in Minnesota.

## Agriculture, Energy and Natural Resources

District agricultural conditions weakened since the previous report. Severe drought conditions affected the Dakotas and parts of Montana, hampering crop progress and triggering disaster relief payments to ranchers in some areas. By contrast, crop conditions in the eastern parts of the District were mostly good or excellent as of late June. Activity in the energy and mining sectors increased slightly since the last report. District oil and gas exploration activity increased in late June from a month earlier, even as crude prices fell. Recent production at Minnesota iron ore mines has been running well ahead of levels a year earlier. ■

## Summary of Economic Activity

Economic activity in the Tenth District expanded moderately in June, and most sectors expected additional gains in the months ahead. Consumer spending increased at a moderate pace, with retail, restaurant and tourism contacts reporting stronger sales than the previous survey period. Manufacturing activity picked up moderately, and professional, high-tech, and transportation contacts reported strong increases in sales. Capital expenditures were anticipated to rise in the manufacturing, professional and high-tech industries, while wholesale trade and transportation firms expected a modest decline. Residential and commercial construction activity rose in June, but home sales declined slightly as low inventories constrained sales. The number of active drilling rigs continued to increase, but the pace of growth was expected to slow in coming months. District farm revenue remained subdued as most agricultural commodity prices remained low. Employment and wages increased modestly since the previous survey period, and contacts expected moderate wage growth in the coming months. Input prices were up modestly in most sectors, and selling prices were mixed.

### Employment and Wages

District employment and employee hours continued to increase modestly in June, and contacts expected additional gains in the months ahead. Contacts in the retail, wholesale trade, professional and high-tech services, tourism, health services and real estate sectors reported a modest increase in employment since the previous survey period, while employment held steady in auto sales and restaurants. All sectors anticipated higher employment levels in the coming months except for the auto sector which expected a slight decrease. Average employee hours rose since the previous survey in the services and manufacturing sectors and were above year-ago levels. Several contacts noted a shortage of commercial drivers, salespeople, and service workers.

Wages rose modestly in most sectors in June, and moderate wage growth was anticipated in the coming months.

### Prices

Input prices were up modestly in most sectors compared to the previous survey period, while selling prices were mixed. In the retail sector, selling prices edged up, and input prices continued to rise, but at a slower pace than in the prior survey. Restaurant contacts reported slight declines in both input and selling prices, but expected both prices to pick up in the months ahead. Input prices in the transportation sector rose at a modest pace, while selling prices increased slightly. Prices in the construction sector rose modestly, with slight increases anticipated in the coming months. Manufacturers reported slight decreases in finished goods prices, while raw material costs continued to edge higher. Manufacturers anticipated modest growth in both finished goods and raw material prices over the next few months.

### Consumer Spending

Consumer spending increased moderately, and additional moderate gains were expected in the months ahead. Retail sales rose at a moderate pace and were well above year-ago levels. Several retailers noted stronger sales for lumber and building materials, while luxury and higher-priced products sold poorly. Retail contacts anticipated sales to grow moderately in the next few months, and inventory levels were expected to remain stable. Auto sales stabilized in June after declining for several months and were slightly above year-ago levels. Dealer contacts anticipated a moderate increase in auto sales in the months ahead. Restaurant sales picked up moderately since the previous survey, and modest gains were expected in the coming months. District tourism activity increased moderately and remained above year-ago levels. Tourism contacts anticipated moderate increases in activity during the summer months.

## Manufacturing and Other Business Activity

Manufacturing activity continued to expand at a moderate pace in June, and most other business contacts reported improved sales. Manufacturers reported moderate growth in production, particularly for aircraft, plastics, and chemical products. Shipments and new orders expanded modestly, and activity was considerably higher than a year ago. Manufacturers' capital spending plans were mostly positive, and firms' expectations for future activity remained strong.

Outside of manufacturing, professional, high-tech, and transportation firms reported strong sales increases, while wholesale trade contacts reported a more modest growth in sales. Most firms expected a moderate improvement in sales in the next six months. Professional and high-tech firms expected capital spending to increase moderately heading forward, while wholesale trade and transportation firms anticipated a modest decline in capital expenditures.

## Real Estate and Construction

District real estate activity expanded slightly since the previous survey period, and respondents expected further gains moving forward. Residential home sales declined slightly from the previous month, with sales of low- and medium-priced homes outpacing sales of higher-priced homes. Residential home inventories moved modestly lower from year-ago levels. Contacts expected low inventories to constrain sales in the next few months and anticipated sales would be flat. Residential construction activity grew slightly, as housing starts and traffic of potential buyers rose, while construction supply sales were stable. Respondents expected overall residential construction activity to increase moderately in the months ahead. Commercial real estate activity continued to expand modestly as vacancy rates declined and absorption, completions, construction underway, sales, prices and rents increased. A modest expansion in the commercial real estate sector was anticipated in the coming months.

## Banking

A majority of banking respondents indicated stable demand for commercial and industrial, commercial real estate, residential real estate, and consumer installment loans. Demand for agricultural loans was mostly mixed in June. Most bankers indicated loan quality was unchanged compared to a year ago, and expected loan quality to remain essentially the same over the next six months. Credit standards remained largely unchanged in all major loan categories, and a majority of respondents reported stable deposit levels.

## Energy

Energy activity rose at a modest pace, while expectations eased slightly but remained positive. The number of active oil and gas drilling rigs continued to increase across the District, but respondents expected the pace of growth to slow in the coming months due to flat prices and the continued oversupply of oil. Contacts also reported a moderate decline in access to credit, particularly from banks, while private equity continued to be readily available. Expectations for future oil and gas prices moderated somewhat as a result of the continued increase in U.S. oil production and ample natural gas supply. Furthermore, contacts said that although the oil and gas prices needed to increase drilling substantially has continued to decline modestly, it remained above their current one-year ahead price expectations.

## Agriculture

District farm revenue remained subdued since the previous reporting period as most agricultural commodity prices remained low. Corn and wheat prices increased slightly, but were lower than a year ago due to elevated global supplies. Similar to last year, District contacts reported that corn and wheat prices remained below levels generally thought to be profitable and financial stress continued to increase at a gradual pace for many producers. Soybean prices declined slightly from the previous reporting period and were also slightly less than a year ago. Livestock operators were slightly more optimistic than earlier, as cattle prices increased modestly from a year ago. Hog prices also increased modestly from the previous reporting period as global demand for meat products remained relatively strong. ■

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

## Summary of Economic Activity

The Eleventh District economy continued to expand at a moderate pace over the past six weeks. Manufacturing output rose, and activity in nonfinancial services increased. Growth in retail sales slowed, while auto sales dipped. Housing demand grew, lending activity increased, and the energy sector saw continued improvement. Crop conditions were mostly favorable. Employment and wages rose, as did prices. Outlooks remained positive, although some contacts noted uncertainty regarding changes in trade and healthcare policy as well as tax reform.

### Employment and Wages

Overall employment rose moderately, and wage pressures were similar to the last report. Manufacturers added to payrolls, with some noting that labor shortages were pushing up wages. Hiring in the services sector, including retail, continued. The construction labor market remained tight, particularly in Dallas-Fort Worth and Austin. Two staffing firms cited wage pressures across most skill levels, while two reported that rising wage pressures were limited to higher-skilled positions. Contacts noted labor market tightness throughout the oil and gas supply chain and continued to cite upward wage pressures particularly for experienced personnel and for certain skills sets.

### Prices

Selling prices increased at a slightly slower pace than in the prior report. Some oilfield services firms noted a weaker outlook for margins as costs were rising at a faster pace than selling prices. Accommodation and food services contacts noted higher prices. Staffing firms saw stable billing rates, while airlines noted higher fees and ticket prices. Cotton prices slipped in June on rising expectations of strong cotton production this year. Retail gasoline and diesel prices fell over the reporting period following the decline in oil prices.

### Manufacturing

Expansion in the manufacturing sector slowed over the past month. Among durables, output growth in primary metals and machinery manufacturing strengthened, but production was flat for fabricated metals and high-tech manufacturing. Food manufacturers reported an increase in demand. There were reports of strength in energy-related manufacturing activity, but exports remained a source of weakness for manufacturers who sell internationally. Overall, outlooks stayed positive. A couple of contacts said they were uncertain about how long the current strength in activity would last.

Refinery utilization rates along the Gulf Coast increased. Refiner margins in 2017 will likely be lower than previously expected, reflecting large product inventories and lower expectations of U.S. consumption growth. Chemical producers noted healthy global demand and good margins.

### Retail Sales

Retail sales continued to rise, although at a slower pace than the prior period. Some contacts noted that in-store sales continued to be weak. There were a few reports of sales improving along the Texas-Mexico border and in energy-related regions. Auto sales fell during the reporting period. Auto lenders have tightened credit amid rising delinquencies. Outlooks among retailers generally improved compared with the prior report.

### Nonfinancial Services

Demand for nonfinancial services expanded moderately over the past six weeks. Demand for staffing services generally increased, with all contacts noting higher year-over-year activity. Placements of health care professionals generally remained high. Contacts saw a pickup in orders for mining-related work in East Texas and cited broad-based demand for white-collar workers in Dallas-Fort Worth. A contact in Houston noted surprisingly strong demand for entry- to mid-level placements from oil and gas firms.

Professional and technical service firms saw revenue gains during the reporting period, with several firms noting a pickup in activity. Accommodation and food services contacts also noted slight increases in revenues, although there were some reports of persistent weakness in demand. Airlines said passenger demand held steady over the past six weeks. Domestic travel remained stable, while activity along transatlantic and South American routes increased.

Transportation and warehousing firms noted higher revenues and an increase in cargo volumes since the last report. Rail cargo rose, led by strong gains in shipments of fracking sand and grains, although shipments of petroleum products and motor vehicles continued to decline. Parcel shipments and seaport cargo increased, while air and trucking freight volumes were flat. Outlooks among nonfinancial services firms remained fairly optimistic, although some contacts expressed concern about economic and political uncertainty.

### Construction and Real Estate

Homes sales continued to trend upward during the reporting period. Contacts in Austin, Dallas-Fort Worth and Houston noted that sales of low- to mid-priced homes mostly remained strong, however, sales at the higher-price points varied by submarket. Home prices were flat to up, and more builders were focusing on bringing moderately-priced products to the market.

Apartment demand improved and occupancy edged higher in the second quarter, following a generally slow first quarter. Leasing activity picked up in Houston where overall market conditions were beginning to stabilize, and landlords were able to reduce rent concessions on select floorplans. Rental rates rose, with Dallas-Fort Worth seeing the fastest growth. Outlooks were positive and contacts expected continued, gradual improvement in Houston's multifamily market. Transaction volume appeared to have slowed for multifamily properties as there was not much inventory on the market for sale.

Office demand in Dallas-Fort Worth remained solid and rent pressure persisted, although rental rates at the very high end have been relatively flat. One contact expressed some concern about the elevated level of office construction in the metroplex.

### Financial Services

Loan demand increased over the past six weeks, although at a slightly slower pace than in the previous reporting period. Growth in commercial real estate and commercial and industrial loan volumes slowed. Residential real estate loan balances expanded at a faster rate than in the previous reporting cycle, while consumer lending declined slightly. Deposit volumes expanded, and lenders cited higher net interest margins as well as higher rates on loans. Contacts remained largely optimistic regarding future business activity and loan demand; however, several continued to express concern about the regulatory environment.

### Energy

Demand for oilfield services continued to improve, and oilfield services firms noted increased utilization of their equipment. Drilling activity rose further, and exploration and production firms reported an increase in oil and gas production. Several contacts said that the pace of increase in the rig count may not be sustainable and that they expect it to taper off or even plateau past mid-2017. Outlooks remained positive, although contacts were less optimistic compared with the previous report.

### Agriculture

Moisture levels remained favorable across the district, boosting crop conditions. The wheat harvest was wrapping up, and production was down sharply from last year because of lower yields and fewer acres planted. While farmers were generally feeling positive about 2017 row crop production, they remained concerned about low crop prices and financial strain from not being able to cover production costs. Export demand for U.S. cotton will likely not be as strong this year due to average crop quality and higher global supply. The cattle industry continued to benefit from very strong beef demand, both domestically and internationally. ■

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

## Summary of Economic Activity

Economic activity in the Twelfth District continued to expand at a moderate pace during the reporting period of mid-May through June. Overall price inflation was flat, while upward wage pressures strengthened. Sales of retail goods were modest, and growth in the consumer and business services sectors remained strong. Conditions in the manufacturing sector improved, and activity in the agriculture sector picked up to a modest pace. Contacts reported robust activity in residential real estate markets, and activity in the commercial sector picked up. Conditions in the financial services sector remained solid.

### Employment and Wages

On balance, wage pressures ticked up, and conditions in the labor market tightened further during the reporting period. Wage pressures for skilled software engineers intensified further as competition for programmers with experience in cybersecurity and cloud computing remained fierce. Demand for unskilled warehouse employees in the transportation and logistics services sector increased. Contacts reported that they increasingly filled job openings with older workers who were reportedly seeking health-care benefits or supplemental income. Shortages of labor and increasing wage costs fueled investments in automation in the agriculture industry. Sluggish sales growth and rising compensation costs slowed the pace of hiring in the restaurant industry.

### Prices

Overall, price inflation was flat over the reporting period. Prices of construction materials picked up. Hotel rates firmed as tourism demand remained strong. Overall prices for consumer electronics edged down slightly. However, increased demand for computational memory buttressed prices of some manufactured components. Prices for cloud computing services declined as data centers achieved greater economies of scale. Increased capacity in renewable energy generation held down energy price inflation. Overall, prices of agricultural commodities slipped as the pace of supply growth outpaced that of demand.

### Retail Trade and Services

On balance, retail sales were modest over the reporting period. Contacts reported that, while retail sales picked up overall, the shift in consumer preferences toward online purchases slowed sales at traditional brick-and-mortar retailers. Declines in gasoline prices reportedly boosted sales of light trucks. Inventories of automobiles grew as demand softened further, and contacts expected sales to remain weak for some time.

Activity in the consumer and business services sector generally grew at a strong pace. Business demand for security, cloud, and analytic services continued to boost sales in the technology industry. E-commerce sales supported strong volume growth in the transportation industry. Tourism demand remained strong, although contacts noted that continued uncertainty surrounding immigration policy slowed international bookings at hotels in Southern California. Restaurant sales remained sluggish, and contacts expect the sluggishness to continue through the end of the year.

### Manufacturing

Conditions in the manufacturing sector improved somewhat, but uncertainty around fiscal, trade, and immigration policies tempered views on future growth. Increases in demand for memory on consumer devices boosted production of semiconductors, and contacts expect double-digit growth through the end of the year. Demand for primary and fabricated metals increased, buoyed by a pickup of business investment and solid residential and commercial construction. Production of manufactured pharmaceuticals expanded moderately. Deliveries of commercial aircraft slowed to a modest pace, but orders rose from the same period last year. One contact reported that improved sales at some manufacturers boosted their expected capital investments.

### Agriculture and Resource-Related Industries

Activity in the agriculture sector picked up to a modest pace over the reporting period. In the Central Valley of California, yields of nuts and row crops were up over the previous growing season. Ample water supplies boosted cherry harvests. On balance, improved global economic conditions nudged up demand for some agriculture products, particularly pork. Increased global production pushed raisin inventories higher, reducing profitability for some growers. Demand for electricity was flat, and persistent surpluses hampered profitability. Contacts reported that financial distress at many independent power generators continued to propel industry consolidation. Use of fossil fuels, particularly coal, in energy generation continued to decline, while demand for renewables continued to be robust.

### Real Estate and Construction

Real estate market activity picked up to a robust pace. Residential construction activity continued to be strong in much of the District, slowed only by a lack of available land and labor. Inventories of new homes dropped further. One contact in California reported extremely high presales in the residential market. Supply shortages continued to fuel strong price increases, and affordability remained a concern in most metropolitan areas. Commercial construction activity was solid. Contacts reported an uptick in commercial investment aimed at remodeling and repurposing large retail spaces for health-care and entertainment services. Financing conditions for commercial projects tightened slightly.

### Financial Institutions

On balance, conditions in the financial services sector remained solid. Loan demand softened slightly, although contacts in the Pacific Northwest noted that, after a soft first quarter, lending activity picked up briskly in that region. Credit quality, while strong by historical standards, deteriorated slightly for commercial and industrial and auto loans. Deposits continued to increase but at a slower pace than in previous months. Asset quality remained solid, and capital levels were at all-time highs. Net margins remained compressed, hindering bank profitability, and contacts reported that community banks continued to consolidate. ■