

For use at 2:00 PM EDT

Wednesday

September 6, 2023

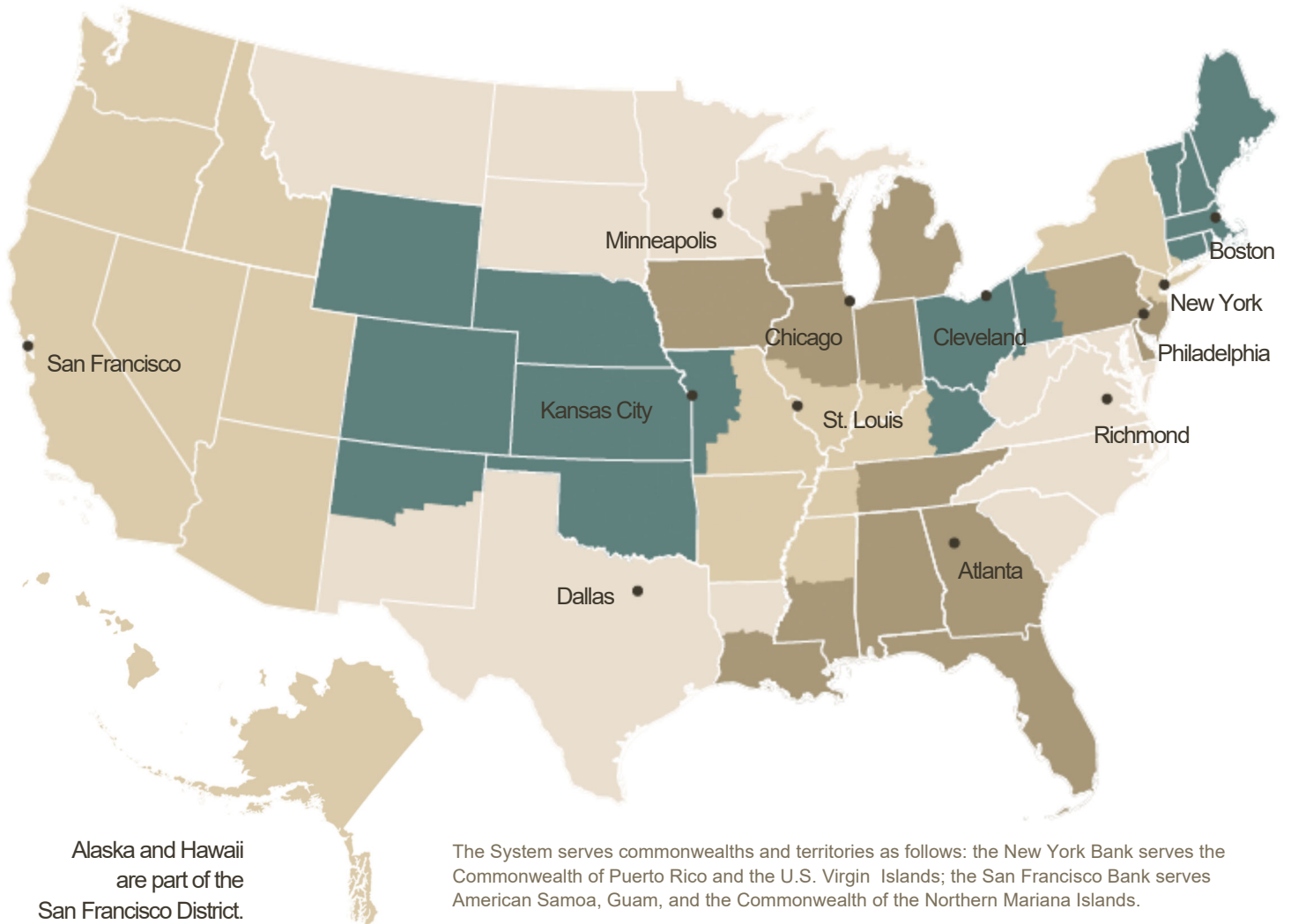
The Beige Book

Summary of Commentary on Current Economic Conditions

By Federal Reserve District

August 2023

Federal Reserve Districts



This report was prepared at the Federal Reserve Bank of Kansas City based on information collected on or before August 28, 2023. 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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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 ■ August 2023

Overall Economic Activity

Contacts from most Districts indicated economic growth was modest during July and August. Consumer spending on tourism was stronger than expected, surging during what most contacts considered the last stage of pent-up demand for leisure travel from the pandemic era. But other retail spending continued to slow, especially on non-essential items. Some Districts highlighted reports suggesting consumers may have exhausted their savings and are relying more on borrowing to support spending. New auto sales did expand in many Districts, but contacts noted this had more to do with better availability of inventory rather than increased consumer demand. Manufacturing contacts in several Districts also noted that supply chain delays improved, and that they were better able to meet existing orders. New orders were stable or declined in most Districts, and backlogs shortened as demand for manufactured goods waned. One sector where supply did not become more available was single-family housing. Nearly all Districts reported the inventory of homes for sale remained constrained. Accordingly, new construction activity picked up for single-family housing. But multiple Districts noted that construction of affordable housing units was increasingly challenged by higher financing costs and rising insurance premiums. Bankers from different Districts had mixed experiences with growth in loan demand. Most indicated that consumer loan balances rose, and some Districts reported higher delinquencies on consumer credit lines. Agriculture conditions were somewhat mixed, but reports of drought and higher input costs were widespread. Energy activity was mostly unchanged during the final months of the summer.

Labor Markets

Job growth was subdued across the nation. Though hiring slowed, most Districts indicated imbalances persisted in the labor market as the availability of skilled workers and the number of applicants remained constrained. Worker retention improved in several Districts, but only in certain sectors such as manufacturing and transportation. Many contacts suggested “the second half of the year will be different” when describing wage growth. Growth in labor cost pressures was elevated in most Districts, often exceeding expectations during the first half of the year. But nearly all Districts indicated businesses renewed their previously unfulfilled expectations that wage growth will slow broadly in the near term.

Prices

Most Districts reported price growth slowed overall, decelerating faster in manufacturing and consumer-goods sectors. However, contacts in several Districts highlighted sharp increases in property insurance costs during the past few months. Contacts in several Districts indicated input price growth slowed less than selling prices, as businesses struggled to pass along cost pressures. As a result, profit margins reportedly fell in several Districts.

Highlights by Federal Reserve District

Boston

Business activity expanded modestly on balance. New car inventories normalized further but used cars remained scarce. Home sales fell further, resulting in a disappointing spring and summer season. Concerning the outlook, fewer contacts mentioned a recession as a looming risk and pricing pressures were expected to ease further.

New York

Regional economic activity held steady through the summer. Labor market conditions generally remained solid, with steady wage growth. Consumer spending grew steadily, while manufacturing activity declined. Home sales remained constrained due to low inventory and rising mortgage rates. Inflationary pressures picked up slightly after easing much of the past year.

Philadelphia

Business activity continued to decline slightly during the current Beige Book period. Although manufacturers indicated an uptick in August, consumer spending declined overall as did nonmanufacturing activity. Labor availability improved further, and employment edged up once more. Wage growth and inflation continued to subside. Sentiment was somewhat divided, but expectations generally grew more positive.

Cleveland

Economic activity was generally flat in the Fourth District, though conditions shifted notably in some industries. While consumer spending and demand for manufactured goods softened, freight activity stabilized, and nonresidential construction activity increased. Contacts expected similar economic conditions to persist in the near term.

Richmond

The regional economy grew slightly in recent weeks. Consumer spending on retail and food service, as well as on travel and tourism, picked up modestly. Manufacturers noted a decrease in demand. Transportation volumes remained steady across freight modes. Residential real estate was constrained by limited inventory. Commercial real estate activity and lending declined. Employment increased moderately and price growth eased slightly.

Atlanta

Economic activity grew modestly. Labor markets improved, and wage pressures eased. Nonlabor costs moderated, on net. Retail sales were robust. New auto sales were strong. Domestic leisure travel slowed, while international and business travel rose. Housing demand was durable. Transportation activity slowed. Energy demand was strong. Agricultural conditions were mixed.

Chicago

Economic activity increased slightly. Employment increased moderately; business and consumer spending increased slightly; construction and real estate was flat; nonbusiness contacts saw little change in activity; and manufacturing decreased slightly. Prices and wages rose moderately, while financial conditions tightened moderately. Expectations for farm incomes in 2023 were little changed.

St. Louis

Economic conditions have remained unchanged since our previous report. Employers reported continued tight labor markets and easing wage growth. Businesses struggled to pass on price increases and reported continuing increases in price sensitivity and weaker demand for high-end goods.

Minneapolis

Regional economic activity crept up on balance. Employment grew slightly, with hiring activity remaining healthy. Wage pressures were flat, while job seekers prioritized work-life balance. Prices increased moderately; firms were finding it harder to pass on higher costs. Consumer spending rose and auto sales benefited from improved inventory. Manufacturing and real estate activity fell; farm conditions weakened.

Kansas City

Economic activity across the District was stable over the last two months. Manufacturing production and sales at service businesses improved due to a greater ability to meet existing orders, as delays along supply chains were resolved. Job growth remained flat, but wage growth continued to exceed historical norms and businesses' expectations. Contacts renewed expectations for slower wage growth ahead. Prices grew at a moderate pace.

Dallas

Modest expansion continued, though activity was mixed across sectors. Solid growth was seen in the nonfinancial services sector, while retail sales were flat and activity in the manufacturing, energy, and financial services sectors declined. Employment growth picked up slightly overall, and wage growth remained high. Price pressures remained elevated in the service sector. Outlooks were fairly stable, though uncertainty persists.

San Francisco

Economic activity strengthened slightly. Labor availability improved and wage pressures softened further. Price increases persisted, albeit at a slower pace. Retail sales rose slightly, on balance, and manufacturing activity was stable. Lending activity moderated in recent weeks. Local communities observed increased demand for support services, particularly in areas impacted by wildfires and other severe weather in Hawaii and California.



Summary of Economic Activity

Business activity expanded modestly on balance, as real estate markets continued to lag other sectors of the First District's economy. Employment was about flat, wages grew at a modest pace, and price increases were generally small. Consumer spending on retail goods and hospitality services increased moderately. Manufacturers gave mixed results, but revenues increased at a moderate pace on average. Home sales fell further on rising mortgage rates. Nonetheless, home prices continued to climb at an above-average pace from a year earlier owing to sharp inventory declines for the same period. Commercial real estate activity was limited but stable. Contacts across all sectors expected relatively stable activity moving forward, with further easing of pricing pressures, and fewer of them mentioned the possibility of a recession when considering the outlook.

Labor Markets

In First District labor markets, employment was roughly flat, and wages grew at a modest pace. Labor supply increased at least slightly for a diverse range of positions and many contacts said that it had become easier to fill job vacancies. Labor demand was described as steady but relatively modest in comparison with a year earlier, and contacts reported only selective layoffs. Reduced attrition also contributed to a more stable employment environment. A restaurant industry contact said that existing workers took on more shifts and more new workers were available, developments which were attributed to the looming return of student loan repayments. Contacts in multiple industries noted that enticements such as flexible arrangements and sign-on bonuses had become less common. Wage increases were modest on average, but some employers said that the pace of wage growth remained above pre-pandemic norms, while a contact in the healthcare sector said that starting wage levels were down sharply from their pandemic peaks. A workforce development contact described sustained success placing workers with physical or developmental disabilities, and expressed confidence that placing workers from non-traditional backgrounds would remain possible moving forward, even with some uptick in unemployment. Moving forward, contacts mostly expected current labor market trends to continue, with some further softening of demand possible but no major disruptions.

Prices

Prices increased only slightly on average. Contacts largely reported that pricing pressures moderated further, and in some cases prices decreased outright. At Boston-area hotels, average daily room rates stabilized, rising only slightly from one year ago following several months of robust price growth. Retail sticker prices were flat but effectively down slightly because of increased promotions. Wholesale food prices for restaurants fell modestly, the first decline in several years, and menu prices were flat. Discounts on new automobiles returned as inventories approached normal levels, but prices on used vehicles remained elevated. Manufacturing contacts, with one exception, reported stable or decreasing prices, and transportation costs in particular were lower. However, one manufacturer continued to post high single-digit price increases in order to offset increases in labor and nonlabor expenses. Contacts were sanguine that inflationary pressures would continue to ease moving forward.

Retail and Tourism

Among First District contacts, retail and restaurant sales increased moderately in recent months. An online retailer experienced an uptick in sales volume partially attributed to offering discounts on more products. A discount retailer saw further modest improvements in sales volumes, pointing to an improved inventory. A representative for automotive dealerships reported steady

sales and improved inventories of new cars but said that inventories of used cars remained depressed. A Massachusetts restaurant industry contact reported an above-average seasonal sales uptick for July, particularly on Cape Cod and in Boston's Seaport. Nonetheless, August brought somewhat softer restaurant sales, especially in suburban areas. Occupancy rates rose modestly for Boston area hotels in recent months, but average daily room rates levelled off. Retail and tourism contacts alike had a stable outlook, cautiously optimistic for sustained modest growth for their own businesses in the near-term.

Manufacturing and Related Services

Manufacturing revenues increased moderately on average, but about half of firms reported either flat or somewhat softer sales. Those with disappointing results included a testing equipment manufacturer that endured weaker-than-expected demand from China and a semiconductor manufacturer that was vulnerable to decreased PC and smartphone sales. In contrast, a veterinary products maker experienced strong revenue growth in line with expectations, and a maker of leather goods reported very strong revenue growth led by online sales. Employment was stable among our contacts. One contact reported a major upward revision in capital expenditure plans, buoyed by several years of strong sales. The outlook was roughly stable or slightly improved, with most contacts at least cautiously optimistic about their firms' near-term prospects. However, some contacts cited further weakness in demand from China as a significant downside risk.

Staffing Services

First District staffing firms reported modest revenue gains on balance in the third quarter, although some said that revenues had fallen slightly below normal levels recently. Contacts noted slight increases in labor supply and modest but steady demand for most roles. Only selective layoffs were reported. Staffing contacts enjoyed increased revenues from temporary placements, driven by elevated pay rates for such roles, which had largely evaporated during the pandemic. While most job candidates still preferred permanent, direct-hire positions, temporary roles offering higher wages were nonetheless seen as a reasonable alternative. The outlook was quite mixed and uncertain, with about flat performance expected on balance for the rest of 2023.

Commercial Real Estate

The commercial real estate market of the First District was described as mostly stagnant in recent months. In the office market, few leases were signed, rents were flat, and vacancy ticked up slightly from fresh sublease offerings. Multiple contacts reported strengthening de-

mand for medical office space, however. In the industrial market, leasing activity slowed further on softer demand and very low vacancy rates, although some large new spaces were set to come online in Rhode Island. In the retail market, contacts said that grocery-anchored suburban shopping centers enjoyed decent leasing activity that outperformed expectations. Otherwise, the retail market was mixed, with flat or rising vacancy rates. Across markets, high borrowing costs continued to limit investment sales, impeding price discovery. Contacts anticipated that sales volume would remain low through at least the end of 2023. Multiple contacts expected a modest uptick in office leasing in the fall, mostly due to seasonal trends but also due to stricter return-to-office policies. The industrial market was expected to weaken further moving into late 2023.

Residential Real Estate

Throughout the First District, considerably fewer single-family homes and condos were sold in July 2023 than were sold at the same time last year. A Massachusetts contact said that the state's closed sales fell abruptly in July from the previous month, owing to further increases in mortgage rates, as Boston experienced its weakest July for single-family sales since 2010. Prices increased at a solid pace from July 2022, generally rising by between 5 and 10 percent. These trends were accompanied by a substantial year-over-year drop in inventory across New England, with the sole exception of Maine, which bucked the trend and saw growth in the number of single-family homes and condos on the market. Multiple contacts pointed to high mortgage rates as a cause of these inventory constraints, mentioning that many homeowners are hesitant to sell houses whose mortgages they obtained under more favorable conditions. One Massachusetts contact suggested that state legislation eliminating barriers to construction may help to alleviate inventory challenges going forward but cautioned that any effects would likely not appear before next year. ■

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



Summary of Economic Activity

Economic activity in the Second District held steady in the latest reporting period. While contacts noted some slowing in hiring, labor market conditions generally remained solid, with ongoing modest employment gains and steady wage growth. Inflationary pressures increased slightly after easing much of the past year. Supply availability continued to improve, though manufacturing activity contracted. Consumer spending grew steadily, led by spending on experiences, while spending on goods sagged. Tourism activity in New York City continued to grow through late summer, inching back toward pre-pandemic levels. Exceptionally low inventory continued to restrain home sales. Commercial real estate markets were mostly unchanged, with some further weakening in the office sector. Conditions in the broad finance sector stabilized following a period of pronounced weakness, though, on balance, loan demand continued to decline and delinquency rates edged up. Looking ahead, businesses have become somewhat more optimistic about the economic outlook.

Labor Markets

Labor market conditions generally remained solid, though contacts noted some slowing in hiring. Overall, employment continued to increase modestly, with stronger gains seen among wholesalers, personal service firms, and businesses in education & health, while hiring remained weak among manufacturers. Contacts generally reported ongoing low attrition rates as workers remained nervous about switching jobs in the current economic environment.

While remote work has remained prevalent in the region's service sector, several contacts reported that post-pandemic return-to-office requirements are increasingly a source of friction in hiring and job negotiations. Still, employers offering remote work noted improved ease of hiring and worker retention.

Business contacts generally reported ongoing steady wage growth, though a large payroll firm in upstate New York indicated that the pace of growth has moderated somewhat as labor market conditions have become more normalized and worker shortages have eased. Still, the supply of workers remains a challenge in the region, especially for the leisure & hospitality sector. On net, businesses in most sectors plan to increase employment in the coming months.

Prices

Inflationary pressures increased slightly after easing for much of the past year. Both service firms and manufacturers reported that input price increases picked up a bit in recent weeks. One contact noted substantial increases in insurance costs. Selling prices have increased at a steady pace for both service firms and manufacturers, though contacts at retail businesses reported that selling prices had flattened and expect little change in the months ahead. Contacts noted that consumers have become more price-conscious, and now price is often the most important factor in purchasing decisions.

Consumer Spending

Consumer spending increased steadily in the latest reporting period. Spending on travel, entertainment, and restaurants & bars has continued to rise since the last report, though department store contacts noted goods sales have sagged, particularly for seasonal apparel. Auto dealers in upstate New York reported that new car sales edged up slightly as more inventory became available. With solid lingering pent-up demand, new inventory has been turned over quickly. Even so, some auto manufacturers have continued to use targeted incentives—subsidized financing in particular—to boost sales of certain models. Used car sales increased in recent weeks spurred by softening prices.

Manufacturing and Distribution

Manufacturing activity contracted during the latest reporting period. Supply availability continued to improve, delivery times held steady, and inventories declined. Businesses in transportation & warehousing also reported declining activity, while wholesalers reported that activity increased slightly. Manufacturing and distribution firms have become notably more optimistic about the economic outlook.

Services

Service sector activity has been mixed. Businesses in the information, education & health, and leisure & hospitality sectors reported increasing activity, while contacts in the business services and personal services sectors saw activity decline. Looking ahead, service firms were fairly optimistic that conditions would improve in the coming months.

Tourism activity in New York City continued to grow slowly through late summer, inching back toward pre-pandemic levels. While the number of travelers is nearly back to normal, tourists are substituting lower-cost experiences for premium ones — such as partaking in casual dining instead of fine dining or staying at reduced-service hotels. Meanwhile, some hotels and restaurants are making do with fewer workers by reducing service levels and business hours. Looking ahead, China's recent decision to remove pandemic-era restrictions on group travel to the United States is expected to boost tourism in New York City.

Real Estate and Construction

Exceptionally low inventory has continued to restrain home sales activity across the District, pushing up prices and frustrating potential buyers. With few properties to choose from, bidding wars remained prevalent in upstate New York and in the suburbs around New York City. By contrast, inventory hovered near historic norms in Manhattan, leaving buyers less pressured. Still, home prices were steady to up slightly, and affordability was at a long-time low. Contacts noted some concern that the resumption of student loan payments in October will make it even more difficult for some to afford purchasing a home.

The recent rise in mortgage rates has also pushed some potential buyers to the sidelines. Real estate contacts reported that homeowners with low mortgage rates do not want to move, and the resulting lack of inventory

leaves little choice for potential sellers, making low inventory self-reinforcing.

Residential rental markets continued to tighten. In New York City, rents climbed to new highs, though a decline in new lease activity during the high season suggests some slowing ahead, even amid historically low vacancy rates. Rents also continued to rise in upstate New York.

Commercial real estate markets were mostly unchanged. The office market deteriorated slightly, with modest increases in vacancy rates and declines in rents. New York City's retail market was little changed in the last reporting period, with steady vacancy rates, rents, and leasing activity. While the industrial market generally remained firm, rents declined and vacancies climbed in northern New Jersey.

Overall, construction contacts reported that conditions stabilized over the summer. Office construction in New York City continued to slow, but office construction in upstate New York and northern New Jersey remained at a moderate pace. Industrial construction activity was strong and steady. Much of the District saw increased multi-family residential construction starts, but in upstate New York activity was minimal, with no construction starts and a slight decline in units under construction.

Banking and Finance

Conditions in the broad finance sector stabilized following a period of pronounced weakness. Small to medium-sized banks in the District reported lower loan demand in all loan categories. Bankers were split on the changes in loan interest spreads over the past two months, with as many reporting widening spreads as reporting narrowing spreads. On balance, banks reported tighter credit standards, higher deposits, and rising delinquency rates.

Community Perspectives

Community contacts reported that rising numbers of asylum seekers were increasing the need for the provision of social services and education across the District. Pressures were particularly pronounced on New York City's emergency shelter system. The number of individuals seeking shelter in New York City has nearly doubled in a year due to growing numbers of migrant families. The logistics and budget implications of providing migrants housing, social, and education services have been challenging for policymakers and community organizations in the District. ■

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 continued to decline slightly. Consumer spending was down in most sectors, including retail, restaurants, autos, and tourism. High interest rates continued to constrain the available inventory of new homes and have also excluded many low-asset consumers from purchasing homes or cars. Employment edged up as labor availability continued to improve. Wage growth and inflation continued to subside – both continued to grow within a modest range. Overall, contacts reported far fewer supply chain disruptions and a lower (steadier) cost of goods for their inputs. Contacts continued to note tighter credit standards. Credit quality remains very good, despite a slight rise in delinquencies. On balance, firms continued to expect slight growth over the next six months – weaker than the norm for an expansionary period. Sentiment is divided. A few contacts stated that their sectors were in a recession. However, most expressed that there were no signs of a recession, and many were more optimistic for a soft landing.

Labor Markets

Employment appeared to edge up after falling slightly during the prior period. Staffing firms and other contacts reported an improving labor market, with more job candidates, better retention, and fewer callouts for sick time, but many also noted a lower quality of applicants.

Contacts noted few layoffs but less job loyalty. Although turnover has improved, it remains high during a worker's first year. Several contacts noted burnout of tenured employees, especially in health care, and also observed that an emphasis on return-to-office strategies significantly impacts working single mothers.

In our monthly surveys, employment grew slightly as the share of nonmanufacturing firms that reported increases in full-time and part-time jobs rose. This was offset, in part, by a rising share of manufacturing firms reporting a decline in overall jobs.

Firms reported that wage inflation remained at a modest pace overall – near pre-pandemic levels – and continued to slowly subside. Moreover, firms expected worker compensation increases to subside further in 2024.

In our monthly surveys, the distribution of nonmanufacturing firms reporting higher or lower wage and benefit costs per employee remained typical of the pre-pandemic era, when modest wage growth prevailed. Contacts noted some ongoing wage pressure from low-

skill workers, especially among smaller firms, but that unusually high salary demands from professional workers had waned.

On a quarterly basis, firms' expectations of the one-year-ahead change in compensation cost per worker fell to a trimmed mean of 4.3 percent in the third quarter of 2023, from 4.6 percent in the second quarter (and from a peak of 5.8 percent in the third quarter of 2022). Expectations averaged 3.2 percent prior to the pandemic. Expected compensation growth fell to 4.4 percent for manufacturers and to 4.1 percent for nonmanufacturers.

Prices

On balance, inflation subsided further in the third quarter – continuing in the more modest range that began in the second quarter. Moreover, reports of price increases were below historical trends for manufacturers' inputs and for nonmanufacturers' outputs. Expectations of future price hikes edged lower.

Contacts reported that increases in prices received for their own goods and services over the past year edged lower in the third quarter of 2023 compared with the second quarter. The trimmed mean for reported price changes, as indicated by responses to our quarterly survey questions, fell to 4.5 percent from 4.6 percent for all firms. Price increases remained at 3.7 percent among nonmanufacturers and fell to 5.3 percent from 5.8 percent for man-

ufacturers. Reported price increases had peaked during 2022 at 5.8 percent for nonmanufacturers and at 10.4 percent for manufacturers.

In our monthly surveys, the diffusion indexes remain somewhat elevated for prices paid by nonmanufacturers and for prices received by manufacturers compared with their nonrecession averages. However, for prices paid by manufacturers and for prices received by nonmanufacturers from consumers and other buyers, the indexes are below their nonrecession averages.

Looking ahead one year, the increases that firms anticipated in the prices for their own goods fell further – the trimmed mean for all firms fell to 3.7 percent in the third quarter of 2023. It has fallen from a peak of 5.9 percent in the fourth quarter of 2021. The expected rate of growth edged up to 4.1 percent for nonmanufacturers but fell to 3.3 percent for manufacturers.

Manufacturing

Manufacturing activity turned positive in the latter half of the period – generating slight growth overall after a year of declines. The August indexes for general activity and for new orders were just above their nonrecession averages. The sudden uptick in the indexes was primarily driven by fewer firms reporting decreased demand rather than by more firms reporting increased demand.

Most contacts noted ongoing improvements in the supply chain, with a return to normal for many. Despite the uptick, sentiment weakened, as expressed by one contact, who said, “The chatter is things are slowing down; we are just not seeing or experiencing [a recession].” Large firms with extensive linkages to the broader economy also noted steady activity and no signs of a recession.

Consumer Spending

Consumer spending continued to decline slightly. Contacts noted that consumers were purchasing fewer items and were trading down by shopping for lower-priced goods and at discount stores. A fast-casual restaurateur reported a slowdown and noted “consumer fatigue from price increases.” However, this behavior was described as a “slight belt tightening,” not as a recession.

Auto dealers reported a slight decline overall, although sales held steady for some. While inventories continued to improve, interest rates and high prices have excluded some buyers. Several contacts noted that sales of some electric vehicle models had softened.

Tourism contacts reported a slight decline overall – led by falling demand from high levels of activity at many Third District leisure destinations, in part because more travelers are going abroad again. The recovery at urban destinations leveled off.

Nonfinancial Services

On balance, nonmanufacturing activity declined slightly – after a more modest decline in the prior period. Contacts noted fewer concerns of a recession – invoking a soft landing instead. The index for expected growth over the next six months has risen since the prior period – nearly to its nonrecession level, although it slipped a little in August.

Financial Services

The volume of bank lending (excluding credit cards) resumed growing moderately during the period (not seasonally adjusted) – after slowing to a modest pace last period. Loan growth was also modest during the comparable period in 2022.

During the period, District banks reported strong growth in home mortgages and auto loans, modest growth in other consumer loans, and slight growth in commercial real estate lending and commercial and industrial loans. The volume of home equity loans fell slightly. Credit card volumes rose moderately following a stronger surge last period. The pace was also slower than the comparable period last year.

Banking contacts and large service companies continued to report good credit quality – noting only small upticks in loan delinquencies, which remain at very low levels. Market participants noted that higher interest rates and tighter credit standards had sidelined many deals and were especially challenging for small businesses.

Real Estate and Construction

Existing home sales resumed a slight downward trajectory – well below the prior-year level. Brokers noted that high interest rates are now constraining the demand for existing homes largely to high-asset buyers. However, that demand remains greater than the still-shrinking inventory – driving prices higher and low-asset buyers into rental units. New home builders reported a steady flow of contract signings as well-heeled buyers sought alternatives to the sparse existing home market.

Market participants in commercial real estate reported a slight uptick in construction activity. While the demand for new office and warehouse space has largely evaporated, ongoing bids for institutional, multifamily residential, and public infrastructure projects have extended the pipeline of new projects and sparked a “shred of optimism.” The office market contracted modestly as leases rolled over into spaces with smaller footprints. ■

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



Summary of Economic Activity

On the surface, business activity in the Fourth District was little changed from that of the prior reporting period, though there were some notable shifts in industry conditions. Consumer spending softened in recent weeks after firming during the previous three periods. Similarly, demand for manufactured goods decreased slightly, a situation which many contacts attributed to continued inventory correction. Meanwhile, freight activity appeared to stabilize, though it remained weak. Nonresidential construction activity increased, and contacts reported that clients were moving ahead with new and previously postponed projects. Looking forward, contacts generally expected little change in overall business activity in the near term. On balance, contact reports suggested that employment increased slightly. Many firms reported that hiring was easier and turnover had declined. Upward pressures on wages, nonlabor input costs, and prices were relatively unchanged from those of the previous reporting period, but, in each case, these have eased considerably from those of the prior year.

Labor Markets

On balance, Fourth District employment increased slightly, though contact reports varied more than in the recent past. On one hand, some manufacturing, construction, and freight contacts increased staffing levels in key areas to reduce backlogs, handle new projects, or meet higher-than-expected demand. On the other, some manufacturing and financial services contacts reported increased layoffs and cited tight margins and declining demand. Moreover, several firms that were trying to reduce staffing through attrition said that lower turnover prevented them from doing so; thus, they were forced to lay off workers. Several contacts noted that hiring had become less difficult. Contacts generally expected employment to continue increasing slightly in the near term.

Wage pressures have eased since the start of the year, though they changed little from those in the prior period. Firms across industries more frequently reported transitioning from previous unscheduled cost-of-living increases to regular annual wage increases. One tourism contact said there would be “no across the board increases like last year” because he was able to be selective when increasing pay.

Prices

Similar to wage pressures, nonlabor input cost pressures changed little from those in the prior period, though they have eased since the start of the year. On balance, contacts across industries noted a “leveling off”

of costs. Per one construction contact, “nobody’s raising prices, nobody is decreasing [them].” Some manufacturers stated that costs for many materials, such as resins, were flat, while costs for other materials, such as steel and lumber, had declined. Looking forward, contacts expected that nonlabor input cost pressures would continue to ease.

General price pressures were largely unchanged from those in the prior reporting period. However, compared to the number of contacts early in the year, a narrower set of contacts was willing (or able) to push through price increases. Many contacts reported increased price sensitivity among their clients, and some freight contacts reported increasing some price concessions to remain competitive. One freight hauler said, “Even our best customers are regularly seeking rate concessions.” That said, several manufacturing and construction contacts raised prices to cover increased costs.

Consumer Spending

Consumer spending softened somewhat in recent weeks. Goods spending remained weak amid high interest rate’s dampening sales of big-ticket items and elevated price’s constraining discretionary spending. Auto dealers said that sales slowed because of higher interest rates and that inventories had increased. Moreover, some said that the pent-up demand built during pandemic-era supply shortages had been mostly exhausted. A large general merchandiser noted that discretionary

goods spending was down as customers continued to spend more on food and other essentials. By contrast, apparel retailers reported steady or strong sales, and one noted that back-to-school sales had increased from those of the prior year. Services spending moderated compared to that in recent reporting periods, with, for example, restauranters reporting generally flat sales. Looking ahead, contacts expected demand to change little in coming months.

Manufacturing

Demand for manufactured goods decreased slightly. Some contacts reported that new orders had declined as pandemic-era supply shortages subsided and customers no longer needed to keep excess inventory. By contrast, steel manufacturers generally reported steady or increased orders following an expected seasonal slowdown spanning the first half of July. One manufacturer tied to light vehicles noted stronger orders because of increased vehicle production by auto manufacturers. On balance, manufacturers expected customer demand to remain soft in the coming months.

Real Estate and Construction

New home sales remained strong, though one contact suggested that construction was slowing because “interest rates have finally taken their toll” and discouraged developers from investing to create buildable lots. This contact indicated that slower construction would exacerbate an ongoing severe shortage of inventory on the existing side, something which had been constraining sales for several quarters. In the coming months, contacts generally expected demand to decline in the face of elevated interest rates and higher home prices.

Nonresidential construction activity increased somewhat. Multiple general contractors reported new projects, stronger backlogs, or past clients’ decisions to proceed with previously postponed plans. Demand for office space remained weak, but one contact noted that the return of more workers to the office boosted the firm’s commercial leasing activity. Nonresidential construction and real estate contacts expected activity to be stable in the months ahead.

Financial Services

Bankers indicated that higher interest rates and economic uncertainty continued to dampen loan demand from households and businesses. One lender reported that many firms were opting to “wait and see” before moving forward with projects. Overall delinquency rates remained near historically low levels, despite some banker’s reporting slight increases in delinquencies. Core deposits declined slightly as customers spent down their

balances or sought higher-yield alternatives. In the months ahead, lenders expected loan demand to remain flat and higher interest rates to discourage borrowing.

Nonfinancial Services

Freight activity remained tepid this reporting period. Haulers reported that weaker demand for consumer goods and firms’ desire to draw down inventories contributed to ongoing weakness in the sector. However, contacts indicated that conditions stabilized somewhat compared to those in previous reporting periods and were optimistic that volumes would increase in the coming months ahead of the holiday season. Overall, professional and business service contacts reported that demand increased recently. In the months ahead, contacts anticipated that demand would be relatively flat as clients curtailed spending in the face of economic uncertainty.

Community Conditions

Nonprofits noted increased demand for their services. For example, one entity providing mental health and addiction treatment services received 50 applications for just two openings in the program, with wait times as long as nine months. Several nonprofits said that hiring and retaining staff had been particularly challenging, and one large community service provider reported that it was 40 workers shy of its desired staffing level of 170. Contacts cited three primary reasons for the hiring challenges. First, pay rates among nonprofit entities were not competitive with those in the for-profit world. Second, limited childcare and transportation options were more likely to adversely affect workers in the nonprofit sector. Third, funders often earmarked dollars for the provision of services without earmarking accompanying funding for overhead. For example, donations to food banks were often reserved for the purchase of food, but not for the overhead associated with getting the food to those in need. One contact noted that what was needed were unrestricted funds to cover operational costs, including those for staffing. ■

For more information about District economic conditions visit:
www.clevelandfed.org/en/region/regional-analysis



Summary of Economic Activity

The Fifth District economy grew slightly in recent weeks. Retailers and food service contacts reported steady to modest growth in sales, despite lower foot traffic. Auto sales were solid this period, but other consumer durables saw declines. Travel and tourism rose modestly as summer vacations were in full swing. Nonfinancial services firms noted stable demand, even with price increases caused by higher costs. District ports remarked that imports slowed as retailers and manufacturers still had elevated inventory levels. Loaded exports, particularly agriculture products, remained strong. Fifth District manufacturers reported a slowdown this period. Trucking firms reported steady, but low, levels of freight volumes this cycle. Residential real estate respondents stated that the limited inventory of homes for sale has put upward pressure on sales prices. Commercial real estate markets slowed this period; however, leasing remained strong for retail and industrial properties with rents continuing to escalate. In contrast, office and multifamily rents were starting to soften. Loan demand was stable this period despite shrinking deposit levels at banks. Employment increased modestly but at a slower pace than in previous reports. Many contacts indicated that the labor market remains extremely tight but wage growth eased slightly. Price growth continued to ease but remained elevated compared to pre-pandemic levels.

Labor Markets

Employment in the Fifth District increased modestly over the most recent reporting period but at a slower pace than in previous reports. Some contacts stated that the labor market remained tight and were doing what they can do to find employees. A recruiting agency's clients are bypassing temp-to-hire workers and just bringing them on full-time. A bearings manufacturer reported that their skilled tradesmen were approaching retirement, so the company was trying to revitalize their apprenticeship program to train young adults out of high school and community colleges. An office furniture installation company reported that when people do show-up for interviews, their wage demands were too high to match their skill set.

Prices

Price growth eased somewhat in recent weeks but remained elevated. According to our most recent surveys, growth in prices received by manufacturers declined to an annual rate of just over three percent. Service sector price growth also eased slightly but remained more elevated at a five percent growth rate. A plumbing supply company said material costs had fallen and they were passing along those savings by lowering their prices. Several service providers noted that wage pressures eased as the availability of labor improved somewhat, which helped to slow the increases in labor costs.

Manufacturing

Fifth District manufacturing slowed somewhat in the most recent reporting period. A steel coater stated that the economy is in a "caution zone" and their customers are only ordering products they know they can sell quickly. A fabrics manufacturer reported that their business is volatile due to the fact that their customers do not have the confidence to hold much inventory. Finding workers remained a significant issue, and firms are finding ways to minimize costs associated with hiring. A coffee manufacturer cited that they cannot pass costs on to customers anymore and will invest in technology throughout the production process to rely less on labor.

Ports and Transportation

Fifth District ports stated that loaded import volume was down but back to pre-pandemic levels. Imports were lower year-over-year but flat month over month; the decline in import volume was mainly due to a decrease in consumer goods. Exports were slowly ticking up, primarily for agricultural products, wood pulp, resins, and vehicles. Spot shipping rates decreased and were slightly lower than 2019. Carriers had reduced shipping capacity in order to maintain price. Gate turn times improved and container dwell times returned to normal levels. Demand for airfreight stabilized after declining over the last 18 months and air cargo rates dropped

precipitously, but both are still above pre-pandemic levels.

Trucking firms reported that with the decrease in the number of carriers, there have been incremental opportunities to pick up freight. Demand was steady this period as there was no sizable decrease in freight volumes. Spot rates increased slightly, particularly with third party, transactional freight. However, respondents indicated that they were able to get moderate increases with their contract rates despite customers being very price sensitive. Trucking companies indicated that drivers were more readily available but that job openings for mechanics and shop staff were still difficult to fill. Firms also stated that they were experiencing higher costs of labor, parts and new equipment.

Retail, Travel, and Tourism

Consumer spending grew at a modest rate in recent weeks. Retail and food service contacts reported steady to modest growth in sales despite some declines in foot traffic as warm weather and summer travel led to fewer customers coming through the doors. In contrast, a couple of furniture stores saw sales decline as a result of the softness in real estate markets. Auto sales remained solid this period.

Travel and tourism rose moderately as summer travel was in full swing. Coastal areas of North and South Carolina saw strong visitation with increased room nights sold and high levels of occupancy. Average room rates were down slightly compared to last year but revenue was still up, overall, because of the strong growth in room nights sold. An airport reported strong passenger traffic and increased seat capacity but fewer flights as larger aircraft were being utilized.

Real Estate and Construction

Residential real estate respondents indicated that the limited inventory of homes for sale has boosted competition among buyers and has put upward pressure on sales prices. Sellers who secured low mortgage rates have been hesitant to sell, leaving a dearth of new listings leading to a decrease in closed sales. Overall, home sales were constrained by both affordability and by the lack of inventory. In the last month, buyer traffic was lower due to the usual seasonal slowdown. Days on market increased slightly, mostly related to stale inventory. Prospective buyers were not having any difficulties obtaining mortgages. Home builders indicated that construction costs leveled off but remain high relative to pre-pandemic levels.

Overall market activity in the Fifth District commercial real estate sector slowed this period. However, leasing

remained strong for retail and industrial properties with rents continuing to escalate. In the office market, companies were looking to decrease rental cost by downsizing and relocating to smaller footprints in higher quality buildings. Rental rates in the office segment remained flat; however, landlords were offering more incentives and/or concessions to potential tenants. In the multifamily sector, rents were starting to soften partially caused by a new supply of multifamily units coming onto the market. Respondents stated that some banks have pulled back on new commercial real estate lending activity and that, coupled with higher interest rates, has made deals less attractive, and in some cases, not viable.

Banking and Finance

Loan demand was unchanged in recent weeks and has returned to pre-Covid levels. This stable demand has been noted across all loan portfolios, consumer and commercial. One observation was loans were being originated for only what must be done and no more. Home equity loans and lines saw an increase in demand, with respondents noting borrowers were not keen to refinance lower rate first mortgages for their needs. Deposit levels continued to shrink, and competition for balances was still strong. Credit quality continued to be a concern as the cost to borrow increased while delinquency rates remained stable at low levels.

Nonfinancial Services

Nonfinancial service providers continued to report that demand for their services as well as revenues had remained stable. One respondent observed that demand continued, even with price increases due to higher costs. Some noted that clients were finding themselves constrained due to the increasing lack of access to capital, keeping their growth muted. Labor shortages continued to ease, but wage pressures continued to be present in the marketplace. An overall sense of economic uncertainty was noted with many of the respondents, driving much of the decision making at their firms as well as their clients. ■

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



Summary of Economic Activity

The economy of the Sixth District grew at a modest pace from July through mid-August. Labor availability and retention improved, and wage pressures eased. Nonlabor input costs moderated further, and pricing power diminished somewhat. Retail sales were strong. New auto sales were robust; the sale of used vehicles slowed. Domestic leisure travel slowed while business and international travel improved. Housing demand was healthy, existing home inventories remained low, but new home inventory increased. Commercial real estate conditions were mixed. Transportation activity softened. Loan growth was solid except for consumer loans, and delinquencies remained low. Energy demand was strong amid high summer temperatures. Agriculture demand was unchanged.

Labor Markets

Most contacts continued to report improvements in labor availability and retention; however, some firms slowed the pace of hiring or reduced headcount. Despite improvements, labor availability remained a top priority for employers. Some expected skill shortages to persist and were investing in technology and automation to reduce reliance on a shrinking workforce. Employers in south Florida and along the Gulf Coast reported that the cost of living, particularly housing, restricted the supply of workers. Employers noted a growing preference among workers for fewer work hours and greater flexibility. Reactions to a new Florida immigration law were mixed; several noted no impact to business, while others said workers were leaving the state.

Wage growth remained elevated as compared with pre-pandemic levels, but most firms noted that wage pressure had eased, and many anticipate further moderation next year. Some contacts said that lower-wage workers continued to be attracted away for higher pay, better working conditions, and greater scheduling flexibility.

Prices

Contacts described nonlabor input costs as continuing to stabilize, though they were still higher than 2019 levels. Notable exceptions included rising construction input costs (like concrete and electrical equipment), which were in contrast to price deflation in some food products (like eggs and corn). Property and liability insurance costs in coastal areas remained a top concern regarding housing affordability and firms' investment plans. Pricing power was largely reported as eroding, though most

firms were holding prices steady. The Atlanta Fed's Business Inflation Expectations survey showed year-over-year unit cost growth was little changed at 3.3 percent, on average, in August, from 3.2 percent in July. Firms' year-ahead inflation expectations decreased in August to 2.5 percent, on average, from 2.8 percent in July.

Community Perspectives

Contacts serving low-income communities described economic conditions as largely unchanged to slightly declining. Capital and credit deployment to small businesses slowed due to rising borrowing costs and tighter underwriting standards. Lenders and investors expect an increase in small business capital availability with the roll out of federal programs like the State Small Business Credit Initiative. On the consumer side, several finance and credit contacts noted that delinquency rates for automobile loans and some credit card accounts rose slightly, and elevated auto delinquencies among lower-income populations are anticipated going forward. Contacts also noted that demand for food and housing assistance remained higher than pre-pandemic levels.

Consumer Spending and Tourism

District retailers reported that consumer spending was robust, largely attributed to the strength in employment. Contacts continued to describe spending shifts away from discretionary items, though demand for high-end luxury products remained strong. Automobile dealers reported that rising inventory levels and demand for new vehicles drove robust sales; the pace of growth for used vehicle sales slowed.

Tourism contacts reported that demand for leisure travel slowed, which was considered a normalization of activity and aligned with expectations following pandemic-driven, pent-up demand. International, group, and business travel continued to improve but were not back to 2019 levels. Advanced bookings for the Fall were meeting expectations.

Construction and Real Estate

The housing market throughout the District remained healthy despite higher mortgage rates. Although the pace of sales was below that of a year ago, home prices continued to rise in most markets. Supply shortages in the resale market persisted, as homeowners with low-rate mortgages were reluctant to sell. The share of new home inventory increased as builders ramped up construction to meet demand. Builder contacts indicated an increased reliance on rate buydowns as an incentive to attract buyers. Builder optimism fell, however, as rising interest rates and construction costs put strains on affordability and buyers' ability to qualify.

Commercial real estate conditions slowed. Activity decelerated for high-end multifamily units and industrial real estate. More contacts reported growing concerns about financing, as lenders heightened underwriting standards and reduced funding commitments. Contacts reported challenges with the availability of financing for office space, and transaction volume continued to deteriorate. Participants noted growing uncertainty amid declining asset values.

Transportation

Demand for transportation services varied by industry segment, but was on average, depressed. Trucking firms reported a continued slump in freight volumes, and e-commerce activity slowed. International air freight remained sluggish amid a global supply chain recovery and geopolitical issues that strained trade flows. Ocean carriers reported strong exports to the Middle East and Asia from the U.S., but trade with Europe softened. Imports from China fell. Ports experienced mixed demand. Railroads noted fewer shipments of consumer goods, resulting from the rightsizing of inventories and mixed consumer spending, but they saw strong activity in energy, automotive, equipment, and metals.

Banking and Finance

District financial institutions reported sustained solid loan growth across most portfolios, with the notable exception of auto and other consumer loans. Most institutions have yet to report significant increases in delinquencies. Financial institutions continued to fund loan growth using large time deposits and other borrowings as they faced increased competition for core deposits. The rising cost of funds put more pressure on net interest margins,

slowing earnings growth. Despite changes in interest rates, financial institutions reported stability in their securities portfolios with unrealized losses still elevated compared with pre-pandemic levels.

Energy

Demand for and supply of energy were described as normalizing, and contacts noted ample reserves to handle increased demand resulting from high summer temperatures. Investment in renewables drove additional capacity for utilities companies. Contacts reported robust activity in plant expansions for oil and gas refineries, chemical manufacturers, and low carbon and green energy projects. Related to increased energy production, contacts described strong demand for onshoring large-scale modular plant construction since some chemical, petrochemical, and liquefied natural gas customers were "burned" by offshoring these builds over the last several years, which resulted in late delivery and poor-quality structures.

Agriculture

Agricultural conditions were little changed since the previous report. Demand for cattle was strong. Egg supply increased, but the supply of hens remained lower than normal. The supply of chickens continued to exceed demand, although there was some improvement in the market. There continued to be excess supply of milk in the market. Many row crops were expected to have a strong harvest. Demand for cotton remained weak, leading some growers to exit the cotton market. ■

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



Summary of Economic Activity

Economic activity in the Seventh District increased slightly overall in July and early August. Contacts generally expected a small decline in demand over the next year and many expressed concerns about the potential for a recession in the U.S. Employment increased moderately; business and consumer spending increased slightly; construction and real estate was flat; nonbusiness contacts saw little change in activity; and manufacturing decreased slightly. Prices and wages rose moderately, while financial conditions tightened moderately. Expectations for farm incomes in 2023 were little changed.

Labor Markets

Employment rose moderately in July and early August and contacts expected a similar rate of increase over the next 12 months. Many contacts continued to have difficulty finding workers, particularly those with higher skills. However, many also said hiring had become easier, and a staffing agency noted a decline in worker turnover. Manufacturers were responding to slowing demand by using fewer temporary workers and cutting workers' hours. Wage and benefit costs rose moderately, though several contacts noted a slowdown in the pace of wage increases.

Prices

Prices rose moderately over the reporting period and contacts expected a similar rate of increase over the next 12 months. Nonlabor costs were up modestly, with a number of contacts highlighting rising energy costs. Contacts noted slower growth in prices for some raw materials and price decreases for others. Shipping costs were little changed, remaining much lower than a year ago. Consumer prices increased moderately due to solid demand and the passthrough of higher costs.

Consumer Spending

Consumer spending increased slightly overall in July and early August. Nonauto retail sales increased modestly.

Multiple retail contacts noted that back-to-school shopping got off to a strong start. Sales of nondurable goods were largely up, with contacts highlighting increases at grocery stores, gas stations, and convenience stores. In contrast, reports on sales of durable goods were mixed. Retailers expressed a considerable amount of uncertainty over the upcoming holiday season, and contacts said orders for the second half of this year were conservative. Leisure and hospitality spending softened slightly but remained at elevated levels; declines in air travel and hotels more than offset higher spending at tourist attractions and amusement parks. New and used light vehicle sales rose, helped by greater availability of more affordable models.

Business Spending

Business spending increased slightly in July and early August. Capital expenditures were up a bit, with several contacts reporting purchases of new equipment or software, or expansions of existing facilities. Demand for industrial, commercial, and residential energy grew slightly. Inventories for most retailers were a little higher than desired. Auto inventories were little changed and at a low level. In manufacturing, inventories were slightly elevated amidst slow demand.

Construction and Real Estate

Construction and real estate activity was little changed on balance over the reporting period. Residential construction increased slightly overall, and contacts noted that low levels of existing home inventory were making new homes more attractive. However, some contacts saw a slowdown in multifamily construction. Residential real estate activity decreased slightly as low inventories held back sales. Contacts indicated that homes were selling quickly, and many received multiple offers. A banking contact said that borrowers they had pre-qualified for mortgages were often switching to new construction after getting frustrated searching for an existing home. Home prices and rents were up slightly. Nonresidential construction was little changed. Some contacts noted a pullback in leading indicators of future activity such as environmental studies, land surveys, and financing for speculative development. In contrast, contacts noted progress on a large number of state and local construction projects. Commercial real estate activity was unchanged. Commercial prices fell slightly and rents were down modestly in some sectors, most notably office. Contacts said many investors were holding off making commercial real estate purchases because they expected prices to fall further. Vacancy rates were unchanged.

Manufacturing

Manufacturing demand decreased slightly in July and early August. Supply chain conditions continued to improve, though some contacts reported difficulty acquiring specialty items like industrial electrical components. Steel orders decreased modestly, in part due to weaker demand from the oil and gas and the machinery industries. Fabricated metals orders remained flat. Machinery sales decreased slightly, with contacts highlighting less demand from the auto industry. In contrast, auto industry contacts reported increased auto production despite supply chain disruptions at some plants. Several contacts expressed concerns about the potential for a UAW strike to put a hold on a large share of U.S. auto production. Heavy truck orders decreased slightly amidst moderately low inventories.

Banking and Finance

Financial conditions tightened moderately over the reporting period. Bond and equity market asset values decreased slightly, and volatility edged up. Business loan demand decreased modestly over the reporting period, while loan quality remained flat. Business loan rates increased a bit and standards tightened moderately. Consumer loan demand also decreased modestly. Consumer loan quality deteriorated some, with multiple

contacts noting an increase in credit card debt and one reporting that delinquencies for auto and card debt had risen back to pre-covid levels. Consumer loan rates were moderately higher and lending standards tightened moderately.

Agriculture

District farm income expectations for 2023 remained much lower than 2022 levels. However, reduced costs for some inputs, particularly fertilizers, boosted net income prospects for 2024. Drought concerns lessened overall, although hot weather toward the end of the period impaired development of a wide swath of Midwest crops. Corn, soybean, and wheat prices were down. Still, there were reports of a slowdown in exports as prices offered by other producers were more favorable on world markets. Hog prices moved down after hitting a seasonal peak. Prices for dairy products rose from low levels, and egg prices crept up a bit. Cattle prices increased once again, remaining one of the few agricultural prices above the levels of a year ago. Farmland prices were still higher than a year ago.

Community Conditions

Community, nonprofit, and small business support contacts reported little change in economic activity from a robust level. State government officials saw slowing growth in tax revenues and a small increase in demand for unemployment insurance. Some small business lenders noted a slowdown in loan demand, which they attributed to economic uncertainty. Nonprofit contacts continued to experience challenges with wage competition from private sector employers, as well as an increase in other operational costs. Nonprofit organizations also said high demand for services was straining efforts to respond to elevated levels of food insecurity. ■

For more information about District economic conditions visit: chicagofed.org/cfsec



Summary of Economic Activity

Economic conditions have remained unchanged since our previous report. Employers reported continued tight labor markets and easing wage pressures. Consumer demand softened slightly. Firms reported continuing increases in consumer sensitivity to sales prices and weaker demand for high-end goods or those that require financing. Banking contacts reported solid credit quality but decreasing loan demand and a continued steady rise in delinquency rates. Home sales dropped slightly, but contacts reported healthy demand and low inventory. Residential construction was mixed, but industrial and commercial construction saw growth.

Labor Markets

Employment has remained unchanged since our previous report. Labor markets remained tight, and industries report mixed abilities to attract and retain talent. Contacts in tourism and food service continued to report struggles filling lower-level job vacancies. A manufacturing contact in Louisville reported having fewer applicants while requiring higher employment levels due to rising demand. However, in Little Rock, a banking contact noted success in retaining more top talent by fast tracking them to better positions.

Wages grew moderately since our previous report. On net, most contacts reported increasing wages over the previous quarter. Manufacturing contacts in Memphis reported wage inflation easing, and a hotel industry contact in Louisville noted employees' requests for wage increases have declined.

Prices

Many businesses are aiming to maintain prices despite increasing input costs. The main reason for this is softening demand and increased price sensitivity from consumers. A respondent from a niche import business reported that despite an increase in freight costs, they could not fully raise prices because of falling sales. Another contact in the restaurant industry reported that

although credit card transaction costs increased, they have not raised prices in order to stay competitive. More broadly, a regional survey reported that two-thirds of consumers delayed or did not buy a purchase because of higher prices. Some industry contacts reported steady overall demand, with consumers making substitutions for cheaper items. Others, such as a tourism contact from Northwest Arkansas, saw no immediate effect on demand after increasing prices.

Consumer Spending

District general retailers, auto dealers, and hospitality contacts reported mixed business activity and a slightly negative outlook. July real sales tax collections increased in Kentucky, Missouri, and Western Tennessee relative to the previous month and decreased in Arkansas. Retailers in St. Louis noted consumers have been watching their spending and switching to lower-quality and less-expensive goods. A Louisville auto dealer reported both new and used high-end vehicles are seeing a slowdown in demand due to affordability issues. This has been most prominent with full-sized pickup trucks and used vehicles over \$25,000. District restaurant contacts noted mixed business activity over the past few months, with inflationary pressures still impacting consumer spending at all restaurants. Little Rock hospitality contacts noted a rebound in corporate travel. They also

reported that the strong demand for tourism is mainly driven by high-income visitors and a drop in low- and middle-income visitors.

Manufacturing

Manufacturing activity growth has decreased slightly since our previous report. Firms in both Arkansas and Missouri have reported slight decreases in new orders and production, but moderate increases in inventories. Lingering supply-chain issues and elevated prices on raw inputs continue to be an ongoing issue for manufacturers, though they have continued to improve in recent months. Firms are struggling to entice new workers, in part because of the increased availability of remote work in other industries. On average, firms reported they expect slight decreases in production, capacity utilization, and new orders in the coming quarter.

Nonfinancial Services

Reports of activity in the nonfinancial services sector since our previous report were mixed. Freight traffic increased slightly month-over-month but was slightly depressed from last year, while passenger traffic has been increasing slightly both month-over-month and year-over-year. A Little Rock transportation contact reported high demand for air travel. A contact in the Memphis transportation industry reported issues with shipping and rising concerns about an upcoming recession due to growing warehouse inventories. Overall, sales and sales expectations for services contacts were generally about the same or slightly lower across all regions. An education provider reported low school enrollment. A St. Louis childcare provider reported that sales met expectations, but higher costs contributed to a worsening outlook. A St. Louis healthcare provider is planning to expand facilities with a new medical office building.

Real Estate and Construction

Residential rental rates in the four main District MSAs have remained unchanged since our previous report. Arkansas and St. Louis contacts both reported high demand for rental units, with multiple applications submitted in the first week on the market. Total existing homes sold month-over-month dropped by 11% and 9% in Little Rock and Memphis MSAs, respectively, during July. Residential inventory in Little Rock, Louisville, and Memphis remained relatively constant since our previous report. Demand continues to be consistent since our previous report.

Industrial and commercial construction have remained strong since our previous report. One Louisville contact reported turning down multiple projects because of labor

shortages. Another contact reported that rising interest rates are stalling commercial real estate sales because building values have declined at a rapid rate. Little Rock contacts saw residential construction increase since the previous report—in part a response to the tornado in March. Meanwhile, contacts in western Tennessee reported a slowing pace of residential construction.

Banking and Finance

Banking conditions in the District have remained stable since our previous report. Overall and credit card loan demand decreased slightly from the previous quarter, while commercial, industrial, and mortgage loan demand all decreased moderately. Contacts across the District reported tightening liquidity and profit margins due to the ongoing pressure to raise deposit rates. Delinquency rates continued to climb to pre-pandemic levels and are being closely monitored by banking contacts. One contact pointed to rising cost of living as a potential driver of the increase in consumer delinquencies. Overall, however, banks continue to report solid credit standards and quality, with little past-due loans, collections, foreclosures, or charge-offs.

Agriculture and Natural Resources

District agricultural conditions have been mixed since our previous report. Despite record-breaking heat and heat-dome-induced thunderstorms across the District, the percent of cotton and rice rated fair or better stayed stable throughout the reporting period, with cotton returning to 2021 rating levels after a moderate dip in 2022. Corn and soybean ratings both decreased more significantly during the summer months, sustaining their fall below 2020-2021 levels the previous year. District contacts described feeling the effects of extreme weather and increased interest rates in the form of higher input costs. On net, contacts indicated a slight decline in dollar value sales and an increase in inventories. ■



Summary of Economic Activity

The Ninth District economy grew slightly since early July. Employment increased slightly and wage pressures were unchanged. Prices increased moderately overall. Growth was noted in consumer spending, tourism, and residential construction, while commercial construction was flat. Manufacturing as well as residential and commercial real estate activity decreased, and agriculture weakened. Oil and gas drilling also fell slightly. Minority- and women-owned businesses reported mixed activity.

Labor Markets

Employment grew slightly since the last report. Hiring demand fell but remained at healthy levels. Most employers, even small ones, were hiring in some capacity. But the share of employers looking to add full-time workers dropped, and total job openings were moderately lower; very few firms reported that they were cutting workers. A South Dakota utilities company noted that it “was hiring positions deemed critical to day-to-day business operations. All other discretionary positions are on hold.” Labor supply was improving, but applicant quality was still poor, with some exceptions in higher-skill areas. A Montana staffing contact noted that clients were asking for fewer workers, in part because “they know we don’t have 10 [good] candidates. They are doing more with less labor, and forgoing growth.” Larger employers reported having more success in adding workers, likely because they also reported stronger increases in compensation.

Wage pressures were flat but ongoing wage growth remained above average. A recent survey found that 60 percent of employers raised wages by 3 percent or more over the last 12 months, roughly in line with wage increases reported in January. However, respondents expected future wage growth to fall moderately. A northern Minnesota workforce contact said, “Wage offers have stabilized in the last three to six months. Many have stopped additional wage increases as it does not seem to be effective in getting and retaining employees.”

Prices

Prices increased moderately overall since the previous report. A third of firms responding to a monthly business survey reported that the prices they charged to customers increased in July from a month earlier, while 40 percent reported that their input prices increased. More than two-thirds of respondents to a recent survey said that it had gotten harder to pass their increased input costs on to customers since the beginning of the year. A regional manufacturing survey indicated nearly flat wholesale prices in July from a month earlier. A third of hospitality survey respondents reported that their prices charged to customers increased by 5 percent or more over the past year; contacts in the industry reported significant continued pressure on food prices. Retail fuel prices in District states increased briskly since the last report. Prices received by farmers increased in June from a year earlier for barley, chickpeas, potatoes, hay, and cattle; prices decreased from a year earlier for corn, wheat, soybeans, milk, hogs, turkeys, chickens, eggs, dry edible beans, lentils, and canola.

Worker Experience

Workers and job seekers continued to prioritize flexibility and work-life balance, according to several contacts. A labor contact in the Upper Peninsula of Michigan shared that many police officers and nurses were choosing predictable schedules over the highest wages available when changing jobs. “They prefer balance and flexibility

in their lives,” the contact said. According to a Minnesota contact, nearly half of clients at a coworking space chose to work there rather than at the company office or at home “because they prefer the flexibility and autonomy.” According to a Minnesota labor contact, financial incentives offered by employers were having diminishing effects as they tried to attract new workers.

Consumer Spending

Consumer spending was slightly higher overall since the last report, with some variability. Retail contacts across the District reported that recent sales were a bit slower overall compared with the same period last year, and they expected the trend to continue over the coming quarter. Hotel bookings in Montana in July were higher than a year ago, but some tourism contacts there suggested that the pandemic boom in outdoor tourism was slowing. Minnesota hospitality and tourism contacts reported that recent sales were up slightly overall, and tourism traffic in Michigan’s Upper Peninsula has also been strong compared with last summer. Passenger traffic at regional airports saw continued growth. New-vehicle sales have risen thanks to increased vehicle inventory. A dealership with multiple locations saw new-vehicle sales in July rise by almost half compared with last year; used-vehicle sales have slowed somewhat as a result. Recent recreational vehicle sales remained slower across the District compared with last year, but sales of powersport vehicles have rebounded.

Construction and Real Estate

Construction activity was flat since the last report. Construction contacts across the District reported mixed sales activity, with notable shares seeing either increases or decreases compared with last summer. In some cases, decreases stemmed from lack of labor. Industry data showed that the value of construction starts in the District in July was similar to the previous two years, without factoring in inflation. Among sub-sectors, office construction remained moribund, and multifamily construction was also experiencing softer activity. Firms serving infrastructure markets reported stronger activity, likely due to increased federal spending. Single-family residential construction saw modest improvements in a few markets; Minneapolis-St. Paul saw a 10 percent increase in single-family permits in July year over year. Across the District, hiring remained robust, supply chains improved, and prices for materials were easing but still high.

Commercial real estate activity was lower. Multifamily vacancy rates increased modestly in some markets despite a slowdown in new construction. Office vacancy rates have stabilized somewhat, but at high levels;

industrial vacancy ticked higher but remained at healthy levels. Residential real estate remained soft, with year-over-year July sales falling in most markets, often by double digits. Several contacts said demand was higher than indicated by sales and attributed much of the slowness to very low inventories of homes for sale.

Manufacturing

District manufacturing activity decreased modestly since the previous report. A regional manufacturing index indicated a contraction in activity in Minnesota, North Dakota, and South Dakota in July from a month earlier. Manufacturers that responded to the monthly business conditions survey indicated increased orders in July from the month prior and were expecting growing sales in the month ahead. An electrical equipment producer reported that new business slowed and it was uncertain about its outlook after working through existing backlogs, a sentiment reported by multiple other contacts.

Agriculture, Energy, and Natural Resources

District agricultural conditions weakened slightly. More than a third of respondents to a survey of agricultural credit conditions reported that farm incomes decreased in the second quarter from a year earlier. Several contacts noted that while commodity prices were still favorable, they were retreating to levels that could be below break-even for some producers given high input costs. Drought conditions improved recently but remained a concern, especially in eastern portions of the region. District oil and gas drilling activity decreased slightly since the previous report; however, contacts reported that oil production increased recently.

Minority- and Women-Owned Business Enterprises

Activity among minority- and women-owned business contacts was mixed. Equal shares of respondents to a July survey of businesses reported that sales were higher, lower, or unchanged over the prior month. Capital expenditures were slightly higher on balance, and more often than not, respondents reported lower profits. More than a third of respondents shared that their demand for workers had increased but hiring roadblocks continued. Retail and wholesale prices were flat for three-quarters of firms and higher for the rest. A slightly higher share reported they raised wages. “[We] gave annual raises of 4.5 percent to stay competitive ... up from our historic 3 percent,” shared a contact with a freight railroad transportation company in Minnesota. ■

For more information about District economic conditions visit: minneapolisfed.org/region-and-community



Summary of Economic Activity

Economic activity across the Tenth District was stable over the past two months. After falling from high rates of growth during the first half of the year, manufacturing production and sales at service businesses stabilized in July and August. Contacts indicated the recent pickup in growth was not due to increases in demand, so much as a greater ability to meet existing orders as delays along supply chains were resolved. Accordingly, job growth was flat across the District. Despite several months of subdued employment growth, wages continued to grow at a robust pace through August, exceeding historical norms and most businesses' expectations. Consumer spending continued to expand at a moderate pace, with robust leisure travel offset somewhat by tepid retail sales growth. Several contacts suggested consumers have exhausted their savings and are relying more on borrowing to support spending. Bankers noted pockets of deterioration in some consumer loan types as delinquencies rose, with further deterioration expected for consumer borrowers. Prices increased at a moderate pace in recent months, a noticeable reduction from the pace of price increases witnessed over the last year. Though slower, growth in input prices still outpaced selling prices for most firms, compressing profit margins.

Labor Markets

Most Tenth District contacts reported employment levels were unchanged in recent months. Labor markets remained tight with many businesses reporting ongoing difficulties hiring and retaining skilled workers, partially contributing to the slowdown in hiring activity. Both services and manufacturing businesses indicated modest improvements in expected employment growth over the next six months. These expectations were based on a better outlook for recruiting workers, rather than a desire to open more positions and recruit more workers.

Despite several months of subdued employment growth, wages grew at a robust pace, exceeding historical norms. Most contacts reported annual wage increases between 6 and 10 percent during the first half of the year. However, these contacts also suggested the "second half of the year will be different," renewing their expectations for softening of wage growth they reported in early 2023. Most contacts indicated they expect more moderate wage increases of less than 5 percent over the next year. Manufacturing contacts, in particular, reported a stark shift in wage expectations, with over two thirds of respondents downshifting their expectations to more modest wage increases.

Prices

Prices increased at a moderate pace in recent months, a noticeable reduction from the pace of price increases witnessed over the last year. Though slower, the pace of growth in input prices still outpaced selling prices for most firms, which contacts attributed more to elevated wage growth rather than to rising materials prices. Both manufacturing and service contacts reported compression in their profit margins in recent months, as businesses were unable to pass all their higher costs onto customers. Expectations are for continued margin compression in the coming year, but at a slower pace than witnessed in recent months.

Consumer Spending

Consumer spending continued to expand at a moderate pace during the last couple months, driven largely by a stronger-than-expected summer tourist season. Contacts across District states reported robust growth in leisure travel at both drive-to and fly-to destinations. Despite healthy tourism activity, contacts reported growth in retail sales has not been as robust. In several states, retail spending declined slightly, with contacts suggesting consumers have exhausted their savings and are relying more on borrowing to support spending. New auto sales increased a bit due to slightly more available inventory.

Community Conditions

Housing providers faced more difficulty building new, and maintaining existing, affordable rental properties because of substantial increases in financing and insurance costs. In Colorado, property insurance premiums reportedly rose as much as 30-50% over the last year, due in part to increased weather-related claims. Contacts reported some optimism in being able to help low- and moderate-income households with homeownership, using state and philanthropic funds for down payment assistance and rate buy downs. However, evictions and foreclosures continued to rise, and recently reached or exceeded 2019 levels across District states. A non-profit in Kansas City noted calls for housing and utility assistance were up 21% and 12%, respectively, over the previous six months and up 30% from 2019 levels.

Manufacturing and Other Business Activity

After declining for several months, manufacturing production and sales at service businesses stabilized in July and August. Contacts indicated the recent pickup in activity was not due to increases in demand. Instead, businesses reported a greater ability to meet existing orders, as delays along supply chains were resolved. As existing orders were met, businesses indicated that backlogs and inventory levels declined significantly over the past two months. Contacts expressed mixed views on investments plans. Falling profit margins and shorter backlogs led many businesses to pull back on capital expenditures. Some contacts also noted securing financing for equipment and transportation vehicles was more difficult. Still, many businesses reported increasing investment activity in recent months and had plans to raise their investment spending over the next six months.

Real Estate and Construction

Demand for housing continued to exceed available housing supply across the District. Contacts noted several changes in the composition of home buyers in recent months. First, fewer institutional investors bought homes recently. Investor-buyers were more likely to own a small number of properties. Second, fewer buyers were willing to purchase homes that required significant improvements. Financing for home renovation typically requires licensed contractors perform the work, rather than owners' "sweat equity." The combination of skilled-labor shortages and higher financing costs reportedly deterred renovation activity on newly purchased homes. Third, investor-buyers were much more likely to 'flip' refurbished homes, rather than hold and rent them, due to higher interest expenses.

Community and Regional Banking

Loan demand weakened further during the last month as bankers stated high interest rates and economic uncertainty resulted in a cautious approach for prospective borrowers. Contacts noted pockets of deterioration in some consumer loan types as delinquencies rose, with further deterioration expected for consumer borrowers and across the commercial real estate (CRE) industry. Several contacts also stated that credit standards for CRE loans had tightened in light of reduced risk appetite and expected deterioration in credit quality. Deposit levels stabilized during the last couple of months, while the funding mix continued to shift from checking accounts to time deposits, driving up overall bank funding costs.

Energy

Tenth District energy activity remained steady through August. Though oil prices rose, total oil production and rig counts in the District were essentially flat, as global oil consumption slightly underperformed a majority of District firms' expectations. The number of active gas rigs decreased slightly, and production stagnated because drilling for gas remained unprofitable for District firms. Well completions leveled off from recent declines, keeping the number of drilled-but-uncompleted wells unchanged. Accordingly, District energy employment ticked up only slightly, but still lagged pre-pandemic levels. Coal production in Wyoming increased moderately as regional prices remained above historic levels.

Agriculture

The farm economy in the Tenth District remained strong, but conditions softened alongside lower agricultural commodity prices and persistent drought. Volatility in markets for major crops was elevated amid heightened uncertainty about supply and demand conditions. Through mid-August, prices for corn and wheat were about 10% lower than the beginning of the month and soybean prices also dropped slightly. In the livestock sector, cattle prices remained strong and continued to support profit opportunities, despite considerable cost pressures. Large areas of the region continued to be heavily impacted by drought that could reduce crop revenues and limit availability of feed for livestock operations. District contacts continued to highlight input costs, interest rates and thinner margins as other key concerns. Lenders indicated that credit conditions remained sound with support from strong farm finances. ■

For more information about District economic conditions visit:
www.KansasCityFed.org/research/regional-research



Summary of Economic Activity

The Eleventh District economy continued to expand at a modest pace overall. Solid growth was seen in the nonfinancial services sector, while retail sales were flat and activity in the manufacturing, energy, and financial services sectors declined. Housing demand was mixed, and home price increases remained subdued. Scant rainfall and very high temperatures depressed agricultural conditions in much of the district. Employment growth picked up slightly overall, and wage growth remained high. Input cost and selling price pressures were elevated in the service sector but modest in manufacturing. Outlooks were fairly stable, though uncertainty persists around the continuing impact from higher interest rates.

Labor Markets

Employment growth picked up slightly over the reporting period. Manufacturing hiring resumed an average pace after slowing in June, and service sector firms added to payrolls at a slightly elevated rate. Airlines reported a normalization after record hiring last year, and some layoffs were reported in cargo transportation. Overall, most Texas businesses said they were looking to hire, and while lack of applicants remained the top impediment, applicant availability generally improved over the reporting period. However, reports of labor shortages continued in health care, trucking, oilfield services, auto repair and skilled trades.

Wage pressures remained elevated, though there were some signs of moderation as the year progressed. Staffing services firms reported less pressure on wages over the past six weeks.

Prices

Price pressures remained subdued in manufacturing but still elevated in the service sector. Oilfield services firms noted some input price softening as supply chains improved. Fuel prices were up over the reporting period. Several contacts remarked that customers were more price sensitive, and an August Dallas Fed survey of more than 300 Texas business executives showed that it

has become more difficult over the past three months to pass cost increases on to customers. The survey also showed that Texas businesses expect input costs to increase 4.7 percent on average this year, down from 9.6 percent increase in 2022. They expect to raise their selling prices 3.3 percent, down from 7.4 percent last year.

Manufacturing

Texas manufacturing activity continued to contract over the reporting period, with declines seen in new orders, output, and capital spending. The weakness was broad-based but most notable in chemical, high-tech, and machinery manufacturing. Food and fabricated metals manufacturing exhibited more strength than other segments. A chemical manufacturer said construction, packaging, and industrial demand were proving anemic, and that the weak outlook for China and Europe was weighing on expected export demand. Other contacts cited higher interest rates as a headwind for capital investments and construction-related manufacturing. An August Dallas Fed survey showed that thirty percent of manufacturers saw a decrease in production as a result of the recent heat wave, largely stemming from lower labor productivity and temperature-sensitive worksites. Overall, outlooks worsened, and contacts voiced concern over the current manufacturing slump.

Retail Sales

Retail sales stabilized over the past six weeks after declining in the prior period. Auto dealers noted some weakness in sales, and contacts pointed to inflation and high interest rates denting consumer demand. Several also cited a potential auto workers strike as a threat. Numerous retailers said sales have been impacted by the excessive heat hurting demand, particularly stores that rely on foot traffic. Outlooks stabilized somewhat, though were still tilted toward the negative.

Nonfinancial Services

Growth in service sector activity accelerated over the reporting period. Revenue growth was led by professional and business services, where contacts noted improved sentiment about economic conditions. Leisure and hospitality also experienced a pickup in August despite several contacts noting a negative impact from the extreme heat. Airlines said demand stayed strong over the summer, especially for leisure travel. Health care remained a weak spot. Overall, outlooks were fairly stable, with contacts expecting moderate growth over the next six months.

Construction and Real Estate

Housing demand remained solid for new homes due to incentives such as rate buydowns that help lower mortgage rates. In contrast, existing home sales declined due to high mortgage rates and low inventories of homes available for sale. Home price increases remained subdued. Construction for new homes increased, while multifamily construction trended down. A wave of new apartment units has caused rents to fall and vacancy rates to increase.

The office market continues to face sluggish rents and high vacancy rates. The outlook is brighter for new Class A office buildings than older office buildings and other categories which face a more uncertain future. The retail market is doing well, though it is expected to slow as consumer spending weakens. The industrial market remains solid.

Financial Services

Loan demand declined for the eighth period in a row — now a full year — though the rate of decline eased somewhat. The pace of decline in overall loan volume also decelerated, but residential real estate loan volume declined sharply after stabilizing in May and June. Loan nonperformance continued to increase, particularly for consumer loans. Loan pricing pushed up further. Credit standards continued to tighten, though the share of bankers reporting a tightening fell to its lowest level since February. Bankers' outlooks remained pessimistic, with

most expecting a decrease in loan demand and a deterioration of general business activity over the next six months.

Energy

Drilling activity for oil and gas wells declined over the past six weeks, particularly for smaller producers. The Eleventh District rig count fell moderately again, with past increases in costs and declines in prices for crude oil and natural gas making some projects uneconomical. Well completions eased but continued to hold up better than drilling activity. Most contacts expect the rig count to stabilize soon, and some expressed receding recession risks.

Agriculture

A significant portion of the district entered (or reentered) drought over the past six weeks due to meager rainfall and soaring temperatures. Pasture conditions deteriorated, and the weather had an adverse effect on row crops. A majority of the Texas cotton crop was rated in poor to very poor condition, and abandonment is expected to be high this year. Cattle prices rose further over the reporting period, driven by tight supply and solid demand for beef.

Community Perspectives

The scarcity of affordable housing remained the most pressing issue for lower-income individuals, according to community nonprofits. High rent and costly utilities were pricing residents out of their current living situation. Contacts lamented that high construction costs pose a major challenge for affordable housing developers building more stock. One nonprofit serving senior adults said inflation coupled with a reduction in SNAP benefits has put food insecurity as the top threat to seniors, which is a change from the usual top threats of isolation and difficulty accessing healthcare. ■

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



Summary of Economic Activity

Economic activity in the Twelfth District strengthened slightly during the July through mid-August reporting period. Hiring activity was generally stable and labor availability improved. Price increases persisted, albeit at a slower pace, and wage pressures softened further. Retail sales increased slightly, on balance, but activity in the service sectors was somewhat mixed. Demand for manufacturing goods was stable, and conditions in agriculture and resource-related sectors remained largely unchanged. Residential real estate activity was flat while that of commercial real estate was mixed. Lending activity moderated in recent weeks. Communities across the Twelfth District observed increased demand for shelters and food bank services, particularly in areas impacted by adverse effects of wildfires and other severe weather events in Hawaii and California. Contacts generally expressed a slightly more positive outlook for the economy relative to the previous reporting period.

Labor Markets

Hiring activity was generally stable during the reporting period, and labor availability improved further. Many employers mentioned holding their head counts flat in recent weeks, and some firms reported being over-staffed. Contacts highlighted expanded candidate pools and greater ease in finding applicants with appropriate skill sets. Hiring activity in the technology sector remained subdued aside from positions focusing on artificial intelligence. Contacts in the agriculture and health-care sectors noted their continued investment in automation, reducing their demand for workers on net. Nonetheless, hiring challenges persisted for specific positions within many sectors, including aviation, retail trade, and food services. Employee turnover generally decelerated but remained high in a few industries, including hospitality and nonprofit community services. One employer in manufacturing mentioned additional interest in transitioning interns into full-time positions. In entertainment, hiring has reportedly halted while contract negotiations continued over disputes between the studios and the industry's labor unions. Looking ahead, many employers mentioned plans to hire only on a replacement basis or implement possible cutbacks over the remainder of the year.

Wage pressures softened further across most sectors.

Reports mentioned continued wage growth in recent weeks but at a slower pace than previously observed. However, some firms in agriculture, hospitality, community services, and gaming continued to face upward wage pressures ranging from moderate to strong in some regions. Several employers mentioned focusing their wage increases on entry-level jobs, partially due to new local minimum wage regulation.

Prices

Prices increased at a slower pace for most products and services. Reports noted generally stable prices for many supplies, including most building materials, paper products, chemicals, and foods and beverages. However, strong price pressures persisted for other product and service categories, including utilities, insurance, used vehicles, packaging, and some construction materials such as cement and gypsum. One contact attributed continued price pressures to firms maintaining above-average levels of inventory due to global economic uncertainty.

Community Conditions

Housing affordability, homelessness, and food insecurity continued to challenge communities across the District. Temporary housing shelters and food banks saw increased demand in recent weeks, especially from older

adults. In particular, demand for services was highest in areas impacted by wildfires and other severe weather events in Hawaii and California. Nonprofit organizations reported challenges meeting the demand for behavioral health and substance misuse services. Several contacts highlighted ongoing consolidation among nonprofit organizations due to chronic labor and funding issues.

Retail Trade and Services

Retail sales rose slightly in recent weeks, on balance. Retailers reported ongoing strength in consumer spending in most areas even though shoppers continued to trade down to lower cost items and reduce their spending on nonessential goods. Demand for food and beverages remained largely unchanged, while sales of pet care products slowed somewhat. A few retailers noted lingering challenges from the pandemic, as well as tighter access to affordable credit. Reports highlighted continued improvements in supply chains but noted that inventory growth ticked down.

Activity in the consumer and business services sectors was somewhat mixed. Demand for business consulting edged down, while demand for legal and accounting services was robust. Hospitality and tourism activity remained solid despite increased competition from foreign destinations for leisure travelers. Demand for health-care services and maintenance work reportedly increased.

Manufacturing

Manufacturing activity was stable over the reporting period, on net. While many manufacturers, including automotive, commented on overall weakening demand, orders for some manufactured products grew further. Food manufacturing continued to operate at or near capacity, and demand for capital equipment and fabricated metal products remained strong. However, some customers temporarily delayed projects due to overall economic uncertainty and concerns over an economic downturn. Supply chain disruptions eased further, and some manufacturers reported normalizing inventory levels. Delivery times for supply materials continued to improve, but availability of semiconductors remained constrained.

Agriculture and Resource-Related Industries

Conditions in the agriculture and resource-related sectors remained largely unchanged during the reporting period. Domestic retail and food services demand for agricultural products was stable, with strength noted

particularly for fruits and vegetables. A contact from Arizona reported challenges with limited availability of produce for retail outlets. Exports of some products, such as grain and hay, reportedly fell, resulting in increased domestic supply levels and lower domestic prices. Major fish stocks were stable. Though yields for some crops remained low due to the wet winter, contacts reported high volumes of crops carried over from the prior harvest and strong projections for this year's perennial crop yields in California and Washington. Production input costs remained elevated with upward movement for some costs, such as packaging and energy.

Real Estate and Construction

Activity in residential real estate was flat over the reporting period. Demand for single-family homes remained strong. Contacts across the District reported that homes continued to receive multiple bids from prospective buyers. Inventories of existing single-family homes remained low as owners were reluctant to relinquish lower-rate mortgages. Multifamily rents reportedly increased but at a moderating pace. Some contacts observed that new residential construction activity rebounded somewhat in past weeks, while others noted declines in permitting and difficulty finding lots. Raw materials were reportedly more readily available.

Commercial real estate activity was mixed in recent weeks. Weakness in the office leasing sector continued, and vacancy rates remained elevated. However, a contact in Utah reported stable demand for retail and industrial space, higher retail rents, and overall lower vacancy rates. Commercial construction activity weakened slightly. Work on existing projects continued due to lengthy construction timelines, but plans for new projects were delayed or abandoned. Some inputs, such as electrical components and appliances, became harder to find.

Financial Institutions

Lending activity moderated in recent weeks. Demand for business loans, particularly commercial real estate loans, weakened some as higher financing costs led firms to further delay or cancel projects. Residential lending remained subdued due to high mortgage rates and limited inventories. Consumer lending, particularly for credit cards, was reportedly solid. Some contacts reported competition for deposits strengthened to an all-time high, as more customers actively sought higher deposit rates and looked at money market funds as an alternative. Lending standards tightened further, and credit quality remained strong. ■



