

For use at 2:00 PM EDT

Wednesday

July 13, 2022

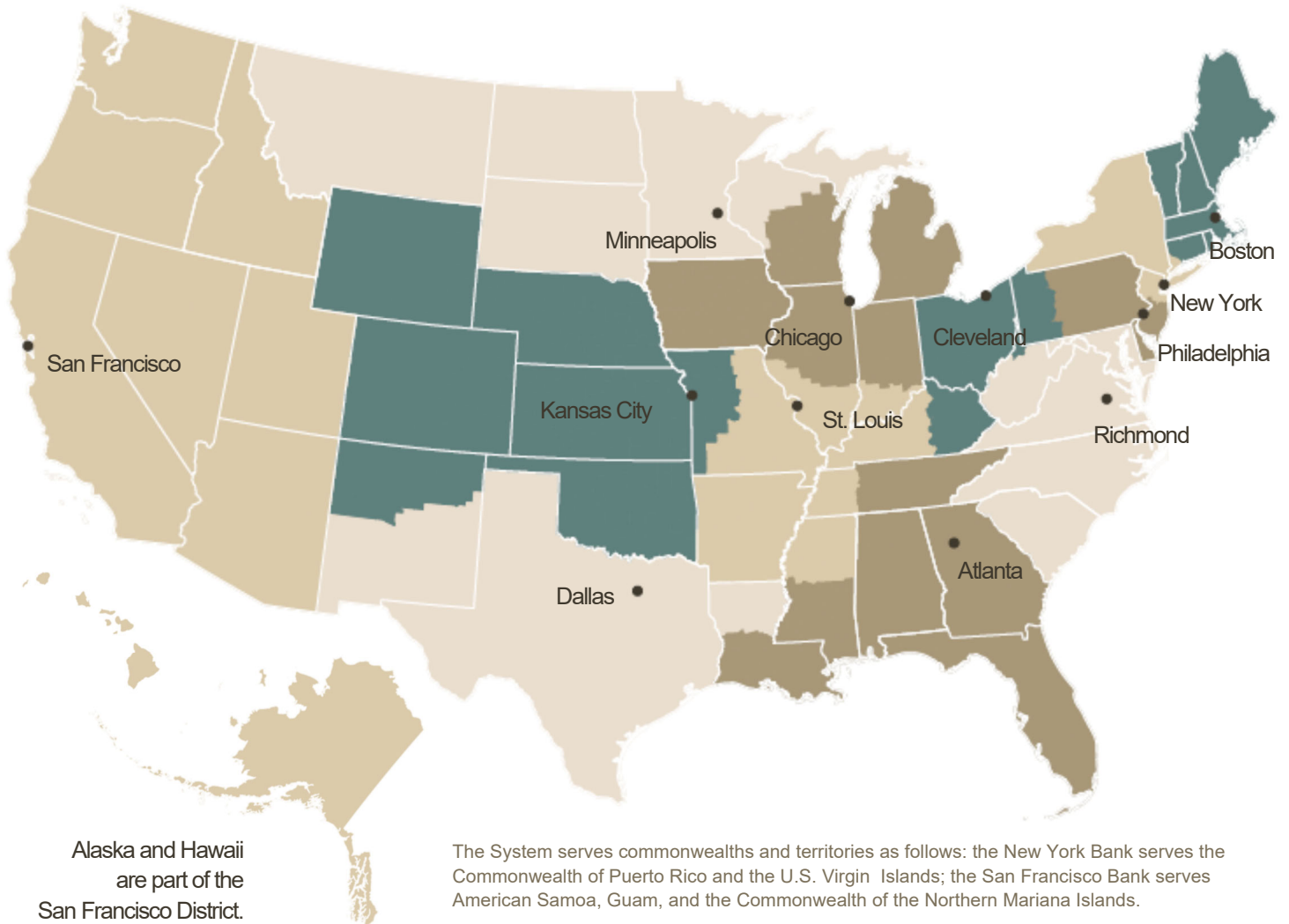
The Beige Book

Summary of Commentary on Current Economic Conditions

By Federal Reserve District

July 2022

Federal Reserve Districts



This report was prepared at the Federal Reserve Bank of Atlanta based on information collected on or before July 13, 2022. This document summarizes comments received from contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.

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

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

Overall Economic Activity

The Beige Book ■ July 2022

Economic activity expanded at a modest pace, on balance, since mid-May; however, several Districts reported growing signs of a slowdown in demand, and contacts in five Districts noted concerns over an increased risk of a recession. Most Districts reported that consumer spending moderated as higher food and gas prices diminished households' discretionary income. Due to continued low inventory levels, new auto sales remained sluggish across most Districts. Hospitality and tourism contacts cited healthy leisure travel activity with some noting an uptick in business and group travel. Manufacturing activity was mixed, and many Districts reported that supply chain disruptions and labor shortages continued to hamper production. Non-financial services firms experienced stable to slightly higher demand, and some firms reported that revenues exceeded expectations. Housing demand weakened noticeably as growing concerns about affordability contributed to non-seasonal declines in sales, resulting in a slight increase in inventory and more moderate price appreciation. Commercial real estate conditions slowed. Loan demand was mixed across most Districts; some financial institutions reported increased customer usage of revolving credit lines, while others reported weakening residential loan demand amid higher mortgage interest rates. Demand for transportation services was mixed and reports on agriculture conditions across reporting Districts varied. While demand for energy products was robust and oil and gas drilling activity picked up, production remained constrained by labor availability and supply chain bottlenecks for critical components. Similar to the previous report, the outlook for future economic growth was mostly negative among reporting Districts, with contacts noting expectations for further weakening of demand over the next six to twelve months.

Labor Markets

Most Districts continued to report that employment rose at a modest to moderate pace and conditions remained tight overall. However, nearly all Districts noted modest improvements in labor availability amid weaker demand for workers, particularly among manufacturing and construction contacts. Most Districts continued to report wage growth. One third of Districts indicated that employers were considering or had given employees bonuses to offset inflation related costs while in two Districts, workers requested raises to offset higher costs. A quarter of Districts indicated wage growth will remain elevated for the next six months, while a few noted that wage pressures are expected to subside later this year.

Prices

Substantial price increases were reported across all Districts, at all stages of consumption, though three quarters noted moderation in prices for construction inputs such as lumber and steel. Increases in food, commodities, and energy (particularly fuel) costs remained significant, though there were several reports that price inflation for these categories had slowed compared with recent months but remained historically elevated. While several Districts noted concerns about cooling future demand, on balance, pricing power was steady, and in some sectors, such as travel and hospitality, firms were successful in passing through sizable price increases to customers with little to no pushback. Most contacts expect pricing pressures to persist at least through the end of the year.

Highlights by Federal Reserve District

Boston

Business activity expanded at a modest pace. Employment was flat as turnover remained high and wages grew at an above-average rate. Prices increased at an above-average pace. The outlook turned more cautious or even pessimistic in cases. Most saw ongoing inflation (and efforts to control it) as posing significant threats to activity moving forward.

New York

Economic growth slowed to a crawl in the latest reporting period, as demand from households and businesses weakened amidst ongoing labor shortages, supply backlogs, and elevated Covid levels. Tourism continued to strengthen, while consumer spending and manufacturing activity were flat. Businesses continued to report widespread increases in selling prices, input prices, and wages. Optimism about the near-term outlook has eroded further.

Philadelphia

Business activity continued to grow slightly. Manufacturing, among other sectors, appeared to decline, even as activity in a few sectors remains below pre-pandemic levels. Increased chatter about a future recession has caused growth in employment, wages, and prices to subside a bit. However, each of these measures is still best described by its pace in the prior period of modest, moderate, and strong, respectively.

Cleveland

Business activity declined slightly as households and firms grappled with higher costs and rising interest rates. Contacts expected further weakening in the near term. Labor market conditions remained tight, although the share of firms that increased staff levels or raised wages has eased since the start of 2022. Reports of higher nonlabor costs were widespread, and most firms raised prices.

Richmond

The regional economy grew modestly over the last several weeks, although there were some emerging signs of slowing demand. Consumer spending remained generally solid, while manufacturers and service providers reported slowing to modest growth. Commercial and residential mortgage lending was hindered by rising interest rates. Labor markets were tight and price growth remained elevated.

Atlanta

Economic activity grew modestly. Labor markets were tight, and wage pressures continued. Nonlabor costs rose. Retail sales were solid. Leisure travel activity remained robust. Housing demand weakened. Commercial real estate conditions were mixed. Manufacturing activity was strong. Demand for transportation services was mixed. Banking activity slowed.

Chicago

Economic activity increased slightly. Employment increased moderately, business spending was up modestly, consumer spending rose slightly, and manufacturing and construction and real estate declined slightly. Wages and prices rose rapidly, while financial conditions tightened some. Agriculture income expectations for 2022 were little changed.

St. Louis

Economic conditions have improved at a modest pace since our previous report. Labor shortages eased slightly but continued to place upward pressure on wages. Prices for energy and intermediate goods rose, but increases were passed through at a lower rate than in previous months. Homebuying slowed and consumer demand for services rose.

Minneapolis

The region's economy grew modestly since mid-May. Labor demand weakened but remained at a high level, while wage and price pressures remained strong. Manufacturing and services activity grew. Construction contacts reported little change and real estate contacts reported modest declines. Minority and woman entrepreneurs expected flat to increased sales in the next month but have lowered their profit expectations.

Kansas City

Growth in the Tenth District slowed to a modest pace, with mixed performance across segments of the regional economy. Job growth was strong, but consumer spending softened. Several businesses indicated they began to offer pre-paid gas cards or direct payments to offset rising gas prices for workers. Rising interest rates deterred new growth in residential real estate and put some initial pressure on community banks' liquidity positions.

Dallas

Economic growth in the District slowed to a modest pace partly due to elevated prices, rising interest rates, and higher uncertainty hampering demand in manufacturing, housing, and services. Input costs rose at a rapid clip, though pass through was becoming more difficult for firms. Outlooks were mostly negative and highly uncertain owing to concerns about a further slowdown in demand.

San Francisco

Economic activity strengthened modestly over the reporting period. Overall labor market conditions remained tight. Wages and price levels increased further. Retail sales moderated somewhat while demand for discretionary services fell. Conditions in the agriculture and manufacturing sectors were mixed. Residential real estate activity eased, and lending activity was unchanged on balance.



Federal Reserve Bank of Boston

The Beige Book ■ July 2022

Summary of Economic Activity

Business activity continued to expand at a modest pace in recent weeks. Employment was flat as turnover remained high and wages grew at an above-average rate. Prices continued to rise at a stable but above-average pace. Retailers enjoyed strong sales growth, while travel-related activity rebounded sharply to near pre-pandemic levels. Manufacturers had mixed results that yielded modest revenue gains on average, and software and IT services firms reported moderate growth that mostly exceeded expectations. Commercial real estate contacts described activity as roughly steady, but expressed growing concerns related to high borrowing and construction costs. Higher mortgage rates led to slightly softer demand for homes, boosting inventories in some markets. With some exceptions, the outlook turned more cautious or even pessimistic. Many saw ongoing inflation (and efforts to control it) as posing significant threats to activity moving forward.

Labor Markets

Employment was roughly flat on average among First District contacts as wages continued to grow at an above-average pace. Retailers experienced somewhat greater ease in hiring, but others faced ongoing challenges in finding and/or retaining workers. One IT firm raised its headcount considerably year-to-date, but among other contacts employment was either stable or, in the case of one manufacturer, down moderately. The majority of contacts reported either above-average or robust recent wage increases. Some others planned to enact significant increases in the near future and a small minority held wages fixed, citing previous wage increases or enhancements to nonwage incentives. Looking ahead, IT services contacts and one retailer planned to increase staffing levels by slight to moderate margins, while manufacturers expressed no major hiring plans or, in one case, planned on further layoffs to compensate for ongoing demand weakness.

Prices

Prices increased at an above-average pace on balance. Several firms enacted large or very large price increases and some others were planning to impose new mark-ups soon. Others raised or planned to raise effective prices via reduced discounts, and a minority held prices firm or (one case only) lowered them slightly. Notable price increases included an 87 percent increase in Boston hotel room rates between February and May of 2022, far exceeding typical seasonal gains, and year-over-year

price increases of 25-30 percent for frozen fish products. Cost pressures intensified further for fuel and freight, food commodities, and labor. Nonetheless, pass-through was described as incomplete because of anticipated consumer pushback, and some ruled out further price increases moving forward. The risk of ongoing high inflation was a central concern among many contacts, who worried about its implications for consumer demand and for their own profit margins.

Retail and Tourism

First District retail and tourism contacts enjoyed strong sales growth recently. For both a clothing retailer and a furniture seller, sales increased at a brisk pace, exceeding year-to-date expectations, as supply chain issues eased. Despite that recent strength, retailers' optimism looking ahead was somewhat tempered by concerns about inflation and a possible recession. Tourism contacts also reported accelerated growth in sales. Airline passenger traffic through Boston rose at a rapid pace, and as of June 2022 had reached 90 percent of its June 2019 level. Advance bookings for July and August showed further gains, with improvements in all types of travel. The number of travelers by cruise ship increased sharply, but as of May 2022 passenger volume was still less than half of its 2019 benchmark. The Greater Boston hotel occupancy rate in May 2022 rose 30 percentage points from its February 2022 level, and more than doubled from a year earlier, to land at over 77 percent.

Convention activity accelerated, with recent attendance at roughly 80 percent of pre-pandemic levels and advance bookings poised to meet or exceed 2019 levels. Tourism contacts were resoundingly optimistic for the rest of 2022.

Manufacturing and Related Services

Sales volume was flat or somewhat softer among most manufacturers contacted this round, while one reported robust sales growth. However, two firms that experienced weaker demand nonetheless had modest revenue gains owing to output price increases. One contact with stable recent sales noted that year-over-year sales were still down significantly. In addition, a furniture manufacturer said that while April and May were very strong, sales growth slowed considerably in June, coinciding with the FOMC rate increase announcement. Contacts faced intense input pricing pressures and some raised prices further in recent months, but pass-through was incomplete. Logistics remained a major problem for some. Two contacts reported downward revisions to capital expenditure plans due to long lead times for new equipment and construction delays. Most contacts (with one exception) held an optimistic outlook, but several said they were more cautious than they had been earlier in the year. In particular, inflation presented downside risks for some and another faced uncertainty over future sources of demand.

Software and IT Services

Software and IT contacts experienced stable to moderately higher sales in the second quarter and reported robust sales increases from a year earlier. Recent results exceeded expectations at two of three firms contacted, one of which benefited indirectly from the recent rebound in elective surgeries. Operating margins increased modestly on average as conditions normalized following pandemic-related disruptions. Capital and technology spending was unchanged and was expected to hold steady in the coming months. The overall economic outlook turned less optimistic this quarter due to concerns about inflation and a possible recession. Nonetheless, all expected demand at their respective firms to remain stable for at least the third quarter of 2022, barring significant changes to the macroeconomic environment.

Commercial Real Estate

First District commercial real estate leasing activity was roughly steady in recent weeks, but investment activity fell and the outlook worsened. Contacts reported that office tenants approached leasing decisions with greater clarity. In Connecticut, office downsizing led to substantial negative absorption. Elsewhere, changes in office

space requirements were mixed, but occupancy rates remained well below pre-pandemic levels in downtown areas. While office asking rents and vacancy rates were flat, pressure for costly tenant improvements was significant and shorter-term leases were the norm. Industrial leasing activity persisted at a solid pace amid historically low vacancy rates, and industrial rents edged even higher. Retail leasing was stable. Two contacts noted a significant slowdown in commercial property sales volume, and one noted a moderate decline in nonresidential construction, developments that reflected rising interest rates and sky-high building costs. Life sciences conversions also slowed amid concerns about tenants' creditworthiness and a looming glut of space. The outlook turned decidedly more pessimistic, as contacts expected further declines in investment sales and construction moving forward. Contacts largely expected leasing to slow in the summer months for seasonal reasons, and some saw a chance of weakness in the fall in response to further interest rate increases and potentially worsening macroeconomic conditions.

Residential Real Estate

First District contacts reported that higher mortgage rates had led to somewhat cooler demand for residential real estate, resulting in increased inventories in recent months. (Vermont reported changes to April 2022 and all other areas reported changes to May 2022. Connecticut data were unavailable.) Closed sales declined again significantly on a year-over-year basis in most markets, but the pace of decline moderated from a month earlier for seasonal reasons. However, closed sales increased slightly over-the-year for single-family homes in Boston and for condos in Rhode Island. Boston's results were attributed to seasonal factors as well as a rush to buy before interest rates increased further. Inventories increased in most markets in recent months, reflecting a softening of demand, but remained down on a year-over-year basis in several markets. The price of single-family homes continued to rise at about the same year-over-year pace as a month earlier. However, condo markets experienced downward price pressures. Going into the summer, contacts were optimistic that residential inventories would increase further and that prices would level off, developments that should offer some relief to potential buyers. ■

For more information about District economic conditions visit:
<https://www.bostonfed.org/in-the-region.aspx>



Federal Reserve Bank of New York

The Beige Book ■ July 2022

Summary of Economic Activity

Economic growth in the Second District slowed to a crawl in the latest reporting period, as demand from households and businesses weakened amidst ongoing labor shortages, supply backlogs, and elevated Covid levels. Business optimism about the near-term outlook has also eroded further. Businesses continued to report widespread increases in selling prices, input prices, and wages, as well as ongoing difficulty obtaining necessary supplies. Despite severe labor shortages and high turnover, businesses have continued to add workers and plan to continue doing so in the second half of the year. Both manufacturing activity and consumer spending have been flat in recent weeks, while tourism activity has accelerated. There were pronounced signs of easing in the home sales market, whereas the rental market was increasingly robust. Commercial real estate markets were mixed but generally steady. Construction activity has picked up, with a good deal of multifamily residential development in progress. Finance-sector contacts reported some weakening in activity, while regional banks reported widespread declines in loan demand and refinancing activity, as well as tighter credit standards and steady delinquencies.

Labor Markets

Businesses continued to report widespread labor shortages, restraining both new hiring and retention, though one employment agency noted that workers have become more reluctant to change jobs. Particularly acute labor shortages were reported in technology and healthcare occupations. Still, a sizable proportion of businesses indicated that they continue to add staff—particularly in the wholesale trade and information sectors, as well as in transportation and professional & business services. One contact noted increasing job openings for call centers. Firms in all major industry sectors except finance plan to add staff in the second half of this year.

Businesses continued to note widespread wage increases and anticipated further increases in the months ahead. One employment agency noted that more employees are using counter-offers to raise their salaries in their current jobs. Wage gains have been most pronounced in the construction, transportation, and warehousing sectors.

Prices

Most business contacts noted ongoing broad-based escalation in input prices. In particular, escalating costs

for both energy and freight continued to be cited widely. In the construction sector, while lumber prices have eased, costs of engineered wood products (e.g., doors and windows) have reportedly continued to rise. Contacts across the board expect input prices to rise further in the months ahead.

Businesses continued to note widespread escalation in their selling prices, particularly in the manufacturing and distribution industries. A majority of businesses said they plan further price hikes in the months ahead.

Consumer Spending

Consumer spending has been essentially flat in recent weeks. Non-auto retailers reported that business has been steady to weaker in the latest reporting period. Contacts have also become more pessimistic about the near-term outlook. Auto dealers in upstate New York reported that sales of both new and used vehicles have been sluggish in recent weeks, largely reflecting the ongoing lack of inventory, as well as affordability issues. Consumer confidence among New York State residents fell in May but rebounded modestly in June; it is roughly on par with pre-pandemic levels and still fairly high by historical standards.

Manufacturing and Distribution

Manufacturing activity has been essentially flat since the last report, but growth picked up somewhat in the whole-sale trade industry and remained moderately strong in the transportation & warehousing industry. For the first time in well over a year, manufacturers reported a slight decline in unfilled orders, and expect that these, as well as delivery times, will decline noticeably in the months ahead. Contacts have yet to see improvement in supply availability, but manufacturers expect disruptions and delays to diminish over the second half of this year.

Services

Activity in the service sector has remained essentially flat in the latest reporting period. Professional & business service firms indicated a slight increase in activity, whereas education & health service providers saw a slight decline. Contacts in the information and leisure & hospitality sectors noted a pause in growth. Businesses in these sectors remain mildly optimistic about the near-term outlook.

In New York City, however, tourism has continued to flourish. A local industry expert noted that both business travel and international visitors have picked up to a surprising degree in recent weeks, though visits from Asia continue to lag (mainly attributed to home country restrictions). Removal of inbound restrictions in the U.S. seems to be boosting visits, and this trend is expected to continue. Manhattan's hotel occupancy rate has now rebounded to over 75 percent, with mid-week occupancy surpassing weekend levels at around 90 percent—partly due to longer stays and more business travelers. Occupancy is now roughly on par with pre-pandemic levels. While a number of hotels are still housing the homeless, as well as emergency personnel and health workers, this now accounts for under 10 percent of occupancy. In addition, the average daily room rate has climbed above pre-pandemic levels to well above \$300. With business on the rebound, some closed hotels have reopened or plan to do so soon. Attendance at trade shows and medium to large corporate meetings have trended up, and out-year bookings have also picked up.

Real Estate and Construction

Housing markets have been mixed since the last report, with the rental market continuing to strengthen but the sales market weakening noticeably. Both in New York City and across the metropolitan region, there has been a steady and pronounced decline in signed contracts in both May and June, going against normal seasonal trends. A leading local real estate authority attributed this

drop-off in sales to a combination of low affordability, rising mortgage rates, and increased uncertainty. There has also been a rise in the inventory of available homes—though it is still quite low—but not a reduction in prices thus far. Real estate contacts in upstate New York continued to characterize the market as strong, though less so than in recent months—for instance, bidding wars still occur but with fewer bidders competing and some sellers have lowered their asking prices.

In contrast, residential rental markets have strengthened noticeably, with substantial escalation in rents, low vacancy rates, and brisk leasing activity. In New York City, rents rose sharply during the 2nd quarter, setting new records, and rental vacancy rates are at a 20-year low. Rents have also risen sharply in upstate New York. With rents rebounding to well above pre-pandemic levels in New York City and elsewhere, affordability has been a widespread and growing concern.

Commercial real estate markets have been mixed since the last report. Office markets across the District were steady to slightly weaker, with vacancy rates edging up in Manhattan and the Lower Hudson Valley but little changed elsewhere. Office rents were flat to up slightly and close to pre-pandemic levels, except in Manhattan. The industrial market has remained firm, with vacancy rates leveling off but rents continuing to rise briskly. The market for retail space has remained sluggish.

Construction activity has been mixed but picked up somewhat overall. Nonresidential construction starts have remained exceptionally low, whereas multifamily residential construction starts have increased across most of the District, with the notable exception of Manhattan—though even there a sizable volume of construction is still in progress.

Banking and Finance

Contacts in the broad finance sector reported marked worsening in the general business climate, a decline in activity, and growing pessimism about the near-term outlook. Bankers reported lower loan demand across all consumer and business loan segments. Refinancing activity also decreased. Credit standards tightened somewhat across all loan categories, while delinquency rates were little changed. ■

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 grow slightly. Modest growth of broad nonfinancial services outweighed declines in manufacturing and some service sectors; in a few sectors, supply constraints obscured whether demand had declined. Employment continued to grow modestly, despite increased talk of a recession. Wage and price inflation subsided further for most firms but still remained at a moderate and strong pace, respectively. Most firms continued to note hiring difficulties and supply chain disruptions as their key challenges, while the rate of COVID-19 cases in the District has fallen by half and is currently lower than the national average. On balance, expectations for continued economic growth over the next six months remained positive but edged lower for all firms and were well below their nonrecessionary historical averages. Among manufacturers, although expectations turned negative, firms are hesitant to consider layoffs after struggling to rehire workers following the pandemic shutdowns.

Labor Markets

Employment continued to grow modestly. Scattered reports of layoffs, attrition, or hiring freezes have appeared as chatter about a future recession has increased. However, the share of firms reporting employment increases edged up to near one-third among nonmanufacturing firms and among manufacturers. Moreover, staffing companies reported no signs that job orders had slowed.

In fact, several contacts noted that manufacturing firms were hesitant to lay off workers, given the difficulty they have experienced rehiring after the pandemic closures. Looking ahead six months, the share of manufacturers that expect to hire more workers fell further to one-fifth from one-third in the prior period.

Overall, most firms still describe hiring and retention as challenges. A majority of firms reported that labor market problems had been a moderate or significant constraint to their second-quarter production. However, most firms have noted some easing of hiring challenges since the first quarter. In particular, retention is improving, and more workers are applying; however, labor quality and reliability remain poor. With the expectation that labor challenges will persist, contacts continued to note heavy investment in automation.

Most firms, including staffing firms, continued to note that wage growth is slowly subsiding. However, wage inflation remains widespread and appears to have maintained a moderate pace. In our monthly surveys, the share of nonmanufacturing firms reporting higher wage and benefit costs per employee has held steady at about three-fifths since April. Very few firms reported lower compensation, as has been true for the past year.

Prices

Prices appear to have continued growing at a strong pace. Price increases for manufacturers' factor inputs were less widely reported; however, more firms reported price increases throughout much of the downstream supply chain, including prices faced by consumers. Though the price increases were more widespread, comments tended to note that their rate had eased.

The share of manufacturers reporting higher prices for factor inputs fell to 70 percent, and the share receiving higher prices for their own products held steady at 52 percent. The share of nonmanufacturers reporting higher prices for their inputs rose to 80 percent, while the share receiving higher prices from consumers for their own goods and services rose to 38 percent.

A majority of firms reported that supply chain disruptions had been a moderate or significant constraint to their

second-quarter production. While firms have noted an easing of supply chain problems since the first quarter, most firms remain uneasy about the disruptions.

Just over three-fifths of the manufacturers expect to pay higher prices for their factor inputs over the next six months. While still a historically high share, the percentage reached an all-time peak in January at nearly four-fifths and has fallen in four of the following five months. Also, just over half expect the prices they receive to increase – the lowest percentage since March 2021.

Manufacturing

On average, current manufacturing activity appeared to decline slightly. The indexes for shipments and new orders fell significantly, with new orders turning negative. Moreover, sentiment weakened further, as the index of current general activity also turned negative.

Likewise, the indexes for future general activity and future new orders both turned negative, while the index for future shipments fell to nearly zero. Nevertheless, manufacturing firms' expectations for future capital expenditures edged higher from the index's six-year low.

Consumer Spending

Retailers (nonauto) and restaurateurs reported a slight decline in overall sales – the first negative reports since early 2021. Contacts noted either less customer traffic or smaller purchases per visit, if not both. One contact noted that the firm would normally strive to increase traffic but currently can't staff up for it.

On balance, auto dealers reported little change to the weak level of sales observed during the prior period; sales remained significantly below the levels in 2019. The constrained supply makes it difficult to observe demand; however, some contacts feel that high prices and rising interest rates have reduced demand below the industry's potential capacity.

Overall, tourism grew slightly – at a slower pace than in the prior period. Continued improvements in business travel were offset by reported flattening of leisure travel and some cancellations of business meetings, especially in the tech sector. Many contacts noted that high gas prices and airfares had contributed to lower demand from leisure travelers, but contacts from some local properties noted rising competition from cruise lines and international tourism.

Nonfinancial Services

On balance, nonmanufacturing activity grew modestly – rebounding somewhat from the prior period's slight pace of growth. Overall, the share of firms reporting increases

in sales and in new orders rose, while the share of firms that reported decreases edged lower in both categories.

Financial Services

The volume of bank lending (excluding credit cards) grew moderately during the period (not seasonally adjusted) – a similar pace as seen during the same period in 2019. However, growth was more balanced in 2019; now, individual loan segments are behaving much differently. Moreover, inflation is contributing more to the growth during the current year relative to past years.

Loan volumes grew at a moderate to strong pace for home mortgages and commercial and industrial lending. According to a lender, gains in the latter reflect a return to banks by borrowers who have found the current bond market too expensive. Contacts noted that rising interest rates and expectations of a slowdown have virtually eliminated growth in commercial real estate loans and home equity lines, while auto lending and other consumer loans grew slightly, at best. Credit card volumes appeared to continue growing moderately – a typical pace for this season of the year.

Real Estate and Construction

On balance, contacts reported that sales traffic and contract signings for new homes fell modestly, more so for high-end houses. One contact noted that customers were waiting for lower rates or lower prices.

Brokers noted that existing home sales continued to fall slightly, and that signs had emerged of a cooler market. While overall prices continued to rise on a year-over-year basis, one broker noted a significant number of price reductions in a recent 24-hour period. However, housing affordability remains a challenge, and rents remain high.

On balance, construction activity and leasing activity for commercial real estate continued to hold steady. The markets for industrial/warehouse space, multifamily housing, and institutional projects remained strong. Contacts are still waiting for clarity into the office market with the presumption of a further downward adjustment in space needs. However, the office market has been gradually adjusting through conversions to other uses. ■

For more information about District economic conditions visit:
<https://www.philadelphiafed.org/surveys-and-data/regional-economic-analysis>



Federal Reserve Bank of Cleveland

The Beige Book ■ July 2022

Summary of Economic Activity

Business activity in the Fourth District declined slightly, and contacts expected further weakening in the months ahead. The softening in customer demand was evident across sectors as households and firms contended with higher costs and rising interest rates. Additionally for goods producers, ongoing supply chain challenges and heightened uncertainty about the economic outlook led to declines in orders and reduced capital investment. The share of firms that increased staff levels or raised wages has eased since the start of 2022. Still, labor market conditions remained tight. Firms continued to add staff moderately amid high turnover, and they continued to give pay increases that were above historical averages. Looking ahead, most contacts intended to increase their staffing levels throughout the remainder of the year. Reports of higher nonlabor costs were widespread, particularly for food, energy, and petroleum-related products. Most firms raised prices, but a number of contacts reported that their profit margins had shrunk as they were unable to fully pass cost increases to customers.

Labor Markets

Employment rose moderately, albeit at a slower pace than at the start of the year. A few firms noted that worker availability had improved somewhat, but for the most part, contacts cited difficulty finding and retaining workers across skill levels. Tight labor supply prompted one retailer to start recruiting the youngest workers allowed by law. High turnover rates remained a challenge, which some contacts attributed to retirements and employees' leaving for higher pay. One manufacturer said that a few of the firm's employees had left because of high commuting costs. Despite difficulty finding workers and recent softening of customer demand, most contacts intend to add staff throughout the remainder of 2022.

Tight labor market conditions continued to put upward pressure on wages. However, the share of contacts reporting such increases has declined from around 70 percent at the end of 2021 to a little more than half during the current reporting period. Pay increases were often above historical averages in percentage terms, although some firms noted that such increases did little to attract more job applicants. Several firms said that pay increases for new workers required them to increase wages for current staff. One manufacturer remarked that employees were worried about rising food and fuel costs and that she was considering offering them member-

ships to warehouse clubs to help reduce these expenses. A banker with a similar concern said that staff are pushing for remote work and that the firm was considering providing transit benefits.

Prices

The vast majority of firms reported that nonlabor costs rose for a broad range of items. There were scattered reports that the sizes of recent cost increases have diminished compared with last year's but that they remained large relative to historical norms. Higher energy costs were widely cited as a strain on firms, but other inputs, including cardboard, food, and electronics, also increased in cost. Goods producers reported that higher oil and electricity costs have pushed up prices for an array of inputs such as drywall, lubricants, and asphalt. A few contacts reported that lumber and steel prices declined. Contacts generally expected meaningful upward pressure on nonlabor costs to continue over the next few months.

Most firms raised prices as they attempted to keep up with rising costs. There were a few exceptions, though. Spot rates for freight services came down because of weaker demand. Also, in a few instances some manufacturers passed through lower steel costs to customers. Despite raising prices, several retailers and manufacturers commented that they were unable to fully pass cost

increases to customers and that their profit margins were shrinking. One manufacturer noted that smaller firms were less able to raise prices than larger firms and consequently were experiencing greater pressure on their margins.

Consumer Spending

Reports suggested that consumer spending slowed. General merchandisers and apparel retailers reported weakened demand, which they attributed to higher food and gas prices decreasing households' discretionary income. Restaurateurs reported steady sales; however, they also expressed concern that inflation was dampening customer demand. One contact commented that high gas prices caused households to "stay local" for vacations, a situation which benefited his restaurant, but he expected demand to soften as consumers draw down their savings to keep up with rising expenses. Auto dealers reported declines in new-vehicle sales and leasing that they attributed to a lack of inventory and rising interest rates that are pricing out lower-income customers. Some dealer contacts projected high gas prices and rising vehicle prices will further slow demand, a situation which will eventually allow stocks to build.

Manufacturing

Demand for manufactured goods remained flat, and manufacturers grew more cautious overall. High inflation, labor shortages, ongoing supply chain disruptions, and concerns over excess inventory contributed to a decrease in orders for some producers. Many manufacturers noted that backlogs were at or near record highs; however, some expected order cancellations to increase in the coming months. Spending on capital equipment declined modestly, with one contact noting that long lead times meant almost all orders for this year would not be fulfilled until next year. On balance, manufacturers expected demand to decrease modestly in coming months.

Real Estate and Construction

Residential construction and real estate activity softened further amid rising interest rates. One real estate agent noted that while demand remained elevated, rising interest rates priced some buyers out of the market, which reduced the number of competing offers on listings. Construction contacts noted that although new traffic has slowed, their large backlogs have kept them busy. Going forward, contacts anticipated housing demand would slow further as rising interest rates and high inflation push more buyers out of the market.

Demand for nonresidential construction and real estate also slowed amid heightened uncertainty about the economic outlook and increasing construction costs and

interest rates. One real estate agent noted that growth and expansions for many of his firm's customers halted at the beginning of June. Contacts anticipated that current headwinds would persist and further dampen demand into the near future.

Financial Services

Overall, banking activity remained stable. Contacts noted a slight increase in demand for commercial loans, particularly for financing inventory and working capital. Nevertheless, one banker noted that commercial clients are contacting his bank more frequently over concerns about a possible persistent slowing in economic activity. On the consumer side, contacts noted declines in auto loan and mortgage applications related to low inventories and higher interest rates. Lenders said that commercial and consumer loan delinquency rates remained low and core deposits were stable. Looking ahead, multiple contacts stated that they expect deposits to decrease into the next quarter as more of businesses' and consumers' account holdings are consumed by higher costs. Bankers also expected overall loan demand to level off or slow in the third quarter.

Professional and Business Services

Demand for professional and business services was stable at elevated levels. One consultant noted that while there have been many discussions about a potential slowdown within the next year, there had been no actual change in demand for services thus far. Going forward, software providers and digital authentication firms anticipated that activity would remain elevated as the robust demand for online shopping and services is expected to persist into the near future. Engineering firms were also optimistic and anticipated increased activity related to infrastructure spending.

Freight

Freight demand weakened during the reporting period. Demand on the spot market fell amid a decline in imports, partly because of the lingering effects of China's COVID-19 lockdowns and ongoing supply chain issues. Some companies reported reducing capital expenditures given long lead times and other difficulties securing new equipment, while one contact was concerned about future demand for freight services. Driver availability reportedly improved, although, overall, the supply of drivers remained tight. ■

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



Summary of Economic Activity

Since our previous report, the regional economy continued to expand modestly, although there were emerging signs of softening demand. Manufacturers reported declines in shipments and new orders; at the same time, they continued to struggle with supply chain disruptions, labor shortages, and rising costs. Fifth District ports continued to report that imports outpaced exports. Meanwhile, trucking firms reported some easing of freight conditions and a modest increase in labor availability. Retailers reported some reduced demand for their goods, although sourcing remained difficult and inventories stayed low. Leisure travel, on the other hand, held strong and business travel started to come back. Real estate markets—residential and commercial—were tight, although in some residential markets, inventories of homes for sale and days on market increased from low levels. Financial institutions reported slowing in commercial loan demand, which they attributed to rising interest rates. Residential mortgage lending also slowed, but auto lending remained strong. Nonfinancial services firms generally reported moderate growth and solid demand but some expressed uncertainty about the future. Labor markets remained tight, although there was some emerging signs of improved labor availability. Price growth remained robust although, again, there were some incipient signs of slowing growth in recent weeks.

Labor Markets

The Fifth District labor market remained tight and employment grew modestly, although there was some indication of increased worker availability as fewer survey contacts reported trouble finding workers with the right skills. To attract and retain workers, firms increased wages, and looked for other ways to improve retention. Employment grew particularly in leisure and hospitality, where firms reported an increase in tourism and conference activity. Firms broadly expected employment to grow in the next six months.

Prices

Overall, price growth remained significantly elevated in recent weeks, although the growth did not steepen. Service sector firms reported increased growth in input prices, but some flattening in output price growth. Manufacturers, on the other hand, reported a moderation in input price growth, but a slight pickup in output price growth. Compared to last year, prices were still increasing at a high rate. Firms across industries continued to report that shortages of materials, rising fuel costs, and steep transportation costs contributed to price rises. Most firms continued to increase wages in an effort to recruit and retain workers.

Manufacturing

Since our previous report, Fifth District manufacturers reported a modest decline in demand, while supply chain frictions persisted. Many firms reported decreases in both shipments and new orders from last cycle, which a few firms attributed to rising consumer prices and a shift in consumption from durable goods to services. Survey contacts reported switching suppliers to improve lead times as a way to meet customer demand, but this had mixed results. Backlogs persisted while vendor lead times remained extended. Meanwhile, finished goods and raw materials inventories rose.

Ports and Transportation

Fifth District ports continued to experience record volumes, with imports far outpacing exports. There were also record numbers of empty containers leaving the ports. However, most ports reported that loaded exports fell this period, partially due to inland constraints. Inland terminals and warehouses were full, and railroads were still restricting the number of containers taken to match available terminal, warehouse, drayage, and chassis capacity. Grain and feed exports were down although the ports expect volumes to increase this summer due to the decreased supply to other countries from eastern Europe. Overall, the dwell time for containers decreased compared to the last report. Spot shipping rates contin-

ued to decline but remained well above 2019 levels. Air freight volume was down slightly this period while air freight rates increased due to higher fuel costs.

Trucking companies reported that demand remained strong, but there were signs of expanding truckload capacity. Trucking firms reported some decrease in booked orders and declining spot rates, although fuel surcharges reduced most of the cost savings. Most trucking companies indicated that drivers have become more available and turnover has decreased due to increased wages and benefits and a return of independent owner-operator drivers to freight lines. Respondents noted continued challenges sourcing new equipment and obtaining parts to service their existing fleet.

Retail, Travel, and Tourism

Since our last report, many retailers reported that sales had started to decline slightly. In addition, rising costs reduced consumer demand for products and services. Retailers noted that the supply chain has been unreliable for new inventory. Automotive dealers stated that due to production interruptions, their vehicle inventory continued to be extremely low. Additionally, demand was negatively affected by higher vehicle costs and rising interest rates. Several respondents mentioned increasing wages and benefits in order to reduce turnover and attract workers. In the Fifth District, leisure travel remained strong and contacts reported that both group and business travel had started to come back. Both hotel occupancy rates and average daily rates increased in recent weeks. Passenger counts at airports were robust, but there remained issues with flight cancellations due to lack of flight crews. Hospitality firms continued to struggle with workforce shortages despite higher wages and benefits.

Real Estate and Construction

Respondents indicated that the residential real estate market remained competitive. However, contacts reported there was a shift in market activity to slightly lower sales volumes and a reduction in buyer traffic, which they attributed to higher mortgage rates. Inventories of homes for sale and days on market increased in the last month while growth in listing prices for homes started to soften. Nonetheless, in many markets the shortage of new homes persisted, as did the slowing of new home completion due to supply chain disruptions. Potential homebuyers were being priced out of the housing market by the interest rate increases and higher home prices, particularly first-time homebuyers.

Overall, commercial real estate activity remained strong. Availability of Class A office tightened, especially in

suburban markets. Retail vacancy rates continued to edge down although shopping centers that experienced higher store closures during the pandemic were still struggling. New commercial construction was hampered by a lack of availability of some materials as well as a shortage of skilled workers. Respondents noted that rising interest rates slowed sales activity with the exception of stabilized properties, especially industrial and multifamily, which continued to sell at high prices due to strong leasing demand and increasing rental rates.

Banking and Finance

Loan demand began to slow for most commercial loan types, with this easing attributed primarily to rising interest rates. Residential mortgage demand continued to slow because of higher rates and limited housing stock. Auto lending, especially used autos, continued to be strong with respondents noting very little effect on demand from higher rates or limited inventories. Deposit growth was mixed: some institutions reported slowing due to rising prices increasing consumers' need for cash, but other institutions reporting increased growth attributed to a flight to safety. Overall credit quality remained good, and delinquencies remained low. Loan quality was stable.

Nonfinancial Services

Nonfinancial service providers continued to report moderate growth and solid demand. Contacts were concerned that their increased costs could hamper growth and negatively impact employment. One employment firm noted they expect to reduce headcount by the fall because rising interest rates will force clients to reduce project spending. One professional services firm reported that recession concerns caused their clients to consider a decrease in spending. Finding employees remains a top concern of respondents. Many of them are increasing wages and benefits to reduce turnover and attract talent. ■

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



Summary of Economic Activity

Economic activity in the Sixth District expanded modestly from mid-May through June, albeit at a slightly slower pace. Labor markets remained tight and wage pressures persisted. Some nonlabor costs continued to rise. Firms' pricing power remained steady. Retailers experienced solid demand, on balance, and demand for new autos increased but was hindered by low inventory; used vehicle sales declined. Leisure travel activity was robust, and business travel improved. Demand for housing slowed amid record home prices and rising mortgage interest rates. Commercial real estate activity remained mixed. Manufacturing demand remained strong. Transportation activity was mixed. Deposit growth slowed at financial institutions, but demand for loans increased.

Labor Markets

Labor market conditions were largely unchanged from the previous report. Most contacts continued to report tightness. Competition for employees remained high and turnover was elevated by most accounts; some reported modest improvements in labor availability. Firms continued to adapt their businesses and policies, including more widespread adoption of flexible work arrangements, to attract and retain workers. Some firms reported shifting the composition of their workforce to more part-time staff to reduce benefits costs or attract candidates in or near retirement. Contacts reported increasing training and workforce development efforts to upskill staff, and some were streamlining operations, enabling them to grow without the need to hire.

Reports of upward pressure on wages persisted, particularly among lower-wage positions. Firms noted providing recruitment and retention bonuses, and a number reported giving bonuses to help offset higher gas and housing costs. Several employers anticipate wage pressures to subside later this year.

Prices

District contacts noted continued cost increases over the reporting period, particularly for concrete, steel, and petroleum-based products like plastics and resin. Several contacts, however, noted a slight decrease in freight costs due to slowing demand. Pricing power was described as moderately stable. The Atlanta Fed's Business Inflation Expectations survey showed year-over-year unit cost growth ticked up slightly to 4.3 percent, on average, from 4.2 percent in May. Firms' year-ahead inflation expectations remained unchanged at 3.7 percent, on average.

Consumer Spending and Tourism

District retail contacts reported healthy sales levels, on balance, since the previous report; however, some segments, such as furniture and apparel, experienced a slight softening. Rising gas and food prices were noted as cause for growing uncertainty for the remainder of the year. Automotive dealers reported strong demand for new vehicles, which continued to be hampered by inventory shortages, while used vehicles sales declined.

Travel and tourism contacts reported that business travel and convention activity continued to recover, with solid bookings for the fall. Leisure travel activity remained robust as summer began. While travelers' per capita spending remained elevated, contacts shared concerns about rising prices weakening long-term demand.

Construction and Real Estate

Housing demand throughout the District continued to slow as affordability declined. Home prices reached record levels while mortgage rates rose sharply. The combination of these factors led to a sharp drop in affordability throughout the District. Mortgage originations and pending sales fell in most markets compared with year-earlier levels, as more potential buyers were priced out of the market. Still, the number of days on market remained near record lows. Supply chain disruptions and cost inflation moderated somewhat for new homes. However, builders reported greater buyer resistance to price increases and the need to offer incentives, such as covering closing costs, to sell homes.

District commercial real estate (CRE) contacts reported strong demand in the multifamily and industrial segments. However, concerns regarding a slowdown in the industrial market grew over the reporting period. In the lower-tier office segment, contacts reported a slight

deceleration. Employers' returning to the office mitigated some of the downward trend in the office sector; however, heightened levels of sublease space remained an impediment to recovery. Some CRE contacts reported elevated concerns regarding potential declines in CRE values. Contacts noted increased instances of buyers seeking concessions, shrinking pools of buyers, and declining prices in some property sectors.

Manufacturing

District manufacturers reported continued strong demand and increased revenues, on balance. However, several firms indicated that production remained hindered by supply chain disruptions and persistent employee turnover. A few contacts reported some slowing in sales which resulted in cancelled shifts and an elimination of overtime. Some firms cited increasing uncertainty about future production amid rising interest rates and costs, and ongoing concerns over supply chain interruptions.

Transportation

Transportation activity in the District was mixed. Port contacts again cited record container volumes. In air cargo, demand remained robust even as carriers raised prices. Activity for inland barge companies was flat since the previous report. Railroads experienced continued declines in total rail traffic, but intermodal traffic improved slightly. Trucking firms reported further slowing in domestic freight and an easing of capacity constraints. While expected to eventually dissipate, contacts suggested that supply chain disruptions could persist for the next year or beyond.

Banking and Finance

Activity at District financial institutions slowed amid rising interest rates. Mainly, deposit growth decelerated, and financial institutions slowed expansion of securities portfolios. Still, most loan portfolios grew, except for construction and development loans at larger institutions. Some portfolios, such as agriculture loans and credit cards, experienced higher delinquency rates, though those rates remained below pre-pandemic levels. The allowance for credit losses, as a percentage of nonperforming loans, remained sufficient for the existing credit environment.

Energy

Demand for refined products was robust. Oil refining remained at historically high production levels and some refiners delayed maintenance projects to ensure supply availability. Natural gas production rose, and exports soared amid increasing global demand. Contacts reported planned or ongoing domestic pipeline projects to transport natural gas from producers to processing

plants and/or export terminals. Utility contacts reported that the recent heat wave put pressure on utility systems and some regions were at high risk of interrupted service due to heightened demand and insufficient generation capacity. Utilities also experienced higher fuel and power costs which are expected to eventually result in higher utility bills for customers. Investment in renewables remained robust, particularly in solar and offshore wind, as well as recently announced carbon capture facilities in the District.

Agriculture

Agricultural conditions remained mixed. Most of the District was drought free. On a month-over-month basis, the June production forecast for Florida's orange crop increased slightly from the previous forecast, but was still well below last season's production. The USDA reported year-over-year prices paid to farmers in April were slightly up for cattle corn, cotton, eggs, milk, soybeans, rice, and broilers. On a month-over-month basis, prices decreased for broilers, corn, cotton, eggs, milk, rice, and soybeans. Cattle prices were unchanged. ■

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



Federal Reserve Bank of Chicago

The Beige Book ■ July 2022

Summary of Economic Activity

Economic activity in the Seventh District increased slightly overall in late May and June, and contacts expected growth to remain slow in the coming months, with many expressing concerns about the potential for a recession. Employment increased moderately, business spending was up modestly, consumer spending rose slightly, and manufacturing and construction and real estate declined slightly. Wages and prices rose rapidly, while financial conditions tightened some. Agriculture income expectations for 2022 were little changed.

Labor Markets

Employment increased moderately over the reporting period, and contacts expected a similar pace of growth over the next 12 months. Many contacts continued to report difficulty in finding workers across sectors and at all skill levels. That said, some indicated finding workers had become easier. A number of firms noted that a lack of staffing prevented them from operating at desired capacity. Some manufacturers were sufficiently staffed for current conditions but would not be if their supply chain issues were resolved. Overall, wage and benefit costs increased rapidly and were aimed both at attracting new workers and retaining existing talent. In addition to labor market tightness, contacts cited high inflation as an impetus for workers requesting wage increases. Numerous contacts were implementing mid-year wage bumps on top of their usual annual increases to keep up with quickly rising market wages.

Prices

Overall, prices rose rapidly in late May and June, though the pace of growth slowed a bit, and contacts expected a further slowdown over the next 12 months. There were large increases in producer prices, spurred by passthrough of higher costs for labor, energy, and shipping. Raw materials cost pressures eased somewhat, with contacts highlighting lower steel, copper, aluminum,

and lumber costs. Consumer prices generally moved up robustly due to solid demand, limited inventories, and passthrough of higher costs. A number of business- and consumer-facing contacts indicated that they were experiencing limited pushback on price increases from customers, but others said they were only able to pass on some of their higher costs.

Consumer Spending

Consumer spending increased slightly over the reporting period, though there were signs that discretionary spending was slowing. Rising costs were squeezing some retailers' margins. One contact noted that when higher costs were passed through to consumers, lower income shoppers were trading down and buying more in-store brands, while higher income shoppers were buying more goods in bulk. Nonauto retail sales increased slightly, led by higher grocery and gasoline sales. Demand softened in some durable goods sectors, notably furniture and electronics. Some retailers indicated that because of high inventories, the upcoming back-to-school season would feature more promotions than last year. Light vehicle sales increased slightly overall: Sales of used vehicles were up, but new vehicle sales changed little as they were still constrained by low inventories. New light vehicle prices were unchanged but used light vehicle prices fell slightly. Some auto dealers commented that,

unlike during prior periods of high gas prices, consumers weren't looking to trade in light trucks for cars to save on fuel costs.

Business Spending

Business spending increased modestly overall in late May and June. Retail inventories were up modestly, with elevated levels reported in some sectors but low levels in others where supply chain bottlenecks persisted. On balance, manufacturing inventories were moderately elevated, as numerous contacts reported they were building up "just-in-case" stocks of available inputs and that they were forced to hold on to nearly completed products while they waited for a small number of missing parts to arrive. Retail and manufacturing contacts expected inventory challenges to persist into 2023. Demand for transportation services was little changed and remained high. Capital expenditures increased modestly, with contacts reporting purchases of new equipment as well as technology for hybrid work environments. Lead times remained lengthy for some types of capital equipment. One contact noted that higher interest rates had made them more cautious about capital spending plans. Commercial and retail energy consumption increased slightly, with no change in industrial energy consumption.

Construction and Real Estate

Construction and real estate activity decreased slightly on balance over the reporting period. There was a small decline in residential construction. While demand for multi-family space stayed healthy, some existing projects were paused because of cost pressures. Residential real estate activity decreased modestly. Rising mortgage rates were a factor pushing down the number of offers per house; still, home prices were up slightly. Rents rose modestly. Nonresidential construction activity was unchanged, and materials and labor availability challenges continued to push back project completion times. Demand for new industrial space, particularly for warehousing, remained robust. In southeast Michigan, a number of new electric vehicle investments contributed to deep construction project backlogs. Commercial real estate activity was unchanged. One contact indicated that higher interest rates had negatively impacted sales of existing buildings. However, demand for quality commercial space stayed solid.

Manufacturing

Manufacturing production decreased slightly in late May and June. Output continued to be held back by difficulties with supply chains and labor availability. Auto production was flat, as shortages of microchips and other materials persisted. Heavy truck demand and prices fell slightly, though both remained high amid very low vehi-

cle inventories. Demand for heavy machinery was up modestly, led by growth in the agriculture sector. Primary metals contacts noted modestly lower demand across a range of sectors. There was a small decrease in demand for fabricated metals, with contacts reporting declines in the automotive sector but growth in agriculture.

Banking and Finance

Financial conditions tightened some on balance over the reporting period. Participants in the equity and bond markets reported rising interest rates, elevated volatility, and net declines in asset values. Business loan demand was little changed overall, though one contact noted that revolver usage had been rising steadily and attributed the increase to rising input costs. Business loan quality was unchanged, while standards tightened some, as contacts expressed greater uncertainty about the future state of the economy. In consumer markets, loan volumes decreased modestly, with contacts continuing to note large declines in mortgage refinancing in the face of rising rates. Consumer loan quality was stable, while standards loosened a bit.

Agriculture

Contacts continued to expect agricultural incomes to be solid for most producers in 2022. Despite worries about supply chain problems, inputs were largely reaching farms in time. Heavy rains in some areas diluted fertilizer and created ponds in fields, hurting potential yields; in other areas there were concerns about dryness and heat. Still, corn and soybean conditions were close to average for much of the District. Corn and soybean prices fell some over the reporting period, while milk prices were generally higher. After widespread flock losses from bird flu, egg-laying capacity began to return and egg prices edged down from elevated levels. Hog and cattle prices increased. Farmland prices moved higher once more. ■

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



Federal Reserve Bank of St. Louis

The Beige Book ■ July 2022

Summary of Economic Activity

Economic conditions have improved at a modest pace since our previous report. Ongoing price increases have contributed to a mixed outlook, though demand remained stable. Labor shortages continue to place upward pressure on wages, though there are indications that these pressures have eased slightly for some firms in recent weeks. Prices for energy and intermediate goods rose, but these increases were passed through to consumers at a lower rate than in previous months. Retailers and restaurants saw increased consumer sensitivity to price increases. Homebuying activity slowed across most of the District due to rising interest rates, and rents rose. Supply chain bottlenecks remained a key issue across industries, with shortages and delays affecting availability of key inputs.

Labor Markets

Employment has increased modestly since our previous report. Contacts across the District reported that workers remained scarce. One staffing firm, which typically filled 30 or more jobs per day pre-pandemic, reported struggling to fill 2-3 per day now. Firms continued to expand outreach and bonuses to fill their positions, with mixed success. One transportation contact estimated they were now spending 3-4 times more than in recent years to attract new drivers, and many contacts reported having to settle for less-dependable workers. Despite this, contacts in several industries reported recent signs of the labor market easing.

Wages across the District have grown strongly since our previous report, especially for hard-to-fill positions. One contact reported rural nurse wages had increased 30-40%, and one public school district doubled its summer school teacher pay to \$50 per hour. Some short-staffed service firms reported offering overtime to workers but receiving few to no takers.

Prices

While most prices have increased moderately since our previous report, prices for raw materials, such as steel, have declined. Most contacts cited rising energy costs, especially fuel prices, as their primary input cost increase. Contacts in the services and retail industries

reported increased prices charged to consumers, but at lower rates than input cost increases. A contact in the retail industry reported large increases in shipping and storage prices. A catfish farming industry contact cited rising grain and fuel costs as the main factors for increasing prices. A contact in the childcare industry reported higher costs for sanitization materials and increased fees charged to clients.

Consumer Spending

District general retailers, auto dealers, and hospitality contacts reported generally higher business activity and a mixed outlook. May real sales tax collections increased in Kentucky, Missouri, and West Tennessee relative to April and decreased in Arkansas. One retailer in Little Rock noted that there has been no slowdown in business activity, but while the supply chain has started to improve it is nowhere close to normal. A St. Louis auto dealer reported that while vehicle inventory is improving, they expect higher gas prices and waning consumer confidence to impact business activity. Restaurants in Louisville noted that when they increased prices to help with rising costs, they saw a decrease in customers and had to lower prices to keep business activity up. Hospitality contacts reported generally higher business activity compared with May, but a mixed outlook for the upcoming months due to high gas prices and inflation.

Manufacturing

Manufacturing activity has increased slightly since our previous report. Firms saw slight upticks in new orders and production but reported difficulty ramping up output to match demand due to continued supply chain issues. These bottlenecks stem from lockdowns in China and persisting scarcity in intermediate inputs. This trend of intermediate input shortages has been observed across various industries, including cement in concrete, cotton in textiles, and wet strength resin in packaging. One major manufacturer in Northwest Mississippi noted that supply chain issues are as bad now as they were at the outset of the pandemic, saying “the wheels have fallen off.”

Nonfinancial Services

Activity in the nonfinancial services sector has increased since our previous report. However, rising input costs and labor shortages have hampered firms' ability to meet rising demand. Transport firms in particular have struggled in this regard. While Tennessee and Northwestern Arkansas saw increases in both freight and passenger traffic in May, passenger spending continues to lag relative to quarterly expectations. A regional airport in Kentucky has struggled to attract another air service after an airline discontinued service to the area due to cost increases.

Real Estate and Construction

The residential real estate market has slowed slightly since our previous report due to rising mortgage rates. Total homes sold and pending sales have fallen since our previous report. Inventory has continued to remain scarce, and house prices are at elevated levels relative to income, especially for first-time homebuyers. Multiple contacts reported fewer bids per listing since our previous report, a signal that demand is beginning to cool. Most contacts are expecting real estate demand to slow further in the coming months.

The rental market continues to be extremely competitive. Rents in all District MSAs saw strong growth in recent months. Many discouraged would-be home buyers seem to be turning to rentals to avoid high mortgage rates and home prices. One contact reported some rental markets seeing prospective renters coming in above asking rents.

Banking and Finance

Overall activity in the banking sector has increased moderately since our previous report. Total loans have grown, with consumer loans seeing the largest increase. However, banking contacts in Memphis forecast loan growth to slow down due to recent interest rate increases. Commercial and industrial loans have increased

slightly but remain below June 2021 levels. Memphis contacts reported that higher 30-year mortgage rates have not decreased demand for real estate loans, but rather have decreased the price of a home the customers can afford. Total deposits have decreased slightly, consistent with a Memphis contact's account of the lack of pressure to raise deposit rates. At least one bank in Memphis has started offering “special” rates ranging from 1.25% to 1.75%, and this contact expects this trend to ripple across banks following the recent interest rate increase.

Agriculture and Natural Resources

District agriculture conditions declined moderately relative to the previous reporting period and the previous year. In June, the percentages of corn, cotton, rice, and soybeans rated fair or better decreased slightly to moderately across the District. Most crop conditions declined moderately over this period relative to last year, except for rice, which increased modestly.

Natural resource extraction conditions declined modestly from April to May, with seasonally adjusted coal production decreasing over 4%. May production was essentially unchanged compared with a year ago, improving by less than a quarter of a percent. ■



Summary of Economic Activity

Economic activity in the Ninth District grew modestly since mid-May. Employment grew slightly, as labor demand appeared to weaken but remained at a high level. Wage and price pressures remained strong as employers worked to attract talent and continued to pass on increased input costs. Professional services, manufacturing, and energy activity increased since the last report. Consumer spending fell slightly as households adjusted their budgets in response to increased inflation and fuel costs. Commercial construction was flat and residential construction was mixed, while commercial and residential real estate activity decreased. Agricultural conditions remained strong. Reports from minority- and women-owned business enterprises were slightly positive.

Labor Markets

Employment grew slightly since the last report. Overall, firms added more workers, but some signs of weakness appeared. Job postings, for example, flattened or fell across District states in recent weeks, but remained at high levels. Anecdotal reports of layoffs rose, as did initial unemployment claims. An annual survey of professional services firms found that their employment levels have been flat, in part due to persistent difficulties attracting labor, a continued point of emphasis from numerous sources. Recent statewide data on workers' compensation policy renewals suggested that Minnesota firms were slightly pessimistic about future staffing levels. A monthly pulse survey of District employers also found modestly softer hiring expectations in the coming month compared with the previous month.

Wage pressures remained strong. Among professional services firms, 36 percent said wages grew by 6 percent or more over the last 12 months; however, respondents expected more moderate growth on balance over the coming year. A Minnesota financial services firm recently gave employees \$5,000 "inflation bonuses" to help offset rising consumer prices. A staffing contact noted that average wages for administrative staff have risen by 20 percent, year-over-year; wages for unskilled manufacturing and other industrial work "are getting much closer to skilled [wages]." A North Dakota contact said firms were doing more with fewer workers, and able

to absorb larger-than-average raises as a result.

Prices

Price pressures remained strong since the previous report. Three-quarters of respondents to a monthly District business survey reported that their non-labor input prices increased in May from a month earlier. More than half said they increased their selling prices over the previous month; 51 percent expected to increase prices in June. Manufacturing contacts reported significant ongoing wholesale price pressures. Retail fuel prices in District states increased briskly since the last report. Prices received by farmers increased in May from a year earlier for corn, soybeans, wheat, canola, dry beans, potatoes, hay, cattle, turkeys, eggs, and milk, while prices for hogs decreased. By contrast, prices for certain types of lumber fell in May from the previous month.

Worker Experience

Job seekers were mainly looking for full-time employment, upward mobility, and better pay, according to South Dakota respondents to a recent worker experience survey. Childcare costs and availability and the need for more skills or credentials topped the list of barriers job seekers faced in pursuing their goals. Rising fuel, energy, and grocery prices continued to put downward pressure on workers' budgets. More than 70 percent of survey respondents reported having reduced their consumption of groceries, and 40 percent said they

were cutting back on their fuel consumption. A moderate-income social service professional shared that she was making more “lower-end meals,” limiting entertainment and social activities, purchasing more secondhand items, and forgoing house repairs to adjust her budget. Many others noted similar adjustments.

Consumer Spending

Consumer spending fell slightly since the last report, with sources noting several shifts. Contacts at two regional malls noted slower foot traffic in June, which they attributed to the effects of high gas prices and overall inflation. Multiple contacts reported that consumer demand was increasing for services while ebbing for durable goods. Spending was reportedly still healthy among higher-income households, while lower-income households faced choosing among competing needs. A grocer noted increased purchases of cheaper foodstuffs to offset higher costs overall. Tourism contacts reported strong activity overall in the District. However, a flood in the Yellowstone region of southern Montana was expected to have a major, negative impact on the region for the remainder of the summer season.

Professional Services

Professional services sector activity increased moderately. Respondents to the annual services survey reported increased revenues over the previous year, while profits, productivity, and employment were steady. Firms’ expectations were mildly positive for the coming 12 months. A media company executive noted he had to increase prices in response to higher input costs but expected conditions to stay “steadily well.”

Construction and Real Estate

Commercial construction was flat since the last report. Contacts said overall demand was still healthy, but persistently high material costs, supply chain difficulties, and rising borrowing costs were having an increasingly negative impact. New projects and total active projects over the most recent six-week period (ending mid-June) were lower, year-over-year. Some regions have seen strong activity, including Billings, Mont., and Mankato, Minn.; Sioux Falls, S.D., has seen record-breaking activity. A contact there said that “interest rate hikes have not seemed to dampen anyone’s urge to build yet.” Residential construction was mixed; single-family permitting was flat or lower in much of the District while multifamily permitting remained solid across the District, and particularly in Minneapolis-St. Paul.

Commercial real estate was modestly lower since the last report. Real estate contacts reported slower deal

activity, except for industrial real estate, which remained strong. To compensate for higher financing costs, leveraged buyers were pulling back from deals or reducing offers. Office occupancy remained weak as return-to-office momentum has faltered due to hybrid work schedules and continued COVID-19 infections. Retail occupancy rates have increased in some markets, thanks in part to comparatively low levels of new construction. Residential real estate activity was moderately lower. New listings in June flattened and pending sales fell, largely attributed to higher mortgage rates. Price discounts were reportedly rising but have not yet impacted median prices meaningfully.

Manufacturing

Manufacturing activity increased moderately since the last report. A regional manufacturing index indicated increased activity in Minnesota and South Dakota in June relative to the previous month, while activity in North Dakota decreased. Most manufacturing contacts reported recent orders were increased or unchanged since the last reporting period; however, a growing number reported slowing sales or were expecting a slowdown in orders in the coming month.

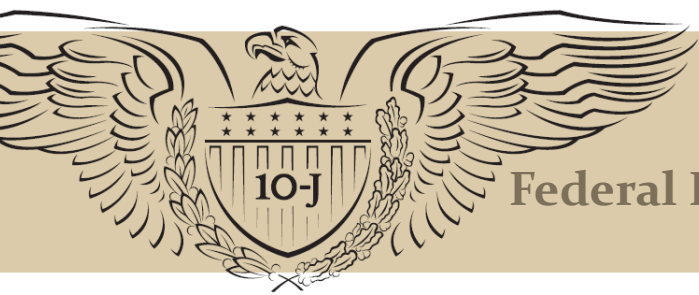
Agriculture, Energy, and Natural Resources

District agricultural conditions remained strong since the previous report. Most of the region’s corn and soybean crops were rated in good or excellent condition and progressing on schedule. However, nearly half of the Montana winter wheat crop was in poor or very poor condition, as drought conditions persisted in the Golden Triangle region. District oil and gas drilling activity increased slightly since the last report.

Minority- and Women-Owned Business Enterprises

Reports from minority- and women-owned business enterprises (MWBEs) in the District were slightly positive. The majority of MWBE respondents to a survey said their sales and profits remained steady or grew in May compared to the previous month. Forty percent of respondents said their ability to hire had improved but challenges remained for many. To attract and retain workers, most reported having increased wages and provided more flexible schedules and working conditions. Most MWBE respondents expected sales to remain flat or improve in the next month but lowered their profit expectations. ■

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



Summary of Economic Activity

Growth in the Tenth District slowed to a modest pace, with mixed performance across segments of the regional economy. Consumer spending declined slightly, with the most significant reduction reported for larger ticket items. After several months of historically high growth in the manufacturing sector, overall growth slowed to a modest pace. Contacts pointed to shipping delays, and difficulties procuring or storing materials, as barriers to growth. New demand for residential construction declined amid rising interest rates, though contacts reported that backlogs in orders will support construction employment over the medium term. Energy activity expanded at a solid pace with drilling activity and production rising in several District states. Job growth picked up recently as several contacts pointed to improvement in the number of applicants for open positions. Several businesses across sectors indicated they began to offer pre-paid gas cards or direct payments to offset rising gas prices for workers. Prices continued to rise broadly. Community and regional banks indicated that they continued to hold ample deposits, but started to experience some initial pressures on liquidity as interest rates rose.

Labor Markets

Job growth expanded at a robust pace, with broad-based hiring across sectors. Several contacts noted that both the number and quality of applicants for open positions picked up in recent weeks. Those that reported an increase in the number of applicants highlighted improvements for jobs spanning entry-level to management positions. Some contacts suggested the pickup in applications may be tied, in part, to financial strains arising from price pressures. Organizations that primarily serve low- and moderate-income households indicated that conditions for finding work, quality of available jobs and workers' access to technology improved. Overall, labor demand remains high and the number of job openings across the Tenth District grew modestly. Contacts across sectors reported expectations for modest job growth over the next six months.

Wages continued to rise at a robust pace, but some contacts indicated expectations that wage growth may stabilize somewhat in coming months. Several contacts reported that they began to offer temporary compensation to workers to offset rising gas prices. Some offered pre-paid gas cards as performance or retention incentives, while others made direct payments to workers tied to driving expenses.

Prices

Prices grew at a robust pace. Most contacts reported that input price growth continues to outpace selling prices. Compared to the previous six months, manufacturing contacts indicated a greater ability to pass through costs to customers. On the contrary, businesses in the services sector mostly reported no change in their ability to pass along costs over the same time period. Contacts pointed to shifts in customer spending patterns amid higher prices as a factor limiting pass-through of costs in service sectors.

Consumer Spending

Overall consumer spending declined slightly in recent weeks, with ongoing strength in seasonal leisure and travel spending being offset by moderate declines in spending on larger ticket items. Car sales were down and contacts also pointed to declines in household purchases of furniture. Spending on certain home improvement goods was reportedly below contacts' expectations for this time of year. Restaurant owners continued to point to shifts in patronage across establishments with different price points. If dining out, consumers were less likely to choose more expensive locations in favor of lower cost options.

Manufacturing and Other Business Activity

Contacts at manufacturing businesses across the District continued to report slowing growth from recent historic highs, with total production expanding at a slight pace. Service business contacts also reported softening growth. Across all sectors, most contacts reported lower expectations for growth over the next six months as compared to previous months. In line with softening expectations, new orders for manufactured goods declined slightly.

The overwhelming majority of District contacts indicated that supply chain disruptions remain a barrier to growth. The lack of available materials and delays in shipping are having the largest effects on businesses. Difficulties in warehousing or storing inventory were also noted as a significant concern. Generally, businesses did not cite rising shipping costs among the most significant logistical challenges. Still, some importers noted that recent declines in freight rates do not fully reflect their shipping expenses over the summer because the higher freight rates set into contracts earlier this year are the most relevant for businesses over the medium term.

Real Estate and Construction

Growth in residential construction activity was mixed across segments, with more forward-looking indicators of activity declining moderately. Demand for multifamily housing construction remained elevated. However, financing conditions for new projects tightened recently, leading to fewer projects being initiated in recent weeks. Still, backlogs for multifamily housing development projects remain large by historical standards.

Single family construction declined slightly. The large number of housing projects previously under construction kept the level of activity high. However, the number of buyers for newly built homes fell rapidly across the Tenth District. Contacts noted that the slowing demand for new home construction will likely have lagging effects on employment and materials prices in the sector. For example, demand for crews doing framing for homes, which occurs early in construction, softened a bit while demand for skilled trades associated with the finishing of homes remains healthy. Other contacts noted that materials costs have not softened yet, but expectations are that prices of building materials are likely to come down in coming months.

Community and Regional Banking

Loan demand weakened modestly in the past month, particularly in the commercial real estate and residential mortgage segments, due to rising interest rates. While credit quality was unchanged, contacts expected credit

deterioration over the next six months, as inflation and rising rates adversely impact borrower cash flow. Banks maintained excess liquidity, but deposit growth moderated in June, in part due to customers seeking higher yields. Contacts sought to defend their deposit shares and temper potential run-off. Increases in unrealized losses within securities portfolios following recent rate increases also placed pressure on liquidity for banks with material holdings of securities designated as Available For Sale.

Energy

Tenth District energy activity increased at a solid pace in June. The number of active natural gas and oil rigs rose across Colorado, Oklahoma, and Wyoming, as revenues grew at a solid rate. Difficulties sourcing key inputs, equipment and workers inhibited further production growth. Supply-chain disruptions for bespoke components were also a significant challenge for bringing new renewable energy generation and distribution online. Most firms across traditional and renewable energy segments expected resolution of supply-chain issues to take more than six months. Reported expectations for drilling and business activity over the next six months increased. Contacts in the renewable energy sector indicated that higher interest rates posed some challenges for future additions to generation capacity, given the long-term nature of generation and transmission infrastructure.

Agriculture

Agricultural economic conditions in the Tenth District remained strong through June. Although the price of some key commodities declined slightly from the previous month, both crop and livestock prices remained at multi-year highs. Agricultural prices continued to support revenue prospects, but District contacts continued to voice a heightened concern about significant increases in production costs for both crop and livestock producers. Drought also remained a primary concern. The condition of corn and soybeans was only slightly weaker than a year ago in most states. The condition of wheat in nearly all District states was exceptionally poor and could hinder revenues for many producers. ■

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



Summary of Economic Activity

Growth in the Eleventh District economy slowed to a modest pace, with part of the deceleration in demand attributed to surging prices, rising interest rates, and higher uncertainty. Manufacturing and service sector activity slowed, and retail spending and homes sales weakened further. Solid apartment and industrial leasing continued, but loan growth eased. The energy sector saw further expansion, while drought dampened agricultural conditions. Employment expanded broadly, and wage growth remained highly elevated due to a tight labor market. Supply-chain bottlenecks and higher energy prices continued to drive up costs, and prices rose at a rapid clip, though pass through was becoming more difficult for firms, eroding margins. Outlooks were mostly negative, and uncertainty surged, with contacts voicing concern about slowing future demand and increased risk of a recession stemming from high prices, supply-side constraints, weakening consumer sentiment, and rising interest rates.

Labor Markets

Employment continued to expand broadly, except in retail where it was little changed. Staffing challenges remained widespread, with many firms reporting that they were a drag on revenue growth. However, shortages appeared to be most acute for truck drivers, pilots, health care staff, and oil field workers. Staffing firms continued to report that filling lower-skilled positions was harder than higher-skilled jobs. A restaurateur noted operating at 85 percent capacity because of staffing issues, despite increasing pay and benefits. Some contacts said labor shortages had increased workload for existing staff, resulting in retention issues.

Wage growth remained robust amid a tight labor market. Multiple firms reported offering higher pay or bonuses to retain and/or hire employees. A contact in the oilfield services firms cited intense wage pressures, with wages up 10 percent in the industry so far in 2022, after double-digit increases last year, and added that rig workers with no experience and working half the year were being paid about \$85,000. A transportation equipment manufacturer cited continued difficulty hiring despite a 40 percent increase in starting pay. According to a June Dallas Fed survey of more than 300 Texas business executives, wages on average are expected to rise at an above-average pace both this year and in 2023.

Prices

Overall, input and selling price growth remained significantly elevated during the reporting period. In the energy sector, cost pressures accelerated to new heights. Construction contacts reported that the cost of materials remained steady but high, except for lumber prices which dipped slightly. Most manufacturers and service firms noted acute price pressures due to ongoing supply-chain issues, labor shortages, and high fuel prices. While price growth remained high, cost pass through was more difficult, particularly for small firms and companies in the service sector.

Exceptionally strong price growth was expected by Texas businesses in the near term. According to the earlier-mentioned survey, respondents anticipate input prices to climb 10 percent in 2022, on average, and selling prices to increase 7 percent. These figures are markedly higher than pre-pandemic rates, and businesses expect these elevated price pressures to persist next year as well.

Manufacturing

Growth in the Texas manufacturing sector slowed sharply, following solid gains in the previous reporting period. Output growth was flat, and new orders fell, with the deceleration spanning both durable and nondurable goods. The slowing was most pronounced in construction materials, fabricated metals, computer, and printing-related manufacturing. Manufacturers attributed slowing

sales to rising prices and uncertainty regarding future demand. Gulf Coast refinery utilization rates edged up, and chemical output increased, buoyed by continued strong domestic and export demand. Manufacturing outlooks were negative.

Retail Sales

Retailers reported sustained weakness in overall sales, with tight inventories and ongoing supply chain challenges continuing to hamper growth, though there were some reports of higher prices and rising interest rates damping demand as well. Auto dealers cited continued declines in sales stemming from low inventories. Overall outlooks were pessimistic and highly uncertain due to supply challenges and expectations of weaker demand ahead.

Nonfinancial Services

Activity in the service sector softened during the reporting period. Revenue growth was mixed, with continued solid increases seen in transportation and warehousing but flat to weaker activity in information and accommodation and food services. Staffing firms continued to report robust and broad-based activity, though a few contacts cited some slowing in demand, particularly for construction workers. Passenger air travel demand remained solid, with leisure travel continuing to dominate bookings. Airline contacts were optimistic that second-quarter revenues will surpass comparable 2019 levels. Air cargo volumes softened largely due to a dip in international shipments as domestic volumes remained strong. Small parcel shipments edged up, and container traffic at a large Texas seaport was up strongly year to date relative to 2021. Service-sector outlooks were negative due to higher uncertainty in the face of rising prices and interest rates, weakening consumer sentiment, and growing expectations of a recession in the near term.

Construction and Real Estate

Conditions in the housing market eroded more quickly than anticipated during the reporting period. Sales were off notably from earlier in the year and both online and foot traffic slowed markedly. Cancellations rose in part due to loan qualification issues. Buyers were hesitant to move forward and were looking for better deals, and builders noted offering incentives again to drive sales. Home prices were largely flat. One contact said that lenders were raising capital requirements on new acquisition and development loans. Contacts said several new land deals were on pause due to rising uncertainty in the market. Outlooks were negative, and sales and starts expectations were being revised downward.

The multifamily market remained tight, with occupancy

and rent growth staying elevated. Commercial real estate markets were mixed. Office leasing continued to improve, though net absorption was negative in some markets. Activity in the industrial sector remained robust. On the investment side, transaction volumes have softened given higher interest rates and increased uncertainty in the economic outlook.

Financial Services

Loan volume growth moderated over the past six weeks amid broad increases in loan pricing. Growth was strongest in commercial real estate followed by commercial and industrial lending, though a deceleration occurred in both categories. Residential real estate loan volumes were flat for a second consecutive reporting period after two years of solid growth. Nonperforming loans continued to decrease overall, though an uptick was seen in consumer and auto loans. Credit standards and terms tightened notably. Looking six months ahead, contacts expect that general business activity and loan demand will decrease, and nonperforming loans will increase.

Energy

Oilfield activity expanded in the district. The rig count rose, and oil and natural gas production increased. Labor and supply chain constraints continued to limit the pace of drilling and well completion activity. Lead times for critical parts and components, such as engines and transmissions, were over a year, and a severe shortage of steel tubular goods was reported. Industry sentiment was largely optimistic, though uncertainty rose, and expectations were for slow growth ahead due to very limited spare capacity—a result of supply-chain and labor challenges.

Agriculture

Much of the district remained in severe drought, causing agricultural conditions to deteriorate further. The wheat harvest was wrapping up and with much lower harvestable acres and yields, production is expected to be substantially below average. Agricultural producers continued to be concerned with production cost increases and the availability of inputs. With prices and costs at high levels, producers may still be able to generate a profit, but current drought conditions create a higher-risk situation than normal. Ranchers continued to reduce herd sizes amid poor grazing conditions and limited hay supplies. Contacts noted that the strengthening dollar combined with higher transportation costs and logistics issues could negatively impact agricultural exports moving forward. ■

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



Summary of Economic Activity

Economic activity in the Twelfth District expanded modestly during the mid-May through June reporting period. Overall labor market conditions remained tight, accompanied by wage increases that lagged the pace of price inflation. Inflation remained elevated, driven chiefly by food and energy price increases. Retail sales were strong but moderated further, while conditions in the consumer and business services sectors deteriorated slightly. Conditions in the manufacturing and agriculture and resource-related sectors were mixed. Residential real estate activity eased, while activity in commercial real estate decelerated modestly. Lending activity was unchanged on balance. In general, District contacts communicated a somewhat worsening outlook for the year.

Labor Markets

Labor markets remained tight across all sectors during the reporting period. Employers reported difficulty attracting skilled workers in health care, technology, engineering, and finance as well as the skilled trades. Contacts in leisure and hospitality continued to operate below desired staff levels despite some reported increase in job applications. In addition, contacts in the air travel industry said that although employment remained below pre-pandemic levels, airlines began adjusting their summer schedules to better reflect crew availability. Some contacts reported improved employee retention in recent weeks, but turnover rates remained generally elevated. A few contacts mentioned that the recent hiring freezes at large technology firms could make it easier for other businesses to attract experienced professionals in the field. Several contacts also noted a pickup in unionization efforts in the retail and health-care sectors.

Wages grew across all sectors but did not keep pace with price inflation. Reports indicated that workers demanded more pay, citing higher food and energy prices. Additionally, employees continued to put emphasis on flexible work arrangements, expanded benefits, and hiring incentives. Contacts in agriculture, health care, and financial services reported the highest wage increases. Despite ongoing labor shortages, several contacts reported not planning mid-year raises because of overall economic uncertainty and previously granted pay adjustments.

Prices

Prices continued to grow during the reporting period, particularly for energy products. Price increases were reported across multiple industries, including manufacturing, construction, agriculture, health care, and technology services. Fuel surcharges were widespread, particularly in freight and manufacturing, and contacts reported little resistance to such adjustments given the current inflationary environment. Raw materials costs remained elevated, although there were reports of some relief in lumber and steel prices. Contacts from the travel and hospitality industries reported sustained increases in airfares and hotel rates amid high demand for leisure travel. Contacts generally expected cost pressures to persist, and in some cases worsen, over the next few months.

Retail Trade and Services

Retail sales growth moderated further over the reporting period. Demand for retail goods remained strong but rising prices led consumers to trade down and limit the number of items purchased. Reports indicated that rising costs for food and fuel were particularly binding for consumers when deciding what to purchase. Contacts noted that sales growth for durable goods such as motor vehicles, electronics, appliances, and furniture moderated noticeably. Despite some easing, supply chain issues continued to strain inventories, and worker shortages at stores limited business hours and sales. While one contact from Utah mentioned little to no vacancy in retail

space, a specialty retailer from Arizona reported widespread excess retail capacity in the region.

Conditions in the consumer and business services sectors deteriorated slightly on net. Contacts reported slowing sales with rising costs for materials, fuel, transportation, wages, and other supplier services. Contacts noted that high inflation led both consumers and businesses to reconsider spending on discretionary services, while labor shortages made it difficult to properly train new hires. Conversely, demand for domestic and international travel, as well as hospitality services, continued to grow strongly, partly due to consumers' pent-up demand for vacationing. Demand for health-care and wellness services remained at or near capacity in some regions.

Manufacturing

Conditions in the manufacturing sector varied by industry. Demand for capital equipment strengthened, as firms in the food, beverage, chemical, personal care, and pharmaceutical industries sought to increase productivity. However, new orders and production of wood products, electrical equipment, and fabricated metals declined over the reporting period. Manufacturers' backlogs remained elevated. Supply chain disruptions continued to negatively impact the availability and cost of raw materials and extend delivery times. A few contacts reported accumulating vast inventories of hard-to-obtain materials. Many contacts expressed concern that COVID-19 lockdowns in China have remained a source of supply chain uncertainty.

Agriculture and Resource-Related Industries

Conditions in the agriculture and resource-related sectors were mixed. Drought conditions in many areas adversely impacted the growing season, with some producers letting portions of their farms go fallow in order to prioritize water usage. Growers in the Pacific Northwest instead reported increased precipitation, with one producer expressing concern that the colder weather would reduce crop yield. Farmers throughout the District reported increased international demand for both fresh and processed foods but noted that a strengthening dollar dampened sales somewhat. Input costs, such as those for fertilizer, machinery, fuel, and feed, increased further over the reporting period, partially due to the continuation of the Russian invasion of Ukraine. Supply chain disruptions persisted, but many contacts reported an easing of port backlogs and shipping rates despite increased fuel costs. One producer in the Pacific North-

west warned declining shipping rates could indicate decreasing food sales prospects, while a contact in the seafood sector reported only minor improvement in shipping conditions.

Real Estate and Construction

Residential real estate activity eased over the reporting period. Supply chain disruptions and rising labor and material costs continued to put upward pressure on housing prices. Sharp increases in mortgage rates, combined with high home prices, cooled down demand for existing and new single-family homes. Many contacts highlighted a decline in the number of offers sellers received. Inventories remained strained by historical standards despite an increase in the number of houses available for sale in some regions. Homebuilder confidence declined further, and permit issuance weakened in most of the District. One developer in Alaska reported a considerable decline in speculative construction of housing units and a low supply of seasonal housing. Reports mentioned increasing rents and declining availability of multi-family housing units.

Activity in the commercial real estate market was balanced overall. Demand for retail space weakened throughout most of the District, while demand for industrial and warehouse space remained robust. Contacts noted that commercial real estate permits and construction slowed down somewhat, and one contact in the Pacific Northwest said that ongoing labor and material shortages delayed construction projects. In California, commercial real estate conditions were reportedly steadier.

Financial Institutions

Lending activity was unchanged on balance. The number of corporate loans and consumer credit cards issued increased, while demand for new mortgages, refinancing, and auto loans declined in most areas. Demand for industrial lending remained steady. Many contacts mentioned a notable increase in competition for loans and continued ample liquidity. Credit quality remained high, but contacts expected credit health to deteriorate somewhat on account of increasing interest rates and moderating deposits. Financiers in the private equity and venture capital space noted that the cost of leveraging has increased notably, dampening the volume of new deals in recent weeks. Demand for insurance products generally declined, with a notable exception being pet insurance. ■



