COMMERCIAL REAL ESTATE EDITION:
MORE THAN MODEST ACTIVITY IN MOST DISTRICTS

The Summary of Commentary on Current Economic Conditions by Federal Reserve District (aka the “Beige Book”) is released two weeks prior to the Federal Open Market Committee meeting, which convenes eight times a year to discuss economic and policy options. At the conclusion of its most recent meeting (September 20), the federal funds target rate range was maintained at 1.00% - 1.25%.

The Beige Book (released 9/6/17) contains anecdotal information about economic activity collected from throughout the Federal Reserve’s 12 Districts on or before August 28. The Beige Book’s qualitative nature provides an opportunity to identify emerging trends that may not be more apparent in the available economic data. Comments pertaining to commercial real estate (CRE) are summarized below:

**MARKET CONDITIONS:** All 12 Districts indicated modest/moderate economic expansion (up from 10 in the prior period). Overall CRE activity was strong/strengthening in Atlanta, Chicago, Cleveland and San Francisco, modest in St. Louis, Minneapolis and Kansas City, up slightly in Philadelphia, and mixed in Boston, New York, Richmond and Dallas.

- **Office:** Atlanta demand was relatively strong, Cleveland reported stable vacancy (and slowly rising asking rents), Richmond leasing remained limited, and the Dallas District had mixed leasing (sluggish in Houston and solid in Dallas/Ft. Worth).
- **Industrial:** Atlanta and Dallas were described as strong, while Philadelphia leasing was stable and Richmond leasing softened (but limited inventory pressured rents).
- **Retail:** Philadelphia, Cleveland and San Francisco reported that physical stores continued to experience difficulties. Richmond leasing remained strong, while Minneapolis indicated that despite store closures, expansions were also seen in many of the District’s metros.
- **Multifamily:** New York was mixed, as New York City effective rents drifted down and rising concessions maintained vacancy, while in northern New Jersey and parts of upstate New York have been fairly robust, with steadily rising rents. Cleveland rent increases were described as moderate to strong and St. Louis reported decreased demand. In the Dallas District, Austin leasing remained active, but incentives at new high-end properties was intense, while Houston demand firm.
- **Hospitality:** Richmond and San Francisco were strong, Minneapolis was generally positive, Philadelphia grew modestly, and St. Louis was mixed, while Atlanta and Kansas City weakened.

**CONSTRUCTION:** Commercial activity rose or remained at strong levels in Cleveland (office), Atlanta, St. Louis (hotels) and Kansas City, mixed conditions were reported in Minneapolis and Richmond (speculative industrial increased), and little change was observed in Philadelphia and Chicago, while New York “ground to a halt” (except northern New Jersey office and industrial). Multifamily development slowed in New York, Cleveland, and Richmond, was mixed in Atlanta, and robust in Minneapolis and St. Louis. Material costs rose in Cleveland, Richmond and San Francisco, while labor scarcities were observed in Cleveland, Atlanta, St. Louis, Dallas and San Francisco.

**TRANSACTIONS:** In the Boston District, sales modestly declined in Boston and Portland (and remained light elsewhere). Cleveland reported strong office price increases and Richmond office sales increased.

**LENDING ACTIVITY:** Throughout most of Boston, industrial property demand remained robust, with banks aggressively pursuing lending opportunities, while some banks required additional equity for apartment construction loans. New York indicated no change in commercial mortgage demand, but some tightening in credit standards. CRE borrowing grew in Cleveland, Richmond, and Atlanta, but remained stable in Kansas City, while Dallas grew at a slower pace.
The following table highlights CRE comments from each of the 12 Federal Reserve Districts. Please refer to the map (page 11) for individual District geographic boundaries, as well as the location of the 12 Reserve and 24 Branch Banks.

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<th>DISTRICT</th>
<th>CRE RELATED COMMENTS</th>
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<td><strong>Boston</strong></td>
<td><strong>District 1</strong></td>
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<tr>
<td><strong>Summary</strong></td>
<td>...economic activity...expanded modestly to moderately...retailers and manufacturers mostly reporting increases in revenues compared with a year earlier. Most staffing firms...cited revenue declines attributed to tight labor supply. <strong>Commercial real estate markets were mixed across the region, with little change in leasing fundamentals and some loosening of commercial sales markets.</strong> Residential real estate markets...continued to experience increases in prices and declines in sales. Most responding firms cited a positive outlook.</td>
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<tr>
<td><strong>Employment and Wages</strong></td>
<td>Despite labor supply falling short of demand in many cases, wage pressures continued to be modest. Retailers’ hiring plans were said to be in line with planned store expansions and they cited “not much” wage pressure...</td>
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<td><strong>Retail and Tourism</strong></td>
<td>...most recent year-over-year comp store sales results ranged from low single-digit decreases to low single-digit increases...younger adults tend to make more purchases online, leading to fewer in-store sales...attributed recent sales increases or decreases in part to changes in customer traffic. The outlook for the remainder of 2017 is positive.</td>
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<td><strong>Commercial Real Estate</strong></td>
<td>...markets remained somewhat mixed across the...District...leasing activity was very slow in both Hartford and Portland, modest in Providence, and moderate in Boston. In both Portland and Providence, limited inventories in the office and industrial sectors were seen as restraints on leasing activity...a Portland contact noted that demand for office space was also soft. Leasing fundamentals were mostly flat across the region, with the exception that office rents increased modestly in Providence and rose slightly in Boston.</td>
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<td><strong>New York</strong></td>
<td><strong>District 2</strong></td>
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<td><strong>Summary</strong></td>
<td>Economic activity...has picked up somewhat...expanding at a moderate pace, and labor markets have remained tight. Input prices continued to rise moderately...selling prices were flat to up modestly. Manufacturers noted a brisk pickup in business activity...service-sector businesses reported more moderate gains. Consumer spending expanded modestly...tourism picked up somewhat, and consumer confidence has remained close to a cyclical high. Housing markets were somewhat stronger, though sales volume in many areas has been restrained by a dearth of homes on the market. <strong>Commercial real estate markets were generally steady.</strong> New residential construction activity has slowed slightly...commercial construction has been flat. Banks reported some tightening in credit standards on commercial mortgages.</td>
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<td><strong>Consumer Spending</strong></td>
<td>Retailers reported that sales have been a bit firmer in recent weeks. One major chain reports that sales picked up and have been running ahead of plan in July and the first few weeks of August. Similarly, retailers in upstate New York have seen some pickup in both traffic and sales in recent weeks. Inventories were generally reported to be in good shape...</td>
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<td><strong>Consumer confidence in the Middle Atlantic states (NY, NJ, PA) has retreated from its multi-year high set during the spring but has remained at a high level.</strong></td>
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<td><strong>Manufacturing and Distribution</strong></td>
<td>Manufacturers reported that business activity has expanded at an increasingly brisk pace...the transportation industry...continued to report modest growth...wholesale trade noted that activity was generally flat...manufacturers remained broadly optimistic about the near-term outlook...those in transportation and wholesale trade expressed a more moderate degree of optimism.</td>
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Services
Businesses in most service industries reported some pickup in business activity. Professional & business services and education & health services noted modest increases in activity. Service sector businesses were generally optimistic about the near-term outlook, except in the leisure & hospitality industry. Broadway theaters reported stronger than usual attendance and revenues for the summer months. In New York City...tourism has picked up somewhat, advance bookings for the months ahead have been softer.

Construction and Real Estate
Housing...Rental markets have...been mixed. In New York City, effective rents have drifted down—face rents have been flat...rising concessions have kept vacancy rates from rising. In northern New Jersey and parts of upstate New York, rental markets have been fairly robust, with rents rising steadily.

Commercial real estate markets have been mixed but steady, on balance. The market for office space has softened a bit in upstate New York and Long Island but tightened modestly in New York City. The market for industrial space, which had been tightening for quite some time, appears to have lost some momentum. Availability rates were steady near multi-year lows in downstate New York and northern New Jersey but edged down to new lows in upstate New York...industrial rents...continued to rise, running 8-10 percent above comparable 2016 levels.

...new multi-family development has slowed. While there continues to be a good amount of multifamily construction in progress throughout the District, new starts have slowed considerably, except in northern New Jersey. Similarly, new commercial development has largely ground to a halt, except in northern New Jersey, where new construction starts for both office and industrial space remain fairly brisk.

Banking and Finance
...no change in demand for commercial mortgages...Some tightening in credit standards...for commercial mortgages...

District 3
Philadelphia
Summary
Aggregate business activity...resumed a modest pace of growth...a bit stronger than...the prior period...reports were mixed by sector. Manufacturing, nonfinancial services, new home sales, and tourism grew modestly; nonresidential construction and leasing appeared to grow slightly; non-auto retail sales and new home construction activity exhibited...no growth...auto sales declined modestly. These trends were an improvement over the prior period for non-auto retail sales, new home construction, and nonresidential construction and leasing...less positive for manufacturing and more negative for auto sales...employment, wages, and prices continued to grow at a modest pace...firms appear to anticipate continued modest growth over the next six months with a somewhat larger percentage of firms expecting growth.

Consumer Spending
As physical stores continued to struggle, non-auto retail...reported little change in sales...an improvement over the modest declines of the prior period. In...traditional malls, declining apparel sales pulled overall sales negative in June, although remaining segments were up. An outlets operator reported a summer resurgence and good back-to-school sales through the current...period...

Tourism held steady at a modest pace...mountain resorts appeared to make greater gains than the shore locations this summer. Strong gains were reported from the Poconos and from Amish country...a Delaware shore contact noted concerns about shorter stays and more cautious spending. A Philadelphia analyst noted that demand exceeded expectations, locally and nationally, and that international tourism seems to have held steady.

Financial Services
...Commercial real estate...grew modestly...

Real Estate and Construction
...Nonresidential...reported slight growth in construction activity, which had been flat last period; individual markets do vary by sector and geography. Leasing activity also appeared to grow slightly, at best...the industrial market was holding up nicely, but...two spec buildings have taken longer to lease up than has been the case recently. Contacts...reported that the Philadelphia office market was getting tighter, with steady demand being met mostly by changing space utilization and shifting locations within the region’s footprint rather than by new office construction. The rental market is shifting in favor of landlords.
### District 4

**Cleveland**

**Summary**

Aggregate business activity grew at a moderate pace...an improvement from the modest growth seen in the prior period. Labor markets expanded... *wage pressures reported primarily in the construction, manufacturing, and energy sectors.* **Upward pressure on prices paid was prevalent in the construction industry.** Freight carriers and **construction contractors increased billing rates and reported little pushback.** Consumer spending at brick-and-mortar establishments rose slightly...new motor vehicle sales strengthened. Manufacturing activity grew slightly overall, but production at District motor vehicle assembly plants trended lower. Nonfinancial services firms saw moderate gains in activity. Year-to-date residential real estate unit sales stayed above year-ago levels and selling prices were higher. **Activity in the commercial real estate market remained elevated.**

**Employment & Wages**

District payrolls continued to expand, although at a slower pace... **Staffing increases were notable in the manufacturing and construction sectors...** energy firms and brick-and-mortar retailers described payrolls as flat. Several industrial products manufacturers filled openings that had previously been left vacant, or they created new positions because of rising demand and an improving outlook for sustained business growth. **Construction contractors reported a shortage of experienced labor, making it difficult to fill newly created positions.** To be in compliance with newly enacted electronic logging regulations, freight carriers anticipate adding drivers in order to maintain capacity. **Wage pressures were felt primarily in the construction, manufacturing, and energy sectors in response to employee turnover.** Mid-year wage increases were widespread in most other industry sectors.

**Prices**

Similar to the previous...period, upward pressure on prices paid eased somewhat when compared to that of the second quarter. **Construction contractors saw rising prices for lumber, concrete, and wiring products.** A few manufacturers and upstream oil and gas companies cited an upward trend in steel prices. Selling prices for products and services were stable on net. **Construction contractors and freight carriers increased billing rates and reported little pushback.** Contractors attributed the need to increase rates to rising labor and material costs, and an increase in demand...

**Consumer Spending**

**Consumer spending at brick-and-mortar department stores rose slightly...** revenue growth at specialty stores was characterized as flat or lower. Contacts reported that revenue gains from online shopping have not yet offset declines from brick-and-mortar operations. Retailers were satisfied with sales of furniture, food, and women's apparel. Purchases of electronics products remained soft...

**Industrial Production**

Overall activity in the manufacturing sector picked up slightly... **Factors contributing to the expansion included strong demand for construction materials...**

**Real Estate and Construction**

...Nonresidential real estate activity generally remains at an elevated level. Building contractors reported strong backlogs, though inquiries are beginning to show signs of slowing. The highest demand was for commercial property development, including office buildings, and public infrastructure projects. Office vacancy rates are stable, and asking rents are slowly rising. A strong increase was reported in selling prices for office properties during the first half of 2017 compared to those of a year ago. Reports indicated a slowing in the construction of multifamily housing, as lenders and investors are considering pulling back from commitments to multifamily development projects. Apartment rental increases were described as moderate to strong.

**Banking**

... **Strongest demand was for CRE loans...**

### District 5

**Richmond**

**Summary**

...economy continued to expand at a modest pace...reports from some sectors were a little more mixed...Moderate growth in new orders and shipments was noted by manufacturing firms; ports and trucking companies reported increased cargo movements. Retail sales were mixed but mostly flat in recent weeks... **tourism and travel activities were strong.** Existing home sales declined slightly...new home sales and construction were said to be up modestly. **Commercial leasing increased at a slightly slower pace in recent weeks; reports on commercial construction were mixed.** Overall loan demand increased slightly as business lending was up modestly...residential lending was relatively flat. Services firms indicated that revenues grew moderately. Labor demand strengthened moderately and prices increased at a modest pace.
Employment and Wages
Labor demand continued to strengthen moderately...employment agencies noted slightly lower levels in new job openings...they anticipated a significant increase during the fall recruitment months. Wage increases remained modest across all sectors...a few firms reported increased wage pressures to retain top talent...Executives reported difficulty finding qualified cybersecurity specialists, mechanics, accounting professionals, construction workers, agriculture workers, truck drivers, and customer service agents.

Prices
prices rose at a modest pace...services firms indicated that prices grew modestly...Manufacturing input prices grew a modest rate and continued to outpace final goods price growth. Contacts throughout the Fifth District specifically noted increases in prices for steel and scrap metal, fuel, and construction inputs, such as lumber and dirt. Contracted trucking prices reportedly rose moderately as capacity continued to tighten. Conversely, an architectural firm noted that increased competition over bids was driving fees down slightly...

Ports & Transportation
Cargo volumes at District ports remained robust...and continued to increase modestly. Most ports were seeing growth that was in line with, or better than, expectations...Growth in import volumes continued to exceed that of exports...trucking firm executives were unusually consistent as they reported moderate increases in shipments, broad-based strength in demand, and very steady growth beginning around April. One trucking firm executive suggested that he had “the luxury” of being able to turn down business. A regional airport...reported that air cargo shipments were up significantly over the year and...no signs that...growth...was trailing off.

Retail, Travel, & Tourism
...retail sales were flat to up...some variation by segment. A home furnishings store reported the largest improvement in sales in the past six to seven years, although margins were down due to discounting. Clothing sales were flat to slightly up, with considerable variability from month to month. Hardware and home improvement stores saw strong sales for seasonal outdoor items, but slower growth for smaller-ticket hardware sales...

Tourism and recreation activities were strong...A rafting and outdoor adventures business in West Virginia experienced a record July, despite double-digit increases in many of their activity prices...a western Virginia outdoor recreation facility reported a dip in July activity, but saw bookings picking up at a normal pace for September and October. In coastal North Carolina, visitors were up relative to last year, despite a power outage in the Outer Banks, and restaurants and retailers were busy. Modest growth in hotel occupancy was reported in western North Carolina as well as Washington, DC, although average daily rates were mostly steady.

Real Estate & Construction
...Commercial real estate leasing rose modestly in recent weeks, slowing slightly from the previously reported pace. Industrial leasing transactions generally declined...retail leasing and sales remained strong. Office leasing remained limited...a few brokers reported an increase in office building sales. Vacancy rates remained low across markets. Rental rates were stable to increasing modestly...reports of rising rate pressure in the industrial market due to lack of inventory. Commercial construction accounts were mixed. Realtors reported more industrial warehouse construction and noted an increase in speculative building...office construction remained limited throughout the District. Reports from brokers in Virginia Beach and Columbia, South Carolina said there were fewer new multi-family developments taking shape and fewer sales in recent weeks...agents throughout North Carolina and in Charleston, South Carolina, central Virginia, and the District of Columbia said that demand is keeping pace with new construction and new space is needed.

Banking and Finance
...Commercial real estate...lending picked up modestly...

District 6
Atlanta

Summary
...economic activity expanded at a modest pace...outlook...remains optimistic as most expect slow and steady growth over the remainder of the year. Businesses reported continued tightness in the labor market...wage growth remained flat for most...jobs...non-labor input costs remained steady...most retailers indicated that sales increased slightly...auto dealers noted soft sales activity. The hospitality sector continued to experience weakening activity. Residential brokers and builders cited that sales of existing and new homes were flat to slightly up from a year ago and home prices continued to rise modestly. Commercial real estate firms reported that demand continued to improve and construction increased from a year ago. Manufacturers noted that activity pulled back slightly...Bankers indicated that credit continued to be available.
Employment & Wages

...labor demand continued to outweigh supply. Construction industry contacts reported that the lack of available labor was still so severe that companies were turning down business opportunities. The leisure and hospitality industry experienced notable net gains in payrolls across the region; however, continued to describe challenges filling positions during the summer. Some employers who rely on immigrant labor—either directly or indirectly—continued to express concerns that efforts to tighten immigration were having a tangible drag on the supply of labor. Turnover was mixed across the region...firms pursued opportunities to increase operational efficiencies by evaluating whether to fold one job into another, replace position(s) with technology, and/or shift the salary towards training and development of other employees.

Firms continued to implement various methods to attract and retain top talent, often in lieu of wage increases...in addition to offering flexible work hours and locations, more vacation time, and training and education opportunities, they were increasingly focused on social responsibility initiatives and support systems to encourage work-life harmony. Some...indicated that these non-wage compensation mechanisms were losing their effectiveness, thus broad wage increases were expected in the near term. Some firms noted increased offerings of early retirement packages in an attempt to lower overall compensation costs (replace higher-paid, tenured workers with technology or lower-paid, entry to mid-level workers). Businesses continued to report increases in starting wages to attract new hires for high-skill positions...most contacts indicated that these increases remained in the two to three percent range.

Consumer Spending & Tourism

...sales levels were higher than expected in July. Retailers noted that back to school shopping and online sales helped boost overall sales levels...

...tourism and hospitality...reported that activity over the summer season was softer than expected, which they attributed to significant rainfall throughout the region. In most markets, hotel occupancy achieved expectations...average daily rates remained subdued. Many...noted that the outlook for the remainder of the year should be in line or slightly below forecasts made earlier in the year.

Construction & Real Estate

...Many...reported improvements in demand that resulted in rent growth, but they cautioned that the rate of improvement varied by metropolitan area, submarket, and property type. The majority of commercial contractors indicated that the pace of nonresidential construction activity had increased from one year ago, but a growing share noted that activity was down slightly. Most...reported healthy backlogs...several...indicated that the pace of multifamily construction matched or exceeded the year-ago level, some continued to report that activity was down from one year earlier...commercial construction...expectations for the pace of nonresidential construction over the third quarter was mixed...their outlook for the pace of multifamily construction continued to level off.

Transportation

Reports...were little changed...Ports continued to indicate strong growth in containerized, bulk, and break-bulk cargo. Total rail traffic remained flat...Year-to-date intermodal traffic...was up modestly. Logistics and freight forwarding contacts cited further growth in e-commerce shipments.

District 7

Chicago

Summary

...economic activity...slowed to a modest pace...growth to continue at that pace over the next 6 to 12 months. Employment, consumer spending, business spending, and manufacturing production all grew at modest rates...construction and real estate activity increased slightly. Wages and prices rose modestly. Conditions were little changed in the financial sector and worsened some in the agricultural sector.

Consumer Spending

Consumer spending increased modestly...Non-auto retail sales rose slightly, led by improvements in the furniture, building materials, food and beverage, and health and personal care segments. Grocery store sales were little changed...though...there was growth in delivery and pickup services...

Business Spending

Growth in business spending slowed to a modest pace...Retail inventories were slightly higher than desired. Manufacturing inventories were at comfortable levels overall, though a surge in steel imports led to elevated inventories at service centers. Growth in capital spending slowed to a modest pace...expected...to continue at that pace for the next 6 to 12 months. Outlays were primarily for replacing industrial equipment, IT equipment, and renovating structures, though there was an increase in the number...reporting spending for expansion.
### District 8
#### St. Louis

**Construction & Real Estate**
...Nonresidential construction was little changed...one contact noted decreasing demand from automotive suppliers for building new manufacturing facilities. Commercial real estate activity remained strong, edging up further...Commercial vacancy rates declined slightly...commercial rents and the availability of sublease space changed little.

**Manufacturing**
...Manufacturers of construction materials reported slow but steady growth in line with the pace of improvement in the construction sector... 

**Summary**
Economic conditions have improved at a modest pace...labor market conditions continue to improve...employment growth has leveled in recent months as contacts report difficulties filling open positions. Price pressures remain modest...fewer...contacts reported increasing prices charged to customers in recent months...business contacts...continued to hold an optimistic outlook for growth during the remainder of 2017... 

**Employment & Wages**
Employment has increased modestly...a variety of industries continued to report difficulties finding skilled or qualified employees. Construction contacts across the District reported shortages of both skilled and unskilled workers...

Contacts reported moderate wage growth...as tightness in the labor market...resulted in upward pressure on wages... 

**Prices**
...construction costs were mixed...St. Louis and Louisville noted rising construction costs...several Little Rock contacts reported declines in construction costs... 

**Consumer Spending**
...general retailers, auto dealers, and hoteliers portray a mixed picture of consumer spending activity...

**Hospitality contacts in Missouri reported that business activity has increased...hoteliers in Kentucky and Arkansas indicated a decline in hotel occupancy rates.**

**Nonfinancial Services**
...More than two-thirds of transportation and service contacts reported that sales met or exceeded expectations in the current quarter. More than half...reported higher dollar sales in the current quarter than...last year...slightly less than half expect sales to be higher in the next quarter than they were last year...transportation and information technology services reported plans to expand facilities and hire employees, particularly in the St. Louis region...healthcare firms remain mixed, but...more positive than earlier this year.

**Real Estate & Construction**
...Commercial real estate activity has improved modestly...relatively strong demand for most property types, particularly office and industrial...a decrease in multifamily demand relative to a year ago.

Commercial construction activity remained strong...optimistic outlook for the rest of 2017. Planning and development of new hotels continued throughout the District, particularly in Louisville and Memphis. Multi-family construction activity also remained robust.

### District 9
#### Minneapolis

**Summary**
...economy grew modestly...Employment grew modestly, despite tight labor conditions. Wage pressure was moderate...price pressure was modest...economy showed growth in services, real estate, manufacturing, residential construction, tourism, and energy...consumer spending and commercial construction were mixed, and agriculture remained weak.

**Employment & Wages**
Employment grew modestly...despite continued tight labor conditions...Wages grew moderately...A Minnesota construction company said that office personnel wages “had very modest increases this year for some, and none for others.”
Prices
Price pressure remained modest... *A commercial contractor reported that construction materials prices were steady, but... budgeting for a 2 percent increase in construction costs largely due to labor costs.* Rental rates for apartments in Minneapolis-St. Paul have increased 4 to 5 percent over the last 12 months, according to industry sources, while increases in other commercial segments have been more modest, especially of late...

Consumer Spending & Tourism
Consumer spending was mixed... The most current data on statewide gross retail sales showed a decline in recent summer months in South Dakota and Wisconsin compared with a year earlier... sales tax revenue in North Dakota increased in July. *While store closures grabbed headlines, retail expansions were also seen in many metro markets in the District.* A mall manager in Minnesota reported that business was “good overall,” despite the loss of an anchor tenant.

*Summer tourism has been generally positive.* South Dakota’s annual Sturgis Motorcycle Rally saw an uptick in attendance of almost 5 percent over last year. Most regional and state fairs have seen increased attendance. Glacier National Park summer visits were up 25 percent over last year’s record attendance... attendance at other District national parks was spotty. Minnesota hotel occupancy rates in July were strong overall compared with a year earlier... some weakness was seen in St. Cloud and northern Minnesota.

Construction and Real Estate
*Construction was mixed... Industry data suggested that spending has slowed for commercial and heavy construction in the District compared with a year ago.* A southern Minnesota contractor said the company’s commercial construction volume was down one-quarter from last year due to delays for several projects... *commercial permits in July... were higher in a majority of the District’s larger cities,* with the notable exception of Minneapolis... region was flat but saw strong multifamily permitting. *Labor shortages were reportedly holding back more construction.* A Minnesota developer said his company could have built 40 to 45 homes this year, but was on track to build just 32 due to a lack of available labor.

*Commercial real estate grew modestly...* Industrial vacancy rates were at very low levels in Minneapolis-St. Paul, though rental rates were flat. *Office vacancy rates were flat to slightly lower.* Despite continued strong multifamily construction, vacancy rates in Minneapolis-St. Paul and Missoula, Mont. remained low...

Manufacturing
District manufacturing activity increased moderately...

**District 10 Kansas City**

Summary
Economic activity... increased modestly... most sectors expected moderate growth in future months. Professional, high-tech, and wholesale trade firms reported a strong increase in sales, and manufacturing activity expanded at a moderate pace. District energy activity expanded modestly... bankers reported steady to improving overall loan demand, stable deposit levels, and unchanged loan quality... *real estate activity continued to increase at a slight pace... consumer spending... growth was unchanged...* ... Agricultural conditions weakened but at a slower pace, with subdued farm income and slightly lower farmland values... transportation contacts indicated slightly lower sales... Employment and employee hours rose slightly in late July and August... most sectors reported moderate wage growth. Input prices were up moderately... selling prices increased modestly in most sectors.

Employment and Wages
Employment and employee hours across the District rose slightly... modest increases were expected in coming months... the wholesale trade, professional and high-tech services, real estate, education, health services, and manufacturing sectors reported an increase in employment... the retail trade, auto sales, transportation, restaurants, and tourism and hotels sectors noted a decline. All sectors except the auto sales and tourism sectors expected an increase in employment in the months ahead... average employee hours rose for all sectors except the retail trade, auto sales, and health services sectors, which experienced declines. Respondents noted a shortage of commercial drivers, salespeople, and service workers.

... most sectors reported moderate wage growth... expectations in the coming months were for strong wage growth.
Prices
...input prices were up moderately...selling prices increased modestly...contacts expected additional price increases in the months ahead...the retail sector reported moderately higher input and selling prices, with both expected to continue to rise moderately moving forward. Restaurant input prices grew at a moderate pace, while selling prices edged up. Selling prices in the transportation sector declined slightly, while input prices were up moderately after falling in the previous survey. Construction prices continued to expand modestly with slight increases anticipated in the coming months. Manufacturers reported slight growth in prices for finished goods, and raw material costs continued to edge higher. Manufacturers expected moderate increases in both finished goods and raw material prices over the next few months.

Consumer Spending
Consumer spending was mostly flat...expectations for future growth increased at a modest pace. Retail sales decreased slightly...but remained above year-ago levels. Several retailers noted an increase in sales for apparel and discounted items...higher-priced products sold poorly. Contacts anticipated sales to rise moderately in the next few months, and inventory levels were expected to increase modestly...Restaurant sales increased strongly and were well above year-ago levels...expected a moderate increase in activity heading forward...tourism activity decreased slightly...and was lower than a year ago. Tourism...expected activity to fall further heading into the fall months.

Manufacturing and Other Business Activity
Manufacturing activity expanded at a moderate pace...the majority of other business contacts reported moderate sales increases...Manufacturers’ capital spending plans rose moderately, and firms’ expectations for future activity remained favorable.

...professional, high-tech, and wholesale trade firms reported strong sales increases...transportation contacts indicated slightly lower sales...All firms expected a strong improvement in sales in the next six months. Professional, high-tech, and wholesale trade firms reported strong capital spending plans...transportation firms anticipated a slight decrease in capital expenditures heading forward.

Real Estate and Construction
...real estate activity continued to increase at a slight pace...Commercial real estate activity continued to expand modestly, as absorption, completions, construction underway, sales, and prices rose, while vacancy rates declined. Commercial real estate activity was expected to continue to increase at a modest pace...

Banking
...A majority of respondents indicated a stable demand for...commercial real estate...loans...

District 11
Dallas
Summary
...economy continued to expand at a moderate pace...Manufacturing output strengthened, and activity in nonfinancial services increased. Growth in retail sales accelerated...Home sales rose slightly...office leasing activity was mixed. Loan volumes expanded...demand for oilfield services was flat. Crop conditions remained mostly favorable. Employment, wages and prices increased. Outlooks remained positive, although several contacts expressed concern that policy-related uncertainty would impact the broader economy.

Employment & Wages
...employment rose, and wage pressures were similar to or up slightly...labor shortages were widespread across sectors, particularly for skilled workers. Manufacturers added to payrolls...some...noting that labor shortages were pushing up wages. The construction labor market generally remained tight. Hiring in the services sector continued...employment in retail was flat. Hiring in the upstream energy sector slowed, and some firms were considering reducing staff in the second half of the year. Airlines also noted a slower pace of hiring. Two staffing firms cited wage pressure for lower-level manufacturing positions...one...noted wage pressure for higher-level IT and engineering workers.

Prices
Selling prices increased at a faster pace...upward pressure on input costs. Staffing firms said pricing was flat, although one...noted renegotiating certain contracts at lower rates...

Manufacturing
The pace of expansion in the manufacturing sector picked up...Output growth strengthened for durable goods...Exports remained a source of weakness for some manufacturers who sell internationally. Overall, outlooks were positive, although some expressed concern about political uncertainty...
### Retail Sales
Retail sales expanded at a markedly faster clip...One...noted that the tax-free weekend stimulated sales. Sales of building materials and garden equipment rose...Outlooks among retailers were mixed.

### Nonfinancial Services
Demand for nonfinancial services expanded moderately...Demand for staffing services increased at a moderate pace. Activity in Dallas-Fort Worth increased...one contact noted an unexpected decline in demand from oil and gas firms in Houston. Professional and technical services firms saw revenue gains...firms tied to the energy sector cited continued sluggish demand. Accommodation and food services contacts noted slight increases in revenues...revenue at healthcare firms fell...Airlines said passenger demand was stable...Domestic travel remained solid, and activity along South American routes improved.

Transportation and warehousing firms noted higher revenues and an increase in cargo volumes...Rail cargo rose due to persistent strong gains in shipments of fracking sand...Parcel shipments were flat...but up from year-ago levels. Year-over-year growth in demand was driven by increases in shipments of non-durable goods, particularly food, apparel, petroleum and coal products, and plastics and rubber products. Outlooks among nonfinancial services firms were cautiously optimistic...some...expressing concern about the impact of the current political environment on the broader economy.

### Construction & Real Estate
...Apartment leasing remained active in Austin, but rent growth...moderated...incentives were being offered at the high end in submarkets, where competition was intense among new properties in the leasing phase.

Activity in Dallas-Fort Worth remained strong, although contacts expect growth to moderate. Apartment demand firmed up in Houston following earlier weakness, and outlooks were positive, with contacts expecting continued, gradual improvement.

Office leasing activity stayed sluggish in Houston and vacancy rates were elevated, putting downward pressure on rents. Fundamentals in Houston’s industrial market were healthy given near-record-low vacancy rates. One...noted that investor interest has picked up in Houston. Office and industrial leasing activity continued to be solid in Dallas-Fort Worth.

### Financial Services
Loan demand increased at a somewhat faster pace....Commercial...real estate loan balances grew at a slower pace,...Sentiments about future business activity and loan demand remained largely positive.

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### District 12
San Francisco

#### Summary
Economic activity...continued to expand at a moderate pace...Overall price inflation was flat...upward wage pressures intensified and labor market conditions tightened further. Sales of retail goods were unchanged...growth in the consumer and business services sectors remained strong. Manufacturing activity picked up at a moderate pace...activity in the agriculture sector expanded modestly...robust activity in residential real estate markets...conditions in the commercial sector strengthened. Lending activity grew at a modest pace.

#### Employment & Wages
Labor market conditions tightened further, and upward wage pressure intensified in most parts of the District. Robust labor demand in the online retail sector boosted hiring in the Seattle area...Wages in the construction sector continued to climb due to shortages of qualified contractors...Legalization of cannabis increased demand for low-skilled workers in parts of the District.

#### Prices
Overall, price inflation was flat...Strong demand from the construction sector boosted prices of raw materials and steel products. Strong demand in the hospitality sector pushed up food and beverage prices at restaurants and hotels...Mounting competitive pricing pressures in the retail grocery sector pushed prices lower.

#### Retail Trade & Services
...the pace of retail sales was largely unchanged...many contacts reported increasing competitive pressures from online retailers...Overall sales at grocery retail outlets were largely unchanged...contacts reported that traditional retailers faced growing competitive pressure from multinational chains. Sales of apparel products declined modestly...contacts reported continued competitive pressure from online retail outlets. Additionally, foot traffic at large shopping centers declined further.
Activity in the consumer and business services sectors grew at a strong pace. Activity in the hotel industry remained robust in Southern California...contacts expect the strong pace of growth to slow somewhat at the start of next year...Demand for restaurant services continued to be strong. Sales of information technology services increased modestly, as declining sales of legacy product lines were more than offset by increased investment in cloud computing and big data solutions.

Manufacturing
Manufacturing activity expanded at a moderate pace...

Real Estate & Construction
Real estate market activity continued to grow at a robust pace...affordable housing shortages in Southern California remained a serious concern...commercial real estate activity picked up to a moderate pace. Declining foot traffic at large shopping centers continued to push up vacancy rates. Rents for commercial property edged up slightly.

The 12 Reserve Banks are denoted by black squares, the 24 branches as red circles (a 25th branch in Buffalo, NY has been closed since 2008), and the Washington, DC headquarters is marked with a star.

Source: Wikimedia Commons, March 19, 2008
https://commons.wikimedia.org/wiki/File:Federal_Resize_Districts_Map.svg