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# The Beige Book

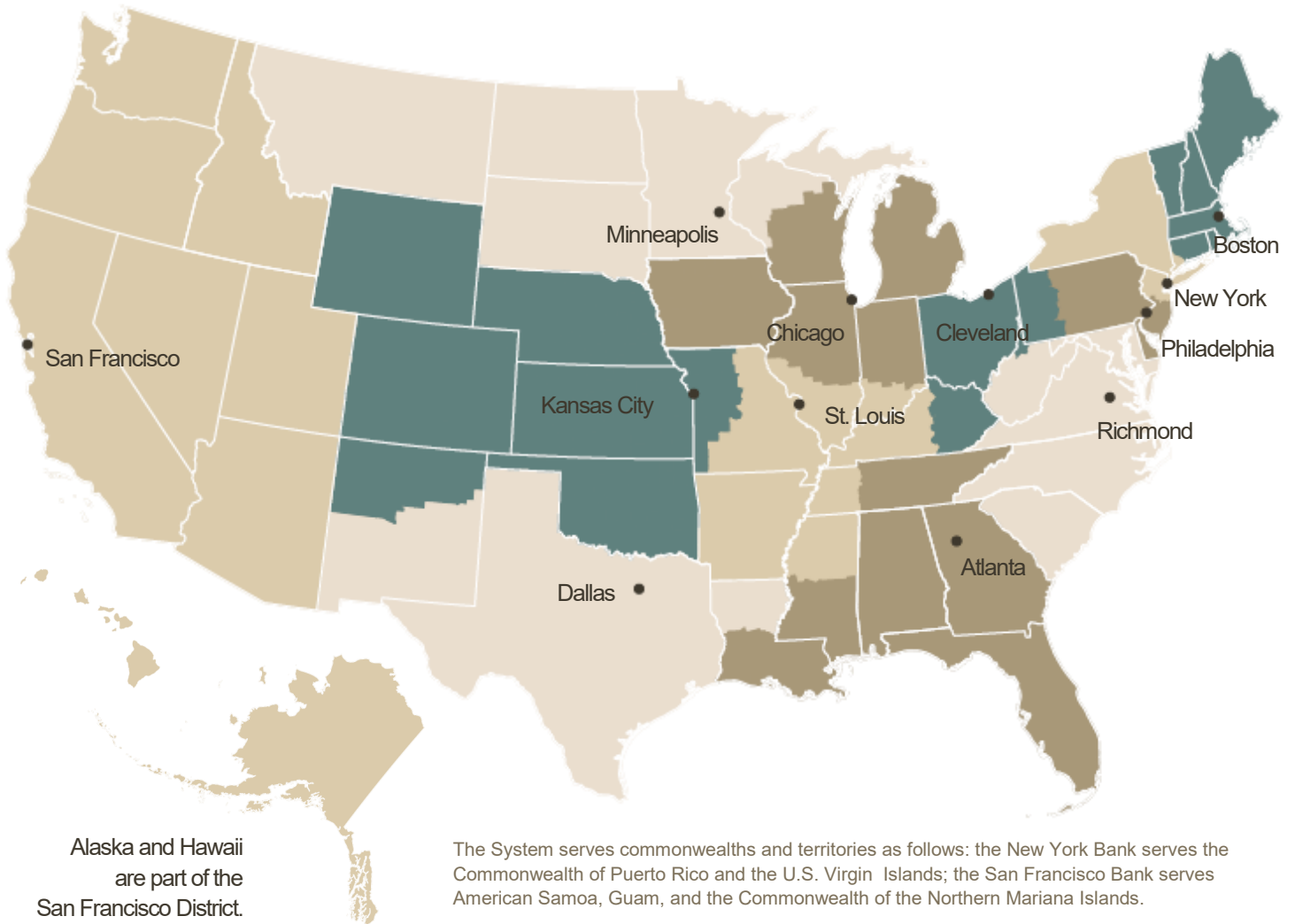
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Summary of Commentary on Current Economic Conditions

By Federal Reserve District

October 2022

## Federal Reserve Districts



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This report was prepared at the Federal Reserve Bank of Dallas based on information collected on or before October 7, 2022. This document summarizes comments received from contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.

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<b>National Summary</b>	<b>1</b>
<b>Boston</b> First District	<b>A-1</b>
<b>New York</b> Second District	<b>B-1</b>
<b>Philadelphia</b> Third District	<b>C-1</b>
<b>Cleveland</b> Fourth District	<b>D-1</b>
<b>Richmond</b> Fifth District	<b>E-1</b>
<b>Atlanta</b> Sixth District	<b>F-1</b>
<b>Chicago</b> Seventh District	<b>G-1</b>
<b>St. Louis</b> Eighth District	<b>H-1</b>
<b>Minneapolis</b> Ninth District	<b>I-1</b>
<b>Kansas City</b> Tenth District	<b>J-1</b>
<b>Dallas</b> Eleventh District	<b>K-1</b>
<b>San Francisco</b> Twelfth District	<b>L-1</b>

## What is the Beige Book?

The Beige Book is a Federal Reserve System publication about current economic conditions across the 12 Federal Reserve Districts. It characterizes regional economic conditions and prospects based on a variety of mostly qualitative information, gathered directly from each District's sources. Reports are published eight times per year.

## What is the purpose of the Beige Book?

The Beige Book is intended to characterize the change in economic conditions since the last report. Outreach for the Beige Book is one of many ways the Federal Reserve System engages with businesses and other organizations about economic developments in their communities. Because this information is collected from a wide range of contacts through a variety of formal and informal methods, the Beige Book can complement other forms of regional information gathering. The Beige Book is not a commentary on the views of Federal Reserve officials.

## How is the information collected?

Each Federal Reserve Bank gathers information on current economic conditions in its District through reports from Bank and Branch directors, plus interviews and online questionnaires completed by businesses, community organizations, economists, market experts, and other sources. Contacts are not selected at random; rather, Banks strive to curate a diverse set of sources that can provide accurate and objective information about a broad range of economic activities. The Beige Book serves as a regular summary of this information for the public.

## How is the information used?

The information from contacts supplements the data and analysis used by Federal Reserve economists and staff to assess economic conditions in the Federal Reserve Districts. The qualitative nature of the Beige Book creates an opportunity to characterize dynamics and identify emerging trends in the economy that may not be readily apparent in the available economic data. This information enables comparison of economic conditions in different parts of the country, which can be helpful for assessing the outlook for the national economy.

## The Beige Book does not have the type of information I'm looking for. What other information is available?

The Federal Reserve System conducts a wide array of recurring surveys of businesses, households, and community organizations. A list of statistical releases compiled by the Federal Reserve Board is available [here](#), links to each of the Federal Reserve Banks are available [here](#), and a summary of the System's community outreach is available [here](#). In addition, [Fed Listens](#) events have been held around the country to hear about how monetary policy affects peoples' daily lives and livelihoods. The System also relies on a variety of [advisory councils](#)—whose members are drawn from a wide array of businesses, non-profit organizations, and community groups—to hear diverse perspectives on the economy in carrying out its responsibilities.



# National Summary

The Beige Book ■ October 2022

## Overall Economic Activity

National economic activity expanded modestly on net since the previous report; however, conditions varied across industries and Districts. Four Districts noted flat activity and two cited declines, with slowing or weak demand attributed to higher interest rates, inflation, and supply disruptions. Retail spending was relatively flat, reflecting lower discretionary spending, and auto dealers noted sustained sluggishness in sales stemming from limited inventories, high vehicle prices, and rising interest rates. Travel and tourist activity rose strongly, boosted by continued strength in leisure activity and a pickup in business travel. Manufacturing activity held steady or expanded in most Districts in part due to easing in supply chain disruptions, though there were a few reports of output declines. Demand for nonfinancial services rose. Activity in transportation services was mixed, as port activity increased strongly whereas reports of trucking and freight demand were mixed. Rising mortgage rates and elevated house prices further weakened single-family starts and sales, but helped buoy apartment leasing and rents, which generally remained high. Commercial real estate slowed in both construction and sales amid supply shortages and elevated construction and borrowing costs, and there were scattered reports of declining property prices. Industrial leasing remained robust, while office demand was tepid. Bankers in most reporting Districts cited declines in loan volumes, partly a result of shrinking residential real estate lending. Energy activity expanded moderately, whereas agriculture reports were mixed, as drought conditions and high input costs remained a challenge. Outlooks grew more pessimistic amidst growing concerns about weakening demand.

## Labor Markets

Employment continued to rise at a modest to moderate pace in most Districts. Several Districts reported a cooling in labor demand, with some noting that businesses were hesitant to add to payrolls amid increased concerns of an economic downturn. There were also scattered mentions of hiring freezes. Overall labor market conditions remained tight, though half of Districts noted some easing of hiring and/or retention difficulties. Competition for workers has led to some labor poaching by competitors or competing industries able to offer higher pay. Wage growth remained widespread, though an easing was reported in several Districts. Some businesses said elevated inflation and higher costs of living were pushing wages up, coupled with upward pressure from labor market tightness. Contacts expect wage growth to continue as higher pay remains essential for retaining talent in the current environment.

## Prices

Price growth remained elevated, though some easing was noted across several Districts. Significant input price increases were reported in a variety of industries, though some declines in commodity, fuel, and freight costs were noted. Growth in selling prices was mixed, with stronger increases reported by some Districts and a moderation seen in others. Some contacts noted solid pricing power over the past six weeks, while others said cost passthrough was becoming more difficult as customers push back. Looking ahead, expectations were for price increases to generally moderate.

## Highlights by Federal Reserve District

### Boston

Business activity in the First District was up slightly, employment increased modestly, and wage increases were moderate. Prices were mostly flat and pricing pressures eased. Travel and tourism enjoyed robust growth, while retail sales growth and manufacturing demand slowed somewhat. Real estate markets weakened further on rising interest rates. The outlook turned more pessimistic as recession fears spread.

### New York

Economic activity contracted at a modest pace, while employment continued to grow modestly with labor shortages easing somewhat. Pricing pressures remained persistent, though wage growth slowed a bit. Tourism remained strong, while consumer spending was flat and manufacturing activity weakened slightly. Businesses were increasingly pessimistic about the outlook.

### Philadelphia

Business activity remained flat during the current Beige Book period. Manufacturing, consumer spending, new home construction, and existing home sales declined. Employment grew slightly, but talk of a recession rose. Firms reported wage pressures continued to subside, but growth maintained a moderate pace. Price growth slowed to a moderate pace. Hiring, supply chains, and price growth remained key challenges for most firms.

### Cleveland

Business activity was generally flat in the District, though reports varied considerably across sectors. Contacts were less optimistic about the near-term outlook amid persistent inflation and higher interest rates. Still, firms plan to add workers in coming months, though more are taking a wait-and-see attitude toward hiring. Upward cost and price pressures eased further, but the relief was uneven.

### Richmond

Economic activity was little changed as consumer spending grew at a modest rate, but a number of sectors reported flat to somewhat declining growth. Employment grew moderately and the overall labor market remained tight. Many firms continued to report labor shortages, rising wages, and use of non-wage incentives to recruit and retain staff. Prices grew strongly on a year-over-year basis, but growth moderated slightly in recent weeks.

### Atlanta

Economic activity expanded slightly. Labor markets improved, but wage pressures continued. Some nonlabor costs moderated. Year-over-year retail sales were flat. Leisure travel activity softened while business travel strengthened. Housing demand declined. Commercial real estate conditions were mixed. Manufacturing activity was strong. Transportation demand remained mixed. Banking conditions were steady.

### Chicago

Economic activity was little changed. Employment increased moderately, business spending was up slightly, consumer spending was little changed, manufacturing declined slightly, and construction and real estate activity moved down modestly. Wages rose rapidly, as did most prices. Financial conditions tightened moderately. Agriculture profit expectations for 2022 remained positive. Inflation continued to put pressure on household budgets.

### St. Louis

Economic conditions have declined slightly since our previous report. Although firms reported softening de-

mand and increased price sensitivity, labor shortages continued to restrict activity. Firms struggled to pass on input price increases. Rising interest rates slowed home-buying activity and new construction. Contacts expect little improvement in supply chain issues and consumer demand in the upcoming months.

### Minneapolis

The region's economy expanded slightly since August. Employment grew slightly and wage pressures remained high. Inflationary pressures eased but stayed strong. Manufacturing growth continued, though some firms reported a softening in incoming orders. Consumer spending increased, but saw some weak spots. Home construction and sales remained soft, while commercial building and leasing activity improved slightly.

### Kansas City

The Tenth District economy expanded at a modest pace. Employment grew moderately based on the momentum of past job postings, but showed signs of cooling. Contacts reported an increase in the use of gig work to supplement household income amid rapidly rising prices. Energy activity expanded at a robust pace. Drought conditions adversely impacted crop harvests in some District states, but financial conditions among farmers remained strong.

### Dallas

Modest economic growth in the district continued overall, though declines were seen in retail sales, home sales, and lending. Employment grew solidly but wage growth eased slightly. Selling price growth eased slightly as well. Outlooks were generally pessimistic outside of the energy industry, with contacts voicing concern about inflation, labor shortages, and weakening demand.

### San Francisco

Economic activity expanded modestly. Hiring activity grew at a modest pace amid tight labor market conditions. Wages and prices increased further, albeit at a slower pace. Retail sales grew and demand for services strengthened. Conditions improved modestly in the manufacturing sector but worsened somewhat in the agriculture sector. Residential real estate activity eased further, and lending activity dropped slightly.



## Summary of Economic Activity

Business activity in the First District was up slightly on balance, and employment increased modestly. Wage increases were moderate on average, but wages stabilized in many cases. Prices were mostly flat, and many contacts noted an easing of cost pressures. Travel and tourism contacts enjoyed robust summer activity. Retail revenue growth slowed modestly or missed expectations but did not turn negative. Demand slowed on balance among manufacturers, although revenues still grew in most cases owing to earlier price increases; demand for semiconductor chips fell precipitously, however. Commercial real estate activity slowed moderately, and warning signs flashed on the financing side. Home sales remained down sharply on a year-over-year basis as home prices levelled off. The outlook turned more pessimistic, as recession fears spread, but many contacts remained at least cautiously optimistic for their own businesses.

### Labor Markets

Employment was up modestly, and wage growth was mixed. Labor markets remained tight but hiring and retention difficulties abated for some contacts and were stable, if still elevated, for most. Travel industry contacts engaged in a limited amount of hiring and their headcounts were roughly stable at desired levels. One retailer increased headcounts moderately in anticipation of a strong holiday season, and mostly reached their hiring targets. Manufacturers engaged in modest hiring on balance, but one instituted a hiring freeze in anticipation of a 2023 recession. Among software and IT services contacts headcounts increased moderately, and all but one contact experienced decreased turnover (another saw higher attrition). Hospitality industry contacts reported average wage increases of 15 percent from a year earlier, with most of the growth occurring in recent months. Software and IT firms held wages steady or offered selected wage increases and bonuses, rather than permanent raises for all. A clothing retailer paused wage increases, having implemented substantial raises earlier in the year, but expects to offer signing bonuses to attract more seasonal hires. Manufacturing wage growth ranged from flat to above average. The hiring outlook was mixed, and some contacts expressed concerns about adding too many workers in the lead-up to a possible downturn.

### Prices

Prices were mostly stable, with isolated exceptions. A clothing retailer posted high single-digit markups in response to earlier cost pressures. Average nightly hotel room rates in the Boston area fell roughly 13 percent from May to August but remained up 20 percent from August 2021. Manufacturing contacts said that cost pressures had stabilized or eased slightly in recent months and that their output prices were mostly unchanged from last quarter. For retailers as well as manufacturers, supply chain issues appeared to be relenting and inventories approached desired levels. Half of software and IT firms increased their prices this year, by modest to above-average margins, while other IT firms had stable prices. Most contacts expected to hold prices firm moving forward based on having made significant price hikes earlier in 2022, but a select few said that their prices still lagged relative to their costs and planned to make at least modest increases in the coming months.

### Retail and Tourism

First District retail contacts reported somewhat softer sales while tourism contacts saw strong increases in activity. A clothing retailer experienced modestly slower over-the-year revenue growth compared with second quarter results. Cape Cod retailers drew weaker than expected summer revenues and attributed that outcome to too few rainy days (which push customers into the stores), but nonetheless the season's sales results were

described as “good.” Airline passenger traffic through Boston, both domestic and international, increased steadily in the summer months. As of August, international passenger volume had reached 85 percent of its 2019 level. Advance airline bookings for the fall showed further gains in all types of travel. Cruise ship activity increased substantially, surpassing operators’ expectations. The Greater Boston hotel occupancy rate roughly doubled in the past six months, and as of August 2022 stood at nearly 80 percent of its comparable pre-pandemic level. Convention activity also accelerated, with attendance nearing 90 percent of pre-pandemic levels. Contacts in Cape Cod reported another record-setting season for its hospitality industry. Retail contacts expected a strong holiday season and tourism contacts were very optimistic for further recovery.

### **Manufacturing and Related Services**

Revenue growth for manufacturers was mixed in the latest cycle and forecasts for 2023 turned much more pessimistic. Five of the seven firms we talked to reported higher sales in dollars, but in three of those cases sales by units were down. Two contacts said that revenue growth had slowed as their customers worked through inventories that had been accumulated earlier in the year in what was described as panic buying. Demand for semiconductor chips dropped sharply as a result of this dynamic, and upstream demand for semiconductor manufacturing equipment has “fallen off a cliff,” according to one contact. Capital expenditures were steady from one year earlier, even for firms who recently made significant downward revisions to their 2023 growth forecasts. A common theme was that the tight labor market was pushing manufacturers to look for ways to automate more tasks. Most contacts remained optimistic about 2023 but two said they were explicitly planning for a recession. One contact was particularly worried about the semiconductor industry and foresaw that major new capital investments, motivated by the shortages in 2021 and 2022, would lead to a supply glut by the end of 2023.

### **Software and IT Services**

Demand and revenue growth were stable or somewhat higher in the third quarter among First District software and IT contacts. Positive results were attributed to their offering products that emphasize cost-cutting and efficiency, as well as to the ongoing recovery of their business clients’ end markets. Profits and margins were roughly stable on balance. In terms of strategy, two contacts mentioned that their services help clients to mitigate the impact of rising employment costs. For most firms, capital and technology spending was unchanged

and was expected to remain flat in coming months. Contacts expected steady demand during the next quarter and expressed positive outlooks for their respective companies. However, they raised concerns about external downside risk factors such as inflation, financial market instability, labor cost pressures, and rising COVID-19 cases.

### **Commercial Real Estate**

Commercial real estate activity slowed moderately in the First District. Contacts reported scant office leasing activity, with low rents and high vacancy rates that were nonetheless roughly stable. Work-from-home policies continued to depress daytime office occupancy well below seasonal expectations. Vacancy rates for industrial space remained historically low, in the low single digits, and rents stayed high. However, multiple contacts reported a larger number of acquisition and leasing contracts falling through. Retail leasing and acquisition markets were little changed, and retail remains a “tenant’s market,” according to one contact. Across property types, lessors boosted their renovation budgets to retain existing tenants, and rising borrowing costs deterred new construction. Contacts were uniformly pessimistic about the outlook for commercial real estate. Rising interest rates and recession fears were expected to continue to restrain both leasing and investment activity. Contacts expected property valuations to fall in the coming months, possibly steeply. The outlook for the office market was particularly bleak, with contacts anticipating weaker demand, negative absorption rates, and increased foreclosure rates.

### **Residential Real Estate**

Prices began to level off in the First District’s residential real estate markets in August as higher mortgage rates cooled demand. While prices were up over-the-year (to August) in all reporting markets, those increases were substantially smaller than the over-the-year increases to July, except in the case of condo markets in Maine and New Hampshire, which had stable price growth. Inventory fell year-over-year in all reporting markets except for Boston’s single-family homes. Relative to the previous report, that fact translates to moderately lower inventories in all markets except Maine. Closed sales decreased over-the-year to August, albeit by somewhat smaller percentages than were reported in July. Contacts across the region remarked that buyer demand had cooled, shifting the negotiating power to buyers. ■

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





## Summary of Economic Activity

Economic activity in the Second District continued to contract at a modest pace in the latest reporting period, amidst ongoing but somewhat less severe worker shortages and supply disruptions. Business contacts have become more pessimistic about the near-term outlook. Increases in both selling prices and input prices have persisted, while wage growth has shown signs of slowing. Businesses continued to hire, albeit at a somewhat slower pace than in recent months, and there have been scattered reports of layoffs. Manufacturing activity weakened slightly. Consumer spending remained flat, while tourism has been increasingly robust. The home sales market continued to soften, and the rental market appears to have leveled off, as concerns about housing affordability persist. Commercial real estate markets were slightly weaker overall, and construction activity continued to trend lower. Conditions in the broad finance sector deteriorated, and regional banks reported widening loan spreads and weakening loan demand.

### Labor Markets

Employment continued to increase modestly, with some signs that labor shortages have eased a bit. One upstate New York employment agency noted that hiring activity has remained steady, led by solid demand for tech workers, while the supply of available job candidates has increased somewhat. A New York City agency also reported steady demand for workers overall; despite some layoff announcements, mostly in the finance sector, it has yet to see any significant increase in available candidates. Leisure & hospitality firms reported a marked pickup in hiring, and businesses in wholesale trade, information, and professional & business services reported that they continued to hire, on net. Firms in almost all industry sectors plan to add staff in the months ahead.

Contacts in the construction, transportation, and information industries reported some slowing in wage growth, as did employment agencies in both upstate and downstate New York. In the education & health and leisure & hospitality sectors, however, wage growth remains strong. Businesses across all sectors continue to project widespread wage hikes in the months ahead.

### Prices

Most business contacts noted ongoing broad-based escalation in the prices they pay, at about the same pace

as in the prior report. However, construction and transportation sector contacts indicated some slowing in the pace of cost increases. There were also scattered reports of price declines for certain products, such as lumber and fuel. Contacts across most major sectors expect continued widespread escalation in costs.

Selling price increases have slowed noticeably in the manufacturing sector but not in the service sector. A sizable and steady share of businesses in both sectors said they plan to raise prices in the months ahead.

### Consumer Spending

Consumer spending has been little changed in recent weeks. Nonauto retailers reported that business has picked up slightly, buoyed by the post-summer return to the office and solid tourism, but are planning for tepid holiday season sales. One retail contact noted that the return to the office for some workers boosted sales of formal wear, while sales of home goods and casual apparel have been sluggish. Auto dealers in upstate New York reported that sales of both new and used vehicles were little changed at subdued levels in the latest reporting period due to a combination of lack of inventory and weaker demand. Inventory levels are expected to increase somewhat in the coming months. Consumer confidence across New York State remained fairly high in September.

## Manufacturing and Distribution

Following a sharp decline in the prior reporting period, manufacturing activity declined slightly in recent weeks, and wholesale trade businesses reported a slight dip in activity for the first time this year. In contrast, transportation & warehousing firms reported a pickup in growth. Manufacturers reported that supply disruptions have diminished slightly, while contacts in the distribution industries report more marked improvement. Looking ahead, businesses in all these sectors have grown increasingly pessimistic and do not expect much of a pickup in the months ahead, though they do expect supply disruptions to ease further.

## Services

Activity in the service sector has continued to weaken since the last report. Professional & business service firms report fairly widespread declines in activity, and contacts in the education & health and information sectors indicated slight weakening. Businesses in these sectors have become somewhat less optimistic about the near-term outlook and anticipate little or no growth in the months ahead.

In contrast, leisure & hospitality businesses reported a marked pickup in activity and expressed mild optimism about the outlook. Tourism in New York City has continued to show strength, buoyed by high attendance at recent major events—notably UN General Council, Climate Week, and Comicon. Hotel occupancy rates are at or above pre-pandemic levels, running around 90 percent in September, room rates are at record highs, and year-ahead bookings have steadily trended up. An industry expert noted that companies that have gone fully remote have increasingly been using conferences and trade shows to bring people together. Attendance at Broadway shows has climbed, and a record 19 new shows are opening this season.

## Real Estate and Construction

The home sales market continued to cool in September, and the rental market showed signs of leveling off. Across the District, both buyer traffic and sales volume have diminished, bidding wars have reportedly become less prevalent, and price reductions have grown more common. In New York City, both sales volume and signed contracts have declined markedly over the last couple months but are at fairly normal levels. The inventory of homes on the market across New York City has

remained mostly steady at low levels, while real estate contacts in upstate New York reported a slight increase.

Residential rental markets, which had been growing increasingly tight for most of the past year, appear to have leveled off in recent weeks, though at elevated levels. Rental vacancy rates across New York City have risen modestly.

Commercial real estate markets have been mostly flat, on balance, since the last report. Office markets were steady to slightly firmer, with vacancy rates little changed but rents rising modestly across most of the District. The industrial market, on the other hand, has weakened: vacancy rates rose, albeit from very low levels, and rents leveled off. Retail rents were flat, while vacancy rates rose modestly from already high levels.

Contacts in real estate and construction continued to report deteriorating business conditions and expressed increasingly widespread pessimism about the near-term outlook. New multi-family construction starts have been steady to somewhat lower, while new commercial construction has been moribund. There is a moderate volume of ongoing construction—both multi-family and commercial—but that too has trended down.

## Banking and Finance

Regional bankers reported declines in loan demand across all loan segments, and almost all respondents indicated lower rates of refinancing activity. Credit standards generally remained unchanged across all loan categories. Loan spreads widened, most notably for business loans, and deposit rates continued to rise. Delinquency rates were unchanged across all loan categories.

## Community Perspectives

Inflation remains a major concern among many people in the District. Community leaders worry that many residents will have difficulty affording heat and other utilities as winter approaches. Housing affordability and food insecurity remain ongoing concerns in the region, especially in light of rising utility costs. Communities, school districts, and tribal territories across some of the rural parts of the District indicated the need for adequate broadband access, though targeted programs have provided some relief. ■

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



## Summary of Economic Activity

On balance, business activity in the Third District has continued to hold steady since the prior Beige Book period. Consumer spending on food and manufacturing declined modestly, while most other sectors were little changed. Activity in a few sectors remained below pre-pandemic levels. Employment continued to grow slightly. Wages and prices grew at a moderate pace – a slower pace of growth in prices compared with the prior period. Firms continued to indicate that wage and price pressures were, in fact, easing, but remained a challenge. Firms also cited some easing of the ongoing challenges in hiring and supply chains. On balance, expectations for economic growth over the next six months increased for nonmanufacturing firms. Among manufacturers, expectations improved but remained negative. Expectations for all firms remained well below their nonrecessionary historical averages. On average, sentiment appeared more positive in the Greater Philadelphia region compared with the outlying areas of the Third District.

### Labor Markets

Employment continued to grow slightly. Contacts described a heightened expectation of a recession, and businesses intensified preparations for a downturn: Multiple firms instituted a hiring freeze, others initiated planning for layoffs if business conditions did not improve, and one firm noted broad-based layoffs were already under way. While the share of firms reporting employment increases declined for the second consecutive period, the share remained near 25 percent for nonmanufacturing firms and near 15 percent for manufacturing firms.

Overall, most firms still describe hiring and retention as a top concern. Most firms – 90 percent of manufacturing and 83 percent of nonmanufacturing – reported labor supply as constraining business operations to some extent in the third quarter of 2022. Several contacts noted firms were hesitant to lay off employees, given the difficulty they have experienced hiring workers in recent years.

Firms continued to note that wage growth subsided in recent months. One staffing firm noted that recent year-over-year wage growth – at about 8.5 percent – was down nearly half (from 16 percent in December). However, wage inflation remains widespread and appears to have maintained a moderate pace. In our monthly sur-

veys, the share of nonmanufacturing firms reporting higher wage and benefit costs per employee edged down below 50 percent – the first time this share fell below 50 percent since September 2021. No firms reported lower compensation.

### Prices

On balance, prices rose moderately over the period – slower than in the prior period. Several contacts noted the rate of price increases had relented. However, price growth remained widespread. The share of manufacturers reporting higher prices for factor inputs declined, while those receiving higher prices for their own products edged higher. The share of nonmanufacturers reporting higher prices for their inputs rose, as did the share receiving higher prices from consumers for their own goods and services.

About 60 percent of the manufacturing contacts continued to report they expect to pay higher prices over the next six months, and just over half continued to expect to receive higher prices for their own goods.

### Manufacturing

On average, current manufacturing activity appeared to decrease modestly – following a slight decline in the prior period. The index for new orders fell from an already negative reading. The shipments index also

declined, but remained positive, as firms worked through backlogs.

Despite the decline in manufacturing activity from the prior period, a majority of the firms estimated increased total production growth for the third quarter of 2022 compared with the second quarter. Nearly all firms reported labor supply and supply chains as constraints to capacity utilization.

Manufacturing firms' expectations remained subdued. The indexes for future activity and new orders trended higher but remained well below historical averages for nonrecessionary periods; the index for future activity remained negative. About one-quarter of the firms expect supply chain disruptions to improve over the next three months, while one-fifth expect them to worsen.

### Consumer Spending

On balance, retailers (nonauto) and restaurateurs reported overall sales declined modestly from the prior period, during which sales held steady. Contacts attributed the decline in sales to both a slowdown in customer traffic and smaller purchases per visit.

Auto dealers reported little change to the weak level of sales observed during the prior period, and sales remain significantly below the levels in 2019. Contacts noted that inventories have improved slightly but remained extremely low. While constrained supply makes it difficult to observe demand, one contact reported that high prices and rising interest rates appeared to reduce demand by pricing some potential customers out of the market.

Overall, tourism continued to grow slightly. Business travel continued its recovery but remains well below 2019 levels. Bookings for domestic leisure travel remained strong, particularly at shore and resort locations. However, one contact noted that the amount of money guests spend at their leisure destinations declined modestly in recent months.

### Nonfinancial Services

On balance, nonmanufacturing activity appeared to continue growing slightly. The indexes for general activity at the firm level, sales, and new orders increased from the prior period. The share of firms reporting increases in general activity increased, while the share of firms that reported decreases was relatively stable.

### Financial Services

The volume of bank lending (excluding credit cards) grew moderately during the period (not seasonally adjusted) – at a faster pace than in the prior period, and comparable with the same period in 2019. Growth was balanced, as all loan segments grew modestly to moder-

ately during the period. Inflation is contributing more to the growth during the current year relative to past years.

Loan volumes continued to grow at a moderate pace for home mortgages, with multiple contacts noting an increase in volume of adjustable-rate mortgages. Volumes also grew moderately for commercial and industrial loans, in part reflecting a return to banks from borrowers who previously relied on the bond market for funding, according to a lender. Credit card volumes continued growing moderately – a pace typically experienced this season of the year.

### Real Estate and Construction

Homebuilders reported that contract signings for new homes were down slightly – contract signings declined modestly in the prior period. Furthermore, contacts noted that traffic of prospective buyers also slowed noticeably in recent weeks.

Existing home sales continued to fall slightly. While prices continued to rise on a year-over-year basis, contacts noted that the percentage of houses selling for more than the asking price declined, and the average number of days houses are on the market increased. Housing affordability remained a challenge, and rents remained high. The share of 211 calls that sought assistance for housing have edged lower since the prior period, to 34 percent of total calls – 41 percent of those were for rental assistance. Calls for help with utility bills edged up to 21 percent, and calls regarding employment and income edged up to 8 percent.

On balance, construction activity and leasing activity for commercial real estate continued to hold steady. The markets for industrial/warehouse space and institutional projects remained strong. Rents for multifamily housing and industrial/warehouse space were little changed. Contacts noted that high input prices remain a challenge for construction, even as price growth continued to slow. Multiple contacts reported that long-term land development and multifamily projects have been delayed as interest rates rise and inflation concerns persist. ■

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



## Summary of Economic Activity

Fourth District business activity changed little in recent weeks, on balance, though it varied considerably by sector. On the one hand, contacts said that higher interest rates dampened demand in rate sensitive sectors such as automobile sales, residential real estate, and nonresidential construction. On the other hand, manufacturers experienced increased demand with some reportedly benefitting from inventory replenishment and easing supply chain disruptions (which have not yet normalized), and professional and business services firms reported further increases in demand from already high levels. Looking forward, firms were generally more pessimistic about the near-term outlook than during the prior reporting period, a situation which likely contributed to lowered capital spending plans as well. Labor demand was solid, although fewer contacts reported adding staff to their payrolls than in the previous period. While cost and price pressures remained high, contacts again reported modest relief in recent weeks.

### Labor Markets

Employment continued to increase, albeit at a slower pace. Slower employment growth in recent cycles is mostly a function of fewer firms adding to their staffing levels and more holding steady. A much larger share of contacts (roughly 60 percent, on average) indicated that staffing levels were unchanged in the September-October timeframe, compared to the share in the first quarter, when roughly 40 percent reported the same. One logistics contact said, “We would normally be hiring more people at this time but economic uncertainty has put our expansion plans on hold.” A small (15 percent) but increased share of contacts reported reducing their staffing levels, and nearly half of these were in construction. Looking forward, the net share of contacts planning to add staff in coming months remained positive, but smaller than during prior periods.

Wage pressures remained elevated. After trending down through much of the year, the percentage of contacts reporting higher wages was unchanged in recent weeks, at a little more than 50 percent. Contacts indicated that wage increases remained necessary to retain talent amid a shallow pool of labor, which one described as “more of a puddle than a pool.” Several contacts said that labor markets are still tight and likely to remain so, keeping upward pressure on wages for the near future.

### Prices

Cost pressures remained high, though they eased fur-

ther in recent weeks. The share of contacts reporting higher costs was unchanged from the prior reporting period, but the share reporting a decline in input costs was at its highest in more than two years. Among the latter was a national retailer who said that product costs were still high, but lower than in the early spring and summer. Freight costs, which have been a pain point for most firms, continued to fall. In many cases in which firms’ overall input costs rose, the rate of increase slowed. As one manufacturer stated, “material prices have leveled off and we are not seeing the large increases we were seeing in the first and second quarters.”

Selling price pressures remained elevated though they too lessened further recently. The share of contacts reporting an increase in selling prices dipped below 50 percent for the first time since April 2021. However, the relief was uneven. One manufacturer acknowledged that the firm was raising prices for smaller customers more so than for large companies, and a freight hauler noted that prices were falling in some regions while rising in others. In addition, a national discount retailer said that prices had come down in areas where demand had fallen, even as its costs remained higher.

### Consumer Spending

Retailers reported weaker sales as consumers cautiously managed their budgets because of rising food and gas prices. One general merchandiser noted consumers continued trading down on items, most recently to

canned goods from fresh foods. On balance, restaurateurs and tourism contacts reported that sales increased from those during the summer months. Still, some reported guest counts had slowed, and that consumers had less spending power because of inflation. Auto dealers reported flat or decreasing sales, noting that consumers had become wary of higher payments because of increased interest rates and higher vehicle prices.

### **Manufacturing**

On balance, demand for manufactured goods strengthened, with several contacts noting that sales had increased compared with those of previous months. Some reportedly benefitted from inventory replenishment and easing supply chain disruptions. Still, the largest share of contacts said demand was unchanged. Supply chain disruptions persisted, and while some contacts indicated that these disruptions had eased somewhat, they remained far from normal. Manufacturers' expectations for the coming months were mixed, with some expecting continued easing of supply chain issues that would boost demand and others predicting a decline in activity.

### **Real Estate and Construction**

Residential construction and real estate activity declined further as interest rates increased and buyer confidence weakened. One real estate agent noted that increased mortgage rates have greatly impacted entry-level homebuyers, while declines in the stock market have reduced the amount of funds available for higher-income homebuyers. Residential construction contacts reported that new home sales also continued to fall. One homebuilder stated that, "I think we are seeing the downturn we have been expecting and hearing of elsewhere for some time." Contacts did not expect demand to recover anytime soon because interest rates were expected to continue rising.

Demand for nonresidential construction and real estate also weakened amid rising interest rates and elevated construction costs. One general contractor noted that his firm's clients have begun to delay plans for new projects as interest rates and inflation continued to rise. Despite a slowdown in construction and sales activity, leasing activity has remained strong, particularly for industrial space. Going forward, contacts anticipated demand would continue to decline as interest rates increase further and consumers reduce spending.

### **Financial Services**

Overall growth in lending stalled during the reporting period. While bankers noted that commercial lending remained strong, contacts reported that high interest

rates continued to dampen demand for new residential mortgages and refinancing, and for auto loan originations. Lenders indicated that delinquency rates for commercial and consumer loans were still low, although a few bankers noted a slight uptick in delinquencies on auto and small-business loans. Contacts reported that consumer deposit balances decreased slightly, and some bankers indicated that customers were moving deposits to higher-yield accounts. Bankers expected overall loan demand to decline in the near term because of interest rate expectations.

### **Nonfinancial Services**

Demand for professional and business services remained strong while demand for freight services weakened further. Professional and business services firms reported that demand for digital authentication services and software solutions remained robust. In particular, one contact noted an increased need for fraud prevention systems. Contacts anticipated demand for their firms' products and services would remain strong going forward. Freight contacts reported a decline in demand and overall orders. One freight contact attributed the softening in demand to clients having caught up on their order backlogs. Freight firms expected demand will decline further.

### **Community Conditions**

According to a semiannual survey of nonprofit service providers, low- and moderate-income households saw modest deterioration in their financial wellbeing and affordable housing conditions over the past six months. Roughly one-third of respondents said inflation contributed to the decline in financial wellbeing, with one respondent stating that higher prices "caused families to make different decisions regarding expenses, particularly food and travel." Several contacts noted that affordable housing options were being lost to out-of-town investors who were buying existing rental properties and increasing rents. In eastern Kentucky, contacts noted that the scarcity in affordable housing was exacerbated by July's flood. Job availability remained elevated even though a slightly higher share of survey respondents indicated that it had eased somewhat. ■

For more information about District economic conditions visit:  
[www.clevelandfed.org/en/region/regional-analysis](http://www.clevelandfed.org/en/region/regional-analysis)



## Summary of Economic Activity

Economic activity in the Fifth District was little changed, on balance, with varied reports of growth across sectors. Manufacturing activity was unchanged as new orders softened, allowing producers to work through their backlogs. District ports saw strong activity, partially due to ships being diverted from West Coast ports. Trucking companies, on the other hand, reported a decline in demand leading to increased capacity and lower spot rates. Retail spending rose modestly although there were some reports that customers were pulling back spending on nonessential goods. Travel and tourism declined slightly, on balance, as leisure travel experienced a typical seasonal slowdown while business travel picked up. Residential real estate activity slowed, and inventories remained very low. Commercial real estate activity also slowed overall despite continued growth in the industrial and multifamily segments. Loan demand softened modestly although demand for auto loans held up. Nonfinancial services reported mild but flattening growth and continued to report labor challenges, leading some to look to invest in labor saving technology. Overall, employment grew moderately since our last report and firms continued to report challenges finding workers. Wage growth continued but some firms said they were nearing the top of what they could raise wages to while others looked to incentive programs to retain workers. Prices continued to grow strongly on a year-over-year basis but price growth eased slightly off recent peaks.

### Labor Markets

Since the last report, the Fifth District labor market remained tight while employment grew moderately. Firms were worried that the lack of labor was impacting their customer experience. A quick service restaurant reported service interruptions in food deliveries, trash collection, and landscaping. Additionally, some firms reported reaching a ceiling on wage increases to attract and retain workers. One firm implemented productivity incentives to retain workers that could pay out up to \$36,000 a year. High school and college students returning to school has been especially impactful this year. One firm reported losing 40-50% of its workforce when the high school opened, further straining their ability to maintain consistent hours of operation.

### Prices

Prices continued to rise strongly in recent weeks albeit at a slightly slower pace of growth compared to recent months. According to our most recent surveys, manufacturers reported robust year-over-year increases in prices received from customers, but growth eased somewhat from the peak set a few months ago. Likewise, service providers continued to report strong year-over-year price growth and a slight easing from the peak in August. Firms in both sectors saw a moderation in input price growth with several contacts noting that freight and energy prices have come down somewhat in recent weeks.

### Manufacturing

Fifth District manufacturing activity was unchanged this period. Overall, the lack of qualified workers continued to be a significant issue for manufacturers. Survey contacts reported high labor turnover as employees often switch back-and-forth between companies depending on who is paying more. The supply chain was showing some improvements as shipments were up and backlogs have improved. Manufactures were able to clear backlogs as the volume of new orders decreased. Manufactures, especially in retail, reported pessimism about future economic conditions as they expect consumers to pull-back somewhat on discretionary spending.

### Ports and Transportation

Fifth District ports indicated that demand was strong this period due to ship diversions related to continued labor negotiations at West Coast ports. Imports again outpaced exports with some improvement in loaded exports; however, exports of commodities and rolling stock trended lower. Import volumes at the ports continued to be led by heavy equipment and furniture. There was higher than normal dwell time of containers due to inland constraints. Spot shipping rates continued to decline as carriers had some freed-up capacity. Air freight volumes remained low due to reduced overall capacity and rates also declined slightly this period.

Trucking companies indicated that demand slowed, and capacity had loosened up slightly. Spot market rates decreased moderately this period, but contract rates remained the same or increased slightly. Several contacts stated that they felt like they no longer had an ability to raise rates with their customers. Trucking firms reported that they were not having trouble hiring or retaining drivers, but still had an issue getting parts to maintain existing fleet and that the cost of parts had increased dramatically. Delivery of new equipment was delayed as manufacturers continued having difficulty completing orders due to supply chain disruptions.

### **Retail, Travel, and Tourism**

Retailers in the Fifth District saw modest growth in sales and revenue in recent weeks despite lower foot traffic. Although total retail sales were up, several contacts noted that big ticket sales were down slightly. There were a few reports that consumers were pulling back spending on nonessential goods like artwork, home décor, and higher-end beauty and wellness products. A small consumer appliance producer said that sales were down slightly compared to previous months but were still very strong compared to pre-pandemic levels. Overall, inventories declined modestly.

Travel and tourism declined slightly, overall. Leisure travel declined modestly, however business travel reportedly picked up. A hotelier in South Carolina said that the decline in leisure travel was typical for the time of year, but revenue remained strong because average room rates were up compared to last year. Several food service contacts reported mild sales declines in recent weeks. One restaurant group added that they were struggling to maintain their typical hours due to staffing challenges.

### **Real Estate and Construction**

Respondents indicated that as interest rates rose, market activity for housing decreased while housing inventory for sale, both new and existing, were at all-time lows. In the last month, both closed and pending sales were down and sales prices had decreased modestly. Conversely, demand remained strong in some urban markets that had strong job growth. There were no issues with buyers qualifying for mortgages, but more buyers again were considering adjustable-rate mortgages. In terms of residential construction, sales decreased dramatically this period; some builders were now offering incentives, price reductions and free upgrades to sell existing new home inventory.

Commercial real estate activity market activity slowed this period with weakening demand except in the indus-

trial and multifamily segments, which continued to experience strong leasing demand, low vacancy rates, and increasing rental rates. Market activity for Class A office space, especially in suburban markets, remains strong with rental rates unchanged. Retail vacancy rates were good, but issues around high construction costs had put a constraint on new projects. Capital market activity diminished, and sale prices declined due to increased capitalization rates. Overall, new commercial real estate construction continued to suffer from supply chain disruptions for materials and difficulty finding skill workers.

### **Banking and Finance**

Loan demand weakened modestly across all commercial loan types, with interest rates and cash flow concerns driving demand lower. Residential mortgage demand continued to drop due to rising rates. Auto loan demand, especially used autos, remained stable with inventory issues still plaguing the new car market. Deposit growth was slowing with some respondents noting inflationary pressures on depositors driving this trend. Some institutions continued to note that delinquency rates were still moving upward, although at a measured pace, and mainly in the consumer portfolio. Loan quality continued to be stable with no changes noted by institutions.

### **Nonfinancial Services**

Nonfinancial service providers were starting to report flattening growth and demand. Contacts continued to note that increasing costs and finding employees are major concerns to their firms. One respondent noted that they are investing more in capital expenditures and business processes to combat these trends. Firms also mentioned rising wages continued to be a challenge to both hiring and retaining employees. Some firms were resorting to non-traditional compensation schemes to remain competitive as well. Rising interest rates and inflation pressures continued to be a top focus of respondents. ■

For more information about District economic conditions visit:  
[www.richmondfed.org/research/data\\_analysis](http://www.richmondfed.org/research/data_analysis)





## Summary of Economic Activity

Economic activity in the Sixth District grew slightly from mid-August through September. Labor market pressures continued to ease, but labor availability largely remained tight. While wage pressures persisted, some easing was reported, and firms continued to offer a variety of incentives to employees. Certain commodity costs moderated while other nonlabor costs, such as freight and fuel, rose. Many firms reported continued pricing power. Retailers reported flat year-over-year unit sales. Demand for automobiles increased, and inventory levels grew. Leisure travel activity softened, but business and convention bookings continued to improve. Demand for housing slowed amid persistently high prices and rising mortgage interest rates. Commercial real estate activity remained mixed. Manufacturing activity was robust, though demand for certain discretionary products slowed. Transportation activity was mixed. At District banks, overall loan growth improved, but deposit growth slowed further since the previous report. Hurricane Ian made landfall in southwest Florida at on September 28, too late to collect input from business contacts for this report. The storm devastated many communities across the state, and its impact will inform reporting in the coming months.

### Labor Markets

Labor market pressures modestly eased since the previous report; turnover rates held steady or had improved by most accounts. However, conditions remained tight as many firms remained understaffed and continued to backfill open positions, particularly among healthcare, manufacturing, and commercial construction firms. Some contacts noted that there was greater availability of hourly workers; however, most firms indicated that workers were resistant to overtime scheduling. Employers continued to focus on efforts to attract and retain workers through increased wages and bonuses, and enhancements to benefits. To address labor shortages and save costs, several contacts reported offshoring positions in addition to continued investments in automation.

Most employers reported upward wage pressures, although several indicated that pressure had eased in recent months. Bonuses for retention, performance, sign-on and referral continued to be reported. Several contacts said that wage increases would be more targeted going forward and many indicated a greater focus on enhancements to benefits including attractive scheduling, flexible work arrangements, expanded healthcare coverage, and more vacation.

### Prices

District contacts noted moderation in some commodity costs like aluminum and resin over the reporting period, but supply chain imbalances remained an issue for planning and contract negotiations. Even as some input costs eased, a few contacts mentioned increasing costs for freight (a reversal of sentiment from the previous two

reports), labor, and fuel. Some contacts noted strong pricing power as buyers hedged against future price hikes and/or uncertainty around supply availability. The Atlanta Fed's Business Inflation Expectations survey showed year-over-year unit cost growth decreased to 4.1 percent, on average, from 4.3 percent in August. Firms' year-ahead inflation expectations decreased to 3.3 percent, on average, from 3.5 percent in August.

### Consumer Spending and Tourism

Retailers reported flat unit sales compared to the same time period last year. Auto inventories improved and automobile dealerships reported healthy demand for new vehicles. Retail and auto contacts remain cautiously optimistic for the remainder of the year.

Demand for leisure travel was described as normalizing down to pre-pandemic levels. Business and convention travel was noted as healthy with strong bookings for the Fall season.

### Construction and Real Estate

Residential real estate contacts reported continued slowing in housing demand throughout the District as record high home prices and rapidly rising interest rates pushed more potential buyers out of the market. Home sales in most areas throughout the District declined sharply on a year-over-year basis. Though rising, inventory levels remained low in many markets, leading to still record high, year-over-year price appreciation in places like Tampa, Nashville, and Orlando. The share of homes on the market with a reduced asking price continued to rise over the reporting period. New home builders reported further moderation in activity since the previous

report. Buyer traffic at new subdivisions declined, contract cancellations rose, and more builders offered incentives to attract buyers.

Commercial real estate (CRE) activity was mixed. Multi-family and industrial market conditions were stable, though some contacts voiced concerns that negative sentiment associated with a potential economic slowdown curbed some activity over the reporting period. Demand for lower-tier office and some segments of retail slowed somewhat. More firms returning to the office appeared to be mitigating some of the downward trend in the office sector; however, heightened levels of sublease space remained an impediment to market recovery. Contacts reported increasing concerns about possible declining CRE values amid a widening bid-ask spread and expectations for potential negative net operating income. There were more instances of buyers seeking greater concessions, shrinking pools of buyers, and declining prices in some of the less robust property types.

### **Manufacturing**

District manufacturers reported solid activity, on balance, over the reporting period. According to the Atlanta Fed's Business Inflation Expectations Survey, manufacturers' sales levels increased slightly, and profit margins widened somewhat. However, a softening of demand was noted by producers of certain discretionary consumer products. Shortages of certain inputs and employee turnover continued to hold back production for some manufacturers.

### **Transportation**

Transportation activity remained mixed. District ports continued to experience substantial year-over-year increases in container volumes; however, shipments of auto imports remained below 2019 levels. Trucking contacts saw increases in freight tonnage compared with year-earlier levels, citing rising industrial demand and a rebound in retail sales since the previous report. Year-to-date total rail traffic fell slightly from 2021 levels and intermodal freight was flat. Air cargo carriers reported a slowdown in activity, but revenues remained well above pre-pandemic levels.

### **Banking and Finance**

Conditions at District financial institutions were similar to the previous report. Including residential mortgages, loan growth for a majority of portfolios was positive. However, growth in consumer loans, particularly vehicle loans, slowed. Deposit growth declined and institutions increased borrowing as a source of funding. Additions to securities portfolios slowed and unrealized losses increased. Asset quality remained healthy, but near-term

delinquencies trended higher.

### **Energy**

Energy contacts indicated that oil and gas production was strong; however, getting products to market continued to be constrained by limited pipeline capacity. Refiners described high utilization and solid overall demand, although it has fallen from its summer peak. Broadly, contacts continued to report upward pressure on input costs, including operating expenses, parts and equipment, and services, and described very little easing of supply chain bottlenecks. Utility providers reported rising demand for power among commercial, residential, and industrial customers. Many energy contacts continued to report increasing their investment portfolio in renewables, particularly solar, wind, and biodiesel.

### **Agriculture**

Agricultural conditions in the District were mixed. Cotton growers noted some softening, which was attributed to slowing demand for textiles. Cattle ranchers reported strong sales and increased prices for livestock. Demand for chicken was strong amid reports of domestic consumers trading down from other protein sources; however, poultry exports weakened due to concerns by foreign importers over avian flu outbreaks. Row crop production remained solid, but farmers were hesitant to invest in equipment amidst concerns over future crop demand. ■



## Summary of Economic Activity

Economic activity in the Seventh District was little changed overall in late August and September. Contacts expected slow growth in the coming months, with many expressing concerns about the potential for a recession. Employment increased moderately, business spending was up slightly, consumer spending was little changed, manufacturing declined slightly, and construction and real estate activity moved down modestly. Wages rose rapidly, as did most prices, while financial conditions tightened moderately. Agriculture profit expectations for 2022 remained positive. Nonbusiness contacts reported that inflation continued to put pressure on household budgets.

### Labor Markets

Employment increased moderately in late August and September, and contacts expected a similar pace of growth over the next 12 months. Contacts reported difficulty finding workers across sectors and skill levels, though there were also reports that difficulties had eased some. A manufacturer noted poaching of salaried employees, but also somewhat easier hiring conditions for lower-skilled workers. A staffing firm indicated that demand from clients had slowed, though it remained at a high level. And a contact in healthcare saw an increase in the supply of nurses in their area as some who had taken temporary travel positions returned home. Overall, wage and benefit costs moved up strongly and were aimed both at attracting new workers and retaining existing talent. In addition to labor market tightness, contacts cited high inflation as an impetus for workers requesting wage increases.

### Prices

Most prices rose rapidly in July and early August, though some commodity prices fell, notably for fuel. Contacts expected the pace of price increases to slow over the next 12 months. Aside from declines in certain commodities, producer prices continued to rise, spurred by passthrough of higher overall costs for raw materials, labor, and shipping. That said, growth in producer prices

slowed across many categories. Consumer prices generally moved up robustly due to solid demand and passthrough of higher costs. However, fuel costs were down, and contacts noted a greater number of promotions on a range of retail products.

### Consumer Spending

On balance, consumer spending was little changed over the reporting period. Nonauto consumer spending increased slightly, and retailers indicated that back-to-school shopping had met their expectations. Consumers continued to shift purchases toward essential, less premium items and away from discretionary spending. Spending on pet supplies, food, and seasonal items increased, while spending on apparel declined. Leisure and hospitality activity was down some. Light vehicle sales edged down but spending on auto parts and services increased noticeably.

### Business Spending

Business spending increased slightly in late August and September. Capital expenditures were up modestly, with contacts highlighting the role of replacement demand for equipment and software. Commercial and residential energy consumption increased modestly, while demand for industrial energy consumption was down slightly. Retail inventories were elevated overall, and contacts

said retailers were reducing orders and ramping up promotions to help pare them down. Auto inventories were stable and above their pandemic lows, but still well below pre-pandemic levels. In manufacturing, inventories were moderately elevated, partly because contacts were holding on to nearly completed products as they waited for missing parts and materials to arrive.

### **Construction and Real Estate**

Construction and real estate activity decreased modestly on balance over the reporting period, and contacts pointed to higher interest rates as a key factor. Residential construction decreased slightly, and homebuilders expected a further slowdown over the coming year. Residential real estate activity decreased moderately, though home prices were up modestly due to limited supply. Residential rents increased moderately. Nonresidential construction was little changed over the reporting period, as was pricing. Long lead times for some materials persisted. Commercial real estate activity decreased modestly on weaker demand for office and retail space. In contrast, demand for industrial space remained robust. Prices were down slightly overall, and rents decreased modestly, while vacancy rates and sublease space availability moved up modestly.

### **Manufacturing**

Manufacturing demand was down slightly in late August and September. Contacts again reported that with slowing new orders, they were making headway on filling their large order backlogs. Output moved up modestly as manufacturers continued to struggle with labor availability and supply chain disruptions. Steel production decreased slightly overall, as demand slowed across a range of sectors. Fabricated metals demand was flat, with higher orders from the defense, medical, and aerospace industries offsetting declines in several other segments. Auto production was unchanged amid continued tight labor and supply chain issues, while heavy truck production picked up a bit as supply constraints in that segment of the industry eased. There was a small decrease in demand for heavy machinery.

### **Banking and Finance**

Financial conditions tightened moderately over the reporting period. Participants in the equity and bond markets reported lower asset values and higher volatility. Business loan demand fell modestly, with contacts pointing to higher borrowing rates and elevated uncertainty as contributing to the slowdown. One contact highlighted a decline in lending to food and retail companies. Business loan quality was down slightly, and loan standards tightened slightly. In consumer markets, loan volumes decreased modestly, with contacts reporting drops in mort-

gage and auto lending in the face of higher interest rates. Consumer loan quality decreased some and standards were slightly tighter.

### **Agriculture**

Income expectations for agricultural producers in 2022 were unchanged over the reporting period, with a profitable year expected for most despite elevated input costs. Contacts were optimistic that corn and soybean yields would be better than had been expected this summer, even with drought in parts of the District. Corn and soybean prices moved higher during the reporting period. Shipping costs, however, were elevated due to reduced barge capacity from low river levels. Dairy prices, most notably for butter, and egg prices, were up as well. Hog and cattle prices declined.

### **Community Conditions**

Community development organizations and public administrators reported some step-down in economic activity, especially in the housing market, though overall, the level of activity remained solid. Inflationary pressures continue to present challenges for low- and moderate-income individuals and families, as well as small businesses. State government officials again saw healthy growth in tax revenues over the reporting period. Unemployment insurance filings remained low. Small business development organizations said clients were borrowing not for growth, but to offset higher input prices. Nonprofits assisting low- and moderate-income households indicated that while fuel prices have eased, high grocery prices and elevated rents continue to strain household budgets, leading to strong demand for social services and other support. Childcare and early education providers reported ongoing elevated staffing vacancies due to the tight low wage labor market. ■

For more information about District economic conditions visit:  
[chicagofed.org/cfsec](https://chicagofed.org/cfsec)



## Summary of Economic Activity

Economic conditions have declined slightly since our previous report. While there were anecdotal reports of easing in the labor market, firms continued to report difficulties recruiting and retaining employees and wage pressures persisted. In the services sector, firms reported softer demand but many were still unable to operate at desired volumes due to a lack of workers. Many firms reported difficulties passing on input price increases due to increased consumer pushback. Homebuying slowed in the real estate sector, and demand for rental properties rose. While supply chain issues eased slightly, new construction decreased as builders focused on working through backlogs. Overall banking conditions remained unchanged, though contacts expect non-residential loan growth to begin to level out soon.

### Labor Markets

Employment has remained unchanged since our previous report. Contacts across the region continued to report difficulty filling positions and retaining workers. Some employers reported that increased flexibility and benefit policies implemented to improve retention are starting to bring about improved retention. However, there were still widespread reports of skilled tradespersons and technicians being poached by competitors. Contacts noted particular difficulty staffing weekend and late-night shifts. To improve recruiting and retention, some employers have focused on post-secondary institutions; one freight contact reported that the number of firms at a training center's career fair had tripled as firms sought to sign-on students prior to graduation.

Wages across the District have grown moderately since our previous report. Healthcare contacts reported raising wages by 7-10% this year, but the rate of wage growth has begun to slow recently. A recent survey of Arkansas firms noted 90% of trucking fleets raised their pay an average of 11% over the past year.

### Prices

Prices have continued to increase moderately since our previous report. Although input costs have increased across the board, contacts reported mixed results in their

ability to pass through costs to consumers. A contact in the catfish industry, however, noted that they were hesitant to increase prices due to consumer pushback. Other sectors, like healthcare, food service, and nonprofits, were unable to pass on costs to consumers and instead cut services or reduced margins. A contact in the car industry reported no transfer of costs to consumers due to low demand for new cars. However, a contact in the hotel industry reported increased consumer prices of 15-20% due to increased labor costs and renegotiated contracts with suppliers.

### Consumer Spending

District general retailers, auto dealers, and hospitality contacts reported mixed business activity and a mixed outlook. Retailers in the District noted that customers are changing shopping patterns due to high inflation; customers are becoming less brand loyal and are purchasing less on average. An auto dealer in Little Rock reported their sales are strong, especially in pre-owned cars; while they have a positive outlook for the upcoming months, they noted that customers are starting to have affordability issues because there is less inventory of lower-cost pre-owned cars. Hospitality contacts reported mixed business activity for this past month, with one St. Louis contact noting that inflation continues to hurt their customer base.

## **Manufacturing**

Manufacturing activity has remained unchanged since our previous report. Firms have reported slight upticks in production but slight downticks in new orders. Production has remained stable despite the drop in new orders due to the large order backlog. Input costs have remained high, and manufacturers have lost some of their sales volume when raising sales prices. Firms also continued to struggle in maintaining adequate staffing. One agricultural equipment manufacturing company noted that they have been selling more equipment to individual households lately, as it appears household improvement projects are on the rise. Supply chain conditions have improved slightly since our previous report, but manufacturers expect shortages and delays to remain a significant constraint for the next 6 months.

## **Nonfinancial Services**

Activity in the nonfinancial services sector has decreased slightly since our previous report. Transportation contacts reported that labor remains a critical issue, especially in transportation facility security and regional aviation. One Louisville-area contact reported canceling of passenger services due to shortages of low-skilled labor. As input costs and the cost of borrowing funds have increased, the affordability of transportation has decreased across the District, driving low-income consumers out of the market for vehicles and tickets. Across the District, rural medical facilities are cutting services, notably labor and delivery services, due to increased costs of labor, equipment, and pharmaceuticals. While demand for travel nurses has leveled off, healthcare contacts do not expect the nursing shortage to subside. One nursing school in Missouri experienced a 30-40% reduction in enrollment as well as a shortage of nursing educators.

## **Real Estate and Construction**

The real estate market has slowed since our previous report. In commercial real estate, vacancies remain high for office and retail space. Small floorplan suburban office space is in high demand, but elsewhere demand for office space remains low. Since our previous report, residential and industrial real estate markets continued to have low inventory, inventory has increased, and pending home sales have decreased. Multiple contacts reported companies offering to sell entire subdivisions at discount prices due to concerns about future demand. Elevated prices and rising mortgage rates have driven some prospective home buyers to renting, which has led to further increases in rental rates since our previous report. Still, the speed at which residential and industrial rental rates are increasing has slowed since our previous

report.

Residential and industrial construction has slowed as interest rates have increased and banks are less willing to lend. Commercial real estate construction remains extremely slow. Supply chain issues and lead times have lessened since our previous report. Some contacts are continuing to order supplies in advance to avoid future disruptions. One hotel construction contact recently ordered 100 toilets 15 months in advance of project completion and is storing them in a warehouse.

## **Banking and Finance**

Banking conditions in the District are largely unchanged. Real estate lending activity remains low since interest rates have increased, but overall loan demand has increased slightly compared with a year ago. Memphis-area banking contacts expect overall loan growth to start slowing soon. Since last quarter, commercial and industrial loans have seen growth, while consumer loan growth is roughly the same. Credit quality remains strong, as past-due and problem loans remain at historic lows. Banks reported that upward pressure on deposit rates is increasing. One Memphis contact reported receiving a growing number of calls from deposit customers regarding rates, which have reached as high as 2%.

## **Agriculture and Natural Resources**

District agriculture conditions have declined modestly since our previous report. Production and yield forecasts declined for corn, rice, and soybeans from August to September. Crop yields have remained stable for corn, fallen for rice and soybeans, and improved for cotton from August to September. However, crop yields have fallen consistently compared with 2021. District production and yields have been affected by extreme weather conditions such as drought, flood, strong winds, and hail.

Agriculture contacts remain concerned about rising input prices, global supply chain disruptions, and the extremely competitive nature of the current labor market. Fertilizer prices are up 30% in 2022 after increasing 80% in 2021. Supply chain issues have continued to be a challenge, with one grain processor reporting waits of 48-50 weeks for packaging materials. Contacts do not foresee these conditions changing for the next 6 months. ■



## Summary of Economic Activity

Ninth District economic activity increased slightly over the reporting period. Employment grew slightly, though the volume of job openings moderated. Wage pressures remained high. Price pressures eased slightly but remained elevated. Activity increased in consumer spending, tourism commercial construction and real estate, and manufacturing. Residential construction and real estate activity lagged further behind year-ago levels. Agricultural conditions generally remained strong heading into the harvest season. Minority- and women-owned business enterprises reported mixed conditions.

### Labor Markets

Employment grew slightly since the last report. Total job openings have moderated; firms have reportedly reconsidered some job openings due to recession concerns or extreme difficulties in filling them. But recent surveys continued to find healthy overall demand; recruiting and staffing contacts concurred. Labor supply remained tight, however. Asked about operating challenges, a Minnesota manufacturer commented, “If I could check the labor availability box twice, I would.” Turnover was also problematic, often for nonwage reasons, such as schedule flexibility, said a staffing contact. “Many are losing more out the back door than they can bring in.” Sources suggested that applicant volume had improved slightly, but candidate quality did not. One contact noted that a recent applicant had held seven food or retail jobs in the past 10 months, yet had been promoted to supervisor in the previous two jobs. “It shows how desperate some employers are getting.”

Wage pressures remained high. A large share of employers reported that compensation costs increased compared with the previous month, and that trend was expected to continue. A North Dakota contact said workers considering switching jobs for higher pay often saw higher counteroffers from existing employers. A Wisconsin firm said wage pressure was growing again with the start of holiday hiring. A retailer reported strong acceleration in entry level pay, but stopped offering sign-on and retention bonuses due to ineffectiveness.

### Prices

Price pressures eased slightly since the last report, but remained elevated. Two-thirds of respondents to a September survey of District firms reported that their nonlabor input prices increased from a month earlier. About 40 percent had slightly increased their prices charged to customers, a decreasing share from recent months, while about 10 percent of firms said their selling prices went down. Firms’ outlooks for prices over the coming month moderated slightly. The wholesale price component of a regional manufacturing conditions index slowed in September to a level that, while still inflationary, was at its lowest since August 2020. Contacts reported that paper prices levelled off recently and lumber prices fell briskly. Retail fuel prices in District states rebounded slightly in recent weeks to levels similar to the previous report. Prices received by farmers increased in August from a year earlier for all major Ninth District crops and animal products.

### Worker Experience

Higher prices continued to put pressure on many low- and mid-income workers, according to several contacts. A labor contact in the hospitality sector said that a less cash-dependent, post-COVID economy was affecting tipped workers negatively and pushing them away from the industry. In Minnesota, a labor contact said that major hospitals were offering high salaries and attractive incentives to recruit new staff but were not making the

same investments to retain existing staff. The number of travel nurses also remained high, but it was beginning to decrease, raising hopes that some may return to full-time employment. A public sector labor representative reported that several employers were holding back hiring “until there was a major need for it,” while some others were merging departments to leverage existing staff.

### **Consumer Spending**

Consumer spending grew slightly since the last report. Tourism contacts reported decent overall activity, particularly for accommodation businesses, with occupancy surpassing pre-pandemic levels in some places. A resort owner in northern Minnesota said, “It’s been so busy I’m looking forward to resting” during the fall shoulder season. Recent airline travel grew modestly in much of the District year over year, with the exception of Montana, where the continued closure of Yellowstone entrances has reduced the number out-of-state travelers. Visits to national parks elsewhere in the District were also down. However, end-of-summer fairs and festivals reported strong attendance and spending. Retail contacts reported softer revenues during the last month, but were optimistic about future sales. A Montana vehicle dealership with multiple offices said truck and car sales were flat in August and September and slow overall, as the industry has completed a calendar-lap of slower sales stemming from inventory shortages. Sales of recreational and marine vehicles have also slowed due to economic concerns and higher financing costs.

### **Construction and Real Estate**

Commercial construction rose slightly since the last report. Industry data indicated that both new and active projects were higher over the most recent four-week period (ending mid-September) compared with a year earlier, after having declined for much of the summer. Industrial and multifamily segments continued to drive overall activity. Anecdotal reports were more pessimistic, but large firms generally were performing much better than small ones. One firm said it was not seeing activity decline but was getting more calls from subcontractors looking for work. Residential housing remained subdued, with single-family permitting below year-ago levels in most parts of the District.

Commercial real estate grew slightly. Multifamily and industrial sectors continued to see healthy demand, and retail vacancy rates improved thanks to sustained consumer demand and low levels of new construction. Office vacancy rates remained high. The share of in-office workforce continued to rise slowly, and leasing interest has reportedly seen small improvements, though concessions remained high to attract new lessees.

Residential real estate continued to lag due to higher mortgage rates. Increases in median sales value have also begun to moderate.

### **Manufacturing**

Manufacturing activity increased modestly overall since the previous report. A regional index of manufacturing conditions indicated increased activity in Minnesota, North Dakota, and South Dakota in September from a month earlier. About half of manufacturing respondents to a September survey of District firms reported that orders decreased from the previous month, but the outlook for October orders was positive. Some manufacturing contacts noted that supply chain pressures had eased recently (for example, shipping containers were more widely available), though they remained a challenge. An electronics producer said their backlog of orders was large enough to last through 2023 even if new business slowed significantly. A printing firm reported new orders dipped slightly after a few very strong months. However, a packaging producer said new orders were “very soft” and a metal products producer noted substantially lower quoting activity for early 2023, which halted all their capital investment plans.

### **Agriculture, Energy, and Natural Resources**

District agricultural conditions improved modestly and remained strong overall heading into harvest season, even as elevated input costs bit into producer margins. Early indications pointed to solid harvests and good crop conditions throughout most of the District, with the exception of portions of Montana heavily affected by drought. District oil and gas exploration activity was unchanged since the last report but well above levels from a year ago.

### **Minority- and Women-Owned Business Enterprises**

Activity among minority- and women-owned business enterprises (MWBEs) in the District was mixed. An almost equal number of firms reported higher sales and profits as those who did not in the latest monthly business survey. Demand for workers remained elevated and hiring challenges persisted. An entrepreneur in the construction industry expressed concern that more skilled workers were being “absorbed” by larger employers and leaving smaller firms scrambling for talent. A Minnesota contact reported productivity had declined because many new hires were “just getting the work done and not going above and beyond.” ■

For more information about District economic conditions visit: [minneapolisfed.org/region-and-community](https://minneapolisfed.org/region-and-community)





## Summary of Economic Activity

Economic growth in the Tenth District was modest, though employment growth maintained momentum as prior job openings were filled. However, contacts highlighted several indications of cooling labor demand, including less willingness to replace workers who leave, less willingness to post new positions and a slight deceleration of wage growth from recent highs. More households reportedly turned to gig work or other contract work to supplement their income amid rising prices. Most businesses reported expectations that growth in cost pressures will persist, and also reported better ability to pass on those costs to customers. In healthcare, contacts suggested upcoming negotiations of reimbursement rates could lead to an acceleration of price growth for health services. Spending on leisure travel was robust, but overall consumer spending held steady over the past month. Manufacturing production growth continued to decelerate. Still, few businesses reported plans to reduce their production capacity or cancel existing expansion plans. Contacts expected energy markets to remain tight due to past periods of underinvestment, which drove increases in employment within the sector in several District states.

### Labor Markets

Employers in the Tenth District continued to add jobs at a moderate pace during September, as momentum from past job openings kept hiring activity elevated. However, commentary from a broad set of contacts pointed to signs of cooling labor demand. For example, businesses in several industries reported they would be much less likely to backfill positions, if workers were to leave. Many other businesses reported that they do not plan to post new job openings in coming months, indicating uncertainty about the outlook in slowing planned hiring. Reports from residential real estate, venture capital and start-up sectors stood out as areas where worker layoffs were evident and labor demand was declining. Hardly any District businesses indicated they were hoarding excess labor.

Contacts reported expectations that wage growth is likely to slow to a moderate pace in coming months. Although wage growth is expected to slow from recent highs, most businesses indicated the increase in labor costs being budgeted for in the coming year remains well-above historical norms. Moreover, manufacturers indicated they continue to expect wage growth to exceed historical levels, even though overall demand growth has become more sluggish.

### Prices

Prices continued to increase at a robust pace. Most businesses indicated an improved ability to pass on higher prices to customers over the past few months, particularly for hospitality and retail businesses. Most contacts expect cost pressures to remain persistent over the next six months, broadly citing financing, energy, labor and shipping and transportation costs. Additionally, contacts in healthcare noted an upside risk to persistent price pressures over the coming months stemming from upcoming healthcare contract renegotiations. As an exception, contacts expected cost pressures for building materials to further diminish over the coming months.

### Consumer Spending

Household spending was mostly unchanged over the past month. Hoteliers in the District indicated that leisure travel grew solidly from already elevated levels, even as room prices picked up significantly across locations. Contacts in the hospitality sector indicated this past September was the best on record, although parts of Wyoming still felt the effects of heavy rains earlier in the summer that dampened leisure travel to the area. Car sales remained subdued across District states. While auto sales were previously held back by supply constraints, the primary headwind to sales shifted recently to rising interest rates.

### **Community Conditions**

Several contacts reported a recent rise in the number of low- and moderate-income workers seeking non-traditional employment arrangements – gig work or other contract work. Reports were mixed on drivers. Many contacts suggested individuals are increasingly taking on multiple jobs via app-based work or have adopted “side-hustle” microbusinesses to augment their incomes amid rising household expenses. Alternatively, other reports indicated more people eschewed formal employment in pursuit of flexible work schedules. Access to affordable child care and reliable transportation have worsened recently due to inflationary pressures, particularly for low-to-moderate income households. Several contacts suggested gig work provided greater opportunities to remain engaged in the labor force.

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

Manufacturing activity decelerated further over the past month, primarily due to declines among durable goods and fabricated materials manufacturers. Despite slowing growth in overall manufacturing activity, few contacts indicated any plans to reduce their production capacity in coming months. Most businesses reported they intend to follow through on any existing plans for market expansion or capital plans to increase their scale of production. Several contacts noted rising interest rates are weighing heavily on expected future capital expenditures, as some prospective projects no longer “pencil out.” Activity among service businesses remained firm as contacts reported moderate growth through September. The majority of businesses in both service and manufacturing sectors indicated they did not hold excess inventories of production materials. Few contacts indicated they plan to expand their inventories in coming months, as they seem “right-sized” or somewhat too large given their current outlook.

### **Real Estate and Construction**

Single family housing construction declined at a moderate pace, compounding previous declines, which contacts attributed to higher interest rates. Existing home sales and brokerage activity also fell swiftly. In contrast, the new development, new construction and level of transaction activity for multifamily housing all continued to grow at a solid pace across the District. Contacts indicated that housing shortages are driving persistent rental price pressures, and suggested that excess demand for multifamily housing construction will persist over the medium term. Several contacts noted that building material prices eased in recent months, further supporting ongoing construction in multifamily housing projects.

### **Community and Regional Banking**

Loan demand weakened modestly in the past month amidst rising economic uncertainty and borrowing costs. Bankers noted particular weakness in demand for commercial and industrial loans and commercial real estate loans, as businesses pared back their borrowing in the face of economic headwinds. Credit quality remained unchanged, but contacts continued to expect deterioration over the next six months against the backdrop of inflation and higher repayment costs. Deposit balances declined due to rate competition and investment opportunities outside depository institutions.

### **Energy**

Tenth District energy activity expanded at a moderate pace. Business contacts reported an expansion in drilling activity, revenues, and profits. Additionally, energy businesses continued to hire and expressed an ongoing willingness to grow their work force in coming months. However, filling open positions remained challenging, especially for skilled labor. Contacts continued to express optimism around prospects for their businesses, anticipating that energy markets will remain tight due to past underinvestment within the oil and gas sector. Cost pressures remain an issue, although input costs are increasing at a slower pace than earlier this year. Higher costs of capital, labor, and equipment drove a robust increase in the reported energy commodity prices needed to meaningfully expand drilling activity. Similarly, the prices for upstream oilfield services firms rose moderately. Despite these persistent cost pressures, most contacts reported a willingness to add additional capital expenditures and expand their businesses amidst still elevated energy prices.

### **Agriculture**

Financial conditions remained strong due to still elevated crop prices. However, contacts reported several adverse developments tied to drought and input costs. At the start of the fall harvest season, nearly one-third of corn and soybean crops were in very poor condition in some District states, heightening concerns about reduced yields. Exceptionally dry conditions also contributed to lower river levels, higher transportation costs, and lower crop prices in some areas in September. In the livestock sector, hog prices declined moderately over the past month, but remained slightly above year-ago levels. Cattle prices continued to increase alongside reports of additional herd liquidations, due, in large part, to higher feed and transportation costs. ■

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



## Summary of Economic Activity

Growth in the Eleventh District economy continued at a modest pace overall. Expansion in manufacturing activity picked up a bit while service sector expansion eased slightly. Retail and home sales fell. Loan demand declined for the first time in nearly two years, amid rising interest rates. The energy sector continued to expand but growth was constrained by equipment and labor shortages. Local nonprofits reported increased demand for assistance as household costs rose. Drought conditions eased but the relief came too late in the growing season for row crop producers. Solid employment growth continued, though some contacts reported a hiring slowdown. Wage growth remained elevated but eased slightly. Selling price growth eased slightly as well, amid reports of greater difficulty passing on cost increases to customers. Outlooks were generally pessimistic outside of the energy industry, and uncertainty remained elevated. Contacts primarily voiced concern about inflation, labor shortages, and weakening demand.

### Labor Markets

Solid employment growth continued, with a slight pickup seen in the energy sector. There were, however, scattered reports of a slowdown in hiring amid weaker demand and recession fears. Labor markets nevertheless remained quite tight. Commercial truck and bus drivers were in very short supply, as were healthcare workers. Several contacts noted an inability to find skilled tradespeople. Industries that require onsite work were having difficulty competing for workers with industries that can offer remote work and flexible hours. Some employers have rebranded undesirable positions to attract workers. A few contacts noted a higher degree of apathy among workers towards attendance and work quality. Some contacts said their growth plans were being constrained by an inability to bring on and retain sufficient staff. Among 384 Texas business executives responding to a Dallas Fed September survey, nearly half cited labor shortages as a primary concern around their firm's outlook.

Wage growth eased slightly but remained high. Employees continued to demand higher pay, and companies responded in an effort to recruit and retain employees. Some contacts noted losing employees to competitors or other industries offering higher pay. A staffing firm said

they were seeing a lot of workers switching jobs to attain higher wages.

### Prices

Input costs continued to climb at about the same elevated pace as during the prior period, while growth in selling prices continued to ease. Manufacturers reported higher raw materials prices driven by supply-chain constraints, particularly from overseas suppliers. Services firms commented that the ripple effect of inflation was a challenge, and numerous contacts noted greater difficulty passing on cost increases to customers. A restaurant said their biggest concern was customer pushback on menu price increases. Retailers also said customers were starting to push back on pricing. Fuel prices moved lower over the past six weeks, but airlines noted increases in ticket prices amid solid demand and higher labor and non-fuel costs.

### Manufacturing

Texas manufacturing output increased moderately during the reporting period, picking up pace from the more modest expansion seen over the summer. Growth was led by durable goods manufacturing such as machinery and high tech. New orders for manufactured goods continued to weaken, however, with contacts citing customer concerns surrounding inflation and potential recessions.

sion. A luxury product manufacturer said they expect sales to fall as customers cut discretionary spending, and a personal electronics manufacturer said they also expect weakness going forward. Manufacturing tied to the upstream energy sector continued to experience rising demand over the past six weeks, while petrochemical companies and refineries reported slowing demand. The energy crisis in Europe is expected to boost demand for Texas petrochemical producers and refineries, though it has prompted some new supply-chain shortages of components produced there. Overall manufacturing outlooks were more pessimistic than optimistic, with contacts pointing to rising interest rates and a weaker business climate as headwinds.

### **Retail Sales**

Retail sales declined over the past six weeks, as inventories continued to build. Auto sales weakened, hampered in part by vehicle production delays, labor shortages, and high prices. One contact said new vehicle inventory bottomed out in August and has begun to rise, and continuous improvement is expected in the fourth quarter. Overall outlooks worsened, with some concern about rising interest rates and compressed profit margins.

### **Nonfinancial Services**

Service sector activity expanded at a more modest pace during the reporting period. Revenue growth was broad based, though some contacts noted weaker demand. Transportation services firms reported higher cargo volumes and ridership. Airlines noted unseasonably strong leisure travel in the third quarter. Staffing services firms reported strong demand, with increases in requests for both low and high-skill workers. However, several contacts noted a pullback in customer activity amid recession worries. Service sector outlooks were largely unchanged overall.

### **Construction and Real Estate**

Activity in the housing market remained weak. Sales slipped further and contract cancellations were highly elevated in part due to rising mortgage rates pricing more buyers out of the market. Buyer incentives increased, putting downward pressure on home prices and builders' margins. Outlooks worsened, with contacts expecting further deterioration in sales and starts. Apartment leasing moderated, though year-over-year rent growth remained solid. Office leasing ticked up, but uncertainty was elevated. Fundamentals in the industrial market stayed solid. Contacts noted that the higher cost of capital was pushing investors to the sidelines.

### **Financial Services**

Loan demand declined for the first time in nearly two

years, and overall loan volume decreased over the past six weeks. Volume declines were seen in all loan categories, but the steepest came in residential real estate lending. Loan nonperformance varied by category but was largely unchanged overall. Loan pricing continued to rise notably, with 85 percent of contacts reporting an increase—the largest share since the survey began in 2017. Credit standards and terms tightened further. Looking six months ahead, contacts expressed greater pessimism than in the prior period and expect loan demand and general business activity to decrease and loan delinquency to increase.

### **Energy**

Energy activity continued to expand. The Eleventh District rig count was mostly flat over the past six weeks while well completions ticked up. Demand for oilfield services was high, but the industry was constrained by equipment and labor shortages. Outlooks were strong, with contacts expecting oil and natural gas prices to remain high enough to prompt an upward trend in energy activity for the foreseeable future.

### **Agriculture**

Significant rainfall early in the reporting period greatly improved drought conditions across much of the district, though soil moisture has begun worsening again in recent weeks. Many areas experienced little-to-no row crop production as a result of the drought, causing fields to be plowed under. Significant culling of cattle herds continued, though the pace slowed slightly as much-needed rainfall greened up pastures.

### **Community Perspectives**

Nonprofits reported increased demand for services among the communities they serve over the past six weeks. Utilization of food assistance rose, and multiple contacts noted seeing increased use by middle-income individuals seeking to subsidize their household budgets amid rising inflation and rent. Demand for utility assistance spiked. Contacts were mixed on childcare assistance—some noted a lack of demand while others noted a lack of affordable childcare options, as many daycare centers closed down during the pandemic or cannot operate at full capacity because of labor shortages. Contacts reported an uptick in demand for English language classes and workforce training to help workers obtain higher-paying jobs. ■

For more information about District economic conditions visit: [www.dallasfed.org/research/texas](http://www.dallasfed.org/research/texas)



## Summary of Economic Activity

Economic activity in the Twelfth District expanded modestly during the mid-August through September reporting period. Hiring activity grew at a modest pace, and wages rose further amid tight labor market conditions. Inflation remained elevated, albeit with some indication of slight moderation. Retail sales grew moderately, and activity in the consumer and business services sectors was reportedly strong. Manufacturing output grew modestly, while conditions in the agriculture and resource-related sectors worsened somewhat. Residential real estate activity eased further but demand for multifamily housing remained strong. Activity in commercial real estate was flat on balance. Lending activity decreased slightly over the reporting period. Communities across the Twelfth District were challenged by housing affordability and elevated living costs. Looking ahead, contacts expected overall economic conditions to weaken and highlighted their increasingly uncertain outlook, with several respondents citing a possible economic downturn in Europe as a significant headwind.

### Labor Markets

Hiring activity grew at a modest pace during the reporting period as labor markets remained tight across most sectors. Reports indicated increased employment levels despite difficulty attracting workers in manufacturing, health care, retail, professional services, and skilled trades. Real estate and construction firms as well as financial services providers reported further easing of labor supply constraints, partly due to slower activity in the housing market. Employment in leisure and hospitality remained far below target levels despite some reported increase in job applications. Airlines have adjusted their schedules in recent months to better reflect crew availability and continued to develop in-house training programs to help meet future demand. Some contacts reported continued investment in automation to address persistent labor shortages. Reports indicated some improvement in employee retention, but many employers continued to highlight persistently high turnover rates. Several contacts noted that worsening housing affordability has made it more difficult for firms to fill entry-level positions in urban areas. One contact reported a notable uptick in applications for evening shifts as people sought a second job to supplement their income. Due to an increasingly uncertain outlook, many contacts narrowed down their future hiring plans to critical positions.

Wages continued to grow, albeit at a slower pace. Reports indicated that elevated costs of living, particularly for essential expenses such as food and rent, continued to drive wage pressures upward. Employees across a range of sectors continued to demand more comprehensive benefits, flexible work arrangements, and up-front hiring incentives. However, there were several reports of

hourly workers favoring higher pay over expanded benefits amid elevated price inflation.

### Prices

Price levels remained highly elevated despite reported moderation in the rate of increase. Reports noted persistent inflation across industries and products, including prices for food, insurance, health care, legal services, packaging, and some manufacturing products, such as plastic and cardboard, due to continued cost pressures from materials and labor. Lumber prices also rose recently but were still significantly below their pandemic highs. Energy prices, although notably down since June, ticked up in recent weeks, and several contacts said fuel surcharges were still widespread in freight and manufacturing. Nevertheless, cooling overall demand helped alleviate some price pressures, and contacts noted more stable prices for used vehicles, construction materials, and airfares. Contacts generally expected cost pressures to persist over the coming months.

### Community Conditions

Housing affordability, homelessness, and food insecurity continued to challenge communities across the district. Contacts emphasized the uneven impact of ongoing inflationary pressures and overall economic uncertainty on lower-income households and communities. Nonprofit organizations reported challenges meeting demand for behavioral health and substance misuse services. Contacts also reported an undersupply of basic shelter needs which have increased due to hiring difficulties and a notable drop in donations in recent months. Several contacts also raised concerns about worsened academic

performance during the pandemic across all groups, particularly among lower-income students.

### **Retail Trade and Services**

Retail sales grew moderately on balance. High tourism volumes in large metropolitan areas supported strong demand for retail goods, while other parts of the District saw signs of cooling due to further declines in consumers' discretionary spending. Reports indicated that demand has picked up for home improvement goods as homeowners invested more in their homes. Tight labor supply continued, although retention rates in some retail sectors reportedly increased. Supply chain disruptions continued easing, improving delivery times and allowing some retailers to realign inventory to more optimal levels. Contacts from across the District reported low retail vacancy numbers.

Conditions in the consumer and business services sectors continued to improve. The leisure and hospitality industry saw improvements as COVID-19 travel restrictions eased further for visitors from abroad. A Las Vegas contact highlighted record growth in air travel volumes, while contacts from Southern California and Hawaii noted strong demand for hospitality services. Demand for other services, including food and legal services, picked up, and activity in the health care and wellness sectors continued to be robust.

### **Manufacturing**

Manufacturing activity grew modestly during the reporting period. Demand increased for many products, including packaging equipment, renewable energy equipment, manufactured foods, personal care products, outdoor gear, and some building materials. Meanwhile, metal production and recycling slowed down somewhat. Capacity utilization inched upward on net, while some capital spending plans were deferred due to perceived economic uncertainty. Input and transportation costs remained elevated. Supply chain disruptions and the war in Ukraine continued to hinder manufacturing, especially production of aluminum. Nonetheless, supply issues continued to ease, improving access to raw materials. A metal fabricator noted that backlogs have become more manageable, and overtime has become less necessary. One contact in the energy sector mentioned that energy use by manufacturers largely held steady over the reporting period.

### **Agriculture and Resource-Related Industries**

Conditions in the agriculture and resource-related sectors worsened somewhat. Overall demand for produce, fruits, and seafood was unchanged. However, labor shortages, transportation delays, elevated input prices, drought conditions, and wide temperature fluctuations

continued to hinder production, especially for cherries, pears, and apples. Weaker global activity and an appreciating dollar reduced demand in international markets for domestic agricultural products, especially wheat, nuts, raisins, and tree logs. One producer mentioned that increased energy costs in Europe have prevented European farmers from refrigerating and storing fresh fruit, increasing their immediate supply in the region and heightening competition in export markets. Capital spending in the logging sector remained strong, but one contact in the Pacific Northwest mentioned that persistently high timberland valuations hindered production.

### **Real Estate and Construction**

Residential real estate activity softened further. Demand softened for single-family homes due to increasing mortgage rates, and elevated costs for some materials added strain for new home construction projects. Home prices remained high but fell in some areas, such as in parts of Nevada. Housing inventories were still low, especially in Alaska, but started to rise in some other areas. The search for affordable housing has kept demand for multifamily units strong and rental rates high. Despite some easing, ongoing labor and supply shortages continued to delay construction projects. One contact in Arizona specifically raised concerns about the availability of refrigeration and air conditioning equipment.

Activity in the commercial real estate market was flat on balance. Construction of industrial and warehouse facilities remained strong, especially in the Mountain West. One contact in Utah mentioned additional demand for public facilities such as airports and prisons. Conversely, demand for office space was weak throughout the District, and vacancies rose. Contacts attributed this weakness to ongoing remote work arrangements and general economic uncertainty.

### **Financial Institutions**

Lending activity decreased slightly over the reporting period. Loan demand softened, chiefly due to decreased applications for single-family mortgage origination and refinancing on account of higher interest rates. Demand for multifamily and industrial construction loans was more resilient. Economic uncertainty has reportedly led businesses to approach borrowing more cautiously, reducing originations for corporate loans. Demand for auto loans remained elevated. Credit quality remained high, although a few contacts observed some slight deterioration, and competition for loans remained brisk. Liquidity was elevated, but deposits moderated somewhat despite paying higher rates. Financiers in the private equity and venture capital space reported overall declines in investment and valuations, including in clean energy markets. ■



