For use at 2:00 PM EDT

Wednesday

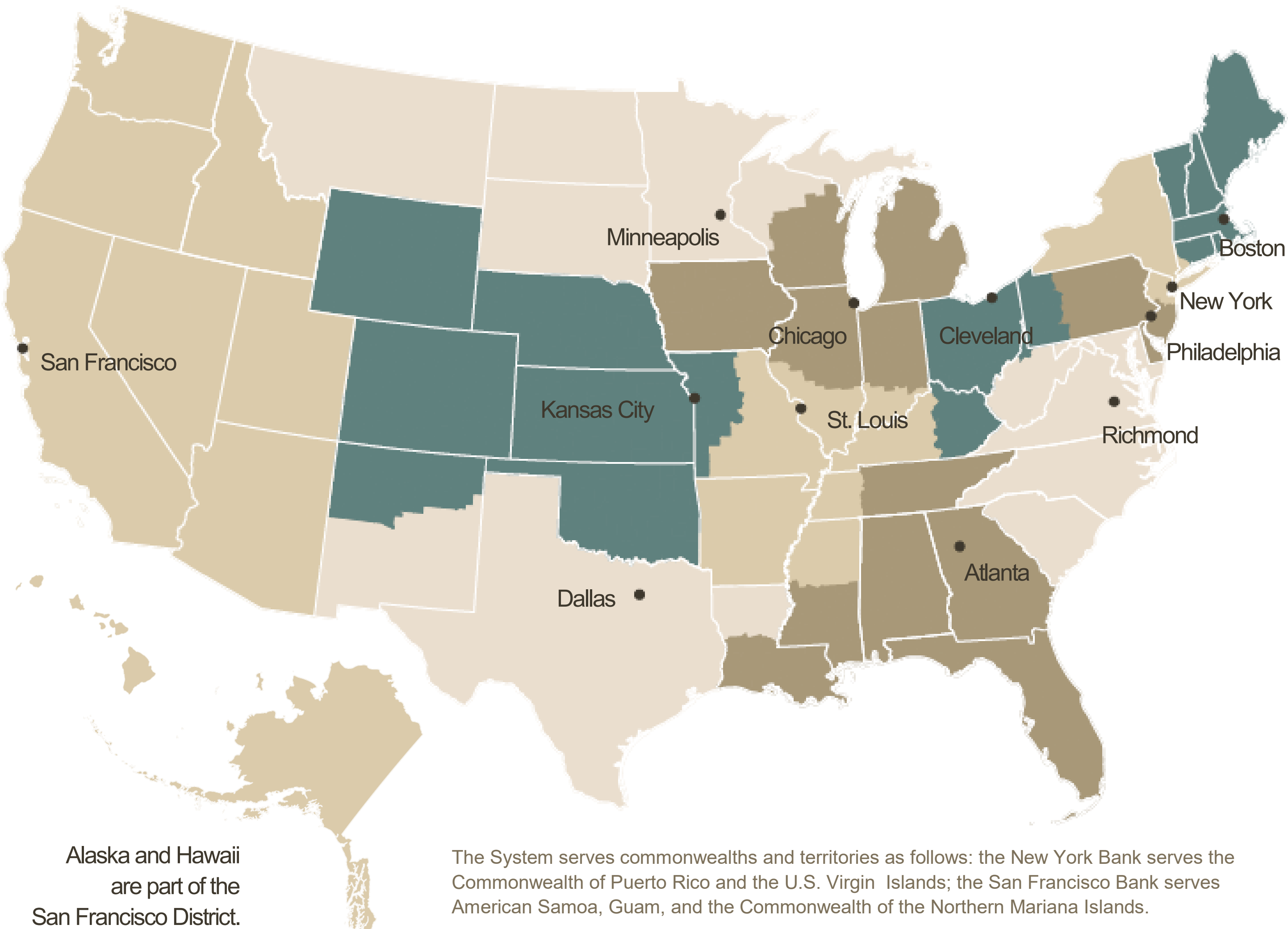
October 18, 2023

# The Beige Book

Summary of Commentary on Current Economic Conditions
By Federal Reserve District

October 2023

# Federal Reserve Districts




The System serves commonwealths and territories as follows: the New York Bank serves the Commonwealth of Puerto Rico and the U.S. Virgin Islands; the San Francisco Bank serves American Samoa, Guam, and the Commonwealth of the Northern Mariana Islands.

This report was prepared at the Federal Reserve Bank of St. Louis based on information collected on or before October 6 2023. This document summarizes comments received from contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.

National Summary 1

Boston A-1
First District

New York B-1
Second District

Philadelphia C-1
Third District

Cleveland D-1
Fourth District

Richmond E-1
Fifth District

Atlanta F-1
Sixth District

Chicago G-1
Seventh District

St. Louis H-1
Eighth District

Minneapolis I-1
Ninth District

Kansas City J-1
Tenth District

Dallas K-1
Eleventh District

San Francisco L-1
Twelfth District

### 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

Most Districts indicated little to no change in economic activity since the September report. Consumer spending was mixed, especially among general retailers and auto dealers, due to differences in prices and product offerings. Tourism activity continued to improve, although some Districts reported slight slowing in consumer travel, and a few Districts noted an uptick in business travel. Banking contacts reported slight to modest declines in loan demand. Consumer credit quality was generally described as stable or healthy, with delinquency rates still historically low but slightly increasing. Real estate conditions were little changed and the inventory of homes for sale remained low. Manufacturing activity was mixed, although contacts across multiple Districts noted an improving outlook for the sector. The near-term outlook for the economy was generally described as stable or having slightly weaker growth. Expectations of firms for which the holiday shopping season is an important driver of sales were mixed.

### Labor Markets

Labor market tightness continued to ease across the nation. Most Districts reported slight to moderate increases in overall employment, and firms were hiring less urgently. Several Districts reported improvements in hiring and retention as candidate pools have expanded and those receiving offers have been less inclined to negotiate terms of employment. However, most Districts still reported ongoing challenges in recruiting and hiring skilled tradespeople. A few highlighted that older workers are remaining in the labor force, either staying in their existing position or returning in a part-time capacity. Wage growth remained modest to moderate in most Districts. Contacts across many Districts reported less pushback from candidates on wage offers. There were multiple reports of firms modifying their compensation packages to mitigate higher labor costs, including allowing remote work in lieu of higher wages, reducing sign-on bonuses or other wage enhancements, shifting compensation to more performance-based models, and passing on a greater share of healthcare and other benefits costs to employees.

### Prices

Prices continued to increase at a modest pace overall. Districts noted that input cost increases have slowed or stabilized for manufacturers but continue to rise for services sector firms. Increases in fuel costs, wages, and insurance contributed to growth in prices across Districts. Sales prices increased at a slower rate than input prices, as businesses struggled to pass along cost pressures because consumers had grown more sensitive to prices. As a result, firms struggled to maintain desired profit margins. Overall, firms expect prices to increase the next few quarters, but at a slower rate than the previous few quarters. Several Districts reported decreases in the number of firms expecting significant price increases moving forward.

## Highlights by Federal Reserve District

### Boston

Both business activity and employment expanded only slightly, and price increases were modest. The rainy summer yielded mixed results on Cape Cod. Tourism contacts in Boston expect strong demand in 2024, while real estate contacts remained rather pessimistic. Hiring plans were relatively subdued, and so were planned price increases.

### New York

Regional economic activity weakened modestly, though labor market conditions remained solid. Consumer spending increased at a slightly slower pace, with declines in spending on experiences offset by increases in spending on goods. Financial conditions weakened somewhat. Inflationary pressures moderated slightly.

### Philadelphia
Business activity continued to decline slightly during the current Beige Book period. Consumer spending declined overall, as did manufacturing and nonmanufacturing activity. Employment again rose slightly as labor availability improved further. Wage growth and inflation slowly subsided but continued at a modest pace. Expectations for economic growth remained subdued.

### Cleveland
Economic activity in the Fourth District was little changed in recent weeks. Manufacturers noted an uptick in activity but expressed concerns over potential adverse impacts of the UAW strike. Hiring activity was flat, and firms more frequently reported holding wages steady following sizeable increases over the past few years. Input costs stabilized for many manufacturers, while service providers reported rising vendor costs.

### Richmond
The regional economy contracted slightly this period. Consumer spending grew slightly but reports varied across spending categories. Manufacturers noted a decrease in demand. Transportation volumes remained steady. Residential real estate was constrained by limited inventory. Commercial real estate activity and lending declined. Employment increased moderately and price growth was unchanged in recent weeks.

### Atlanta
Economic activity grew slowly. Labor markets improved, and wage pressures eased. Some nonlabor costs stabilized. Retail sales slowed. New auto sales were strong. Domestic leisure travel declined, while international and business travel rose. Housing demand fell. Transportation activity decelerated. Energy demand was flat. Agriculture conditions were mixed.

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

### St. Louis
Economic conditions have remained unchanged since our previous report. Labor markets remained tight, and employers reported that where applications had increased there were frequent difficulties finding the skills desired. Prices increased modestly due to higher input costs, though the rate of increases slowed. Businesses reported softer consumer demand and difficulty passing on input costs.

### Minneapolis
Regional economic activity increased slightly. Employment grew modestly and labor demand softened. Wage pressures were stable as job seekers pursued higher-paying jobs. Price pressures eased modestly. Consumer spending was modestly higher and auto sales rose moderately. Most contacts said that higher long-term interest rates had weakened their economic outlooks for next year.

### Kansas City
Economic conditions softened slightly across the Tenth District in recent weeks, driven by lower energy, agriculture, and commercial real estate activity. Several bankers characterized their appetite for lending as being on a "loan diet." Employment levels were stable, but wage growth slowed, particularly among entry-level jobs. Prices continued to grow at a moderate pace generally, but growth in housing rental rates slowed substantially.

### Dallas
Modest economic expansion continued, with growth moderating in the service sector but rebounding in manufacturing and energy. Retail and financial services activity declined. Employment growth was modest, and wage growth continued to normalize. Outlooks generally weakened slightly, with contacts expressing concern over worsening business conditions, high interest rates and the political environment.

### San Francisco
Economic activity was stable on net. Labor market tightness eased, and both wage and price pressures moderated. Retail sales were robust, and manufacturing activity remained largely unchanged. Activity in the services and real estate sectors eased. Financial sector conditions moderated further over the reporting period. Local communities faced continued challenges with affordable housing.

## Summary of Economic Activity

Business activity expanded slightly on balance, as employment edged up by a small margin and price increases were modest. Retailers reported modest growth in sales, led by strong seasonal sales growth at retailers on Cape Cod. The summer tourism season yielded a solid increase in air travel and hotel occupancy in the Boston area and relatively mild growth in lodging on the Cape. Manufacturers reported modest revenue growth on balance. Home sales stayed at very low levels as mortgage rates reached fresh highs and inventories remained scarce. Commercial real estate activity was mostly unchanged, with only a slight seasonal uptick in office leasing. The outlook was cautiously optimistic, but risks were perceived as skewed to the downside.

### Labor Markets

Employment levels were up slightly on balance, even though one manufacturer was in the process of enacting substantial layoffs. Wages were up only marginally, and few contacts perceived significant further upward pressure on wages. Contacts across sectors reported slight-to-modest improvements in hiring and retention in recent months, but hiring difficulties and elevated attrition persisted for some roles and the labor market was still described as tighter than average. One online retailer said that attrition stayed at historically low levels throughout the summer. Airline contacts in Massachusetts said that despite having sufficient staff locally, lingering labor shortages in other parts of the US continued to have negative impacts throughout the air-travel system. Regarding the employment outlook, one firm planned a modest increase in hiring and otherwise no large employment expansions were expected.

### Prices

Output prices were up modestly, and cost pressures were mixed but appeared to ease further on average. A few manufacturers raised their prices by slight-to-moderate amounts to keep up with earlier cost increases. Software and IT firms held prices steady following moderate price increases enacted earlier in 2023. Hotel room rates in the greater Boston area were up moderately on a year-over-year basis but the pace of increase slowed relative to the spring. Cape Cod average rental and hotel room rates were down moderately from the two preceding summers but remained well above 2019 levels. Regarding input prices, a semiconductor firm said that memory prices fell slightly, and a frozen fish producer observed somewhat lower pollock prices in response to looser catch restrictions. Input cost pressures stabilized for an online retailer, who held list prices steady. Most contacts expected pricing pressures to abate further moving forward, and only one mentioned the possibility of enacting significant price hikes in the near future.

### Retail and Tourism

First District retail contacts reported a modest increase in sales through the end of the third quarter relative to earlier in the year, while tourism contacts saw mixed results. An online retailer experienced modest but better-than-expected growth in sales despite sluggish industry-wide performance. Cape Cod contacts reported mixed results for the summer season, as typical vacation patterns were disrupted by rainier-than-normal weather: hotel occupancy rates were moderately lower compared with the record-setting summers of 2021 and 2022, but retail sales enjoyed a strong seasonal surge as day trips to the Cape were up and the rain drove visitors into the shops. Airline passenger traffic through Boston increased further in recent months, reaching roughly 95 percent of pre-pandemic levels, and international passengers slightly exceeded summer 2019 levels. The Greater Boston hotel occupancy rate surpassed its 2019 levels for the first time since the pandemic started.

The outlook for 2024 was very optimistic among greater Boston hospitality contacts, who expected record-breaking convention and cruise activity and air travel well above pre-pandemic levels. The retail outlook was cautiously optimistic but somewhat uncertain, and maintaining profitability was seen as an ongoing challenge.

### Manufacturing and Related Services

Manufacturing firms in the First District reported modest revenue growth on average, but results were quite mixed. A precision parts maker said that revenues reached a 15-year high, while a frozen fish producer suffered weaker sales after having raised prices earlier in 2023. One manufacturer adjusted to a permanent negative (idiosyncratic) demand shock by making significant staffing reductions. No contacts reported major revisions to capital expenditure plans, although one firm increased its capital spending earlier than planned to take advantage of favorable tax treatment. Most contacts were at least cautiously optimistic for near-term growth, but some faced regulatory risks that could hurt profitability moving forward and others were watching carefully for signs of a recession. A semiconductor manufacturer noted that, while the outlook for their company was good, the downturn in the industry had been much more severe than anticipated, and recovery of memory chip demand was not expected until late 2024 or 2025.

### IT and Software Services

Demand was healthy and largely unchanged for software and IT contacts. For one contact, stable demand was attributed to the fact that they make essential products, and at another firm sales were supported by a recent acquisition. Contacts reported moderate-to-robust revenue increases on a year-over-year basis, results that were at least slightly higher than those recorded in Q2. Capital spending was flat. Contacts generally expected demand to hold steady for the rest of 2023 and throughout 2024, based on confidence in their firms' products and business models despite what was perceived as a weakening macroeconomic environment. Regarding risks to the forecast, one contact was concerned that customers would rein in their budgets in 2024, and another said that another major COVID outbreak would be very disruptive.

### Commercial Real Estate

Commercial real estate activity in the First District remained limited in recent weeks. Office leasing picked up slightly for seasonal reasons but was still minimal. Office vacancy rates remained high but were essentially flat, while office rents were down slightly, and tenant concessions remained generous. Vacancy rates and rents were stable on average in the retail sector, but leasing demand was weak for malls outside the luxury sector. The industrial market continued to show very low vacancy rates and elevated rents, but contacts said that demand was a bit softer recently and leasing activity was light. High borrowing costs continued to deter investment across property types. Banks' appetite to lend to commercial real estate was limited. On balance, contacts expected the weak status quo to persist, but forecasts were characterized by significant uncertainty. Risks were skewed to the downside and included an increase in commercial property distress in 2024.

### Residential Real Estate

Throughout the First District, extremely low inventories kept residential home sales at very low levels relative to seasonal norms. As of August 2023, inventories and closed sales were down sharply from a year earlier in all markets. The rate of decline in sales was about on par with that recorded in July, and August's weak sales were described as disappointing but not surprising. Multiple contacts pointed to mortgage rates, which reached a two-decade high in August, as the key barrier to inventory growth and sales. Contacts in greater Boston remarked further that growing uncertainty about the economy contributed to increased buyer hesitancy, which showed up as a decline in offers per listing. The inventory drop was most pronounced in Massachusetts—where the supply of both single-family homes and condos declined by more than a third from a year earlier. In Rhode Island the pace of inventory decline moderated from earlier in the summer, suggesting that supply and demand might be moving into balance. Price growth remained robust, rising to double-digit rates in some markets. Contacts expected no significant improvement in residential sales activity until interest rates reversed course.■

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

## Summary of Economic Activity

Economic activity in the Second District weakened modestly during the latest reporting period. Still, labor market conditions remained solid with contacts reporting ongoing modest employment gains and steady wage growth. Inflationary pressures moderated slightly in recent weeks, though supply chain conditions were unchanged after nearly a year of steady improvement. Consumer spending increased at a slightly slower pace, with declines in spending on experiences offset by increases in purchases of apparel and home goods. Tourism activity in New York City was strong, as several events attracted record visitors. Despite rising mortgage rates, home prices have continued to edge up with still-solid demand and exceptionally low inventory. Commercial real estate markets improved slightly. Conditions in the broad finance sector weakened somewhat, with loan demand continuing to decline and delinquency rates edging higher. Looking ahead, businesses in the District expected little improvement in conditions in the coming months.

### Labor Markets

Labor market conditions have been solid since the last report. Overall, employment continued to increase modestly, though employment declined among retailers. Although layoffs were generally not occurring in the region, an upstate New York employment agency pointed to a slight softening in conditions in recent weeks.

Demand for workers remained solid across the District, particularly for those with skills in finance, accounting, and information technology. Many contacts noted that labor shortages continued to challenge hiring plans. A contact at a New York City employment agency noted that candidates are approaching job negotiations with greater seriousness and realism with regard to wages and in-person requirements, though these factors remain persistent challenges in the labor market.

The pace of wage growth has been steady in recent weeks, though firms in the wholesale trade sector reported greater wage increases. On balance, businesses anticipate only modest increases in headcounts in the months ahead.

### Prices

Inflationary pressures moderated slightly in recent weeks. Service sector contacts reported some slowing in the pace of input price increases, while manufacturers indicated the pace of input price increases was little changed. The pace of selling price increases slowed somewhat among both manufacturing and service firms. Fewer businesses expect rising prices in the months ahead. Still, inflation remains a significant concern, and contacts noted that higher prices are taking a toll on household balance sheets and limiting discretionary income.

### Consumer Spending

Consumer spending increased at a slightly slower pace in the latest reporting period with some shifts in the composition of purchases. Spending on apparel, interior furnishings, home electronics, and appliances grew at a steady clip after a period of stagnation. Meanwhile, spending on restaurants, travel, and entertainment slowed after a strong summer, in part reflecting seasonal shifts. Auto dealers in upstate New York reported moderate increases in sales, particularly for new cars, as inventory continued to improve. Still, sales remain well below pre-pandemic levels as limited inventory has constrained sales despite solid demand. One contact reported that higher financing costs are pushing some buyers to opt for more affordable models. Ongoing declines in used car prices have restored the normal gap between new and used car prices, boosting sales of used cars.

### Manufacturing and Distribution
Manufacturing activity edged down during the latest reporting period. Supply availability was unchanged after nearly a year of steady improvement, yet several business contacts described difficulty obtaining high quality parts and products. These shortages were particularly noted for auto parts, and some anticipate the UAW strike will reduce the supply of vehicles in the coming months. While wholesalers reported solid growth in business activity, transportation & warehousing contacts noted declining activity. Manufacturers and distributors generally remained optimistic that conditions would improve in the months ahead.

### Services
Service sector activity declined modestly in the latest reporting period. While there was some growth in the education & health sector, businesses in the information sector and those providing business services reported moderate declines, and leisure & hospitality firms noted more modest declines. Looking ahead, service firms generally do not expect conditions to improve in the coming months.

New York City tourism was strong in the latest reporting period. The overlap of the US Open tennis tournament and New York Fashion Week boosted visits and demand for hotel rooms, pushing average daily hotel rates near historical highs and hotel occupancy rates above 90 percent for several nights in September. Statue of Liberty visitors have surpassed pre-pandemic numbers in recent weeks, an indicator that the number of international visitors has picked up.

### Real Estate and Construction
Persistently low inventory has remained a limiting factor in housing markets across the District and continued to restrain sales activity. Despite rising mortgage rates, home prices have continued to edge up with still-solid demand and low supply. One contact noted that bidding wars are being reported on nearly half of transactions in the New York City suburbs, where low inventory has been particularly acute. Real estate contacts in upstate New York reported an increase in activity with higher attendance at open houses, boosted by a steady inflow of people moving from New York City.

Residential rental markets remained tight across the District. Rents continued to rise in upstate New York. In New York City, rents were unchanged but at record high levels, with some scattered signs of cooling. New lease activity continued to fall, suggesting that landlords are opting to retain current tenants amid high turnover costs and plateauing rents. Further, renters are increasingly opting for shorter leases, reflecting sentiment that the pace of rent increases will not be sustained. Going forward, contacts anticipated that the increased enforcement of rules restricting short-term rentals in New York City would likely shift more units into the general rental inventory, providing some easing of supply constraints.

Commercial real estate markets improved slightly. In New York City, office vacancy rates declined since the last report, the first protracted decline since the pandemic began, and office rents were essentially flat. The industrial market worsened slightly, with increases in vacancy rates, though rents remained firm.

Overall, construction contacts reported sluggish activity since the end of the summer. Office construction was relatively flat across most of the District. Industrial activity grew, with high volumes under construction and new space set to come to market in the fourth quarter of 2023. Multifamily construction continued apace in the New York City area and in northern New Jersey, but such activity remained fairly weak in upstate New York.

### Banking and Finance
After stabilizing, conditions in the broad finance sector weakened slightly during the latest reporting period. Small to medium-sized banks in the region reported lower loan demand across all loan segments, including refinancing. On balance, credit standards tightened for all loan types and loan spreads continued to narrow. Most banking contacts reported higher deposit rates. Delinquency rates edged up.

### Community Perspectives
Community and education leaders around the District reported significant challenges with staffing shortages in schools. Teacher vacancies are higher this fall than in past years, particularly for math, world languages, and English as a new language. Additionally, key personnel such as counselors, librarians, school bus drivers, food service workers, and custodians are in low supply, placing increased pressure on existing staff and reducing the quality of the services provided. Financial pressures have mounted due to the combination of increased services, rising educational needs of the children of asylum seekers, and the winding down of federally provided pandemic relief funds. ■

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

## Summary of Economic Activity

On balance, business activity in the Third District continued to decline slightly. Consumer demand appeared to decline as contacts noted more cautious spending habits by consumers, including fewer visits to stores and substituting toward lower-priced items. High interest rates continued to constrain the listings of existing homes for sale, which has benefited new-home builders. Employment again grew slightly as labor availability continued to improve. Wages and prices continued to grow at a modest pace. Contacts also indicated that wage and price pressures slowly subsided. Overall, contacts reported a steadier cost of goods for their inputs, as most supply chains had returned to pre-pandemic norms. Contacts continued to note a tightening of credit standards, although credit quality remained good. On balance, expectations for economic growth over the next six months remained subdued, as both manufacturing and nonmanufacturing firms expected slight growth.

### Labor Markets

Employment continued to grow slightly. Contacts described improvements in labor availability and the ability to hire. A staffing firm noted candidates were more willing to accept positions they may have otherwise turned down in recent months, highlighting that it had become easier to recruit employees for night and weekend shifts. Despite the slight growth in employment overall, a few firms across various industries reported layoffs and allowing reductions of their workforces through attrition.

In our monthly surveys, nonmanufacturing firms reported increases in full-time jobs and mostly steady levels of part-time employment. On balance, manufacturing firms reported a decrease in employment levels. The indexes for these categories were little changed from the prior period.

Firms reported that wage inflation continued to slowly abate but remained at a modest pace overall – near pre-pandemic levels. Contacts noted some ongoing wage pressure, particularly from skilled trade workers, as the supply of qualified candidates remained scarce. A contact reported a recent increase in retirements among trade workers but said many returned almost immediately as part-time employees.

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

### Prices

On balance, firms reported that prices continued to rise modestly; however, they also continued to note that the rate of price increases appeared to subside. Contacts described lower and less widespread price increases compared with earlier this year but noted that year-over-year price increases remained slightly above the average increases seen before the pandemic.

In our monthly surveys, the prices paid and prices received indexes declined for nonmanufacturers, though the prices paid index remained above its nonrecession average. Among manufacturers, the prices paid index rose, and the prices received index held steady, slightly above its nonrecession average.

The indexes for future prices paid and future prices received continued to suggest that firms expect price increases over the next six months. Both indexes declined relative to last period but remained somewhat above their long-run averages.

### Manufacturing

Manufacturing activity declined modestly during the period after slight growth in the prior period. The indexes for new orders and shipments returned to negative territory after jumping higher in August. Contacts reported slower orders as customers looked to reduce inventories.

The share of firms that estimated increased total production growth for the third quarter of 2023 compared with the second quarter was the same as the share that estimated a decrease. Most firms continued to report labor supply as at least a slight constraint on capacity utilization. Over the next three months, more than one-fifth of the firms expect COVID-19 mitigation measures to be a constraint on capacity utilization, up from zero percent last quarter.

Expectations among manufacturers for growth in the next six months rose but remained somewhat subdued compared with historical averages.

### Consumer Spending

On balance, retailers (nonauto) reported a modest decline in overall sales – a faster pace than the slight decline in the prior period. One retail contact noted that customers were visiting less frequently and substituting lower-priced goods when possible. A tourism contact reported that travelers were becoming increasingly price sensitive and spending less once they arrived at their destination. Multiple contacts expressed concern that the resumption of student loan payments may be a potential headwind for consumer spending in the coming months.

Auto dealers reported mostly steady sales during the period following a slight decline in the prior period. Contacts continued to report improved inventories, but rising interest rates and high prices weighed on demand.

Tourism activity continued to decline slightly as overall demand for leisure travel slowed from high levels throughout the region. Contacts attributed this slowdown to increased international travel, as well as weakening demand for economy hotels and more budget-friendly destinations. Meanwhile, travel to luxury destinations remained strong.

### Nonfinancial Services

On balance, nonmanufacturing activity declined modestly after a slight decline in the prior period. The indexes for new orders and sales remained negative, as the share of firms reporting decreases exceeded the share reporting increases for both. Expectations for growth over the next six months remained subdued.

### Financial Services

The volume of bank lending (excluding credit cards) continued to grow moderately during the period (not seasonally adjusted) – comparable with the same period last year.

During the period, District banks reported strong growth in home mortgages, auto loans, and other consumer loans. Commercial and industrial loans grew moderately, while home equity loans grew modestly, and commercial real estate loans were up slightly. Credit card volumes resumed strong growth following moderate growth last period. The pace was slightly slower than the comparable period last year.

Banking contacts and large service companies continued to report good credit quality – noting only small upticks in late payments and loan delinquencies, which remain at very low levels. Market participants continued to report a tightening of credit standards and noted that higher financing costs were especially challenging for smaller businesses.

### Real Estate and Construction

Existing-home sales rose slightly in the current period but remained well below the level of sales observed in prior years. Brokers continued to report that inventories and rising costs were a significant constraint on sales, particularly for first-time homebuyers. New-home builders, aided by the dynamics of the existing-home market, continued to report steady sales. Multiple homebuilders noted a slowdown in prospective buyer traffic during the period but highlighted that a larger share of that traffic turned into sales.

Housing affordability remained extremely low, and rents remained high in the current period. Requests for assistance with housing and utility bills continued to dominate 211 requests in New Jersey and Pennsylvania. Roughly one-third of all requests in the two states were related to housing, while 27 percent of the requests involved utility bills.

According to contacts, construction activity for commercial real estate held steady as financing conditions for new projects remained difficult. Despite steady construction overall, contacts reported a slight slowdown in multifamily construction activity. Nonresidential leasing activity continued to fall modestly as contacts described ongoing distress in the office market. ■

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

## Summary of Economic Activity

Overall, Fourth District business activity was relatively unchanged in recent weeks. Consumer spending was flat to down, as discretionary goods spending softened further. Manufacturers noted an uptick in activity but expressed concerns over potential adverse effects of the UAW strike. Bankers reported lower loan volumes for commercial and consumer loans because of higher borrowing costs. Similarly, demand for new and existing homes was dampened by higher rates, with sales of existing homes also constrained by limited inventories. While nonresidential construction activity was solid, many contacts suggested that new projects were at risk because of higher financing costs. Overall, firms expected activity to remain flat in the coming months. This will likely impact capital spending plans and hiring, which were flat in recent weeks. Contacts more frequently reported holding wages steady following sizeable increases over the past few years. Input costs stabilized for manufacturers, while service sector firms indicated broad cost increases from their vendors. Price pressures continued to ease, with contacts citing increased competition and greater resistance from customers to price increases.

### Labor Markets

On balance, contact reports suggested little employment growth during the most recent reporting period, though demand for labor varied by industry segment. Some business services and freight contacts noted increasing staffing levels to expand operations. One management consultant said that the "stability of the last year has allowed for expansion of staff instead of [outsourcing of] work." By contrast, some manufacturers and auto dealers reported that weaker profits and slower demand led them to reduce staffing levels. Still, other firms across industries reported maintaining staffing levels. Some firms did so because demand was flat, and others said they had reached their target staffing level.

Wage pressures continued to ease slowly. More firms across industries reported holding wages steady to stabilize labor costs after larger-than-normal increases over the past few years. One manufacturer noted that his firm plans to offset the cost of its annual wage increase by decreasing the employer's contributions to medical coverage costs, a change it had not enacted for the past two years. Still, some auto dealerships and manufacturing firms continue to increase pay to compete for technicians and skilled laborers.

### Prices

On balance, nonlabor cost pressures changed little in recent weeks but were down from those earlier in the year. Many manufacturers reported that many of their input costs have stabilized despite remaining elevated. Indeed, one manufacturer noted that raw materials' prices have not gone up since earlier in the year, and he has found new suppliers offering lower prices. Nevertheless, several service sector firms noted broad cost increases from vendors, in particular for health and car insurance, software subscriptions, and other technology services. And construction contacts stated that costs were increasing for some materials such as cement.

Price pressures eased recently, continuing a trend that began at the start of the year. Contacts noted that they were not raising prices because of increased competition and greater resistance from customers to price increases. One retailer said, "We will try our best to hold the line as consumers seem to be tightening their belts." Several manufacturing and construction contacts noted steadying or reducing prices in accordance with input costs. However, other manufacturers and freight contacts were able to raise prices during contract renewals.

### Consumer Spending

Consumer spending was flat to down in recent weeks. One large general merchandiser noted that discretionary-goods spending had softened further as households faced continued pressure from higher prices for necessities, adding that many lower-income customers had increased their reliance on credit cards. Auto dealers said that sales had slowed because of higher interest rates and higher vehicle prices. Reports from restauranteurs were split, with lower-priced establishments reporting steadier sales than their higher-end counterparts. On balance, contacts expected sales to stay flat in the coming weeks, and many hoped that the approaching holiday season would help boost demand.

### Manufacturing

Overall demand for manufactured goods increased slightly in recent weeks, though activity varied by industry segment. An aerospace parts manufacturer reported heightened orders for both civilian and military products, and a heavy truck and trailer parts producer noted strong demand. Steel producers reported steady demand but said some of their customers had been hesitant to place new orders out of concern about the ongoing UAW strike. One steel wholesaler said that recent declines in steel prices had divergent impacts on demand; spot customers delayed orders in the hope that prices would fall further, while many contract customers sought to negotiate next year's agreements early and lock in low prices. Manufacturers generally expected demand to increase modestly in the coming months.

### Real Estate and Construction

On balance, residential construction and real estate activity slowed. Contacts reported that new-home sales declined slightly as higher interest rates discouraged potential buyers. Demand for new and existing homes was dampened by higher rates, with sales of existing homes also constrained by limited inventories. Residential construction and real estate contacts anticipated activity will slow in the coming months because of seasonality and higher interest rates.

Nonresidential construction activity increased slightly. General contractors reported strong activity from ongoing projects, but many contacts across industry segments noted that new deals had been difficult to complete because of higher financing costs and, in some cases, hesitance on behalf of lenders. Reports on office demand varied. One commercial property manager said that many of his customers had surrendered existing, underperforming office properties to lenders rather than refinance at higher interest rates. Another contact noted that the return of in-office work continued to boost his firm's leasing activity for office space. Nonresidential construction and real estate contacts expected activity to increase modestly in the months ahead.

### Financial Services

Overall, loan demand continued to soften this reporting period. Bankers cited higher interest rates as the primary reason behind the decline in borrowing from households and businesses. One banker reported that because of higher interest rates, firms increasingly used cash-on-hand to meet their financing needs rather than apply for additional loans. Lenders reported that delinquency rates remained at historically low levels for both commercial and consumer loans. Core deposits declined slightly as customers sought higher-yield alternatives. In the coming months, bankers expected loan demand to continue to decline as interest rates remain elevated.

### Nonfinancial Services

On balance, freight contacts noted a slight uptick in activity this reporting period. One hauler indicated that his firm's volumes increased in part because the firm absorbed the clients of a large carrier that closed. Looking ahead, haulers expected conditions to improve slightly as the holiday season draws nearer. Professional and business services contacts reported relatively flat activity as uncertainty led some clients to pull back on spending. However, contacts expected activity to remain relatively flat outside of some seasonal pickup in demand.

### Community Conditions

Nonprofit contacts noted that small businesses and low- and moderate-income households experienced declines in credit access, while the latter also saw affordable-housing conditions deteriorate over the past six months, according to a semiannual survey. Several contacts said higher interest rates and tight credit requirements impacted businesses' and households' ability to qualify for loans. One contact indicated that businesses with long-standing banking relationships had difficulty securing traditional financing. Rising rents and a shortage of affordable housing continued to impact low- and moderate-income households' ability to secure housing. Moreover, some landlords stopped accepting housing choice vouchers in order to get higher rents in the open market.■

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

## Summary of Economic Activity

The Fifth District economy contracted slightly in recent weeks. Fifth District manufacturers reported mixed results in the most recent reporting period. Food service and office supply contacts reported steady growth in sales while furniture, appliance, and home remodeling and repair stores reporting sales declines in recent weeks. Travel and tourism activity slowed slightly in recent weeks, but air travel remained strong as business travel picked up. Nonfinancial services firms noted that demand for their services as well as revenues had remained stable. District ports remarked that demand was weak this period with not the usual seasonal rebound in volume; imports were lower year-over-year and month-over-month. Trucking firms reported that underlying demand was flat this period. Residential real estate respondents stated that the home sales were constrained by both affordability and the lack of inventory. Commercial real estate markets slowed this period; however, leasing remained strong for retail and industrial properties with rents continuing to escalate. Loan demand continued to slow this period both for commercial and consumer real estate loans. Employment grew modestly in the most recent reporting period, although finding workers with certain skills remained difficult. Price growth was unchanged this period but labor costs, on the other hand, continued to rise.

### Labor Markets

Fifth District employment grew modestly in the most recent reporting period and wages increased moderately. Some firms reported that it had become more challenging to find frontline workers, while others cited ongoing shortages of skilled-trades workers such as CDL drivers. A food manufacturer couldn't attract or retain associates for jobs that require work in cold-temperature environments. A pre-planned vacation company continued to raise wages, but reported that a people shortage, not pay rates, as the main reason for not finding motorcoach drivers. Conversely, a staffing firm specializing in placing executive-level marketers reported too many candidates for the number of open roles.

### Prices

Price growth remained at an elevated rate, but growth is lower compared to last year. According to our most recent surveys, growth in prices received by manufacturers was unchanged while prices received by services firms slowed marginally. Prices paid for nonlabor inputs rose slightly for manufactures but declined according to service providers. Labor costs, on the other hand, continued to rise. Several contacts noted that wage increases to recruit and retain workers had reduced their margins, as customers were pushing back on any further price increases, making it hard to pass along rising costs.

### Manufacturing

Fifth District manufacturers reported mixed results in the most recent reporting period. A fabric manufacturer cited declines in demand in consumer related markets due to retailers having too much inventory. Both the manufacturer and retailer "took haircuts" on margins to clear inventories. However, a steel manufacturer reported strong demand for steel construction throughout their region. Macroeconomic factors were cited by several firms as reasons for slowdowns. For example, a gaskets manufacturer was "hunkering down" and halted hiring and capital expenditures due to fears of a potential economic downturn. A plastics coater reported smaller orders because customers had less money due to increased food and energy costs.

### Ports and Transportation

Demand was weak at Fifth District ports this period due to less than the usual seasonal rebound in volume; imports were lower year-over-year and month-over-month. The decline in import volume was mainly due less consumer goods coming into the port. Exports were flat this period. Spot shipping rates have continued to decline and carriers were doing more blank sailings in recent weeks to limit capacity. Empties were still moving and containers were flowing smoothly at the ports; turn times were good and container dwell times had returned to normal. Demand for airfreight was soft this period; there was an especially sharp decline in international airfreight, both in terms of exports and imports.

Trucking firms reported that underlying demand was flat this period. However, capacity decreased due to several trucking companies shutting down. Freight rates were up slightly as existing capacity exited the market in recent weeks and customers were looking for new carriers. Trucking firms noted that they had not seen the usual seasonal uptick as companies try to more normalize their inventory and there had not been the usual sequential improvement in consumer product shipments this month. Trucking companies stated that are not having any issues hiring or retaining drivers.

### Retail, Travel, and Tourism

On balance, consumer spending grew slightly this cycle, but reports varied across spending categories. For example, food service, grocery stores, and office supply stores reported steady to increasing sales while furniture, appliance, and home remodeling and repair stores saw sales decline in recent weeks. One retailer was concerned that the restart of student loan payments was going to lead to lower consumer spending going forward.

Travel and tourism activity slowed slightly in recent weeks. Contacts noted that the slowdown was partly attributable to typical seasonal slowdown; however, a contact in South Carolina added that the threat of hurricanes led to lower tourism in coastal destinations. Air travel remained strong as business travel picked up, which offset some declines in leisure travel.

### Real Estate and Construction

Residential real estate respondents indicated that home sales were constrained by both affordability and the lack of inventory. The number of new listings in the Fifth District was down year-over-year. Buyer traffic declined due to frustration with elevated sales prices, lack of housing inventory and higher mortgage rates. Days on market increased slightly but remained below historic averages. Prices for homes held steady but there were some price reductions for homes that have been on the market for over 30 days. Prospective buyers were not having difficulties obtaining mortgages other than issues with affordability. Home construction costs stabilized this period but remained elevated mainly due to higher labor costs.

In the Fifth District, development and construction of commercial real estate was significantly reduced this period. The pace of construction cost increases slowed, but costs remained historically high. Availability of credit and the cost of capital were the biggest detractor from commercial real estate projects moving forward. Credit underwriting was much stricter with higher equity requirements for most commercial real estate deals. However, leasing demand in the industrial and retail sectors continued to outstrip supply and rents continued to escalate. In the office market, there has been a flight by tenants to better quality space. Net effective rents in the office segment were lower due to landlords offering more incentives and/or concessions to potential credit tenants.

### Banking and Finance

Loan demand continued to slow with one respondent noting it was “anemic”. This slowdown was being observed primarily in the real estate portfolios, both commercial and consumer.  Increased rates and lower home inventories were noted as potential causes for this lack of demand.  Home equity lines of credit continued to see increased demand with borrowers still finding this a viable lending alternative.  Maintaining deposits remained a struggle with continued competition for balances across all sectors. Credit quality as well as delinquency rates remained stable, but institutions continue to monitor these indicators closely as rates continue to rise.

### Nonfinancial Services

Nonfinancial service providers continued to report that demand for their services as well as revenues had remained stable. Some firms noted that their clients, as well as themselves, were still putting off large capital purchases due to uncertainty with the economy and political environment. Firms reported a loosening in the job market and found the applicant pools getting larger, but still far from historical norms. Wage pressure continued as current employees sought higher wages due to inflation and other employment opportunities available in their fields. ■

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

## Summary of Economic Activity

The Sixth District economy grew at a slow pace from mid-August through September. Labor availability and candidate quality improved, and wage pressures eased further. Some nonlabor input cost increases stabilized, and pricing power was mixed. Retail sales slowed somewhat, but new auto sales were strong. Domestic leisure travel continued to decelerate, but business and international travel strengthened. Home sales were subdued compared to year-earlier levels amid low inventories and rising prices and interest rates. Commercial real estate conditions were mixed. Transportation activity remained slow. Loan growth slowed, and consumer loan delinquencies rose. Energy demand was flat. Agricultural conditions were mixed.

### Labor Markets

Most contacts reported that labor markets continued to soften. Labor availability, retention, and the quality of candidates improved by most accounts. However, skilled labor, particularly in construction, remained in short supply in several parts of the District, resulting in project delays. Similarly, agriculture contacts noted that worker shortages prolonged the planting season. Contacts in several Florida markets said that the high cost of living had hurt retention and recruiting efforts. Many firms backfilled open positions while a few said they were hiring for growth. Some contacts in retail, manufacturing, and staffing reduced headcount or hours to align with weaker demand.

Wage growth remained elevated as compared with pre-pandemic levels, but many firms noted that wage pressure continued to ease and further moderation is expected next year. Several contacts had shifted compensation programs to more performance-based models or were promoting other benefits such as hours or location flexibility, development, employee events, and other non-wage incentives.

### Prices

Contacts continued to report stabilizing nonlabor input cost increases, though fuel costs, particularly fuel surcharges, rose. Supply chains were described as more predictable; however, delays in the delivery of some construction inputs raised project costs. Food prices were generally cited as easing, though increases in sugar and grain prices persisted. Pricing power was mixed, and many contacts reported continued margin pressure, largely from rising labor and/or insurance costs. The Atlanta Fed's Business Inflation Expectations survey showed year-over-year unit cost growth decreased to 3.1 percent, on average, in September, from 3.3 percent in August; firms' year-ahead inflation expectations for unit cost growth remained unchanged in September at 2.5 percent, on average.

### Consumer Spending and Tourism

District retailers reported some slowing in demand as customers cut back on discretionary spending; however, this was described as a normalization from the pandemic's robust pace of growth. Many contacts expect some deceleration in demand growth through the rest of the year and view this decline as meaningful but not overly concerning. Automobile dealers reported healthy sales of new vehicles.

Similar to the previous report, tourism and hospitality contacts reported slowing demand for domestic leisure travel. However, cruise activity and business and international travel were robust. Contacts were cautiously optimistic about the upcoming holiday season, noting challenges in forecasting future demand due to shorter booking windows.

### Construction and Real Estate

Home sales were suppressed compared to a year ago due to low supply and declining affordability. House prices continued their sequential gains and have returned to near peak levels in many District markets. With both prices and interest rates on the rise, home ownership affordability deteriorated to record lows. Though homebuilders have increased their market share, contacts expressed growing concerns about the lack of affordability and an inability of some buyers to qualify for financing. Rate buy downs have emerged as the most frequent incentive offered to secure new home sales.

Commercial Real Estate (CRE) contacts reported slowing rent growth, absorption, and sales over the reporting period. Activity in high-end multifamily units slowed and owners acknowledged concessions were needed to finalize leases. Office sector conditions remained mixed as newer buildings saw healthy activity, while occupancy in older buildings declined. More contacts reported growing concerns about the availability of financing, as most lenders strengthened underwriting standards and reduced funding commitments. Some smaller banks, however, continued to actively engage in CRE lending.

## Transportation

Transportation activity remained sluggish. While railroads experienced a pickup in domestic intermodal freight, shipments of imports were soft. Some trucking firms reported that flatbed freight volumes remained depressed; others saw slightly stronger export volumes. This year's peak shipping season is expected to be muted as underlying demand remains soft and import activity subdued; container shipping companies have reduced capacity in line with expectations for weaker consumer demand. Warehousing contacts noted that the decline in freight volumes caused a pullback in industrial real estate investments. Florida ports and railroads mentioned minor temporary disruptions from Hurricane Idalia's landfall in Florida's Big Bend in late August.

## Manufacturing

Manufacturing activity was mixed. Several firms reported increased production while experiencing a contraction in backlogs, new orders, and finished goods inventories. Auto manufacturers not impacted by the UAW strike noted that strong demand was outstripping production of both luxury and standard models, and some noted robust demand for lower-priced autos. Demand for food products for at-home consumption and quick service restaurants softened, though revenues remained above year-earlier levels due to higher pricing. Some manufacturing contacts reported increasing optimism about activity over the next twelve months.

## Banking and Finance

Loan growth slowed across most portfolios. While asset quality was stable, consumers appeared to experience increased financial stress as evidenced by an uptick in consumer loan delinquencies. District financial institutions continued to fund loan growth with large time deposits given heightened competition for core deposits. However, the higher funding cost of time deposits put increased pressure on net interest margins and earnings.

## Energy

Demand for utilities and petroleum-refined fuels was described as flat. Rising input and maintenance costs put pressure on margins across energy sectors. Regulated utilities passed through price hikes to customers with further increases anticipated. Private companies actively invested in federal infrastructure-related projects in anticipation of future tax credits and funding distributions. However, many petroleum refiners noted concerns about deteriorating infrastructure necessary to support the transition to renewables, given the lack of investor interest in maintenance or capacity-expanding projects. Investment costs were cited as prohibitive, resulting in project delays. Surplus chemical product supplies from China and Europe lowered demand for U.S. products. Further chemical product demand erosion is a potential risk resulting from a protracted auto manufacturing shutdown.

## Agriculture

Agriculture conditions were mixed. Demand for butter increased, but there remained an excess supply of cheese products. In Louisiana and Mississippi, droughts led to the liquidation of herds, resulting in an oversupply of beef. Chicken exports were weak. Soybean and corn yields were strong, creating surpluses. Domestic cotton yields were high, but demand for textiles softened. Hurricane Idalia hit Florida's "timber basket," causing farmers to give away downed trees or pay to have them removed, dampening sales of timber.

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

## Summary of Economic Activity

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

### Labor Markets

Employment rose moderately over the reporting period and contacts expected a similar rate of increase over the next 12 months. Many contacts continued to have difficulty finding workers, particularly those with higher skills. Several noted strong, steady demand for workers in the skilled trades. However, there were also signs that the labor market was cooling. Some contacts said workers were job-hopping less and pushing back less on wage offers. In retail, holiday hiring was down modestly compared with the same time last year. Wage and benefit costs rose moderately, but there were indications growth was slowing.

### Prices

Prices rose moderately in late August and September, and contacts expected a similar rate of increase over the next 12 months. Nonlabor costs were up modestly, with several contacts highlighting rising energy costs. Some contacts noted that while they had fewer supply chain issues, costs of raw materials remained high. Shipping prices increased slightly, largely because of higher gasoline prices. Consumer prices moved up moderately due to solid demand and the passthrough of higher costs.

### Consumer Spending

Consumer spending increased slightly over the reporting period. Nonauto retail sales were up a bit. Contacts highlighted higher overall grocery sales, though one noted that lower income shoppers had reduced their basket size and were trading down in quality. Back-to-school and early holiday volumes met expectations. Led by declines at hotels and restaurants, leisure and hospitality spending softened slightly. Light vehicle sales edged up. Multiple contacts said that so far, the UAW strike was having a negligible effect on sales and inventories but was influencing parts availability.

### Business Spending

Business spending increased slightly in late August and September. Capital expenditures moved up a bit, with several contacts reporting purchases of new equipment, software, or expansions of existing facilities. That said, several contacts noted that high interest rates were leading them to delay some acquisitions. In addition, one manufacturing contact said that increases in operating, labor, and materials costs were holding back equipment investment. Demand for industrial and commercial energy increased slightly, while demand for residential energy decreased modestly. Inventories for most retailers were a little higher than desired. Looking ahead, one contact reported retailers had ordered less merchandise for the holidays than in previous years, with some foregoing the usual seasonal inventory build. In manufacturing, inventories were generally at comfortable levels, and several contacts noted improved supply chain conditions.

### Construction and Real Estate

Construction and real estate activity decreased modestly on balance over the reporting period. Residential construction was down modestly and contacts expected the slower pace of activity to continue for the rest of the year. There were reports of fewer home remodeling projects in higher end homes. Residential real estate activity also decreased modestly. Home prices were up slightly but rents were unchanged. Nonresidential construction fell slightly. Contacts noted that the building currently taking place had entered the pipeline 12 to 24 months ago and that permit issuances for future projects were down noticeably. Land development also declined. Supply chain issues lingered, with contacts reporting difficulty finding electrical switch boxes, circuit boards, transformers, fuses, and HVAC equipment. Commercial real estate activity decreased modestly, most notably in office and retail. Prices decreased modestly, and contacts anticipated further declines. Vacancy rates and the availability of sublease space were up. Rents were down slightly.

### Manufacturing

Manufacturing demand decreased modestly in late August and September. Steel orders were down modestly, helping push up service center inventories. Fabricated metals orders decreased slightly, with contacts highlighting lower demand from homebuilding and aerospace. Machinery sales were steady on balance: while there was a decline in demand from the auto sector, demand for machinery used in infrastructure construction was still strong and plenty of projects are in the pipeline. Motor vehicle production fell with the UAW strike; at the end of the reporting period, a little over 10% of U.S. production was offline. According to one auto supplier, automakers were willing to pay high prices to get necessary parts before a work stoppage. This supplier received a large order soon before workers at a plant they supply went on strike, and then worked through the weekend and delivered the order via helicopter to meet the automaker’s deadline. Heavy truck demand remained flat amidst moderately low inventories.

### Banking and Finance

Financial conditions tightened slightly over the reporting period. Bond and equity market asset values decreased slightly while volatility ticked up. Business loan demand fell slightly. Contacts noted a further decrease in commercial loan demand, particularly for real estate. Asset quality was down a bit. Business loan rates increased modestly and standards tightened slightly. Consumer loan demand also fell slightly overall, with auto and home equity loan volumes dropping but credit card debt increasing. Consumer loan quality declined slightly. Consumer loan rates increased modestly, and lending standards tightened some.

### Agriculture

Projected farm income in the District for 2023 remained well below 2022 levels, as lower crop prices offset positive news from early harvested acres. Notably, corn and soybean prices continued to fall, while yields were coming in above earlier expectations, which had been pessimistic due to the ongoing drought. Cattle prices moved higher, but growth slowed some. That said, one contact reported that with the exception of beef, many animal operations were experiencing below breakeven prices. Egg prices were flat, while dairy prices were mostly higher. Prices for agricultural land showed signs of softening, especially for ground of lesser quality. Rising interest rates stretched farm finances given high debt levels of many operators.

### Community Conditions

Community, nonprofit, and small business contacts reported little change in economic activity from a robust level. State government officials saw some decline in tax revenues but low demand for unemployment insurance continued. Small business owners said tight labor markets were hampering growth and that they were reluctant to pursue expansions, in part because of tighter credit conditions. Nonprofit contacts reported that a limited supply of lower end housing was contributing to rising rents and straining household budgets. In addition, there were long waiting lists for prospective tenants at some places. Contacts noted that in some smaller municipalities limited options for housing and childcare were undermining efforts to attract and retain workers. ■

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

## Summary of Economic Activity

Economic conditions have remained unchanged since our previous report. Labor markets remained tight, and employers reported that while applications had increased there were continued difficulties finding candidates with desired skills. Prices increased modestly due to higher input costs, though the rate of increases slowed. Businesses reported softer consumer demand and difficulty passing on input costs. Seasonal declines in leisure travel and increases in business travel moved the market closer to pre-pandemic norms. Rental rates in the residential and commercial real estate sectors were unchanged. Banking contacts saw some signs of consumer finance stress increasing but reported that overall credit risk remained moderate. Many contacts expressed concern about the economic outlook due to ongoing strikes and prospects of a government shutdown, but few effects were immediately apparent.

### Labor Markets

Employment has increased slightly since our previous report. Despite continued reports of easing, the labor market remains tight, albeit less so than before. Several industries reported a mismatch of labor—plenty of applicants, but few with the correct matching of skills. A banking contact in Louisville reported taking more risks with less-experienced candidates, and several agriculture contacts in the District reported that it has become harder to find qualified workers. In contrast, some contacts reported it was easier to find and hire workers. Central Tennessee manufacturing and shipping contacts reported that labor shortages were no longer their most pressing issue.

Wages have grown slightly since our previous report, with the overall pace of increases slowing. A financial services firm in Louisville has seen a reduction in wage-increase requests from previous years, while agribusiness contacts noted lower-wage workers were requesting wage increases due to higher cost of living. A transportation contact in Central Kentucky has had to offer higher wages and retirement benefits to attract drivers.

### Prices

Prices have increased moderately since our previous report. Of the firms that reported higher prices, the main driver was input costs. A couple common cost increases stood out: rising food prices and rising fuel prices. Although other input costs are rising, multiple contacts noted that the rate of increase has slowed over the past few quarters. Firms' ability to pass costs on to consumers varied, and contacts noted that customers are pushing back on increasing prices. One contact who operates a bookstore reported that costs are directly passed on to consumers since their products are essentially pre-priced. Another contact from the hospitality industry noted that while they attempt to pass on costs, the increases are about 15% less than the actual growth in costs. A manufacturer cut back on non-essential expenditures, such as sponsoring school events, to help profit margins. A few contacts noted a decrease in prices, most notably in the used car industry.

### Consumer Spending

District general retailers, auto dealers, and hospitality contacts reported mixed business activity and a slightly negative outlook. A retail contact in Louisville reported that their sales are starting to ramp up due to Halloween seasonal merchandise. A St. Louis auto dealer reported that despite pent-up demand from lack of inventory, business activity is being affected by decreased savings and high credit card debt. Their outlook for the next few months was initially optimistic but has weakened because of the auto worker strikes, and they now expect business activity to be impacted until 2024. A Memphis restaurant contact reported that business activity was down slightly due to unseasonably hot weather. District hospitality contacts reported mixed business activity and a slightly negative outlook.

### Manufacturing

Manufacturing activity has moderately increased since our previous report. Firms in both Arkansas and Missouri reported moderate increases in new orders, production, and inventories. However, there were moderate decreases in employment. Rising input costs continue to be an ongoing issue for manufacturers, with labor being a significant factor. Auto workers went on strike at a St. Louis-area plant. A St. Louis-area steel manufacturer announced plans to temporarily idle one blast furnace at a plant and shift work to other facilities. On average, firms reported they expect slight decreases in employment in the coming quarter.

### Nonfinancial Services

Activity in the non-financial services sector has cooled since our previous report. Overall, airport contacts reported leisure travel decreasing and business travel increasing, marking a return to pre-pandemic norms. A Memphis airport contact reported shortages due to a lack of trained pilots. A Memphis freight contact was one of many facing challenges with finding contractors willing to bid on smaller projects. Healthcare contacts reported high staffing turnover rates and uncertainty around the unwinding of pandemic-era policies and regulations.

St. Louis and Memphis trucking contacts reported that their industry was in a recession, with low demand and falling profits as consumers shifted spending to services and necessities. The consensus was that conditions will worsen, as elevated inflation, high interest rates, and persistent labor shortages negatively impact business.

### Real Estate and Construction

Rental rates in the residential, industrial, and office real estate market have remained unchanged since our previous report. Demand in the office market continues to be a concern. Rental rates in retail spaces have increased since our previous report. Residential real estate median sale prices have remained constant since our previous report. Total homes sold have dropped over 10% in Little Rock and Louisville, and residential inventory has increased slightly across the District.

Industrial, multifamily, and residential construction have all slowed since our previous report. Construction contacts reported input costs plateauing in the past three months, but lead times continue to be longer than pre-pandemic. Construction contacts across the District reported that while financing is available for new projects, it is at such high rates that, when combined with higher input costs, “the numbers don’t work” on even the best projects. Contacts report that due to uncertainty, some developers are buying land to save and develop in 12-18 months, while other developers are donating their owned land for tax write-offs.

### Banking and Finance

Banking conditions in the District have remained stable since our previous report. Commercial and industrial loan demand has remained steady. The demand for new housing loans is limited due to few home transactions. Rising deposit interest rates continue to create a tight market for deposits, raising the cost of funds and shrinking profit margins. Contacts reported that merger and acquisition activity of smaller banks has increased, with investment bankers reaching out for potential buyers. Demand for consumer loans continued to decline, and credit card usage remained elevated. While banking contacts reported that signs of consumer financial stress are increasing, they believe that overall credit risk remains moderate.

### Agriculture and Natural Resources

Overall agricultural activity has remained stable since our previous report, though contacts’ outlook for future conditions was mixed. Corn and cotton yields across the District fell slightly below 2022 levels, while rice and soybean yields hovered slightly above. Corn and rice production increased relative to this time last year, but cotton and soybeans decreased. Low water levels meant that barges needed to float at a lower weight, which raised shipping costs. Due to elevated storage and transport costs, some contacts stated they planned to leave their crop in the field rather than harvest. ■

## Summary of Economic Activity

Ninth District economic activity increased slightly since late August. Employment grew modestly and wage pressures were stable. Inflationary pressures eased modestly. Growth was noted in consumer spending and tourism, and agricultural conditions strengthened, while energy and commercial construction and real estate were flat. Manufacturing as well as residential real estate activity decreased. Minority- and women-owned businesses reported modestly lower activity. Most business contacts reported that recent increases in long-term interest rates had diminished expectations for their businesses in the coming year.

### Labor Markets

Employment grew modestly since the last report. Contacts overall reported somewhat slower labor demand and fewer job openings, with the exception of health care, which continued to exhibit strong labor demand. Recent surveys showed hiring sentiment was modestly contractionary in Minnesota and South Dakota, but positive in North Dakota. Staffing firms reported lower job orders in September compared with earlier in the year and one year ago. But they also noted that filling positions was easier. A Montana staffing contact said that “things have improved but are still difficult” regarding labor availability. A northern Minnesota workforce contact noted that there were “still plenty of available jobs, but employers were not as desperate as before.” Candidate quality improved for some contacts. Turnover was lower or unchanged for most contacts.

Wage pressures were stable since the last report, but ongoing wage growth remained above average. Staffing contacts noted flattening wage pressure for industrial and professional positions. A South Dakota retail contact said that wage pressure had stabilized from higher levels earlier in the year “though virtually all businesses would say they are too high.” Some contacts noted a reduction in sign-on bonuses and other wage enhancements. Wage pressures remained elevated in health care. A skilled nursing facility in Minnesota said it was looking to increase wages for the third time in a year “just to keep up with competition from other health providers.”

### Prices

Inflationary pressures eased modestly since the previous report. Most firms responding to a monthly business conditions survey reported no changes in prices charged to customers in September from a month earlier, but a larger share indicated that they decreased their prices than said that they increased them. Input prices continued to increase on balance from the previous month, but were also unchanged for most respondents. The wholesale prices component of a regional manufacturing index indicated rising input prices in September from a month earlier. Following a sharp spike in early September, retail fuel prices in District states subsided to a level slightly higher than the previous report. Prices received by farmers increased in August from a year earlier for barley, lentils, chickpeas, and cattle; prices decreased from a year earlier for corn, wheat, soybeans, hay, potatoes, dry edible beans, canola, milk, hogs, turkeys, chickens, and eggs.

### Worker Experience

Job seekers who responded to a survey of workers in Montana were mainly looking for the opportunity to raise their income. Most had just begun searching for better opportunities but faced a variety of challenges reaching their objectives. Low pay offered by prospective employers made it unattractive for most to make a switch. While inflation has softened, most respondents perceived prices being higher over the last four-week period, particularly for groceries and fuel. In a different survey, North Dakota job fair attendees said the most important aspects of a job were good pay, fulfilling and engaging work, having a good boss, and offering a good schedule. Employers not offering enough pay was also a barrier to applying for jobs among this group.

### Consumer Spending

Consumer spending was modestly higher overall since the last report. Hospitality and tourism firms across Minnesota reported revenue increases overall, but foot traffic was flat; expectations for the coming months mirrored the recent summer season. Tourism spending in northern Wisconsin was reportedly “very healthy” at restaurants, bars, and golf courses. A source in Michigan’s Upper Peninsula also reported strong tourism crowds, high hotel occupancy, and busy restaurants. However, retail contacts in Minnesota and South Dakota reported that revenues were only slightly higher in September. Airline traffic has been healthy across the District. Lodging and accommodation tax collections in Montana remained at strong levels through September. Gaming handle in South Dakota was up only slightly over last year. New vehicle sales remained healthy thanks to higher vehicle inventories; one dealer with multiple locations saw sales increase by 30 percent in August and September, year over year. However, there were concerns over the impact of the autoworkers strike on future vehicle deliveries. Recreational vehicle sales remained lower, but marine and powersport vehicle sales were on par with last year.

### Construction and Real Estate

Construction was flat overall since the last report, with mixed activity among subsectors and across regional markets. Industry data and contacts suggested that commercial and residential activity remained slower, while industrial and infrastructure sectors saw healthy activity. Recent commercial permitting was lower year over year in Billings, Mont., and Minneapolis; unchanged at healthy levels in Fargo, N.D., and Eau Claire, Wis.; and higher in Rapid City, S.D., and Rochester, Minn. Single-family residential construction was lower overall, but a few markets saw increased activity. Multifamily permitting also saw a small increase across the District.

Commercial real estate was flat overall. Office vacancy rates remained high in Minneapolis-St. Paul but have leveled off. Retail has seen comparatively little new development, but consumer demand has helped keep vacancy rates relatively stable. Multifamily vacancy rates have been rising modestly. Industrial space, in contrast, has seen strong leasing and new construction activity in Minneapolis-St. Paul, including a considerable amount of speculative development. Residential real estate remained soft. Inventories of homes for sale remained exceptionally low. Contacts reported that many potential sellers remained on the sidelines due to higher financing costs compared with their existing mortgage.

### Manufacturing

Manufacturing activity in the District fell slightly since the previous report. Manufacturing respondents to a September business conditions survey reported decreased orders on balance relative to a month earlier, with expectations for a further decrease in the month ahead. A regional manufacturing index indicated nearly flat activity in Minnesota and South Dakota in September from a month earlier, while activity increased in North Dakota. Several producers of inputs for heavy and commercial construction reported that demand weakened further recently. A diversified producer of industrial inputs noted that regional manufacturers “seem to be slowing their consumption of contracted manufacturing sub-components.”

### Agriculture, Energy, and Natural Resources

District agricultural conditions strengthened slightly since the previous report. Drought conditions moderated in parts of the District but persisted in the eastern and northern regions. Industry contacts reported that early indications of crop production were better than expected, given weather conditions. However, farm incomes decreased from a year earlier in the third quarter, according to preliminary results of the Minneapolis Fed’s survey of agricultural credit conditions. District oil and gas drilling activity was unchanged since the previous report.

### Minority- and Women-Owned Business Enterprises

Activity among minority- and women-owned business enterprises was modestly lower over the reporting period. Half of contacts reported lower sales, compared with 20 percent who saw higher sales. Capital expenditures were mostly unchanged and plans to invest in the near future edged slightly lower on balance. Higher labor and nonlabor input prices were taking a toll on profitability; more than half of contacts reported lower margins and expected that to continue into the fall. Labor demand was slightly higher on balance, and payroll was mostly unchanged. Some contacts expected their need for additional workers to soften somewhat in the following weeks. ■

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

## Summary of Economic Activity

Economic conditions softened slightly across the Tenth District in recent weeks. Hiring activity and business conditions were mostly unchanged, but contacts in the energy, agriculture and commercial real estate sectors reported moderate declines in activity. Several bankers characterized their appetite for lending as being on a “loan diet” – looking for smaller portions (smaller balances) and only healthy fare (better creditworthiness). Most businesses indicated wage growth slowed to a moderate pace. In particular, wage growth among entry-level jobs slowed as job hopping became less common. Lower turnover reportedly eased wage competition and led job switching to result in smaller wage gains for workers compared to earlier in the year. The pace of consumer spending was unchanged. Some contacts noted that household spending on home renovation activity grew slightly, which they attributed to a “lock-in effect” among homeowners with low interest rate mortgages. Prices generally grew at a moderate pace. However, several housing property managers reported that rent growth decelerated significantly in recent weeks. Contacts also indicated that rent pressures will subside further due to a substantial amount of new multifamily housing becoming available over the next eighteen months.

### Labor Markets

Labor market conditions in the Tenth District were unchanged over the last month on average. Though several contacts in manufacturing reported slight job gains over the last month, they indicated they were filling long-vacant positions rather than growing their workforce. Average hours worked at manufacturing facilities fell slightly as new staff allowed employers to reduce overtime hours. Service contacts reported a slight contraction in employment. Labor markets remain tight on balance, but wage growth slowed to a moderate pace.

Business contacts reported their workforce is less qualified and less productive compared to earlier this year. They attributed the moderate declines in workforce effectiveness to high turnover of more skilled and tenured staff in recent years. Most contacts expected these workforce conditions to persist due to continued difficulty hiring qualified workers. Many noted new applicants across job levels and occupations are less skilled, experienced, or educated than applicants earlier this year. Service contacts mentioned particularly pronounced issues with new applicant reliability, experience, and skills – making it difficult to fill open positions.

### Prices

Price growth remained moderate across the District. Services businesses noted ongoing difficulty passing price increases to their customers. Given these pressures on their margins, most contacts expected to continue raising their prices over the next six months. Several multifamily housing property managers reported that growth in rent prices stalled in recent weeks, and that rent growth is down considerably compared to last year. Contacts expected rent pressures to further subside over the next year due to a substantial amount of multifamily housing supply coming online.

### Consumer Spending

The pace of consumer spending was unchanged in recent weeks. Spending at restaurants slowed mildly but other leisure spending maintained momentum. Retail spending picked up slightly, which some contacts noted was concentrated among larger retail businesses. Citing the “lock-in effect” of homeowners with low interest rate mortgages, some contacts noted that spending on home renovation activity grew slightly. However, spending on renovation activity was constrained by the limited availability of contractors willing to take smaller jobs.

## Community Conditions

Contacts reported that low- and moderate-income (LMI) workers continued to pursue higher wages through job hopping, but those opportunities were becoming less advantageous. Entry-level wages have continued to rise, though at a much slower pace than a few months ago. Most workforce organizations said they focused on directing clients to seek more career-oriented opportunities in preparation for a possible recession. However, clients have been hesitant to pursue such opportunities due to the time they would need to spend in training, favoring more immediate employment. Workforce organizations reported seeing more LMI individuals pursuing work despite ongoing challenges reaching employer locations and finding childcare. One organization with a harder-to-place clientele reported placement rates fell to a multi-year low of 30%, citing higher rates of addiction, mental health issues, and physical disabilities.

## Manufacturing and Other Business Activity

Overall business activity was mostly unchanged, with subtle differences across sectors. Manufacturing firms, especially durable goods producers, continued to report broad-based declines in new orders, shipments, and order back logs – all indicators of future softening in demand. Service contacts in consumer-facing retail businesses, healthcare, and education reported strength in activity. However, several transportation contacts highlighted broad-based declines in shipments and freight rates. One contact specifically highlighted a decline in shipments of goods tied to interest rate sensitive sectors like housing and construction, noting that shipping volumes of carpet and other building materials were down. Another contact in trucking highlighted a risk surrounding credit performance of owner-operators who are facing lower revenues and steeply declining valuations on equipment that was used to collateralize loans.

## Real Estate and Construction

Contacts across the commercial real estate sector highlighted distinctions in performance across property classes. Newly constructed – or otherwise prime – office, retail, and industrial spaces continued to perform above expectations while class B properties faced lower operating incomes and valuations. Most contacts noted funding for renovation activity was substantially less available than for new property development. Several contacts suggested uncertainty about rates inhibited transaction activity more so than higher rates. They expected revaluation of properties and greater transaction activity would emerge once rate stability was achieved.

## Community and Regional Banking

Several bankers characterized their appetite for lending as being on a “loan diet” – looking for smaller portions (smaller balances) and only healthy fare (better creditworthiness). Although credit quality remained sound across commercial loan types, pockets of deterioration appeared in various consumer loan segments. Weakness grew in mortgage loans and consumer installment debt, in particular. Bankers expected additional deterioration in consumer credit quality over the next six months. Loan demand was mostly unchanged during the last month as higher interest rates continued to mute activity from the commercial real estate and commercial and industrial sectors. Deposit balances exhibited continued migration from checking accounts into higher yielding time deposits and money market accounts. Contacts highlighted deposit promotions and maintaining competitive pricing as key strategies for deposit retention.

## Energy

Tenth District energy activity declined moderately over the last month. Oil prices rose recently and regional inventories in the District decreased to multi-year lows. Yet, the number of active oil rigs declined, with contacts citing capital discipline as a constraining factor amid slightly declining profits for District firms. Profitability was expected to increase as contacts’ six-month oil price expectations moved up over the last month. Firms also anticipate a slight increase in productivity over the next year, further boosting future profit expectations. Accordingly, contacts noted capital expenditures are expected to increase at a faster pace in coming months, as access to credit remains steady. District states added gas rigs recently due to a slight increase in natural gas prices during the summer months.

## Agriculture

Conditions in the Tenth District farm economy softened alongside further declines in commodity prices and prolonged drought. As harvest began in some areas, at least one third of corn and soybean acres were in very poor condition, raising concerns about yields and revenue. Dry conditions across the nation also reduced water levels in the Mississippi River, disrupting barge traffic along many gulf port routes and heightening concerns about freight costs and export activity. Cattle prices continued to be supported by low inventories, but drought also constrained hay supply in many areas, raising costs for ranchers. Interest rates were another key concern cited by agricultural contacts, as producers faced significantly higher financing costs. ■

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

## Summary of Economic Activity

The Eleventh District economy continued to expand at a modest pace overall. Growth moderated in the service sector but rebounded in manufacturing and energy. Retail and financial services activity declined. Existing-home sales dipped while new home sales were mostly solid. High temperatures and insufficient rainfall continued to plague agricultural conditions. Nonprofits expressed concern over daycare closures in the wake of pandemic era relief funds expiring. Employment growth was modest, and wage growth continued to normalize. Input cost growth remained slightly elevated overall, while selling price growth was average or below average. Outlooks generally weakened slightly, with contacts expressing concern over worsening business conditions, high interest rates, and the political environment.

### Labor Markets

Employment growth remained modest over the past six weeks. Hiring decelerated in the service sector but picked up in manufacturing. In the energy sector, job growth moderated to a more average pace after two years of elevated hiring. Layoffs were noted by some cargo carriers and high-tech companies. Most sectors reported greater ease in finding workers than in prior periods. However, oilfield contacts said shortages of high-skill blue collar workers persist, and hospitality workers were also in short supply. There were scattered reports of labor hoarding—businesses saying they ordinarily would release some workers because of weak sales but were holding off "just in case." A staffing firm noted the labor market is looser than it has been, saying "it's not a pool, but at least we've got some drops on the ground." Another said baby boomers were staying longer in the workforce because increases in cost of living have left them without much of a choice but to work.

Wage growth continued to normalize, though it was still somewhat elevated. Homebuilders noted some reprieve in labor costs, and energy companies said wage pressure lessened from last quarter. Staffing firms said wage pressure eased over the past six weeks, in part because firms were pushing back more on hybrid and remote arrangements, and candidates were willing to ease up on wage demands to gain that flexibility.

### Prices

Input cost growth showed no signs of easing over the past six weeks outside of the energy and construction sectors. Oilfield cost increases moderated, and contacts reported cost declines in some inputs like sand and steel. Also, builders said the cost of most construction materials have stabilized. Meanwhile, airlines and cargo carriers noted an increase in fuel costs. Selling price growth remained subdued in manufacturing and energy but was more moderate in services. A staffing firm reported an increase in payment delinquency due to cash flow issues among clients.

### Manufacturing

Texas manufacturing activity rebounded in September. Production increases spanned durables and nondurables and were led by machinery and high-tech manufacturing. Chemical production improved amid stabilizing demand. However, much uncertainty persists, and manufacturers' perceptions of broader business conditions worsened overall. Outlooks continued to deteriorate, with several contacts citing high interest rates as a headwind, particularly auto manufacturers.

## Retail Sales

Retail sales declined slightly over the past six weeks, with notable weakness in auto sales. Some retailers said the continuation of unseasonably hot weather was a factor behind the slump. Auto dealers pointed to reduced affordability spurred by higher interest rates as a major factor. Meanwhile, contacts along the border noted that the strong peso was drawing Mexican shoppers to U.S. stores. Retail outlooks improved slightly, though auto dealers expressed concern over the impact of the strike.

## Nonfinancial Services

Growth in service sector activity decelerated to a more typical pace in September. Professional and business services remained the top performing industry, and a pickup was seen in health care. Airlines continued to report robust demand, particularly for leisure and international travel. A transportation contact noted that the drought impact on the Panama Canal may increase air cargo demand as an alternative for moving goods internationally. Reports from staffing services firms were mixed. One contact said contract business is way down across the board, as more customers are looking for permanent hires. Service sector outlooks worsened slightly overall, with contacts citing inflation and softness in the real estate market as headwinds. One business executive said he expects the next twelve months to be "chaotic," with uncertainty driven by high interest rates and the national political landscape.

## Construction and Real Estate

Housing demand generally held up during the reporting period despite higher mortgage rates, though contacts noted some seasonal softening. Existing-home sales dipped in part due to lack of inventory, while builders said new home sales and buyer traffic were mostly solid for this time of the year. Incentives such as rate buydowns remained in place and were buoying sales of new homes. A shortage of transformers continued to dampen single-family home completions. Outlooks remained cautious.

Activity in commercial real estate was little changed since the last report. Apartment leasing was solid, though rents and occupancy were largely flat as supply continued to outpace demand. Office markets continued to face headwinds. Industrial demand softened, though the overall level of activity remained robust. Investment sales activity was subdued, and outlooks were mixed.

## Financial Services

Loan demand has been declining for a year, and the pace accelerated this period. Overall loan volumes declined at a quicker pace this period as well. Loan nonperformance rose, particularly for consumer loans, but increased delinquency was seen across the board. Credit standards continued to tighten, most notably on the commercial side. Loan pricing pushed up further, though at the slowest rate so far this year. Bankers remain pessimistic, with expectations for increasing loan nonperformance, decreasing loan demand, and worsening business activity over the next six months.

## Energy

Energy activity picked up modestly over the reporting period. Respondents to the Dallas Fed Energy Survey indicated a rise in business activity and a sharp increase in oil and natural gas production in the third quarter. Drilling and completion activity for oil and gas wells declined over the past six weeks, though most contacts expect the rig count to stabilize soon. Outlooks improved notably, particularly among exploration and production firms. Contacts expressed confidence that oil prices will remain conducive for profitability over the next year but said their natural gas drilling outlook had worsened.

## Agriculture

Drought intensified across much of the District over the past six weeks and crops continued to suffer from excessive heat. Grain prices fell notably, with wheat hitting its lowest price in two years. Pasture forage conditions were poor to very poor, and ranchers were still supplemental feeding, which is unusual for this time of year. Cattle prices remained high amid tighter supply, cheaper production costs in feed lots, and strong demand for beef.

## Community Perspectives

Demand for nonprofit services remained elevated. Affordable housing was a pressing concern, and one nonprofit said they received additional housing assistance funding but were constrained by the limited number of landlords willing to accept housing vouchers. Another contact noted that inflation continued to squeeze households' food budgets, putting healthier food options out of reach. One nonprofit reported they often had a two-to-four-hour line at their food pantry.

Several contacts expressed concern over the ending of pandemic era relief funds, particularly for childcare centers. Multiple daycare centers have already announced closures, with one nonprofit leader noting that the impact to affected families is "catastrophic," as there aren't other options in the area. Some local workforce boards were proactively enrolling childcare centers into the state childcare subsidy program and mentoring them, with the hope of providing more options for low-income families. ■

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

## Summary of Economic Activity

Economic activity in the Twelfth District was stable on net during the mid-August through September reporting period. Employment levels were little changed, and labor market tightness eased slightly. Prices and wages both rose, but at slower rates. Retail sales were robust, while activity in the service sectors moderated somewhat. Demand for manufactured products remained largely unchanged, and conditions in agriculture and resource-related sectors strengthened slightly. Activity in residential and commercial real estate markets eased. Conditions in the financial sector moderated further over the reporting period. Communities across the Twelfth District faced challenges with the availability of affordable housing and saw continued high demand for support services. Looking ahead, contacts expected weaker economic conditions overall.

### Labor Markets

Labor market tightness eased slightly over the reporting period as labor supply and demand came into better balance. Employment levels were little changed. Across the District, hiring was somewhat easier with contacts reporting more job applicants, higher quality candidates, and lower employee turnover. Still, challenges persisted in recruiting high-skilled workers in several sectors including nonprofits, financial services, hospitality, construction, and retail. Manufacturing and medical services providers noted continued investment in labor-saving technology. While several contacts reported hiring freezes in sectors such as business services and technology, others took advantage of easing labor market tightness to fill job vacancies. In the financial services and technology sectors, firms lowered head counts through attrition and continued layoffs.

Wages grew over the reporting period, but at a slower rate. Several firms reported stable wages for new hires and annual wage increases for staff normalizing, while other contacts noted employees' wage growth expectations remaining elevated. An employer in Northern California reported that employee demands to work from home eased, and a contact in Washington reported some firms are less willing to offer nonwage benefits such as remote work. However, a firm in Oregon noted employee demands for higher wages and benefits rising recently.

### Prices

Prices continued to rise, albeit at a more moderate pace than in the last reporting period. Contacts noted price increases for inputs, such as business insurance, health insurance for employees, and raw materials, with particularly higher prices for petroleum-based products and fuel. Still, prices of some inputs fell, such as wood and steel products. Retail prices overall for food and gasoline rose, while one contact in the Pacific Northwest noted that seafood prices fell. A Southern California restauranteur observed more consumer resistance to menu price increases, limiting their pricing power.

### Community Conditions

Demand for community and support services remained elevated. In particular, households and community members sought support for house affordability, food assistance, rental assistance, childcare, and mental health services. Nonprofit organizations continued to report notable drops in funding and charitable donations, which further constrained their ability to meet demand for basic needs. Some contacts highlighted the negative impact on housing affordability from the ongoing transformation of many old residential properties to newer upscale units in urban areas across the District.

## Retail Trade and Services

Retail sales were robust in recent weeks. Demand for groceries, particularly health-oriented and fresh products, was strong. Retailers reported robust demand for furniture and some home improvement products. Higher gasoline prices pushed some consumers to pull back on discretionary spending. Nonetheless, reports suggested higher energy prices impacted household spending decisions to a lesser degree thus far relative to last summer's spike in energy prices.

Activity in the consumer and business services sectors moderated slightly. Demand for leisure travel was largely unchanged in recent weeks, while business travel strengthened somewhat as attendance of in-person conferences and conventions continued to recover. International inbound travel activity remained subdued relative to pre-pandemic levels due to a strong dollar, brisk competition from foreign destinations, and reportedly longer visa-processing times. Some contacts in the Pacific Northwest reported demand for restaurants and regional resorts softened since Labor Day. Production activity in the entertainment and media industry remained weak as labor contract negotiations continued between the studios and the actors' union. Demand for health-care services and laboratory testing reportedly rose.

## Manufacturing

Manufacturing activity remained largely unchanged over the reporting period. Manufacturers reported generally stable demand despite a tighter credit environment and continued labor challenges. Demand for manufactured wood products softened due to the impact of higher interest rates on residential construction activity. Capacity utilization remained high in food manufacturing but weakened somewhat in metal production. Raw materials availability was steady overall, though electrical supplies were limited. Supply chain disruptions continued to improve, although some manufacturers mentioned lingering delays.

## Agriculture and Resource-Related Industries

Conditions in the agriculture and resource-related sectors strengthened slightly overall. Growers reported strong demand for fruits, vegetables, and cotton, as well as steady demand for nuts. Inventories from prior harvests bolstered supply, and the upcoming harvest season is expected to produce large yields. Production at fisheries was stable. Overall exports of agricultural products softened somewhat due to a strong dollar and weaker growth abroad. While input costs remained generally elevated, increased water availability from higher rain and snowfall helped reduce the costs of irrigation. Nonetheless, severe weather events had negative impacts on the production of some food crops, including grapes. Producers expressed concern about the ramifications of geopolitical and extreme weather events on future food availability. Investment in timberlands rose as investors continued to seek alternatives to more traditional investment vehicles.

## Real Estate and Construction

Activity in residential real estate slowed somewhat over the reporting period. Inventories of single-family homes remained tight as owners with existing lower-rate mortgages stayed out of the market. Despite high rates for new mortgages, demand continued to exceed supply, and prices rose further. Activity in the multifamily sector was mixed: while some regions, like the Pacific Northwest, reported continued strength, others experienced softening demand, lower rents, and rising vacancies. Residential construction activity weakened due to high interest rates and constrained availability of labor, lots, and materials. In contrast, one contact observed better availability of labor and materials in parts of California.

Commercial real estate activity softened on net. Weakness in office leasing activity persisted, and vacancy rates rose. In contrast, some contacts in Utah and California reported continued solid demand for retail space. While demand for new industrial construction was strong, commercial construction activity weakened overall, with builders reporting lower demand from the technology and professional services sectors. One contact mentioned higher construction demand for public projects from local governments.

## Financial Institutions

Lending activity moderated further in recent weeks. Demand for business loans, particularly commercial real estate loans, was weak, and higher mortgage rates kept residential lending activity muted. Consumer lending, particularly for credit cards, remained solid. Deposit flows were stable on net despite strengthening competition from other depository institutions and money market funds as people sought higher rates. Lending standards remained tight, and credit quality was strong. Some contacts highlighted demand shifting away recently from large and regional banks to community banks and credit unions. ■