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Summary of Commentary on _____

Current Economic Conditions

By Federal Reserve District

July 2016

SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICTS

July 2016

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SUMMARY*

Reports from the twelve Federal Reserve Districts indicate that economic activity continued to expand at a modest pace across most regions from mid-May through the end of June. Business contacts in Cleveland reported a steady level of activity, while Minneapolis reported that activity increased at a moderate pace. Labor market conditions remained stable as employment continued to grow modestly since the previous report and wage pressures remained modest to moderate. Price pressures remained slight. Consumer spending was generally positive but with some signs of softening. Manufacturing activity was mixed but generally improved across Districts. Real estate activity continued to strengthen, and banks reported overall increases in loan demand. Agricultural activity was mixed but generally improving. The natural resources and energy sector has remained weak. The outlook was generally positive across broad segments of the economy including retail sales, manufacturing, and real estate. Districts reporting on overall growth expect it to remain modest.

Employment, Wages, and Prices

Employment continued to grow modestly since the previous report. Reports of growth ranged from little change in Cleveland to moderate growth in New York. Firms in the Dallas District reported varying degrees of changes in employment across sectors while contacts in Boston and Atlanta reported cautious hiring activities. Contacts in several Districts reported strong demand for skilled labor, with challenges filling positions in fields such as IT, biotechnology, and healthcare services. Manufacturing employment was largely unchanged in Boston, New York, Cleveland, and Richmond and lower in Philadelphia and Dallas. Retail employment was weak relative to other sectors, with contacts in Boston, Cleveland, and Dallas

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reporting little to no change in retail employment and the San Francisco District reporting employment reductions in the retail grocery sector.

Wage pressures remained modest to moderate in most Districts, with the strongest pressures linked to skilled workers and difficult-to-fill positions. Contacts in Cleveland, Chicago, and San Francisco reported increased wages for entry-level employees. Wage pressures picked up in Richmond and San Francisco, with a staffing contact in Richmond noting that firms that have not increased their wages have been left with the least-skilled employees. Wage pressures in the construction industry were highlighted in the Philadelphia, Cleveland, and San Francisco Districts.

Price pressures remain slight, with contacts generally reporting no movement in selling prices and increases in input prices and housing prices. Contacts in New York, Philadelphia, Cleveland, Atlanta, Chicago, and St. Louis reported little to no changes in selling prices. Upward pressure on input prices was reported in most Districts except San Francisco which reported a decrease. Livestock prices were mixed in most reporting Districts. Crop prices generally increased, although Cleveland, Richmond, and Chicago noted the more recent decline in crop prices.

Consumer Spending and Tourism

Overall consumer spending was positive but with signs of softening. However, the outlook for consumer spending activity in the months ahead was predominantly optimistic across most reporting Districts. General retail sales activity was mixed, with slight to modest declines reported in Philadelphia, Cleveland, and Richmond, mixed sales activity reported in Atlanta and Chicago, and modest to moderate growth reported in St. Louis, Minneapolis, Kansas City, and San Francisco. Among general retailers, the outlook was mainly optimistic in Boston,

Philadelphia, and Kansas City, while contacts in Atlanta and St. Louis expect sales to be flat or slightly higher in the months ahead. Most Districts noted that automobile sales slowed during the reporting period, but remained at fairly high levels. Contacts in Cleveland, Kansas City, and Dallas expressed an optimistic outlook for future automobile sales. Travel and tourism activity exhibited modest to moderate growth across most Districts. New York, however, described its tourism activity as generally sluggish, and hospitality contacts in San Francisco reported lower occupancy rates. In contrast, strong growth in tourism activity was reported in Richmond, Chicago, and Kansas City.

Manufacturing and Other Business Activity

Manufacturing activity was mixed since the previous report. The reporting Districts noted that the outlook remained positive but deteriorated. Activity declined in Richmond and Dallas, remained unchanged in Cleveland and San Francisco, and increased in Boston and Atlanta, but at a slower pace than previously reported. Activity continued to increase at a modest pace in Chicago and Minneapolis. Several Districts reported a rebound following a decline in the previous reporting period, including New York, Philadelphia, St. Louis, and Kansas City. Several Districts reported strength in aircraft and automobile manufacturing, although contacts in Cleveland noted that year-to-date production of automobiles is lower than at this time last year. Conditions in the primary metals industry were mixed: Contacts in Philadelphia and Dallas reported declines in new orders and weaker activity, while contacts in Cleveland and Chicago reported an increase in demand for steel. In Boston, Chicago, and Minneapolis, manufacturers with ties to the energy sector reported weakness.

Growth in the nonfinancial services sector was described as slight to modest by reporting Districts. Increases in activity in the professional business services sector were reported by

Minneapolis, Kansas City, and Dallas, and increases in activity in the health care sector were reported by Richmond, St. Louis, and Dallas. Reports from the technology sector were mixed, with contacts in San Francisco reporting slower sales, contacts in Kansas City reporting modest increases in activity, and contacts in Boston reporting robust growth. Conditions in the transportation sector were mixed. Overall freight volume was down in Cleveland, and reports from Chicago indicate a decline in demand for transportation services. Contacts in Atlanta and Dallas noted a decrease in rail cargo volume. In contrast, container volume increased at ports in the Richmond and Atlanta Districts. Contacts in Cleveland, Atlanta, and St. Louis cited the slowdown in the energy sector as a contributor to low cargo volume.

Real Estate and Construction

Residential real estate activity continued to strengthen since the previous period. Single-family home sales increased at a moderate pace overall, with Boston, Cleveland, and St. Louis reporting strong growth. Many Districts indicated that inventories continue to be low. Despite this persistent inventory issue, Boston, Atlanta, Kansas City, and Dallas all report that contacts have a positive outlook for the market in the next few months. Districts generally reported that house prices increased. Residential construction activity was mostly positive across Districts. Cleveland and Kansas City indicated strong growth in housing starts. Conversely, New York reported that single-family construction tapered off through most of the District, and Chicago reported little change in residential construction activity. Philadelphia, Richmond, St. Louis, and San Francisco noted a lack of available lots to build on.

Commercial sales and leasing activity remained stable or improved in almost all Districts. Absorption rate and rent increases were documented in Atlanta and Kansas City. Improving industrial real estate markets were noted in New York, Richmond, and Dallas. Several contacts

in Richmond also reported robust retail leasing activity. Office market conditions were mixed among reporting Districts. Commercial construction activity grew modestly from the previous reporting period. Construction activity picked up in New York, and Cleveland continued to report project pipelines are strong. Reports on multifamily construction were mixed in Richmond, Atlanta, and Dallas. New York noted that multifamily construction has tapered off through most of the District.

Banking and Finance

Overall loan demand increased, although reports on the pace of growth varied from steady but slow in Cleveland to strong in St. Louis. Reports from Chicago were mixed while loan growth softened in Dallas. Residential lending increased variedly in all reporting Districts, from anemic expansion in Dallas to strong growth in St. Louis. Loan demand for commercial and industrial loans was mixed across reporting Districts, ranging from declining growth in Dallas to strong growth in St. Louis. Demand increased for commercial real estate loans in New York, Philadelphia, Richmond, and Kansas City and plateaued in Dallas. Consumer lending was unchanged or improved in all reporting Districts, except for declines in auto lending in Cleveland and revolving credit in San Francisco. Asset quality improved across reporting Districts, except in Chicago and Kansas City where it was mostly unchanged. Lending standards were unchanged in New York, Cleveland, and Kansas City. Dallas reported relaxed standards for all sectors except energy.

Agriculture and Natural Resources

Agricultural activity was mixed but improving on average. Most reporting Districts noted higher prices for their respective major crops at the time farmers were able to lock-in for the fall harvest, while Cleveland, Richmond, and Chicago reported that some crop prices have declined

recently. Planting for key crops compared favorably with historical progress in reporting Districts. Most reporting Districts noted that growing conditions are currently good, but Richmond reported flood damage in West Virginia and Atlanta reported varying degrees of drought. Farm income is expected to improve from very low levels in Chicago, St. Louis, Minneapolis, Kansas City, and Dallas. Livestock prices were mixed in the reporting Districts.

Energy firm downsizing or weak growth was reported by contacts in Cleveland, Atlanta, Kansas City, and Dallas; however, the outlook for oil and gas is improving in Kansas City and Dallas. Dallas and Atlanta noted that credit availability is a major downside risk for the outlook. The number of operating drilling rigs declined in Kansas City, was unchanged in Cleveland, and increased in Minneapolis and Dallas; natural gas extraction growth was flat in Richmond. A continued, severe decline in coal production was reported in St. Louis, while Richmond reported no change in production.

FIRST DISTRICT – BOSTON

First District reports reflect modest gains in economic activity on balance. Same-store growth in retail sales is nil to modest, and expectations are positive but muted for sales growth moving forward. Reports from manufacturers are mostly positive, but an unusually high number of manufacturing contacts could not be reached. Also based on a small number of contacts, software and IT services firms report robust growth in sales from a year earlier. Hiring activity is cautious in both retail and manufacturing. Hiring is potentially stronger in software services, but that conclusion is based on a single contact's report. Tight labor markets are seen for at least some positions in each of retail, manufacturing, and software/IT services, and a severe labor shortage is said to restrain hiring and expansion in Massachusetts' restaurant industry. Commercial real estate activity is flat or improving across most of the District, but a modest slowdown in office leasing is reported for greater Boston. Single-family home sales increased in all states in the District amid robust buyer demand but low inventory continues to weigh on the residential market. The outlook is generally positive for at least modest growth moving forward. While a number of contacts cited the UK's "Brexit" vote to exit the European Union as a downside risk to aggregate economic growth, those with direct exposure do not expect severe negative impacts on their own firms' outcomes.

Retail

Among retail contacts, year-over-year sales are either flat or up 1 to 2 percent over one year ago, although one contact reports an increase in the high teens that reflects the impact of new acquisitions. Firms are hiring only to replace departing employees, and some report increased difficulty in making such hires. Contacts expect only modest gains in sales moving forward, consistent with their modest expectations for overall U.S. economic growth.

A contact in the restaurant industry predicts that sales in the second quarter of 2016 will be up 1 to 2 percent over a year earlier and expresses hope that growth will improve during the summer tourist and vacation season. However, the contact reports that the restaurant industry in Massachusetts is facing the worst labor shortage he has seen in 35 years of experience. While restaurant owners in the state are finding creative ways to deal with the problem, such as sharing employees across multiple establishments, what he terms the labor "crisis" is starting to negatively affect owners' expansion plans.

Manufacturing

Fewer contacts than normal were reached this cycle. Some were on vacation and others were reportedly busy in the wake of the Brexit vote; the resulting sample is skewed towards the semiconductor industry. Reports overall are positive. Semiconductor contacts report that business picked up in the first half of 2016 after a weak second half of 2015. A manufacturer of frozen fish reports weak retail sales in the second quarter, attributed partly to unseasonably warm weather which led people to eat out more. A

manufacturer of materials for engine filters says that demand from mining and construction firms is weak and in the case of mining the weakness reflects continued low commodity prices.

Nothing unusual is reported concerning pricing. Any pricing pressures are skewed to the downside, related in one instance to demands for lower prices by large and powerful customers.

No major shifts in inventories are reported. A contact with customers in the mining industry reports that those customers are trying to figure out the “new normal” level of sales and to adjust inventories accordingly. A contact in the semiconductor industry notes that thanks to a more efficient supply chain inventory mismatches are much less of a problem than in the past.

Contacts are cautious about hiring. A semiconductor manufacturer restructured in the first half of 2016 and reduced its headcount by 100 workers. The frozen fish manufacturer reduced its workweek to deal with slower sales. Three contacts report having difficulties hiring engineers and machinists. Capital expenditure plans are unchanged. However, a contact that sells to automotive and aerospace firms says that although capital spending was below plan for the first half of 2016, full-year spending is expected to remain on plan. The outlook is positive among all contacts. One semiconductor manufacturer is very confident about the third quarter but his outlook is uncertain beyond that period.

Software & IT Services

A contact that sells software solutions for health care providers experienced over-the-year growth in revenues in the high single-digits and growth in operating profits in the low double-digits. The same firm’s prices are unchanged but its labor costs fell as the pace of retirements doubled between the first and second quarter of 2016. The firm is hiring across the board, but is setting very high quality standards when hiring new software developers.

A manufacturing IT contact reports over-the-year growth in bookings in the low teens. Investments and hiring at that firm are focused on “internet of things” projects, which are seeing stronger demand growth than traditional industrial projects. The firm’s net hiring budget is flat, and competition for labor to fill financial positions is described as robust.

Both contacts cite the Brexit vote as a potentially destabilizing factor but appear mostly comfortable with their direct exposure to the event. The manufacturing IT contact cited the strong dollar of 2015 as a factor that restrained demand for its exports, and foresees renewed weakness in export demand if the dollar continues to strengthen in response to the referendum. However, contacts are bullish concerning their respective outlooks for the next 1 to 2 years.

Commercial Real Estate

On balance commercial real estate markets appear stable or improving in the First District. In greater Boston, a modest slowdown in office leasing is reported, especially for high-rent space, but rents are steady amid low vacancy rates. Office leasing activity held steady at a moderate pace in Portland and

Providence, but in Hartford activity remains light and some firms gave up space. Investment sales activity is down in Boston from last year's brisk pace. However, industrial sales activity picked up recently in Boston and parts of Connecticut, and a Portland contact sees a strong industrial property market with potential for new construction. Throughout the District, office construction remains limited in light of high building costs. Infrastructure construction is on the rise in Rhode Island, and hotel construction is planned for greater Portland. A regional lender to commercial real estate reports an uptick in loan demand at his firm amid reduced competition from other lenders. The outlook for Connecticut's commercial real estate market remains somewhat pessimistic based on weak job growth in the state. A Boston contact expects the Brexit vote to exert downward pressure on economic activity in the U.S. and the region, but notes that the vote should also boost foreign investment in Boston's commercial real estate market. Elsewhere in the District contacts are cautiously optimistic for commercial real estate but see risks as tilted to the downside based on global economic and political uncertainty.

Residential Real Estate

Residential real estate markets in the First District remain strong. Five of the six First District states, as well as the greater Boston metro area, reported sales and inventory trends for the period May 2015 to May 2016; New Hampshire reported on trends between April 2015 and April 2016.

Closed sales of single-family homes are up by moderate-to-large margins in every state in the District, and pending single-family sales increased at a slow-to-moderate pace depending on the state. A contact in Rhode Island considers a summer slowdown "unlikely" in light of strong recent sales. Median sales prices for single-family homes are on average up modestly from a year ago—with Vermont and Connecticut reporting moderate price declines and the remaining states reporting small-to-moderate increases. Condominium sales figures varied across states. Closed sales of condominiums are up in all states except Connecticut and Vermont, while pending sales increased in Massachusetts and New Hampshire and decreased in Rhode Island, Maine, and Vermont. As in the single-family market, median condo sales price changes are moderate, with the exception of a large over-the-year decline in Rhode Island. However, a contact in that state believes the decline is likely transitory because the data are prone to volatility.

For both single family homes and condos, inventory is down in every reporting region. In addition, number of days on market decreased from a year earlier in all states reporting such data, as did months' available supply of both single-family homes and condominiums. Contacts continue to attribute the lack of inventory to a combination of lack of new construction and a dearth of sellers coming to market.

Despite persistent inventory issues, contacts are optimistic. Those in Massachusetts, Vermont, and Rhode Island all expressed a positive outlook, primarily attributable to strong buyer demand. They cite stable employment figures and continued low interest rates as the key factors supporting such demand.

SECOND DISTRICT–NEW YORK

The Second District's economy has picked up, growing modestly since the last report, and labor markets remain tight. Contacts note continued moderate pressure on input prices and wages but little change in selling prices overall. Manufacturers report a modest rebound in activity, while service-sector businesses indicate a slight increase. Consumer spending was little changed, on balance, and tourism activity has remained sluggish. Residential real estate markets were mostly improved but weaker at the high end, while commercial real estate markets were steady to stronger. Residential construction has tapered off, whereas commercial construction has picked up. Banks report further strengthening in loan demand and continued improvement in delinquency rates.

Consumer Spending

Retail merchandise sales have picked up somewhat in recent weeks but remain at sluggish levels. Retail contacts generally note that sales were below plan in May but picked up somewhat in June and were little changed from a year earlier, but on or close to plan. In upstate New York, a mall contact reports that higher-priced retailers have been struggling, reflecting more value-driven consumers. Retailers report steady prices but somewhat more discounting than in recent months. Inventories, which had been described as somewhat high, are now back on target.

New vehicle sales are reported to have softened somewhat in May and June, though they are still said to be at fairly high levels. Inventories of new vehicles are reported to be mixed, largely reflecting availability of financing incentives on some models but not others. The used car market also remains soft, with both sales activity and prices drifting down in recent months. Retail and wholesale credit conditions generally remain favorable.

Tourism activity has been mixed but generally sluggish. Hotels across parts of upstate New York note weaker occupancy rates, while New York City hotels report that both occupancy and room rates are running below 2015 levels. Attendance at Broadway theatres has picked up somewhat since

mid-May. However, average effective ticket prices are down somewhat relative to a year earlier, keeping overall revenues below comparable 2015 levels. Consumer confidence in the Middle Atlantic states (NY, NJ, PA) rose in May but retreated slightly in June.

Construction and Real Estate

The District's housing markets have been mixed since the last report, with widespread signs of weakness at the high end of the market. New York City's rental market has shown further signs of slackening: rents have been flat to down slightly in Manhattan, while they have continued to edge up in Brooklyn and Queens. In all these areas, rents on larger units have declined. Vacancy rates across the city, though still low, have moved up, and landlord concessions (e.g., free month's rent, waived fees) have reportedly grown more widespread.

New York City's co-op and condo resale market has strengthened somewhat—mainly in Brooklyn and Queens, where prices are up 8-10 percent or more from a year ago and sales volume has picked up as well. Manhattan resale prices are up roughly 5 percent from a year ago, with most of the rise on smaller apartments, while sales volume has receded from high levels. The inventory of resale units remains low, while the inventory of newly developed apartments for sale, mostly luxury, is reported to be high.

Elsewhere across the region, resale activity for single-family homes has picked up across New York State and in northern New Jersey. A real estate contact in the Buffalo area characterizes the local housing market as particularly robust and notes strong demand for downtown properties. There has also been a strong pickup in sales volume in suburbs around New York City, though prices have held steady. Residential construction has tapered off throughout most of the District, in both the multi-family and single-family sectors.

Commercial real estate markets have been stable to somewhat stronger through mid-year. Office availability rates edged up in Manhattan; despite a pickup in leasing activity, a large amount of space coming onto the market was not fully absorbed. Elsewhere, office availability rates were

steady to down slightly; across upstate New York, they were at multi-year lows. New office construction has picked up in New York City but remains sluggish across the rest of the District. Industrial real estate markets strengthened further—particularly across the New York City metro region—with asking rents continuing to climb briskly and vacancy rates falling to their lowest levels since before the recession. New factory and warehouse construction picked up in the second quarter.

Other Business Activity

Contacts across the District generally report modest improvement in business conditions. Manufacturers report a small rebound in activity, while service-sector contacts report that business activity has increased slightly. Both manufacturing and service-sector contacts continue to report little change in selling prices, on balance, but moderate upward cost pressures.

The labor market has remained tight since the last report, and hiring activity has been fairly brisk for this time of the year. Manufacturers continue to report little change in staffing levels and do not expect much hiring in the months ahead. In contrast, service-sector businesses report moderately increasing employment and expect to ramp up staffing this year. Two major New York City employment agencies and one upstate agency report that demand for workers has been steady and fairly strong, while wage pressures have intensified, at least in some areas of work. One contact notes an uptick in demand for administrative and support staff. The telecom strike, which had idled approximately 15,000 workers in the District for about six weeks, ended in late May.

Financial Developments

Small to medium-sized banks across the District report strengthening demand for both residential and commercial mortgages but little change in demand for consumer and commercial & industrial loans. Bankers indicate that credit standards were unchanged across all loan categories. Banks report that spreads of loan rates over cost of funds were little changed for consumer loans but narrowed across all other loan categories—particularly commercial mortgages. Delinquency rates are reported to have eased further across all loan categories but to a lesser degree than in the last report.

THIRD DISTRICT — PHILADELPHIA

Aggregate business activity in the Third District continued at a modest pace of growth during the current Beige Book period. Employment trends remained the same, with most contacts reporting a modest pace of hiring, staffing firms continuing to be more bullish, and manufacturing firms reporting further job declines. On balance, prices continued to rise slightly over the current period; home prices, which had been essentially flat over the prior period, also rose slightly. Contacts appeared to be in more agreement than last period that current wage pressures had remained modest. On balance, firms continued to expect modest growth over the next six months.

Only two sectors of the Third District have reported changes in the direction or pace of their growth since the prior period. Manufacturers' reports improved from a slight decline to slight growth in general activity. In contrast, nonauto retail sales weakened further from a modest pace of growth to a slight decline in sales. The remaining sectors indicated no change compared with their prior performances, which ranged from a slight decline for auto sales to moderate growth for staffing services and lending volumes. Contacts from general services, tourism, commercial contractors, commercial leasing agents, and real estate brokers continued to report modest growth. Homebuilders continued to report slight growth.

Manufacturing. Contacts reported that overall activity has climbed into slightly positive territory since the prior Beige Book period; however, reports of shipments and new orders remained slightly negative. Firms also reported that the number of employees and the average employee workweek continued to fall. The makers of lumber products, fabricated metal products, and industrial machinery noted overall gains in activity from the prior period, while the makers of paper, primary metals, and electronic products noted weaker activity. However, these trends may be seasonal in nature, as they are similar to what these sectors noted during the same time period last year. Overall, contacts expressed somewhat lower expectations of growth during the next six months than during the last Beige Book period. The change in outlook was driven, in part, by lower percentages of firms expecting increases in shipments and new orders and higher percentages expecting a decrease in general activity than during the prior period. Expectations of future capital expenditures also fell, with fewer firms expecting increases and more expecting decreases.

Retail. Overall, nonauto retail contacts reported a slight decline in sales during the current Beige Book period, following modest growth during the prior period. At mall stores, the biggest decline in apparel sales in some time was accompanied by weak or declining sales in most other categories, including restaurants. Similarly weak results were reported for outlet stores. Convenience store operators noted that 20 days of rain in May hurt sales. While June sales were better, they observed some slowdown overall, which they attributed to competition, not less consumer spending. Generally, contacts expect modest growth to resume for overall retail sales through 2016.

Overall, Third District auto dealers reported that light vehicle sales slowed further during the current period but remain at high levels. More precise early period reports indicate that sales were lower than during the same time last year; anecdotal reports for recent weeks suggest sales will be flat, at best, with last year. Dealers are content with the relatively high sales numbers; however, they spoke of “managing the plateau” and of caution against overextending their businesses financially. Dealers still see growth potential in 2017.

Finance. Third District financial firms continued to report moderate growth of total loan volumes over the Beige Book period. Volumes within all lending categories have grown since the prior period, except for home equity loans. All categories except home equities and automobile loans grew at a faster pace than during the same period one year ago. The strongest growth during the current Beige Book period was for credit cards and automobile loans. Commercial real estate, commercial and industrial loans, mortgages, and other consumer lending grew modestly or slightly this year after declining slightly over the same period last year.

On balance, banking contacts continued to describe their loan portfolios as healthy and their customers’ credit quality as slightly improving. Also, as before, they characterized the lending environment as competitive and expected mergers and acquisitions to increase. Contacts also continued to report riskier loans by competitors, but this was cited somewhat less often than during the previous period. Contacts generally described the wage and inflation environment as “pretty benign,” with rising wage pressures for only some skilled positions. Contacts remained cautiously optimistic that slow, steady growth would continue through year-end.

Real Estate and Construction. Homebuilders reported that economic activity continued to rise slightly. Demand for new single family homes remains soft, and the lack of affordable land for lots hampers new development in suburban markets, while urban locations are attracting infill and redevelopment to meet greater demand for rental properties, ranging from affordable to

upscale units. Builders noted some cost pressures for labor and as a consequence of new building codes in New Jersey; material costs pressures were less pronounced.

Brokers in the major Third District housing markets reported continued modest year-over-year sales growth. A major Philadelphia-area broker noted that sales appeared to be slowing somewhat because of the lack of inventory. Overall, home prices are rising slightly, although this varies somewhat across markets and price categories.

Nonresidential real estate contacts, predominately in the Greater Philadelphia area, reported little change in the ongoing modest gains in construction activity and in leasing activity. A developer noted that demand for Lehigh Valley industrial/warehouse space is as great as it's ever been. Driven by e-commerce, these projects bring hundreds of new jobs and are creating upward pressure on \$14 to \$15 per hour wages. The City of Philadelphia office market also continues to tighten as vacancy rates continue to drop.

Services. Third District service-sector firms reported no significant change in their overall modest pace of activity. However, contacts noted small net overall declines in the pace of sales and new orders. One large national service-sector firm described some degree of weakness in its business, education, and health-care segments. Employment indicators were mixed, as contacts have noted higher full-time employment, similar part-time employment, and a lower average workweek since the prior period. Staffing firms reported continued moderate growth, including direct full-time placements, new temporary positions, and conversions to permanent positions. Tourism contacts continued to note modest growth, although interrupted by rain in May. June activity was strong again in the mountains, and parts of the shore experienced their best June in three years. Atlantic City casino revenues edged down again in May. Expectations for future growth in services remained about the same as the prior Beige Book period, with over half of service-sector contacts expecting activity to grow over the next six months.

Prices and Wages. On balance, price levels have continued to rise slightly since the previous Beige Book period. Over half of all contacts reported no significant changes in the prices they pay or in the prices received for their goods and services — a somewhat lower percentage than last period. Of the firms that indicated a change, more noted increases than decreases. Bankers and staffing contacts reported little change in relatively modest wage pressures and relatively few labor shortages. Overall, contacts continued to report only modest wage pressure.

FOURTH DISTRICT – CLEVELAND

Business contacts in the Fourth District reported a steady level of activity over the period, with little change in the pace of growth. Reports by industry were mixed. Production at manufacturing plants was stable, though steel producers were encouraged by a boost in demand and higher prices. The housing market continued to grow at a steady pace, with higher unit sales and higher prices. Commercial builders reported that construction pipelines are strong, and they expect revenues to grow for the next couple of years. Retailers experienced disappointing same-store sales. The pace of growth in retail car sales has slowed. Commercial and retail credit conditions expanded slowly. Oil and gas exploration remains depressed, while investment in pipeline and midstream projects moved forward. Freight volume trended lower.

Payrolls were little changed during the past six weeks except in the construction sector, which saw strong growth. Wage pressures were most evident in high-skilled and entry-level jobs in the banking, construction, and retail sectors. Staffing firms noted an increase in the number of job openings, especially for temporary positions. However, job placements lagged openings. Other than small increases for select petroleum-based and steel products and declines in agricultural products, input and finished-goods prices were steady.

Manufacturing. Manufacturing output was little changed over the period. The most often cited factor tempering output growth is weakness in the global economy. Downward pressure attributable to the strong dollar is starting to ease. Activity for suppliers to the motor vehicle, aerospace, commercial construction, and housing industries remains elevated. We heard reports about growing opportunities for manufacturers of LED lighting products and retail supply chain equipment. Oil price increases are providing some encouragement to the energy-sector supply chain. Year-to-date production through May at District auto assembly plants declined 4 percent when compared to that of the same time period during 2015, but the industry remains strong. Although steel producers are encouraged by the increase in domestic steel prices and a rise in demand, some contacts believe that the industry is at the peak of a mini cycle that will correct itself during the back end of the year. The more optimistic outlook that was expressed by many manufacturers during the past few cycles was tempered. A majority now expect that business conditions will be little changed during the third quarter.

Capital allocations are primarily for maintenance projects and equipment. However, a growing number of contacts cited increased spending for product development, while the number planning a footprint expansion has fallen sharply. On balance, raw-materials prices drifted higher over the period, a circumstance which was primarily attributed to higher steel prices. That said, reports indicated declining prices for other commodities—agricultural and metals. Finished-goods prices moved slightly higher in response to rising input costs. Payrolls were little changed across job categories. Several manufacturers noted annual cost-of-living increases. Otherwise, wages were steady.

Real Estate and Construction. Year-to-date sales through April of new and existing single-family homes increased 9 percent compared to those of a year earlier. The average sales

price rose almost 5 percent. Builders and real estate agents reported that the low interest rate environment is a primary factor driving sales at this time. Year-to-date estimates of single-family construction starts were significantly higher across all regions of the District compared to those of a year ago. New-home contracts remain concentrated in the move-up and high-end price point categories. New-home list prices rose about 2 percent on average over the period to cover higher labor costs and to increase margins. Homebuilders' capital budgets rose slightly; allocations are mainly for land and equipment purchases. Some contacts expressed concern about a slowing in the sales of new homes during the fourth quarter that goes beyond normal seasonal variation.

In general, commercial contractors reported favorable business conditions. Revenues and backlogs are typically higher than those of a year ago. Several builders reported capacity issues that are resulting in pushing out a project's construction cycle. Construction demand is broad based. Contractors in the eastern part of the District are encouraged by the decision to move forward with constructing an ethane cracker and by ongoing investment in oil and gas pipeline and midstream projects. General contractors continue to increase their billing rates with little pushback in order to boost margins and cover higher labor costs. Construction project pipelines are strong, and contractors expect revenues to grow for the next couple of years. It appears that customers are not allowing a potential rise in interest rates or presidential election politics to interfere with their building plans.

Home builders and commercial contractors reported a modest increase in building materials prices, especially for steel, concrete, and drywall. Payrolls expanded at a robust pace over the period. New positions being created are primarily in the skilled trades and to a lesser extent in sales. The industry is experiencing wage pressure, especially for attracting and retaining high-skilled, high-performing employees. Subcontractors remain very busy. They are challenged by labor shortages and, as a result, are selective when bidding. In order to cover rising labor costs and to widen margins, many subcontractors are increasing their rates.

Consumer Spending. Retailers reported disappointing same-store sales in the weeks prior to the Memorial Day weekend when compared to those of the same time period a year ago. Although apparel remains challenged as a segment, sales of on-trend fashion items are doing well. Furniture sales were characterized as strong. One major chain reported that its digital sales outpaced its brick-and-mortar transactions during the first quarter. A shopping center developer commented that brick-and-mortar retailing, including high-end stores, continues to contract as consumer shopping preferences shift to the Internet and mobile devices. Retailers expect total revenues to rise in the near to medium terms, as the benefits of capital investments targeted at restructuring and adapting to the new retail market-place are realized. Vendor prices were fairly stable other than declines for food. Several retailers and restaurateurs reported either raising prices or reducing promotions as a means of widening margins. Changes in staffing were limited to store openings and closings. There are growing concerns about how the implications of minimum wage increases and the new overtime rule will affect retailers' ability to staff stores.

Year-to-date sales through May 2016 of new motor vehicles were on par with those of a year ago. Original equipment manufacturer incentives continue to rise and are now reportedly

above 10 percent, but average transaction prices are also rising because of the ongoing shift in consumer preferences from cars to light trucks (including SUVs). New-vehicle unit volume is expected to remain at high levels this year, though dealers anticipate retail transactions to decline and fleet sales to rise. Consumers are seeing increasing value in the purchase of used cars. The large number of leased vehicles being turned in is putting downward pressure on their resale prices. Year-to-date sales of used vehicles rose almost 5 percent compared to those of a year ago. Dealer payrolls increased along seasonal trends.

Banking. Bankers were generally satisfied with their commercial and retail credit portfolios. Growth was characterized as steady overall, albeit at a slow pace. On the commercial side, loan demand from business services and healthcare providers has increased. C&I lending was slower than desired: Customers reportedly have confidence in the sustainability of their own businesses, but they have less confidence in the overall economy. In the CRE segment, financing remains competitive as developers are turning to alternative lenders such as pension funds or other equity partners for long term financing. Reports from retail banking indicated a seasonal pickup for loans to purchase recreational vehicles. Home equity products remain in high demand, while auto lending has slowed. Little change was reported in loan-application standards and delinquencies. Core deposit balances in consumer and business accounts increased over the period; however, the pace of growth has slowed. Banks' capital budgets expanded slightly, with spending allocated primarily for technology. Payrolls were stable on balance. Newly created jobs in commercial lending, regulatory compliance, and risk management were offset by jobs lost to cost-cutting measures and attrition. Wage pressures are being felt in select competitive job categories and at the entry level.

Energy. The number of rigs operating in the Marcellus and Utica Shales was little changed during this reporting period after declining precipitously during the past year. Nonetheless, the number of producing wells and regional natural gas output both remain at historic highs. Several contacts expressed the sentiment that the oil and gas industry may have reached the bottom of the current cycle, and they are hopeful that the industry will begin turning around late this year. Wellhead prices rose slightly. Investment in pipeline and midstream projects moved forward. Little hiring is occurring in the oil and gas industry at this time, and wage increases are sluggish.

Freight Transportation. Freight volume contracted over the period and on a year-over-year basis. Our contacts attributed this situation to a slowdown in economic activity, especially in the industrial sector, and to rapid changes in retail distribution. Weakness was seen in energy, fabricated metal products, machinery, and food products. Segments experiencing strong volume were automotive and building materials and furnishings. We heard reports about overcapacity in the system, and this overcapacity is forcing some haulers to lower shipping rates and to reduce capital budgets. One contact noted that most locomotives scheduled for delivery this year will not be used, but kept in storage. The number of parked locomotives is reportedly the same as in 2008. The outlook by contacts is cautious, and they expect little change in volume on balance during the upcoming months. Hiring is limited to replacement and some seasonal staffing.

FIFTH DISTRICT–RICHMOND

Overview. The Fifth District economy expanded modestly on balance since the previous Beige Book report. Manufacturing activity softened, with slower growth in shipments and the volume of new orders. Retail sales growth also moderated, and services firms reported little change in revenues. Tourism experienced typical seasonal growth. Consumer loan demand rose slightly, while commercial lending increased modestly. Residential and commercial real estate markets strengthened somewhat. Agricultural production rose modestly. Natural gas extraction and coal production were unchanged since the previous report. The demand for labor increased moderately, with more frequent reports of wage pressures. According to our most recent surveys, manufacturing employment was unchanged, while more services firms were hiring. Prices of raw materials rose at a somewhat slower rate, and prices of finished goods rose at a slightly faster, but generally modest, pace. Price increases at retail establishments remained contained but rose more rapidly in recent weeks, while the previously modest pace of non-retail services price increases slowed.

Manufacturing. Manufacturing activity softened overall since the previous report. More firms reported slower growth in shipments and in new orders. Also, producers' expectations weakened compared to the previous report. A South Carolina box manufacturer and a Virginia heating component manufacturer reported that business slowed, with fewer new inquiries. Textile and chemical manufacturers indicated that exports remained weak, due in part to the strong dollar. An executive at a chemical company in South Carolina stated that overall sales were flat compared to last year, noting that domestic business was good while international business has slowed. In contrast, North Carolina and Virginia food manufacturers reported modest growth in new orders. Additionally, producers of machinery, plastics, and transportation equipment saw a slight uptick in new orders. An equipment manufacturer in Maryland said that demand for his product was strong and that operations were at full capacity, and a furniture manufacturer reported an increase in new orders and backlogs. A robotics and automation manufacturer reported that international demand was steady. According to our most recent survey, prices of raw materials rose at a somewhat slower rate, and prices of finished goods rose at a slightly faster, but generally modest, pace.

Ports. Port activity remained generally strong since the previous Beige Book. Automobile imports continued to be robust. Container volume rose overall, but varied by location, increasing year over year each month at one port while similarly declining at another. Expectations are for a strong peak season in container imports of consumer goods beginning in August. Imports and exports of agricultural and construction machinery remained soft.

Retail. Retail sales softened on balance since the previous Beige Book. Gas station sales dropped and sales of building supplies in parts of North Carolina fell due to extended periods of rain. Automobile sales varied by location. A dealership in western Virginia reported that a recent increase in their digital footprint has helped push up foot traffic and sales, and an executive at a dealership just outside of Washington, D.C. said that sales have been stronger since our previous report. Dealerships in central North Carolina and the Hampton Roads region of Virginia reported that sales remained steady at previous levels. Sales of heavy trucks declined, according to a dealer who also noted that higher prices caused by changes in engine emissions requirements in the next model year could weaken future sales. Prices at retail establishments remained contained but rose more rapidly in recent weeks.

Services. Services firms reported little change in revenues since the last report. A wealth advisor said while individual investors seem to be doing okay, he is concerned that they may be taking on “unhealthy” levels of risk as they search for alternatives to low yield investments. The owner of a CPA firm in West Virginia has seen no change in demand but said the outlook for his business is good. An executive at a national trucking firm also reported flat demand in recent weeks, and he expects normal seasonal slowing in early summer. Demand for healthcare services remained strong. Healthcare facilities are preparing for expected changes in Medicare rules that will affect physician compensation. Price growth at services firms slowed in recent weeks, but remained modest.

Tourism. District tourism had a typical seasonal increase since the previous Beige Book, even with a slowdown during a couple of weeks of widespread extended rain. An executive on the outer banks of North Carolina said hotel bookings and rental home reservations were robust in June, and July is expected to be another strong month. In contrast, an hotelier in the Hampton Roads area of Virginia said tourist bookings slowed by double digits in recent weeks and that July is coming in a little below expectations. However, government and other group bookings were doing well there. Room and rental rates were generally unchanged, although a resort manager in the Virginia mountain region said that pricing had become more dynamic at his establishment, allowing for more responsive pricing during peak demand.

Finance. On balance, loan demand increased modestly since our previous report. Residential loan demand rose slightly in most of the District. In Maryland, loan demand softened slightly. Refinancing demand picked up slightly in central Virginia but was largely reported as unchanged in the rest of the District. Commercial loan demand continued to improve. Commercial real estate loan demand rose in some areas, according to contacts in the District of Columbia, South Carolina, and Virginia. Bankers in North Carolina reported mixed conditions with one contact citing some softening in commercial and industrial lending while another reported growth in commercial lending. In Maryland and West Virginia, commercial loan demand was characterized as flat to slightly lower, with some respondents concerned that multi-family and hospitality lending may have peaked. Interest rates were slightly lower for both

residential and commercial loans. Competition remained high and net interest margins continued to compress slightly as a result. Credit standards tightened for commercial and industrial lending, according to a North Carolina banker. Lenders indicated that credit quality was generally unchanged to slightly improved.

Real Estate. Residential real estate activity grew moderately since the previous report. District real estate agents continued to report low levels of inventories. Days on the market varied across price range and region. A Washington, D.C. broker stated that sales increased since the previous report, and added that he continued to see multiple offers on appropriately priced homes. A residential broker in Greensboro, North Carolina reported an increase in buyer traffic in the \$200,000-plus range. A Roanoke, Virginia contact said that demand increased for homes in the \$300,000 to \$700,000 range and remained strong for the \$250,000 and lower price range. A broker in Owings Mills, Maryland stated that communities with good school districts were seeing improvement, as well as areas with higher-end homes. In contrast, a real estate agent in Northern Virginia reported a slowdown across all price ranges. Most residential builders reported that demand for new single family homes was robust, but that supply was constrained. The low level of inventories was attributed to both a dearth of available lots and shortages of construction workers. Multi-family construction reports were mixed, although leasing activity remained strong. Overall, builders were optimistic.

On the commercial side, leasing activity increased moderately overall, with a few reports of strong growth; commercial construction varied across submarket and region. A commercial broker in Columbia, South Carolina said that activity was strong across the board, with robust retail and industrial sales and leasing. He noted speculative construction in retail. A commercial Realtor in Richmond reported solid leasing activity, particularly for small retail spaces. Additionally, commercial brokers in Frederick, Maryland indicated that the retail leasing market was robust. In some areas of Maryland there were reports that commercial and industrial leasing was strong and that a few speculative industrial buildings had leased at 100 percent capacity. In North Carolina, sales were strong for repurposed furniture mills. A commercial real estate contact in South Carolina stated that the market was a “mixed bag,” but reported an increase in clearing and repurposing of older properties. In contrast, a broker in Roanoke, Virginia said that retail and office construction slowed since the previous report. Commercial real estate activity in Charleston, West Virginia remained sluggish. Rental rates and vacancy rates varied across submarkets and locales.

Agriculture and Natural Resources. Agricultural activity increased modestly since our previous Beige Book report. Fifth District farmers stated that spring planting of cotton, peanuts, and corn was complete. Farm input prices remained unchanged in recent weeks while prices of grains, cotton, and corn declined. While the damage has yet to be assessed, sources in West Virginia expect that recent severe flooding will force farmers in some areas of the state to plow under their crops in the weeks ahead.

Natural gas extraction and coal production were unchanged since the previous report. Prices of natural gas edged down in the past month, and coal prices remained low.

Labor. Since our previous report, labor demand continued to increase at a moderate pace. Throughout the District, employers and staffing agents reported increasing demand for workers at all skill levels. For example, a staffing agent in Maryland cited high demand for low-skilled warehouse and production workers while an agent in North Carolina said high-skilled IT workers were in demand. Across the District, contacts reported difficulties finding workers in manufacturing, distribution centers, cyber security, biotech, and professional services fields. According to our most recent surveys, manufacturing employment was flat while service sector businesses continued to add employees at a moderate pace. The number of reports of wage increases and upward wage pressures continued to increase in recent weeks. A Maryland staffing service said that most clients were increasing starting wages. Those who were not changing wages either could not fill the positions or were left with the least motivated and least skilled employees. Additionally, an executive in South Carolina stated that skilled workers could name their price. A staffing agent in North Carolina, on the other hand, said employers were only raising wages reactively to attract the best candidates. According to our most recent surveys, wage increases were more prevalent in recent weeks at manufacturing and service sector businesses.

SIXTH DISTRICT – ATLANTA

On balance, reports from Sixth District business contacts indicated that economic activity expanded slightly from mid-May through June. However, the outlook among businesses remains positive as most anticipate higher growth in the near term.

District merchants noted mixed sales activity over the reporting period. Vehicle sales continued to grow, albeit at a slow pace. The tourism sector experienced a slight weakening in some 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 since the previous report. Commercial real estate contacts continued to cite improved demand for most property types and construction increased from a year ago. Manufacturing activity slowed since the previous report. Bankers noted credit continued to be available for qualified borrowers. District firms continued to report difficulties filling high demand, high-skilled positions. Businesses reported modest non-labor input cost pressures and wage growth.

Consumer Spending and Tourism. District retail contacts reported mixed sales activity from mid-May through June. Retailers continued to report soft sales from international visitors while sales from domestic shoppers strengthened since the last report. Automotive dealers reported some slowing in the pace of auto sales in May. Merchants expect sales to remain relatively flat over the next few months.

Some District tourism and hospitality contacts reported softer activity since the previous report and expect the trend to continue through the summer. Average daily rates at hotels continued to trend upward while the lengths of stay were compressed. Georgia reported a decrease in convention bookings, year over year. Central Florida tourism contacts indicated that traffic for both domestic and international travel was up, year over year, while South Florida noted international inbound travel was below expectations.

Real Estate and Construction. Residential real estate contacts across the District continued to report slow but steady growth. Most builders indicated that construction activity was up from the year-ago level. The majority of builders and brokers said home sales were up slightly compared with one year earlier. Most indicated that buyer traffic was equal to or higher than the previous year's level. Builder reports on inventory levels were mixed, while the majority of brokers reported that inventory levels were down from the year earlier level. Builders and brokers continued to note modest gains in home prices. As the summer season

approaches, the majority of builders and brokers anticipate sales over the next three months to be comparable or slightly higher than the year-ago level. The majority of builders expect construction activity to increase slightly over the next three months.

Commercial real estate contacts continued to report improvement in demand resulting in increased rents and increased absorption across property types, but cautioned that the rate of improvement varied by metropolitan area, submarket, and property type. Most commercial contractors indicated that the pace of nonresidential construction activity increased from one-year ago, with many reporting backlogs of one to two years. Amid ongoing concern about the overbuilding of apartments, District multifamily contacts indicated a slight deceleration in the pace of rent growth as well as a pullback in the availability of credit for new development. Half of District contacts indicated that the pace of multifamily construction continued to increase from the year earlier level, while the other half indicated that the pace of activity was flat to down. Looking forward, most District commercial real estate contacts expect the pace of nonresidential construction activity to increase slightly over the next quarter. Expectations for the pace of multifamily construction are mixed, with roughly half of contacts citing that the pace over the next quarter will be flat to down and the other half noting that the pace will continue to increase.

Manufacturing and Transportation. Manufacturing contacts reported that overall business activity slowed from the previous reporting period. Contacts indicated that new orders and production levels were markedly lower. Finished inventory levels fell for most District manufacturers with the exception of auto contacts, whose inventory levels were elevated due to high production and the decline in auto sales. Manufacturers' expectations for production fell considerably, with only a third of firms anticipating an increase in production levels, down from half in the previous report.

District transportation firms reported mixed results from mid-May through June. Air cargo was down slightly compared with year earlier levels. Overall railroad traffic declined further due to continued weakness in shipments of energy-related products and farm products, and intermodal activity was down slightly. However, rail contacts cited year-over-year increases in the movement of waste and nonferrous scrap metals, and motor vehicles and parts. Port contacts reported increases in container traffic, bulk cargo, automotive goods, and machinery since the previous report.

Banking and Finance. Credit remained readily available for qualified borrowers outside of areas dependent on the energy sector, yet consumers and businesses continued to pay

down debt. Deposit levels increased at District banks. Contacts at financial institutions indicated credit quality was improving and delinquencies and bankruptcies were down. Banking contacts noted small businesses were conservative with borrowing, and many commercial transactions were still heavily cash based. Compliance requirements continued to increase costs for financial institutions.

Employment and Prices. There were pockets of hiring across the District, though many firms remained cautious about adding staff. Contacts continued to cite increasing turnover as well as challenges finding workers in certain high-demand fields, such as information technology, transportation, healthcare, compliance, and construction. Regions and industries tied to oil and gas (O&G) continued to experience layoffs, while business contacts from other sectors continued to report that these layoffs had loosened some local labor markets.

Businesses reported modest non-labor input cost pressures but little to no pricing power. Wage growth continued to be evident in select geographic locations and particular occupations. According to the Atlanta Fed's survey of business inflation expectations, year-over-year unit costs were up 1.4 percent. The survey respondents indicated they expect unit costs to rise 1.8 percent over the next 12 months.

Natural Resources and Agriculture. Budget cuts, layoffs, loan restructuring, contract renegotiations, and stock buybacks continued to impact the District's oil and gas sectors. Refineries and other petrochemical manufacturers continued to increase investment in plant expansions and new facilities, however, business contacts shared that some project timelines were protracted as a result of the energy sector slowdown. Gulf Coast crude oil storage capacity grew as storage tank and transport infrastructure development projects continued in response to rising crude supply. Natural gas supply remained at elevated levels as well, however, some signs of tightening were noted. Industrial electricity sales remained a bright spot in the refining and chemical segments.

Agriculture conditions across the District were mixed. Drought conditions spread through much of the region, ranging from abnormally dry to severe drought. Nonetheless, by mid-June, District cotton, soybean, and peanut planting were close to their five-year averages and nearing completion. On a year-over-year basis, prices paid to farmers for corn, cotton, rice, soybeans, beef, broilers, and eggs declined, although on a month-over-month basis, prices increased for corn, cotton, soybeans, and broilers.

SEVENTH DISTRICT—CHICAGO

Summary. Growth in economic activity in the Seventh District continued at a modest pace in late May and June, and contacts expect growth to remain modest over the next 6 to 12 months. The pace of growth in most sectors was unchanged from the previous reporting period: business spending and manufacturing production grew at modest rates, consumer spending rose moderately, and construction and real estate activity increased slightly. Developments in the banking and finance sector were mixed. Cost pressures were also unchanged, remaining mild. Farmers' earnings prospects remained weak, but improved somewhat with a rally in soybean prices.

Consumer spending. Growth in consumer spending continued at a moderate pace over the reporting period. Retailers reported sales growth in the apparel, furniture, leisure, and hospitality sectors while sales declined in the general merchandise and food and beverage sectors. A contact in Michigan noted that hotel occupancy rates and revenues were outperforming expectations. Purchases of new and used light vehicles continued to be robust, and leasing activity remained strong. Average motor vehicle transaction prices again moved higher as the mix of sales continued to shift toward larger, more expensive vehicles and because of greater demand for high-tech options.

Business spending. Growth in business spending remained modest in late May and June. Retail inventories were generally at desired levels and were slightly higher in anticipation of continued gains in sales. Manufacturing inventories were generally at desired levels as well, though stocks at steel service centers remained slightly low, and inventories of heavy-duty trucks were elevated. The pace of current capital expenditures remained modest, while expectations for future spending declined. Current outlays were primarily for updating IT and industrial equipment, though some capacity expansion was occurring, with an increasing number of such reports coming from manufacturing firms. The pace of hiring continued at a modest rate, and there was an uptick in expectations for future hiring. Many contacts indicated that the labor market continues to tighten. Demand remained strong for skilled workers, particularly for many professional and technical occupations, and contacts also reported an increase in demand for sales and production workers. Staffing firms again reported flat growth in billable hours and difficulty filling orders at the wages employers are willing to pay. Demand for electricity was little changed, while demand for transportation services declined slightly.

Construction and real estate. Construction and real estate activity increased slightly on balance over the reporting period. Residential construction was little changed, with the strongest reported growth coming in the multi-family segment and in suburban locations. That said, one builder in the Chicago area reported higher inventories of unsold new homes in suburban areas. Home sales increased across most markets and locations, while price growth varied by segment: prices rose strongly for homes under \$250,000, were up moderately in the \$250,000 to \$500,000 segment, and rose slowly for homes priced above \$500,000. Demand for nonresidential construction increased slightly, with growth concentrated in industrial construction. One contact reported a pickup in the number of large projects entering the bidding process. Commercial real estate activity rose modestly across market segments, with healthy gains reported in the for-lease market. Commercial rents were little changed, while vacancy rates and availability of sublease space decreased somewhat over the reporting period.

Manufacturing. Growth in manufacturing production remained modest in late May and June. Activity continued to be strong in autos and aerospace, but remained weaker in most other industries. Growth in steel demand picked up, as service centers continued to build inventories after a year and a half of trying to pare back stocks. Steel contacts were optimistic that demand for domestically produced steel would continue to grow with the help of anti-dumping rulings that have imposed very high duties on some imports (particularly from China and Japan) over the next five years. Specialty metals manufacturers reported slight declines in orders on balance: strong demand from auto and aerospace manufacturers was offset by declining demand from other industries, particularly oil and gas. Heavy machinery manufacturers reported little change in demand overall, with poor results in the agriculture and mining segments offsetting stronger demand from construction. Demand for heavy-duty trucks was weak, while steady growth in construction boosted demand for medium duty trucks and construction materials.

Banking and finance. Developments in the banking and finance sector were mixed over the reporting period. Financial market participants reported a significant increase in volatility, driven primarily by the United Kingdom's vote to exit the European Union. Business loan volume grew slightly, which one contact attributed primarily to refinancing activity. Contacts noted little change in asset quality, though there was some deterioration in the agriculture and metals portfolios. Loan pricing remains competitive. Overall, consumer credit demand grew slightly and loan quality improved. Contacts reported that the low interest rate environment has persisted longer than

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expected, resulting in greater-than-expected mortgage refinancing volume. Loan-to-value ratios for mortgages decreased and credit quality improved. Demand for auto loans was little changed.

Prices/costs. Cost pressures were unchanged and remained mild in late May and June. Most energy and metals prices were flat and remained low. Retail prices and prices at upstream firms also were flat on balance. Wage pressures were steady overall, with greater pressure for high-skilled occupations than low-skilled occupations, though there was an increase in the number of reports of plans for wage increases for entry-level workers. Non-wage labor costs were little changed.

Agriculture. Prices for corn and soybeans rallied through the reporting period, though corn prices gave back all of their gains in the second half of June. The price gains led more farmers to lock in prices for the fall harvest, though the increases were not enough to change contacts' expectations that farm incomes will be weak this year. Corn and soybean plants were generally in good shape in most of the District, though contacts said that if the hotter- and drier-than-normal weather persisted much longer, yields could drop. Margins for dairy and beef producers continued to be tight because of low prices. Hog producers, on the other hand, were doing better because of higher-than-expected prices.

EIGHTH DISTRICT—ST. LOUIS**Summary**

Economic conditions in the Eighth District have continued to improve at a modest pace since our previous report. Job growth remains modest although some employers report ongoing difficulties finding workers to fill vacant positions. Meanwhile, wage pressures remain strong. Retail sales continued to grow at a modest pace, with positive reports from auto dealers. Manufacturing has shown slight improvement after modestly weaker activity earlier in the year. District residential real estate activity remains robust, and commercial developers continue new construction projects. Banks report strong loan demand from both households and businesses in June. Lastly, conditions remain favorable for the District's row crop farmers.

Employment, Wages, and Prices

District wage growth has been strong, employment growth has been modest, and price pressures have remained slight. Contacts in Louisville noted that difficulty attracting employees is resulting in upward pressure on wages, particularly in the manufacturing sector. A manufacturing contact in Louisville reported employment in their firm increased by 4 percent compared with the same period last year, and contacts across several industries expect employment to be either stable or increasing over the next year. In general, contacts have reported only slight increases in prices charged to customers; however, agribusiness contacts have seen a steady increase in row crop prices.

Consumer Spending

General retail sales have continued to grow modestly since the previous report. Contacts expect sales to remain the same or increase slightly during the third quarter, as households are generally reporting favorable buying conditions for major household items. Reports from auto dealers were mainly positive. Auto dealers in eastern Arkansas reported that sales continue to be favorable compared with 2015. Multiple dealers noted that they expect an increase in year-over-year sales in the third quarter.

Manufacturing and Other Business Activity

Manufacturing activity has slightly improved since our previous report. Several companies reported capital expenditure and facility expansion plans in the District, including firms that manufacture motor vehicles, wood products, and beverage products. Several food manufacturers also reported plans to hire new employees and expand facilities, but one firm reported plans to lay off workers following investments in more-efficient equipment. News from furniture manufacturers was mixed: A few furniture industry contacts reported plans to open or expand facilities, while others noted that sales have been soft and that inventories have begun to accumulate. Some manufacturing contacts reported a boost from low raw material prices.

Reports of plans in the District's service sector have been positive since the previous report. In particular, several firms that provide online retail and package delivery services have announced plans to build new facilities and hire new employees. Many healthcare providers also reported plans to renovate and expand facilities and hire additional staff. Reports from the transportation sector were mixed. One contact in the trucking industry reported plans for a large expansion, but another trucking contact with ties to the energy sector reported a decline in business and plans to reduce employment through attrition.

Real Estate and Construction

Residential real estate activity remained strong in most of the District. Year-over-year May home sales increased by 15 percent in Little Rock, 4 percent in Louisville, 11 percent in Memphis, and 6 percent in St. Louis. Three-quarters of local real estate contacts expect demand for single-family homes in the third quarter to be slightly higher than the same time last year. Residential construction activity improved moderately, driven by high demand and low inventory. Most real estate contacts expect an increase in construction during the third quarter. However, multiple contacts noted a lack of developed lots for new construction.

Commercial real estate activity was generally positive throughout the District. Demand remained relatively high for most sectors. Commercial construction activity improved slightly. Most construction contacts expect third-quarter demand to remain about the same year-over-year. Several projects relating to healthcare were announced through the District, and hotel and multifamily housing construction projects have been announced in both Louisville and St. Louis.

Banking and Finance

Banking conditions in the District were robust in June. The pace of loan growth remains above the national pace, but leveled off slightly compared with last quarter for all loan categories except commercial and industrial loans. Total loans outstanding at a sample of about 80 small and mid-sized District banks increased 21 percent in June from the same time last year. Real estate lending increased 18 percent from the same time last year. Commercial and industrial loans increased 27 percent over the period, and loans to individuals increased 38 percent.

Agriculture and Natural Resources

Most fields were unscathed by the heavy rain in May and early June. About 94 percent of both District corn and soybeans were rated fair or better as of mid-June, which is around 5 percentage points higher than their 5-year averages for both crops. Among major District row crops, rice is the only crop with a lower rating than its 5-year average. With healthy fields and the recent crop price rally, row crop farmers are set to experience significant income improvements relative to 2015. Meanwhile, the coal outlook is not experiencing any such rebound. District production in May was down nearly 30 percent relative to May 2015.

NINTH DISTRICT—MINNEAPOLIS

Economic activity in the Ninth District increased at a moderate pace since the last report. Growth was noted in consumer spending, tourism, construction, real estate, manufacturing, and professional services, while energy, mining, and agriculture increased from low levels. Employment grew modestly since the last report, wage pressure was moderate, and price pressures were modest overall.

Consumer Spending and Tourism

Consumer spending across the District was up modestly since the last report. A Minnesota-based retailer realized increased sales of 9 percent over the past three months; this rise stands in contrast to a difficult quarter at this time last year. In Sioux Falls, S.D., three new fast food chains have opened since the last report; three major retailers are opening this season in a small community 30 minutes outside the city. In the suburbs of Minneapolis, a 41,000-square-foot specialty golf shop opened in recent weeks. Minot, N.D., saw renewal of a shopping center, after five years of neglect to the facility, in spite of slowed activity in nearby oil fields. In contrast, casinos in Deadwood, S.D., experienced a 9 percent drop in activity for the past two consecutive months. Sales of new vehicles at a dealership in Rapid City, S.D., were off by 50 percent and used-vehicle sales were off by 30 percent since January due to layoffs in Wyoming coal mines and oil fields in North Dakota.

Tourism conditions were up since the previous report. Duluth, Minn., tourism grew and was “strong and resilient,” according to a hotel developer. Three hotels will open in the city this season, increasing the number of rooms by 10 percent. In the Upper Peninsula of Michigan, the tourism season started earlier than usual, according to a tourism official. “June started out strong from one end of the U.P. to the other.” The official expected this season to be up 8 percent, like last year, if not better. Visits to Glacier National Park spiked 32 percent last month and were up 18 percent for 2016 overall; increased visitor rates were reportedly fueled by favorable gas prices and the added attraction of the National Park Service centennial.

Construction and Real Estate

Commercial construction activity was moderate since the last report. Total nonresidential building in April and May rose strongly in Minnesota and Montana over the same period a year ago, while falling in the Dakotas, according to industry data. Heavy construction firms in Montana were busy but had a weak outlook, an industry contact reported. Construction activity was low in the Bakken oil region, but commercial permitting in Fargo, N.D., was on par with two previous strong years. In St. Cloud, Minn., commercial permit values through early June

were the highest in four years. Residential construction rose moderately, but saw pockets of strong activity. Single-family housing permits in Minneapolis-St. Paul in May and June were about one-fourth higher than a year earlier. In Rochester, Minn., single-family permits in April and May were their highest since the recession. However, permit activity in Billings, Mont., and Rapid City was lower than a year earlier.

Commercial real estate activity was moderate to strong since the last report. A Minneapolis-St. Paul broker said that activity has slowed somewhat “from white-hot to a slow simmer.” Significant new square footage has come online this year, but vacancy rates remained low. Sales of apartment buildings in Minneapolis-St. Paul have been strong in the second quarter, according to industry data. In Fargo, a local broker said that commercial real estate “is still pretty hot, but not as hot as last year.” A Rapid City source described commercial real estate activity as strong. Residential real estate activity was moderate. May home sales in Minnesota rose 5 percent compared with a year ago. A source described Minneapolis-St. Paul as a “seller’s market” because of low inventory, with buyers paying more than asking price. May home sales were higher in Bismarck, N.D., and Missoula, Mont., compared with a year earlier, but lower in northern and western Wisconsin counties as well as in Sioux Falls and Bozeman, Mont.

Services

Activity at professional business services firms increased since the last report. According to a mid-year professional services survey conducted by the Federal Reserve Bank of Minneapolis and the Minnesota Department of Employment and Economic Development, nearly half of respondents reported increased sales activity over the past year; 40 percent anticipated higher sales activity for the coming year. Respondents also expected increased profits and productivity in the coming year. In Minneapolis, a local dog-wash chain has expanded to three locations in recent months.

Manufacturing

District manufacturing increased modestly since the last report. An index of manufacturing conditions by Creighton University increased in May to levels indicating expansion in Minnesota and South Dakota, but contraction in North Dakota. A pillow producer opened a new factory in Minnesota, and a plant that makes water valves announced an expansion. A furniture maker and a producer of exercise equipment also announced expansions in Minnesota. In contrast, weakness was noted among producers of transportation equipment and machinery for oil production. A lumber and plywood mill in Montana announced that it will close.

Energy and Mining

Activity in the energy sector increased slightly from low levels. The number of active drilling rigs in the District in late-June increased from the previous month but was well below the level of a year earlier. North Dakota daily oil production in April fell 6 percent from a month earlier. Numerous solar-power projects were under development in Montana, and several large wind-power projects were under way in North Dakota. Mining activity was up slightly since the last report. An idled Minnesota iron ore mine announced that it will return to full production in November. A gold-mining firm began exploration at sites in Minnesota. Meanwhile, regulators announced that they would not renew mineral leases for a copper-nickel project in Minnesota.

Agriculture

District agricultural conditions improved slightly, thanks to strong growing conditions and small increases in some commodity prices from their recent lows. Coming off an early start to planting, most of the District's corn, soybean, and wheat crops were rated in good or excellent condition as of late-June. A chicken processing plant in Minnesota was undergoing a major expansion. Prices received by farmers increased in May from a year earlier for corn, soybeans, and turkeys; prices for wheat, hay, cattle, hogs, chickens, eggs, and milk fell from a year earlier.

Employment, Wages, and Prices

Employment grew modestly since the last report, hampered by labor availability. In Michigan's Upper Peninsula, June construction jobs posted with a local agency grew by almost half compared with a year earlier. Oil-field companies in the Bakken were reportedly starting to hire again, though a North Dakota source said construction firms were not adding workers because of uncertain future demand. A staffing agency owner in Minneapolis-St. Paul said billable hours fell in May and early June over the same period a year earlier, but added, "We have a ton of open orders, but not nearly enough qualified and/or willing workers."

Wage pressure was moderate since the last report. The aforementioned professional services survey found average wage increases of nearly 3 percent in the past year; respondents expected slightly slower growth rates over the coming year. A regional labor market representative said that starting wages for many firms were rising to attract necessary workers. A health care union in Minnesota announced a three-year contract with 2 percent annual wage increases, along with benefit improvements. Price pressure was modest overall, but housing costs were accelerating. Bids on Montana highway projects "have been consistently lower than engineers' estimates," said a source there. A survey of Minneapolis-St. Paul commercial real estate brokers expected a slowing of inflation for construction materials. Home prices, however, were accelerating. Median sale prices in Minnesota were up 8 percent in May over a year earlier.

TENTH DISTRICT - KANSAS CITY

Economic activity in the Tenth District increased modestly compared with the previous survey, and expectations for future activity were positive in most sectors. Consumer spending rose moderately as sales in the retail, restaurant and tourism industries picked up. Manufacturing activity expanded slightly at both durable and nondurable goods-producing plants in June. Wholesale trade, transportation, professional and high-tech firms reported considerable gains in sales activity. District real estate activity edged up, with contacts noting stronger construction activity, higher prices and increased residential sales. Bankers reported modestly stronger loan demand, stable deposit levels and unchanged loan quality and credit standards. The energy sector continued to contract but at a slower pace than in the previous survey period. District farm revenue improved modestly due to higher corn, soybean and hog prices. Input prices increased slightly, and wages picked up across most sectors.

Consumer Spending. Consumer spending rose moderately in June, and expectations for future growth were favorable across most sectors. Retail sales continued to grow moderately and were higher than year-ago levels. Several retailers noted an increase in sales for promotional items and summer outdoor products, while home improvement and building material products sold poorly. Contacts anticipated moderate retail sales growth in the months ahead, and inventory levels were expected to rise at a modest pace. Auto sales were flat and remained below year-ago levels, but dealer contacts expected a moderate pick-up in the coming months. Auto inventories decreased and were expected to fall further. Restaurant sales edged up moderately in June, and contacts expected solid improvements in the months ahead. District tourism activity improved further since the previous survey and remained above year-ago levels, although respondents expected some weakening in the next few months.

Manufacturing and Other Business Activity. Manufacturing activity expanded slightly in June, and other business activity rose considerably. The improvement in manufacturing activity was spread across both durable and nondurable goods-producing plants, particularly aircraft, food, plastics, and electronic equipment. The production, shipments, and new orders indexes increased markedly in June and indicated a pickup in manufacturing activity over the past month. However, most indexes

remained below year-ago levels. Manufacturers' capital spending plans rose moderately, and expectations for future activity were solid.

Outside of manufacturing, wholesale trade and transportation firms reported a strong increase in sales, while activity in professional and high-tech firms rose modestly. Transportation contacts expected activity to continue to improve in coming months, but wholesale trade, professional, and high-tech firms anticipated sales to remain flat. Transportation and wholesale trade firms reported modestly higher capital spending plans, while professional and high-tech contacts expected capital spending to remain mostly unchanged.

Real Estate and Construction. District real estate activity continued to increase moderately in June, and contacts anticipated additional gains in the next few months. Residential real estate sales and home prices rose moderately compared to the previous survey period, and sales of low- and medium-priced homes continued to outpace sales of higher-priced homes. Contacts anticipated that home sales would continue to grow moderately in the coming months, and home prices would rise at a strong pace. Residential inventories were well below year-ago levels, and further decreases were expected in the months ahead. Residential construction firms noted a strong increase in housing starts, sales and construction material inventories compared to the previous survey period and the same time last year. Commercial real estate activity strengthened modestly as absorption, completions, construction underway and prices picked up. Sales of commercial real estate were flat over the previous survey period but were moderately above year-ago levels. Expectations for the commercial real estate market were positive.

Banking. Overall loan demand expanded modestly in June, with bankers indicating steady demand for consumer and commercial and industrial loans and increased demand for commercial real estate, residential real estate and agricultural loans. Most bankers reported that loan quality was unchanged compared to a year ago, and a majority of respondents did not expect a change in quality over the next six months. Credit standards remained largely unchanged in all major loan categories, and deposit levels were stable.

Energy. The pace of contraction in District energy activity slowed moderately since the last survey period, while expectations for the coming months improved markedly but remained cautious.

The number of active oil and gas drilling rigs fell modestly, particularly in Oklahoma. Local firms expected oil prices to increase somewhat by the end of this year, as several global supply disruptions together with faster-than-expected declines in domestic production and improved global demand forecasts were projected to help balance oversupply. However, producers did not anticipate significant changes to their credit availability and continued to expect more defaults, bankruptcies, mergers and acquisitions in the sector. In the natural gas market, the natural gas spot price rose to its highest level this year due to a strong seasonal increase in summer demand and flat production levels.

Agriculture. District farm revenue improved modestly from the previous reporting period. Despite market volatility, corn and soybean prices rose modestly due to international production concerns, providing some relief to persistently weak profit margins in the District's farm sector. Wheat prices remained flat compared to the previous survey period, and profit margins remained tight even though early reports of harvested yields have been strong. In the livestock sector, hog prices rebounded to year-ago levels and were generally above the breakeven cost of production. Conversely, cattle prices declined slightly from the previous reporting period due to slightly softer demand which continued to suppress profits in the District's cattle sector.

Wages and Prices. Input prices in most sectors edged up compared to the previous survey period, while selling prices were mixed and wages continued to grow. In the retail sector, input prices rose slightly, while selling prices increased at a slower pace than in the previous survey. Restaurant input prices held steady after falling in the prior survey, and menu prices remained flat. Transportation input prices rose modestly, while selling prices held steady. Construction prices continued to increase slightly. Manufacturers reported a continued decrease in finished goods prices, despite a modest rise in raw material costs. Manufacturers expected both finished goods and raw materials prices to pick up in the coming months. Restaurant and transportation contacts continued to report modest wage growth, while retail sector wages grew moderately. Contacts in these sectors expected wages to increase in the next few months. Respondents noted shortages for commercial drivers, production workers, and skilled technicians.

ELEVENTH DISTRICT—DALLAS

Economic activity in the Eleventh District expanded slightly over the past six weeks. Manufacturing activity fell, while demand for nonfinancial services increased. Retail sales rose slightly on net, with automobile sales remaining strong. Real estate activity continued to expand in most markets. The energy sector saw improved sentiment, although demand for oil field services largely remained depressed. Loan growth softened and agricultural conditions remained favorable. Reports of employment changes and price pressures varied. Outlooks were generally positive but more cautious, with the upcoming presidential elections and the Brexit vote driving some of the uncertainty.

Prices Price pressures were mixed over the reporting period. Input costs were flat to up, with some contacts noting sharp increases in steel prices. Selling prices were mostly flat to down in the manufacturing sector, although a few manufacturers reported modest increases. A couple of retailers mentioned offering more discounts in the second quarter, and auto dealers said a slight increase was expected in auto prices with the new model year release. Excess capacity in the rail and airline industries exerted downward pressure on prices, and one staffing firm noted cutting margins for some clients, although others noted no change in rates. Courier cargo prices rose and professional and technical services firms said prices were up compared with last year. Fuel and chemical prices on the Gulf Coast increased with oil prices over the reporting period, but remained below year-ago levels.

Labor Market Employment reports varied across sectors. Employment levels declined in the manufacturing sector, and energy service firms continued to trim payrolls. Retail employment was flat, with scattered reports of hiring. Reports of hiring were more prevalent across the service sector, with accounting firms noting ongoing labor shortages and leisure and hospitality contacts noting difficulty retaining employees and finding qualified candidates both at the entry and management level. There were also some reports of skill shortages and hiring difficulties for IT professionals, medical staff and construction workers.

Wage pressures were minimal aside from upward pressure for certain skilled occupations in industries such as high-tech manufacturing, legal services and auto sales. Some contacts noted concern over the new overtime pay ruling and its impact on compensation costs.

Manufacturing The manufacturing sector contracted over the reporting period, with contacts citing headwinds from uncertainty in global markets, slow global growth and low oil prices. Construction-related manufacturers saw stable demand, with a few contacts noting dips in activity due to recent rains. Dallas continued to outperform other large Texas metros, while construction backlogs in Houston were drying up. New orders declined in food, machinery, primary metals and transportation

equipment manufacturing, and there was little to no growth in high-tech manufacturing. Overall demand for fabricated metals fell over the reporting period but a few manufacturers noted an uptick in bookings.

Refinery utilization rates remain healthy but margins have softened. Gulf Coast chemical producers were generally receiving better margins due to the wider spread between oil and natural gas prices, as chemicals domestically are produced with natural gas and have a cost advantage over oil-based production in other parts of the world. That said, the strong dollar remained a challenge. PVC demand increased in May to its highest level in three years, which may indicate a pickup in U.S. construction. Outlooks remain positive for 2016, although were soft compared to 2015.

Retail Sales Reports on retail demand varied, but overall sales grew modestly during the reporting period. Softness was attributed to sluggish sales along the Texas/Mexico border, slow economic growth in Texas, and continued conservative spending on apparel. Inventories were reported to be in good shape as contacts were actively managing them. Sales this year are expected to be below 2015 levels, despite some retailers anticipating a pickup in the second half of the year.

Auto sales held steady and were in line with year-ago levels. Auto sales are projected to be strong in 2016, but contacts expressed concern about the potential negative impact of the election on consumer confidence.

Nonfinancial Services Overall demand for nonfinancial services expanded over the past six weeks. Staffing services firms said demand was mixed. Construction placements saw a slight seasonal increase, and orders for workers in healthcare, education, logistics and distribution sectors rose as well. Demand for engineers softened and there were layoffs in the steel industry. The Dallas area continued to be the strongest market. Higher demand for professional and technical services was reported. Legal sector activity grew at a slower rate as litigation work was largely mixed, but transactions work increased. Energy-related legal work ticked upward due to higher demand for bankruptcy and corporate restructuring. Accounting demand was robust, with a healthy pipeline, and consulting firms said growth in Austin and Dallas was keeping them busy. Leisure and hospitality contacts saw continued moderate growth in demand in all major Texas markets, including Houston and the Gulf Coast, but cited some softening in peripheral oil and gas areas. Outlooks were cautious, with some leisure and hospitality contacts voicing political uncertainty as a concern.

Cargo volumes were mixed over the reporting period. Chemical plant expansion along the Gulf Coast boosted truck cargo volumes, while declines in courier and air cargo were reported. Overall rail cargo dipped as well; however, grain shipments rose strongly, leading to increased optimism in outlooks. Airline passenger demand was stable over the reporting period but slightly lower than a year ago.

Construction and Real Estate Home sales rose during the reporting period. Sales continued to be characterized as good in Austin and Dallas–Fort Worth, and steady to down in Houston. Sales of entry-

level and first-move-up homes continued to be strong, while a few contacts noted weakness at the very high end of the market. Homebuilding was active, although some delays were reported due to recent rains. Builders in Houston were contracting for fewer lots and there was some softness in lot pricing in Houston.

Overall, apartment demand was strong. Rent growth was brisk in Austin and Dallas–Fort Worth and steady in San Antonio. Multifamily construction ramped up in Dallas–Fort Worth. In Houston, new apartment deliveries were putting pressure on rents and one contact noted negative rent growth. Still, occupancy remained high in all four major metros. Outlooks for the residential sector were positive except for Houston, where contacts expect continued weakness this year.

Demand for office space was healthy in Dallas–Fort Worth, but dampened further in Houston where sublease space continued to spike, putting pressure on office rents. Industrial leasing was active in both metros.

Financial Services Loan growth softened over the past six weeks. Commercial and industrial loan growth fell, and commercial real estate loan growth appears to have finally plateaued. Residential lending continued to expand at an anemic rate, excluding refinancing and home equity loans. Consumer loan growth remained steady, particularly due to strong auto lending. Most contacts noted softer deposit growth and no change in interest on deposits. Loan standards were very tight for energy related loans; however, strong competition among lenders has relaxed standards across other loan types. Contacts cited heightened uncertainty in their outlooks following the Brexit vote, and were more pessimistic than in the previous reporting period.

Energy Demand for oilfield services remained depressed even as overall business activity improved and the rig count ticked up over the reporting period. Defaults, bankruptcies and mergers and acquisitions continued to climb. Firms were increasingly confident that oil prices have found a bottom and that market fundamentals will tighten in the second half of the year. However, firms would like to see these higher prices for a while longer before making any changes to existing business plans. Contacts say the worst is likely over, but there is little hope for substantial growth in activity or employment before 2017.

Agriculture Production prospects for crops remained strong across most of Texas thanks to good soil moisture and favorable weather. Crop prices generally improved over the reporting period and, while still fairly low, some pushed above break-even levels. Developments on the livestock side were mixed. While measurable rainfall across the state continued to benefit pasture conditions, cattle prices fell and feed costs rose.

TWELFTH DISTRICT–SAN FRANCISCO**Summary**

Economic activity in the District continued to grow at a moderate pace during the reporting period of late May through June. Overall price inflation remained modest, while wage pressures increased further. Sales of retail goods picked up somewhat, as did activity in the consumer and business services sector. Demand for manufacturing products was largely flat. Improved growing conditions boosted activity in the agriculture sector. Real estate market activity expanded further, although conditions eased slightly for commercial properties in some areas. Lending activity grew moderately.

Prices and Wages

Overall price inflation remained modest over the reporting period. Commodity prices were largely unchanged at low levels, decreasing input costs for many industries and keeping retail grocery prices largely unchanged. Apparel prices have started to stabilize following earlier declines, as inventories have been reduced in line with lower levels of consumer demand and discounting has decreased. Price changes were mixed for pharmaceutical products, with contacts reporting continued growth in the prices of branded products and price declines for many generic drugs. Prices of consumer electronics continued to decline, in line with longer-term trends. Increased competition among hotels slowed the growth of room rates, particularly in Southern California.

Wage inflation picked up further over the reporting period. Overall, demand and wage growth for skilled professionals picked up in most sectors. Contacts in the banking industry reported continued strong wage growth for cybersecurity professionals. Shortages of software engineers further pushed up wage inflation for skilled workers in the technology sector. Wages increased for both high-skilled and low-skilled construction workers in regions with robust residential housing markets. Contacts in the hospitality sector reported unusually high and rising quit rates among low-skilled workers and worker shortages across most job categories, driving up wages. In the retail grocery sector, rising competitive pressure from online providers has prompted consolidation and reduced employment.

Retail Trade and Services

Demand strengthened somewhat in the retail sector. Sales of smartphones picked up, as did demand for connected devices and wearables more generally. Consumer preferences continued to shift towards online purchases, reducing sales at brick-and-mortar retailers in the apparel and retail grocery sectors. Sales of motor vehicles eased somewhat, and contacts noted that some dealers were selling new vehicles at a loss to meet sales quotas set by manufacturers.

Activity in the consumer and business services sector picked up over the reporting period. Demand for both international and domestic air travel continued to rise, although contacts reported that small and medium-sized airports experienced less passenger growth than larger hubs. Contacts in the technology sector reported that demand for cloud and cybersecurity services continued to grow. E-commerce sales of a range of products boosted domestic demand for transportation services, but this was offset somewhat by the restraining effects of the strong dollar on export volumes. In the hospitality industry, the supply of hotel rooms outstripped demand, and average length of stay declined, pushing prices lower and slowing profit growth.

Manufacturing

On balance, manufacturing activity was flat over the reporting period. Contacts in the utilities industry reported a decline relative to last year in energy usage by manufacturers, due mostly to weak production in the oil and gas extraction sector. Demand for semiconductors remained weak, holding down investment in capacity expansion. Additionally, a recent slowdown in technological advances and productivity gains contributed to slower sales growth in the IT sector. Looking ahead, however, contacts expect demand for IT products to strengthen as firms in various sectors update aging infrastructure and adopt newer operating systems. Contacts expect activity in the automotive manufacturing sector to slow as sales volumes appear to have peaked, and firms have shifted their focus to cost-cutting initiatives. Production of pharmaceuticals expanded at a modest pace; however, contacts reported setbacks in the production of some flagship products. Contacts reported a backlog in orders of new commercial aircraft, which created favorable spillover effects for regional input suppliers.

Agriculture and Resource-Related Industries

Activity in the agriculture sector picked up over the reporting period. Increased water supply following a wet winter has improved growing conditions in California and other states, boosting yields and quality for various crops. Demand for beef cattle strengthened, and contacts noted that ranchers were beginning to realize profits after a prolonged period of losses. Overall, the strong dollar continued to hold down exports for most goods. However, strong demand from Asia boosted exports of pork products, while lingering overseas supply shortages from last year's avian influenza outbreak boosted exports of poultry products.

Real Estate and Construction

Real estate market activity expanded further in general, although it slowed for commercial properties in some areas. Construction of residential units remained strong; however, shortages of skilled labor and available land constrained growth in some regions. One contact noted that property shortages in desirable residential areas have prompted developers to reduce lot sizes. Profit margins continued to grow in most regions as the growth in house prices outpaced rising labor costs. Demand for commercial real estate continued to expand in most areas. Contacts in the San Francisco Bay Area, however, noted that tighter financial conditions have undermined expansion in the technology sector, causing slower demand growth for commercial space and pushing up the volume of properties available for sublease.

Financial Institutions

Lending activity grew moderately over the reporting period. Contacts reported moderate, broad-based growth in loan demand by businesses and consumers. However, consumer demand for revolving credit eased slightly. Deposit growth at banks was strong, with ample liquidity reported. Credit quality continued to improve. Overall, credit remained readily available; however, a few contacts reported that valuations for some technology companies had declined, tightening the supply of credit available to small and medium-sized businesses in that sector. Contacts noted that regulatory and cybersecurity costs and the current low interest rate environment held down net margins and profitability somewhat.