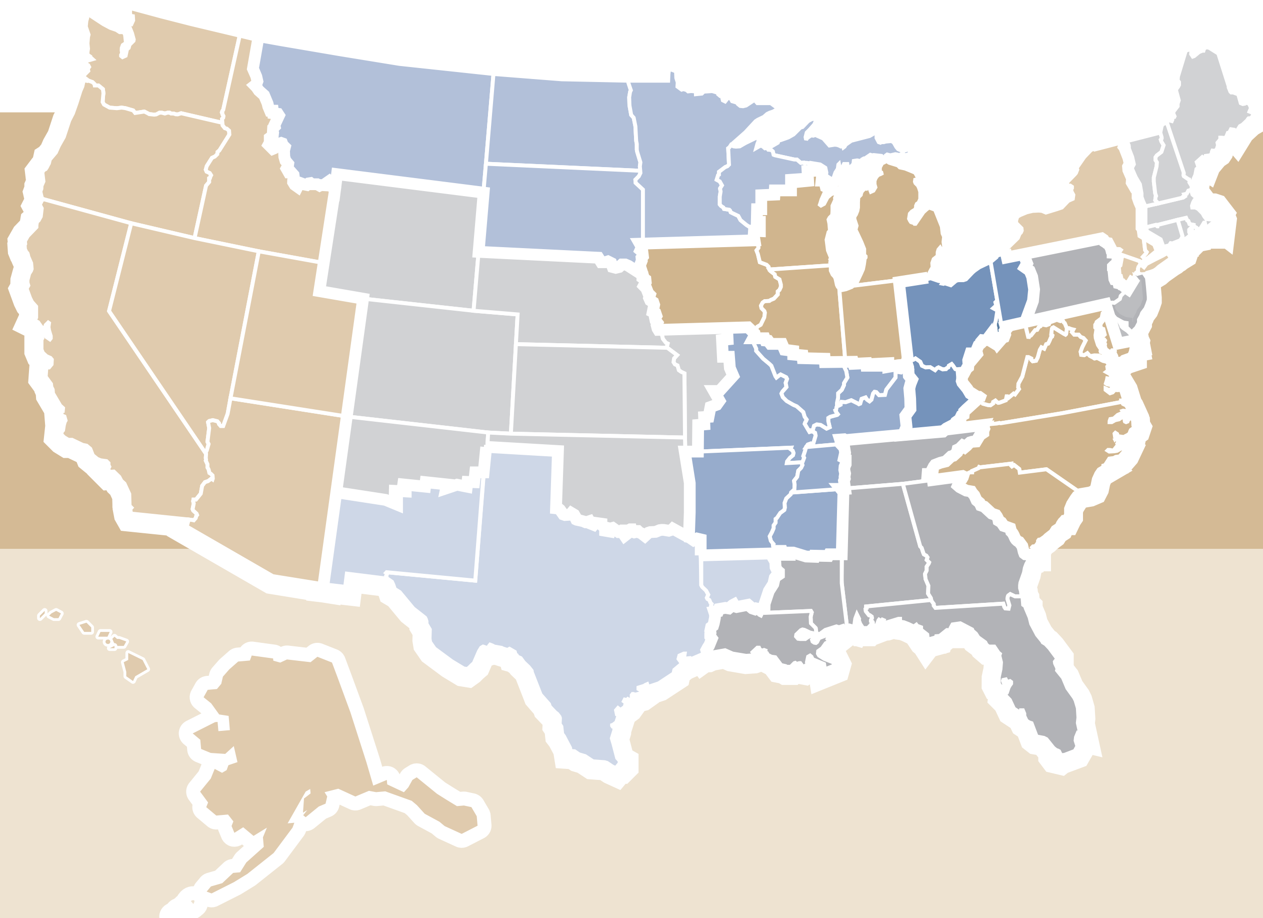
# The Beige Book

## Summary of Commentary on Current Economic Conditions by Federal Reserve District

July 2024



FEDERAL RESERVE SYSTEM

# Contents

# About This Publication

## 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 infor-

Note: The Federal Reserve officially identifies Districts by number and Reserve Bank city. In the 12th District, the Seattle Branch serves Alaska, and the San Francisco Bank serves Hawaii. 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. The Board of Governors revised the branch boundaries of the System in February 1996.

mation 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

Economic activity maintained a slight to modest pace of growth in a majority of Districts this reporting cycle. However, while seven Districts reported some level of increase in activity, five noted flat or declining activity—three more than in the prior reporting period. Wages continued to grow at a modest to moderate pace in most Districts, while prices were generally reported to have risen modestly. Household spending was little changed this period according to most District banks. Auto sales varied across Districts this cycle, but some Districts noted that sales were lower due in part to a cyberattack on dealerships and high interest rates. Most Districts saw soft demand for consumer and business loans. Reports on residential and commercial real estate markets varied, but most banks reported only slight changes, if any, in recent weeks. Travel and tourism grew steadily and was on par with seasonal expectations. Agricultural conditions varied in tandem with sporadic droughts across the nation. Districts also reported widely disparate trends in manufacturing activity ranging from brisk downturn to moderate growth. Retail restocking spurred slight growth in transportation activity. Meanwhile, tight capacity in ocean shipping led to a surge in spot rates. Expectations for the future of the economy were for slower growth over the next six months due to uncertainty around the upcoming election, domestic policy, geopolitical conflict, and inflation.

## Labor Markets

On balance, employment rose at a slight pace in the most recent reporting period. Most Districts reported employment was flat or up slightly, while a few Districts reported modest employment growth. Several Districts reported declines in employment in the manufacturing sector due to slowdowns in new orders. Skilled-worker availability remained a challenge across all Districts; however, several Districts reported some improvement in labor supply conditions. Additionally, labor turnover was lower, which reduced demand to find new workers. Looking ahead, contacts in several Districts expect to be more selective on who they hire and not backfill all open positions. Wages grew at a modest to moderate pace in most Districts. However, several Districts reported some slowing of wage growth due to increased worker availability and less competition for workers.

Note: This report was prepared at the Federal Reserve Bank of Richmond based on information collected on or before July 8, 2024. This document summarizes comments received from contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.

## Prices

Prices increased at a modest pace overall, with a couple Districts noting only slight increases. While consumer spending was generally reported as showing little to no change almost every District mentioned retailers discounting items or price-sensitive consumers only purchasing essentials, trading down in quality, buying fewer items, or shopping around for the best deals. Most Districts noted that input costs were beginning to stabilize; however, Atlanta specifically noted products like copper and electrical supplies have seen a notable increase over this period.

## Highlights by Federal Reserve District

### Boston

Economic activity rose modestly on balance. Prices increased slightly, and wage growth was slow amid stable employment levels. Residential real estate activity increased with improvements in supply, but commercial activity remained flat with increasing concerns for office leasing activity. The outlook remains cautiously optimistic, but contacts continue reporting elevated uncertainty.

### New York

On balance, regional economic activity was little changed. Labor market conditions continued to moderate, with labor demand easing and the supply of workers increasing noticeably. Consumer spending was up slightly and remained solid. Though inventory increased, home sales activity remained restrained. Selling prices continued to increase at a modest pace.

### Philadelphia

Business activity continued to grow slightly in the current Beige Book period. Nonmanufacturing activity lifted job growth to a modest pace; however, wage inflation remained modest. Firms reported modest increases in costs paid and prices received and noted increased competition in consumer-facing sectors. Expectations for future growth remained slightly positive overall—waxing for most firms, but waning for manufacturers.

### Cleveland

District business activity declined slightly in recent weeks, and contacts expected flat activity in the months ahead. Consumer spending continued to decline modestly, and demand for manufactured goods softened. Employment levels remained flat. Overall, contacts indicated that wage and input cost growth remained moderate, and that selling prices grew modestly.

## Richmond

The regional economy grew slightly this period, down from a modest pace of growth reported last cycle. Consumer spending on goods and food services was generally flat to up only slightly; however, spending on leisure travel increased moderately, particularly in coastal areas of our region. Employment grew slightly and wage growth continued to exceed price growth, putting downward pressure on margins for some businesses. Price growth remained moderate.

## Atlanta

Economic activity was relatively flat. Labor markets stabilized; wage growth eased. Nonlabor inputs cost growth slowed, on net. Consumer demand remained flat. Business and group travel improved. Home sales were flat or slightly down. Transportation activity was mixed. Loan demand was flat. Energy activity was mixed. Agricultural conditions improved.

## Chicago

Economic activity increased slightly. Employment was up modestly; business and consumer spending rose slightly; nonbusiness contacts saw little change in activity; and manufacturing and construction and real estate activity edged down. Prices were up modestly, wages rose moderately, and financial conditions loosened a bit. Prospects for 2024 farm income decreased slightly.

## St. Louis

Economic activity across the Eighth District has continued to slightly increase since our previous report. Inflation pressures increased modestly, with slower price growth than in previous reports. Reports on consumer spending were mixed. District crop conditions remain stable with high rainfall mitigating excessive heat.

## Minneapolis

District economic activity fell slightly. Employment grew but labor demand softened. Wage pressures remained moderate, and prices ticked up modestly. Consumer spending was flat but some segments remained healthy. Manufacturing fell and the outlook was negative. Commercial and residential construction improved slightly, and home sales were mixed. Agricultural conditions fell as farm income weakened.

## Kansas City

The Tenth District economy expanded at a moderate pace. Hiring activity slowed as many businesses pulled back on new job postings, but employment levels were stable. Ongoing strength in labor markets supported modest growth in wages. Consumer spending grew at robust pace, driven by discretionary spending with particularly strong growth in travel-related consumption. Prices grew at a modest pace as pass-through of costs remained difficult.

## Dallas

Economic activity rose slightly over the reporting period, buoyed by growth in nonfinancial services, finance, and energy sector activity. Housing demand and retail sales weakened in part due to elevated pricing and borrowing costs, while manufacturing output held steady. Employment increased, and wage growth was moderate, though pressures eased. Outlooks were less pessimistic overall.

## San Francisco

Economic activity and employment levels were stable. Wages and prices grew slightly, while retail sales fell slightly. Activity was mixed in services, manufacturing, and commercial real estate sectors, but continued to slow in residential real estate. Conditions in agriculture weakened a bit. Financial sector conditions were little changed.

# Federal Reserve Bank of Boston

## Summary of Economic Activity

Business activity expanded at a modest pace in recent weeks. Employment was flat amid slow wage growth, and prices increased slightly. Tourism activity rose moderately, while retail sales edged up but generally remained subdued. Sales of new automobiles rose, manufacturers reported modest revenue growth, on average, and software and IT services firms saw moderate revenue gains. Residential home sales increased on a year-over-year basis, supported in part by improvements in inventory levels. Overall commercial real estate activity was flat, on balance, with stable industrial leasing, steady increases in the retail sector, and seasonably slow office activity. However, the outlook for office properties weakened further as contacts expect rising foreclosures. On balance, the economic outlook was cautiously optimistic, but selected contacts expressed greater uncertainty related to the demand later this year being potentially restrained by the upcoming election.

## Labor Markets

Employment was unchanged overall, and wages increased at a slight pace. Labor demand held steady with several retail and tourism contacts noting improvements in the available labor supply. In particular, Cape Cod contacts noted normal levels of availability of foreign-born workers through short-term visa programs, which support the seasonal labor demand in the area. Hotel contacts around Boston also reported a normalization of the labor supply across the city and noted that they were finally adequately staffed. Automotive mechanics—across all skill levels—remain in short supply in New Hampshire, but the shortage is most acute for collision repair workers. Head-counts were steady among manufacturers. On balance, manufacturers reported little change in their ability to find qualified workers during the second quarter, but several noted that hiring remains more difficult than before the pandemic. Average manufacturing wages rose slightly, with a small number of firms noting continued wage pressures. A software and IT services contact and a manufacturing contact each noted that they plan to boost hiring in the near term, but in general hiring plans remain muted across sectors, and new hires are primarily used to replace attrition.

## Prices

Prices increased at a slight pace, on average, and movements in input costs were mixed. Most manufacturing contacts noted either small increases, or no change, in both input costs and finished prices; in contrast, one seafood manufacturer reported modest declines in both. Input costs at an online retailer have remained stable despite pressures in some shipping lanes. Hotel room rates in the Greater Boston area have risen moderately year-over-year, but hospitality contacts on Cape Cod reported average nightly room rates for the season to be flat compared with last year. Prices for software and IT services increased slightly, on balance, during the second quarter, but one contact noted a marked slowing of input cost increases. Office and industrial rent prices were flat with slight increases in retail rents. Residential homes prices across the first district rose moderately despite some improvement in inventory levels.

## Retail and Tourism

First District retail contacts reported slight growth in recent months, on balance, while tourism contacts saw moderate growth, net of seasonal factors. An online retailer noted an intensifying pressure to offer discounts on lower-cost items but also saw an uptick in sales for their higher-end products. Automotive dealers in New Hampshire experienced increased sales of new vehicles in recent months and continued strength in the recreational and power-sports segments of the market (that is, RVs and ATVs). Mainstreet retailers on Cape Cod have had a slightly above-average start to the season with fewer store vacancies than in recent years. Airline passenger traffic through Boston increased moderately year-over-year, with significant gains from Caribbean and European travel. Hotel occupancy in greater Boston rose notably, boosted importantly by the NBA finals and several large conventions. Tourism and convention activity for Boston in 2024 is expected to grow, and Cape Cod contacts anticipate a seasonably strong summer. On balance, retailers were cautiously optimistic.

## Manufacturing and Related Services

Manufacturing revenues rose modestly through the second quarter. All firms contacted noted slight increases in demand, though one reported sales falling short of high expectations. Average input costs and sale prices remained flat in recent months, but results were mixed across firms. Wages rose slightly, with two firms pointing to significant wage pressure. On balance, headcounts remained level with no recent employment growth. A contact discussed ongoing efforts to recruit workers in anticipation of a new facility opening in the immediate future. One contact noted the role of limited housing supply restricting the ability to increase headcount as desired. Most firms reported unchanged plans for capital spending, but some pointed to new investments, including expanded facilities and clean energy solutions. Most contacts report optimistic outlooks with rising sales throughout the remainder of 2024.

## Software and IT Services

First District contacts in software and IT services reported, on balance, stable demand and continued moderate revenue growth in recent months. Two contacts noted small price increases for their products and services. One contact noted that the significant input cost increases they had experienced over the past two years are moderating, and another contact expects cost-savings from transitioning to third-party cloud servers. Headcounts and wages remained unchanged across contacts. Contacts had mixed outlooks but generally predicted steady demand. Concerns included pressure from their customers to focus on AI integration strategies and uncertainty surrounding the upcoming elections restraining some customer decisions. Despite those concerns, contacts overall expressed optimism surrounding continued moderate demand and waning inflationary pressures.

## Commercial Real Estate

First District contacts described commercial real estate activity as flat overall. Office leasing slowed somewhat, as is typical for summer, but fell to an extremely low level in Hartford, CT. Office rents were flat, and office vacancy rates increased slightly. After having softened earlier in the year, industrial leasing was stable. Industrial vacancy rates remained extremely low, and industrial rents have reportedly stabilized at levels well above 2019 averages. The retail sector experienced steady demand, but tenants showed greater caution amid worries about consumer spending. Investment sales were flat, even though demand for non-office properties remained healthy. In general, bank lending to commercial real estate remained weak, but the CMBS market and life insurance companies continued to provide funding. However, one small regional bank expanded its (non-office) CRE portfolio modestly. Construction was flat or down slightly and still concentrated in the multifamily sector. For non-office properties, contacts expected stable, if restrained, activity going forward, reflecting elevated political and economic uncertainty. The outlook for office properties weakened further, as contacts expected a significant increase in foreclosures in the coming 12 months.

## Residential Real Estate

Contacts in housing markets across the First District reported annual growth in inventory. Rhode Island, Maine, Vermont, and New Hampshire all reported significant increases in the number of single-family homes and condos on the market in May. In contrast, inventory levels in Massachusetts were comparable to those from a year ago. These inventory changes were accompanied by moderate annual growth in both prices and in the number of closed sales. Contacts noted that despite these improvements, the inventory levels remain short of a balanced market. The resulting imbalance leaves some buyers in the position of having to compete for desired properties, but others noted that the upward trends could produce a more favorable environment for buyers in the months ahead.

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

# Federal Reserve Bank of New York

## Summary of Economic Activity

On balance, economic activity in the Second District was little changed in the latest reporting period. Labor market conditions continued to moderate, with labor demand easing and the supply of workers increasing noticeably. Still, employment grew slightly, and wage gains remained moderate. Selling prices continued to increase at a modest pace. Manufacturing activity remained weak. Consumer spending was up slightly and remained solid, and tourism activity in New York City was steady. Housing markets remained solid, with some improvement in inventory across the District. Commercial real estate markets weakened further. Activity in the finance sector declined, with ongoing softening in loan demand and rising delinquency rates. Businesses anticipate little improvement in economic conditions in the months ahead.

## Labor Markets

Labor market conditions continued to moderate. Labor demand has eased across the District, and contacts reported that it has gotten much easier to find qualified workers. Contacts at employment agencies noted some cooling in activity in both New York City and across upstate New York as businesses have been slower to make hiring decisions.

Still, on balance, employment continued to increase slightly, with gains in leisure and hospitality, personal services, retail, business services, and education and health partially offset by losses in manufacturing and construction. A contact at a payroll services firm reported a flattening of job growth for small-to-medium sized firms in the region. While contacts report there are no signs of major layoffs on the horizon, hiring plans have cooled.

Wage gains have remained moderate. However, some contacts indicated that increased worker availability and less competition among hiring firms have started to put downward pressure on wages. Further, pay increases received by those workers switching jobs have returned to a more normal range. Still, some contacts noted that the high-wage environment is making it challenging to remain in business.

## Prices

Selling prices continued to increase at a modest pace. Consumers are reportedly pushing back on high prices by purchasing less quantity or switching to lower priced alternatives. Input prices continued to increase moderately, though service firms indicated their cost increases have slowed somewhat. Still, contacts in the region reported particularly steep increases for insurance, and multiple contacts expressed concern about rapidly rising freight costs, as well as the ensuing rise in the cost of goods, due to shipping disruptions in the Middle East. Businesses expect some easing in pricing pressures in the coming months.

## Consumer Spending

Consumer spending was up slightly and remained solid. While spending on entertainment and recreation eased somewhat, retail spending saw a modest uptick. A large department store reported that sales in the region continued to outpace the nation and noted that shoppers are shifting their purchases toward higher-quality items and more seasonless apparel. Auto dealers in upstate New York reported that although auto sales have been solid, sales have slowed to a more modest pace, particularly in June as many dealers were hindered by a cyberattack on the software provider used to process auto sales. Dealers also remarked that tight credit conditions and high interest rates have restrained sales activity, particularly for those with less than prime credit scores. Sales of used cars have been steady, though there has been a shift toward older models with more mileage.

## Manufacturing and Distribution

Manufacturing activity declined modestly, though shipments and new orders were flat after a period of decline earlier in the year. Transportation and warehousing firms also reported ongoing modest declines in activity, while wholesalers reported a moderate increase in activity. Supply availability was unchanged following a period of improvement, though delivery times shortened. Manufacturers expected economic conditions to improve modestly in the months ahead.

## Services

On balance, activity in the service sector held steady. While activity increased in the information sector and edged up in the education and health sector, activity in the business services and personal services sectors declined. Optimism among service firms waned.

Tourism activity in New York City remained steady. A local tourism expert reported that food festivals, food halls, and international cuisines have been the inspiration for much summer tourism, and social media exposure is spurring many visits to New York City. However, sales at fast service restaurants are down among tourists, as many visitors purchased food and snacks from grocery stores, eschewing meals out. Rather than vacationing stateside, many Americans are traveling overseas and taking advantage of favorable exchange rates, detracting from tourism in New York City. Nonetheless, New York City's hotel room rates and occupancy rates remained among the highest in the nation.

## Real Estate and Construction

Housing markets across the District remained solid. Of note, contacts report that the supply of homes available for sale has increased in much of the District. Still, inventory remains exceptionally low and has continued to restrain sales across the District. Home prices have continued to rise and with such limited inventory, desirable properties hitting the market are scooped up within days. The New York City suburbs were especially tight, and prices have risen to record levels due to strong demand and low supply. With inventory at more normal levels, Manhattan remains an exception, though prices remained elevated even as demand and sales activity were restrained.

The residential rental market strengthened further. Rents remained high even after a modest decline during this reporting period, and vacancy rates in and around New York City are extremely low. New leasing is up significantly compared to a year ago.

Commercial real estate markets weakened further as demand continued to soften. Office vacancy rates in New York City increased during the reporting period. Further, many tenants are putting space up on the sublease market instead of waiting for leases to expire as they work to right-size office footprints for hybrid work. While some legal and finance firms have continued to pursue office space, the tech sector has shed significant space, exerting a drag on overall demand. The industrial market continued to cool, with price-sensitive tenants seeking lower-quality space, leaving pricier new developments vacant. Rents in the northern New Jersey industrial market have begun to adjust downward, while rents in Long Island have held steady. Sales of commercial real estate fell to new lows, with pricing remaining elevated.

Construction contacts reported that activity edged down following a sharper contraction earlier in the year. Although there were high numbers of multifamily units under construction in Brooklyn and Queens, new construction generally remained muted across regions and segments.

## Banking and Finance

Activity in the broad finance sector declined. Small- to medium-sized banks reported ongoing softening in loan demand and less refinancing activity. Credit standards tightened slightly for business loans and commercial mortgages but were unchanged for consumer loans and residential mortgages. Deposit rates held steady, and loan spreads narrowed. Delinquency rates rose, particularly for business loans and commercial mortgages.

## Community Perspectives

Community leaders reported that housing costs and childcare availability have increasingly weighed on families in the District. Home prices, rents, and housing-related expenses such as insurance and property taxes have outpaced income gains making it difficult for many households to make ends meet. Further, the cost and availability of childcare have spurred workers in some parts of the District to forego employment opportunities to remain at home to care for children. Amid these challenges, housing advocates are optimistic about new legislation and policy proposals to adjust zoning and spur the availability of additional housing.

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

# Federal Reserve Bank of Philadelphia

## Summary of Economic Activity

On balance, business activity in the Third District continued to grow slightly. Nonmanufacturing continued to grow modestly and reported increasing their workforce. Wage inflation remained modest, with wage pressures at or below pre-pandemic norms. Firm costs and prices continued to rise modestly, although firms noted increasing price competition from rivals in response to consumer pushback. Staffing firms noted little change in overall demand, citing lower turnover rates. Firms reported greater ease of hiring, and job-training nonprofits reported ongoing strong demand for their candidates. Expectations for economic growth over the next six months remained slightly positive overall but differed widely between manufacturers, whose optimism waned considerably, and other firms, among whom positive expectations grew significantly more widespread.

## Labor Markets

Employment increased to a modest pace of growth, following a slight pace in the prior period. Based on our June survey, a significant share of nonmanufacturing firms reported increases in full-time and part-time jobs—the broadest dispersion of job gains in the past 18 months. In contrast, more than three-fourths of manufacturing firms reported no change in employment, and the net dispersion was slightly negative. Although several firms noted that they were reducing hours and overtime to adjust for lower demand rather than implementing layoffs, the average workweek ticked up across all types of firms.

Staffing contacts reported little change in demand, noting that clients were holding on to their people and employees were holding on to their jobs. Labor shortages were still noted for specialty trades, engineers, and accountants, but most firms reported it was easier to fill vacancies. One contractor received 20 applications for electrical jobs—"the most I have seen in the last 20 years."

Nonprofit agencies that offer training programs to an unskilled workforce reported that the pool of interested employers and willing trainees continues to expand. They also predicted that demographic trends will continue to cause labor shortages for 15 more years. Meanwhile, many business contacts reported lower employee turnover and little or no wage pressure for most jobs. An accounting firm noted that its overall staff turnover in 2023 was the lowest in company history.

Overall, wage inflation remained at a modest pace. Among nonmanufacturers, the distribution of firms reporting higher wage and benefit costs per employee (28 percent) was slightly lower than in the mid-2010s, when modest wage growth prevailed. Most reported no change. An accounting firm's clients reported that their planned annual wage increases were lower than last year's. Moreover, for many clients, increases would be lower than pre-pandemic increases. One staffing firm reported that current wage increases were in the 3 to 4 percent range.

## Prices

On balance, firm prices continued to rise at a modest pace. The monthly prices paid indexes edged lower overall and were slightly below their nonrecession averages. In contrast, the monthly indexes for prices received for firms' own goods and services edged higher and were slightly above their nonrecession averages.

Most contacts noted little to no remaining supply chain issues and few commodity price spikes. Having anticipated higher costs, some sectors, such as construction, saw their margins grow when costs fell instead. With more stable cost trends, many sectors are experiencing price competition as consumers push back on end-user prices.

## Manufacturing

Manufacturing activity edged down—a trend observed near the end of the prior period. New orders and shipments remained slightly or modestly negative in June.

Manufacturers' expectations for growth over the next six months slipped significantly. The percentage of firms expecting increases in new orders and shipments fell from more than one-half to about one-third. The share expecting decreases rose.

## Consumer Spending

On balance, retailers (nonauto) continued to report slight decreases in real sales. Reports varied from slight pickups of visits and spending to modest drops in traffic and sales. Most contacts noted that they and their competitors were increasingly discounting and bundling products to appeal to a broader base of consumers.

Auto dealers noted that demand for new cars remained high but that the widespread impact of a cyberattack on car dealership software caused June sales (as recorded) to fall modestly. However, July sales may be correspondingly higher as delays in paperwork will cause some actual June sales to be recorded in July.

On balance, tourism activity held steady across the District. Contacts described pockets of growth in Center City Philadelphia and rising demand for outdoor activities aided by a stretch of favorable weather in the mountains and at the shore. However, most contacts noted that tourists' ongoing price sensitivity was dampening sales at hotels and restaurants.

## Nonfinancial Services

Nonmanufacturing activity continued to increase modestly in June. The indexes for new orders and for sales and revenues were positive and somewhat lower than their long-term nonrecession averages.

Firms' current sentiment improved further this period. Nonmanufacturers' perceptions of general activity for the region edged back into positive territory for just the fourth time in the past two years. At the firm level, nonmanufacturers have reported moderately positive increases for three consecutive months. Expectations among nonmanufacturers for their own growth over the next six months broadened significantly. The share of firms expecting increases doubled since May.

## Financial Services

The volume of bank lending (excluding credit cards) held steady during the period (not seasonally adjusted), a substantial slowdown from the moderate growth last period and the modest-to-moderate pace of one year ago.

District banks reported modest growth in home mortgages and home equity lines. Commercial real estate lending grew slightly and consumer lending (other than auto and credit cards) was flat. Auto lending edged down, and commercial and industrial lending fell modestly. Credit card volumes rebounded following a moderate decline last period, but the pace was strong during the same period one year ago.

Banking contacts reported two seemingly contradictory trends. Most reported that many of their own clients were holding off on investment plans because of high interest rates and general uncertainty. A few also reported that there was incredible demand for loans, especially for commercial and real estate projects. Accounting and law firms noted that because bank financing is increasingly difficult to secure, some clients are shopping around for loans, which helps explains the apparent contradiction. One banker observed that lenders need to be careful to adhere to their credit standards with new clients. Most contacts reported that they are being careful and continue to experience very low delinquency rates.

## Real Estate and Construction

Brokers reported that existing-home sales continued to grow slightly. Likewise, new listings edged higher, adding somewhat to the inventory of for-sale properties. However, brokers continued to describe a hot seller's market with an increasing use of escalation clauses in buyers' offers.

New-home builders reported a slight slowdown in demand, especially at higher price points. Contacts cited price fatigue and a rising supply of new and existing inventory as possible factors but were generally unsure of the primary cause of the slowdown. Several builders noted that they had raised prices or reduced marketing in part to quell demand because they had more than a year's worth of new homes to build under contract.

In the office market, leasing activity and transaction volumes have begun to pick up as "people are now selling at realistic values," according to one contact. Several contacts noted that workers are continuing to increase their in-office days; however, lease renewals still tend to seek smaller spaces. The problem is largely constrained to the local Philadelphia market, where one Center City building recently sold for a third of its pre-pandemic price.

Nonresidential construction activity held steady at lower levels, as completed projects were replaced in the pipeline by newer entries—largely industrial, institutional, infrastructure, and multifamily projects.

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

# Federal Reserve Bank of Cleveland

## Summary of Economic Activity

On balance, business activity in the Fourth District declined slightly in recent weeks, and contacts expected flat activity in the months ahead. The slowing in demand was apparent across sectors. Discretionary spending was down in particular for lower-income consumers, and some auto dealers and real estate contacts reported diminished activity. Moreover, demand for manufactured goods generally softened, even in previously strong industry segments. By contrast, business services activity remained robust, which some contacts attributed to spending moving forward on previously delayed capital projects. Employment levels were flat in recent weeks, as many firms focused on hiring only critical staff. On balance, wage and nonlabor input costs increased moderately, and selling prices grew modestly.

## Labor Markets

Overall, contact reports suggested that employment was flat during the recent reporting period, with the majority of firms indicating that their overall staffing levels had not changed. Many contacts across sectors, citing decreased demand, noted they were hiring cautiously for key roles and, in some cases, only replacing critical staff. Some banking and healthcare contacts noted that the shortage of workers for specialized roles continued to limit their hiring. By contrast, some contacts reported hiring for product-line expansions, backlog reduction, and administrative support. Most contacts expected only slight growth in employment for their organizations in the near term.

Wage growth continued to be moderate in recent weeks. However, many contacts across industries continued to report that wage growth had stabilized and that annual wage adjustments were standard again. Some attributed this stabilization to increased labor availability and decreased turnover. Nevertheless, several retail and construction contacts noted increased employee pressure to raise wages to align with inflation. One contact said, “Workers have asked for increased compensation based on their challenges from inflation impacting their cost of living.”

## Prices

Overall, nonlabor input costs increased moderately in recent weeks, similar to during the past several reporting periods. However, more than half of contacts continued to report no change in input costs. Some construction, manufacturing, and retail contacts reported that equipment, raw materials, and commodities costs were generally leveling off. These contacts attributed the stabilization of their costs to improved supply chains, lower industrial activity, and supplier discounts. Contact reports of increasing health insurance costs remained pronounced, and one banker said their premium level increased by 15 percent this year compared to an average of 1.6 percent annually over the past 10 years even after they "aggressively" shopped for healthcare plans.

Selling prices continued to grow modestly, although the majority of contacts indicated that they had not changed prices in recent weeks. Multiple retailers noted that passing along cost increases had become more difficult as customers "shop[ped] around" more for lower prices. To remain competitive, some manufacturing and freight contacts were holding prices steady, while others were offering discounts or reducing prices. Still, some contacts increased prices in areas with higher demand or for select customers. One construction contact said, "We continue to get a premium on our services due to the large amount of construction projects that are occurring throughout our footprint."

## Consumer Spending

Consumer spending declined modestly in recent weeks following a similar decrease in the prior reporting period. Overall, contacts indicated that discretionary purchases were down, in particular for lower-income households. One large retailer reported that lower-income consumers have forgone their stores in favor of lower-price point retailers. Restaurateur contacts generally noted that sales were flat. Auto dealers reported that sales were flat to down, with a couple indicating that elevated prices and interest rates deterred buyers. One auto retailer said that while vehicle supply and incentives had increased, affordability remained a headwind to sales. Broadly speaking, contacts expected consumer spending to be flat in the coming months.

## Manufacturing

Demand for manufactured goods declined modestly in recent weeks. Reports from multiple manufacturers indicated fewer orders because of softer residential and commercial construction activity or because of agricultural equipment producers' adjusting their production levels down. Steel producers attributed fewer orders to customers' postponing purchases because they expected steel prices to fall further. Moreover, demand in previously strong industry segments such as aerospace appeared to soften as well. On balance, manufacturers expected demand to decline slightly in the coming months.

## Real Estate and Construction

Residential construction and real estate contacts reported a modest decline in demand for homes in recent weeks after a period of stable growth. Some homebuilders saw would-be homebuyers staying out of the market because of elevated mortgage interest rates. One residential real estate agent described “a reduced number of multiple offer situations” for existing home sales as evidence of fewer potential buyers. Overall, contacts expected demand to decrease at a modest pace in the coming months.

Nonresidential construction activity declined moderately over the last two months. Higher financing costs discouraged new construction projects, and one contact noted that large infrastructure projects were “in a holding pattern” because of elevated interest rates. However, several builders reported stable, strong demand. While one general contractor mentioned “significant potential projects” in the pipeline, contacts generally anticipated a continued moderate decline in demand over the months ahead.

## Financial Services

Bankers reported that loan demand growth was relatively flat from both households and businesses as potential borrowers were discouraged by elevated interest rates. In particular, community bankers noted a pullback in loan demand from small businesses and households. A couple of bankers also noted slower-than-expected seasonal lending activity. Looking ahead, bankers anticipated that loan demand would decline slightly. Core deposits were flat, as a number of bankers increased deposit interest rates to prevent attrition. Bankers indicated that delinquencies remained at low levels.

## Nonfinancial Services

Professional and business services firms reported robust demand in recent weeks. Contacts expected strong demand to continue over the coming months, as previously delayed capital projects were recently moved forward; one contact noted that clients had previously delayed projects in anticipation of a reduction in interest rates that has yet to materialize. Another contact noted that federal funding associated with the Inflation Reduction Act had increased demand for the firm’s services. Freight contacts reported that demand grew modestly in recent weeks. In the coming months, freight contacts anticipated that demand would continue to grow.

## Community Conditions

Contacts reported that elevated rents and food prices continued to stress low- and moderate-income households’ budgets. Several contacts said that demand increased for their emergency assistance programs over the last couple of months, with requests for food, housing, and utility assistance topping the list. To cope with increased demand for their services, one food bank contact mentioned handing out less food per visit to stretch their supply, while another contact shared that their organization was spending from reserves. Other contacts observed an increase in homelessness and noted that some households had their adult children and extended family members move in with them to ease some of the financial burden.

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

# Federal Reserve Bank of Richmond

## Summary of Economic Activity

The Fifth District economy grew slightly this cycle, down from the modest pace of growth reported in our previous report. Consumer spending rose mildly but there were reports of consumers pulling back on big ticket items and becoming more price conscious at restaurants. Leisure and business travel, on the other hand, increased moderately. Residential real estate showed a typical seasonal slowdown while commercial real estate leasing activity picked up slightly. Import and export volumes rose moderately as retailers resumed more typical ordering patterns; however, manufacturers in our District reported softening demand. Employment rose slightly in recent weeks and wages continued to rise at a moderate rate. For some businesses, wage growth outpaced price growth and led to tighter margins.

## Labor Markets

Employment in the Fifth District grew at a slight pace in the most recent reporting period. Hiring was mixed based on business performance. A precision sheet metal fabricator laid off a quarter of staff since last year due to declining orders. A furniture textile manufacturer has not backfilled positions because of declining demand for residential furniture. For contacts that were hiring, persistently higher rates of wage increases continue to put pressure on margins. A donut shop raised their prices due to increased labor costs to catch-up with decreased profits. A pet groomer was investing in equipment and process improvements to reduce labor costs. Lastly, a thrift store raised wages and found that worker quality increased, although doing so impacted their margins.

## Prices

Price growth was little changed in recent weeks and remained at a moderate year-over-year rate. According to our most recent surveys, annual growth in prices received by service providing firms edged down but remained elevated at around three and a half percent. Meanwhile, growth in prices received by manufacturers rose slightly to about two and half percent, year-over-year. Several contacts said that their ability to raise prices was more constrained due to customer push back on price increases. Some added that their profit margin was compressed as costs and wages continued to rise.

## Manufacturing

Fifth District manufacturing activity declined slightly in the most recent period. Several contacts in interest-rate sensitive sectors reported that changing customer preferences slowed demand. A furniture manufacturer reported declining orders due to higher interest rates and consumers not wanting to purchase new furniture on credit. A wall panel manufacturer reported demand being off due to customers being cautious and looking for discounts before placing orders. Manufacturers also reported increased input costs. A coffee roaster reported higher prices for freight, insurance, and packaging. A food manufacturer also reported increased costs for inputs but couldn't raise prices due to pushback from retailers concerned that the end customers wouldn't accept higher prices.

## Ports and Transportation

Ports in the Fifth District reported moderate increases in imports and exports due to normalized purchase order patterns from retailers and global manufacturers. Imports of furniture and sporting goods were up, but contacts reported otherwise flat demand for durable goods and modest growth expected for the year. During this period, container spot rates surged 200 percent higher than last year due to capacity constraints and long transit times around the Cape of Good Hope. Rebounding water levels in the Panama Canal have allowed for vessel restrictions to be lifted, which may impact ocean carrier route plans in the coming months. The Port of Baltimore has reopened to full channel depth and width capacity, however in South Carolina, a system-wide software issue in May and a container spill in June caused temporary delays in port operations.

Air freight demand during this period was moderately down from last year, continuing a yearlong trend. One contact cited geopolitical tension between the US and China as a contributing factor in losing two weekly cargo flights from South Carolina to Shenyang (25 percent of the airport's cargo freight operation.) Respondents in the trucking segment lamented weak demand and carrier rates as low as $1.10 per mile. Firms noted a shift in owner-operators closing their business and returning to work at bigger companies, defaults on chassis rentals, and "sticky" high prices of equipment causing them to hold on to old vehicles and trailers longer than desired.

## Retail, Travel, and Tourism

Overall, consumer spending increased slightly this reporting period. Individual reports, however, were mixed. Several retailers reported steady to slightly lower sales and revenue with less customer traffic and fewer big-ticket purchases. A restaurateur and an ice cream chain owner reported flat sales at a time of year where they typically experience growth. The restaurateur added that the average revenue per customer was flat but customers were ordering fewer menu items in response to higher prices. Hotel and travel contacts reported solid growth in recent weeks, particularly from leisure travel in places like coastal North and South Carolina. Business travel picked up slightly but remained at a lower level compared to pre-pandemic levels. Additionally, an airport contact noted that people seemed to be extending travel that was for a business reason to include some leisure activities.

## Real Estate and Construction

Residential real estate activity showed a typical slowdown heading into the summer months. While there was a gradual increase in homes hitting the market, total closings remained steady. Prospective buyers were facing challenges with higher prices and rates rather than approvals or appraisals. Online buyer traffic was on the rise, contrasting with a decline in in-person visits. New construction was expanding in regions experiencing population growth.

Commercial real estate activity increased slightly in recent weeks. Retail leasing picked up, keeping vacancy rates low due to limited new inventory being quickly absorbed. In the office sector, leasing increased for Class A spaces but declined for Class B and C properties, widening the vacancy gap between different qualities of office space. Agents in Virginia and Maryland noted tenants were “rightsizing” their office needs and upgrading from Class B to Class A space. Leasing and absorption observed in new multi-family buildings were also strong. On the contrary, developers were facing challenges with project approvals due to higher interest rates and local government policies impacting financial viability amid rising labor costs. Sales in the commercial sector were minimal.

## Banking and Finance

Financial institutions reported that overall loan demand remained modest, but within certain loan types, such as home equity loans and used autos, they reported modest increases in demand. Those institutions that noted an increase in demand for commercial loans also noted this demand was driven by special loan rates or a lack of competitors within that segment. Deposit levels continued to decline modestly, and competition was still strong for any balances that came into the market. There was no change in underwriting standards noted for any new requests and loan delinquency rates remained stable across all loan types.

## Nonfinancial Services

Nonfinancial service providers continued to report that demand for their services as well as their revenues remained stable. An engineering firm reported that competition within their market remained strong, with other firms reducing their rates to gain new business. Another respondent noted they were investing in equipment and process improvements to reduce increasing labor costs that have impacted their margins. A staffing firm indicated a slight uptick in demand for their services from the first quarter of this year. They were also investigating the use of artificial intelligence within their business to help automate some initial hiring processes.

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

# Federal Reserve Bank of Atlanta

## Summary of Economic Activity

Economic activity in the Sixth District was fairly flat, on balance, over the reporting period. Labor markets and wage pressures eased further, and worker availability and turnover improved. Cost growth moderated overall, but some construction and freight costs increased. Firms' pricing power weakened. Consumer spending was flat. Leisure travel softened, but group and business travel strengthened. Home sales slowed and existing home inventories grew. Commercial real estate conditions varied. Transportation activity was mixed. Loan growth was flat, and delinquencies rose. Energy activity varied by sector. Manufacturing declined somewhat. Agriculture conditions improved slightly.

## Labor Markets

The pace of hiring grew slightly, on par with the previous report. Most firms continued to report improvements in available talent, and turnover had largely stabilized. Some contacts noted that the need for labor eased amid uncertainty about future demand. Most firms continued to fill open positions, but several noted scrutinizing whether an open position should automatically be filled. Worker shortages persisted in construction, maintenance, retail, nursing, and tourism. Employers in South Florida and Nashville said the lack of housing affordability hindered their ability to attract and retain workers. Firms continued to turn to automation and outsourcing for cost savings, or to compensate for current or expected labor shortages.

Most contacts indicated wage growth continued to ease. However, wage pressures remained elevated in construction and skilled trades. A manufacturer, who described labor as tight and wage growth in the 3–4 percent range, noted that the firm is experiencing "paid-time-off and break-time inflation."

## Prices

Some nonlabor construction input costs, like copper and electrical supplies, increased notably over the reporting period, although greater competition among subcontractor bids provided for some offset. Freight costs, especially container rates, also rose. Food and commodities costs were largely reported as flattening, and fuel cost increases moderated. Firms' pricing power weakened amid softening demand. Insurance costs continued to rise, though at a slower pace, with cyber risk insurance often mentioned as an outsized expense. The Atlanta Fed's Business Inflation Expectations survey showed year-over-year unit cost growth remained relatively unchanged at 2.8 percent, on average, in June from 2.7 percent in May; firms' year-ahead inflation expectations for unit cost growth has remained at 2.3 percent, on average, since April.

## Consumer Spending and Tourism

District retailers reported that consumer demand was in line with expectations–flat year-over-year sales were described as the new normal. Shoppers remained cautious with discretionary spending, seeking heavy discounts, and diligently comparing prices when purchasing more expensive items. Auto dealerships reported that manufacturers continued to offer incentives to boost sales, which were relatively flat compared with a year ago.

Tourism and hospitality contacts noted lower than expected demand for leisure travel since the previous report; however, group and business travel continued to improve. Hotel occupancy and average daily rates moderated over the reporting period, and on-property food and beverage spending fell below expectations. Hospitality contacts expect activity to remain flat for the rest of the year.

## Construction and Real Estate

Declining home ownership affordability continued to stifle housing demand throughout the District. With home prices near peak levels and interest rates still elevated, home sales in most markets were flat or slightly down compared with a year ago. Rising taxes, homeowners' insurance, and HOA costs have become a growing concern, especially for households with fixed incomes. Although supply shortages persisted, existing home inventories rose sharply, especially in Florida. A higher percentage of homes sold below the initial asking price, suggesting a market shift in favor of buyers. New home demand remained strong, but homebuilders expressed concerns about higher mortgage interest rates hindering future sales.

Commercial real estate (CRE) activity was mixed. Slowing activity in office and multifamily resulted in rising vacancy rates and flat-to-declining rent growth; foreclosure activity in these segments accelerated. Industrial starts slowed. Contacts noted an increase in "clicks-to-bricks" investments, where online sales are supplemented by a brick-and-mortar presence. Appraisal accuracy remained challenging, influencing transaction levels. Rising CRE loan maturities continued to raise concerns for all lender types.

## Transportation

Transportation activity remained mixed. Trucking contacts continued to report lower than normal seasonal demand; new Class-8 truck orders were noted as slowing. Some logistics firms reported declines in wholesale, retail, and direct-to-consumer deliveries of big and bulky items, such as appliances. Warehousing contacts experienced a slowdown in demand for distribution and warehouse space. Traffic at District ports varied, and contacts continued to cite east coast labor negotiations as a potential near-term headwind.

## Manufacturing

Manufacturing activity decreased slightly since the previous report. There were reports of slowing in orders for new heavy equipment. Manufacturers also noted soft demand for wood products, especially related to housing construction. Orders of housewares were slow but steady. However, there were some reports of a slight uptick in orders for clothing, and demand for manufactured goods supporting infrastructure projects was strong. The Manufacturing Sector Report of the Atlanta Fed's Business Inflation Expectations Survey pointed to an aggregate decline in both sales and profit margins in recent weeks.

## Banking and Finance

Loan growth was flat as underwriting remained tight and interest rates stayed elevated. High deposit and borrowing costs continued to weigh on bank earnings with some financial institutions selling securities in order to reinvest proceeds into higher-yielding assets. Elevated interest rates adversely impacted bank customers as businesses and consumers refinanced debt at higher rates. Increased delinquencies were observed as credit conditions continued to normalize. However, for certain commercial real estate and consumer loans, delinquency levels are now above pre-pandemic levels.

## Energy

Reports on energy activity varied by sector. Contacts from the oil and gas sector saw flat to modest growth, though a slight slowdown in consumption of diesel fuel was noted. Coal production remained resilient amid stable global demand. Chemical producers described a softening across most segments, particularly chemicals produced for housing, automotive, and advanced materials; however, the pharmaceuticals segment remained strong. Utility contacts reported increasing power demand in commercial and industrial segments, largely attributed to new and expanding data center projects focused on the growing use of artificial intelligence technology. Contacts in the renewable energy sector shared that election uncertainty had slowed capital investment activity.

## Agriculture

Agriculture conditions improved slightly in recent weeks. Cattle farmers reported strong sales resulting from limited national supply. Poultry sales strengthened amid high beef prices, and poultry farmers expressed increased optimism about the remainder of the year. Dairy farmers saw strong demand and higher sales prices and were confident looking forward, but low cattle supply limited growth opportunities. However, row crops including cotton, continued to see weak demand. Soft grain prices hurt growers but benefitted farmers buying feed. Florida citrus farmers struggled as harvests were disappointing, leading to expectations of more growers exiting the market over the next year.

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

# Federal Reserve Bank of Chicago

## Summary of Economic Activity

Economic activity in the Seventh District increased slightly overall in late May and June, and contacts generally expected a similar rate of increase over the next year. Employment was up modestly; business and consumer spending rose slightly; nonbusiness contacts saw little change in activity; and manufacturing and construction and real estate activity edged down. Prices were up modestly, wages rose moderately, and financial conditions loosened a bit. Prospects for 2024 farm income declined some.

## Labor Markets

Employment rose modestly over the reporting period and contacts expected growth to continue at that pace over the next 12 months. Most contacts indicated the labor market remains tight, with some respondents, particularly in manufacturing, continuing to have difficulty filling higher-skilled positions. However, there were signs of cooling, with several contacts noting sizeable layoffs in the heavy machinery industry and reports of increases in the number and quality of applicants. Wages and benefits costs rose moderately, with some of the increases resulting from new union contracts.

## Prices

Prices rose modestly overall in late May and June and contacts expected a similar rate of increase over the next 12 months. Producer prices moved up modestly. Nonlabor input costs continued to rise, with manufacturing contacts highlighting increases in the costs of energy and some raw materials, notably copper. Still, many contacts said overall inflationary pressures had subsided. One heavy machinery manufacturer reported that high interest rates were helping push down prices. Consumer prices again rose moderately overall, though retail contacts reported a slowdown in price growth, including flat or falling prices in a range of spending categories.

## Consumer Spending

Consumer spending increased slightly over the reporting period. Nonauto retail sales were unchanged overall. Several contacts indicated that foot traffic was up more than sales. For example, a contact in the grocery industry said there were more consumers (across all income groups) shopping at multiple stores, which he interpreted as a signal of greater price sensitivity. Leisure and hospitality activity rose modestly overall. Restaurant sales grew modestly, largely driven by higher income households. Light vehicle sales moved up slightly. However, contacts said the cyberattack on CDK Global made completing transactions much more onerous and slowed the sales pace some. New vehicle transaction prices fell, incentives rose, and used vehicle prices trended lower.

## Business Spending

Business spending increased slightly in late May and June. The pace of new capital expenditures ticked up, with contacts highlighting investments in HVAC units and furniture. Despite high interest rates, many contacts said they were moving forward with capital spending projects and that rates staying higher than they had expected earlier in the year was unlikely to affect their decision making. Demand for truck transportation remained flat at a low level and freight rates remained low as well. Auto dealer inventories were largely at comfortable levels, though one contact noted rising light truck inventories. Manufacturing stocks were also comfortable overall, but a heavy truck manufacturer indicated inventories were moderately elevated. There were isolated reports of supply chain issues. Several contacts said a low supply of switchgears (used for regulating the flow of electricity) was causing headaches for electric utilities.

## Construction and Real Estate

Construction and real estate activity decreased slightly on balance over the reporting period. Residential construction was up some overall, though contacts noted that an increasing number of homeowners had deferred home renovations because of high interest rates. Residential real estate transactions decreased slightly, with little change in prices or rents. One contact noted that time on the market had grown. Nonresidential construction activity was unchanged, as were sales prices. Several contacts said that the industry had adjusted to high interest rates. The number of new projects was solid and unchanged, though across all segments developers of new buildings were cutting back on the size of projects and amenities. Office tenants were downsizing but updating their spaces. Demand for retail store remodeling was also solid. Commercial real estate activity decreased slightly. Prices were unchanged, rents fell slightly, and vacancy rates were unchanged. Contacts reported that several local restaurants near office buildings had closed recently because of an ongoing lack of weekday traffic. In Southeast Michigan, contacts noted ample availability of industrial floor space because of lower-than-expected battery electric vehicle production.

## Manufacturing

Manufacturing demand decreased slightly on balance in late May and June. Orders for steel were down slightly, with contacts noting slower demand from construction. Fabricated metals sales were steady overall, with higher demand from utilities but lower demand from the auto industry. One manufacturer linked a significant decline in demand from the auto sector during the first half of the year to lower-than-expected electric vehicle production. Machinery sales decreased modestly, with reports of slower demand from the construction, agriculture, and aerospace industries. Auto industry contacts saw little change in demand on balance.

## Banking and Finance

Financial conditions loosened slightly over the reporting period. Bond and equity values both increased and volatility was little changed. Business loan demand fell modestly, with contacts highlighting slower demand for commercial real estate loans. Rates were stable but lending terms tightened slightly. Loan quality was little changed. Contacts continued to note strong competition among lenders, especially for making loans to the most creditworthy borrowers. Consumer loan demand was down slightly, while rates were flat. Loan quality fell slightly with contacts noting some deterioration in their credit card, auto, and mortgage loan portfolios. Consumer loan terms tightened slightly.

## Agriculture

Farm income expectations for the District waned in late May and June as key crop prices declined. Contacts indicated that farmers were slow to sell crops from storage and were holding back on selling ahead from their anticipated fall harvest in part because of low prices. Although recent flooding covered some acres, corn and soybean planting recovered from earlier weather-related challenges across much of the District, and overall crop conditions were off to a better start than in recent years. Corn, soybean, and wheat prices were lower, with a strong wheat harvest already underway. A contact noted that an early wheat harvest would free up fields for second crop soybeans sooner than usual, allowing the soybeans to mature for longer. Milk and egg prices were higher, while hog prices faltered. Cattle prices were flat at a high level.

## Community Conditions

Community, nonprofit, and small business contacts reported little change in economic conditions over the reporting period. State government officials again saw steady growth in tax revenue. Small business intermediaries continued to speak about the hiring and retention challenges of smaller employers, including nonprofits, who struggle to compete for employees in a tight labor market. Community Development Finance Institutions (CDFIs) reported that new sources of capital were creating opportunities for investment but were also challenging the capacity of CDFIs to administer the loans and the capacity of borrowers to find skilled trades people to do the work. Although inflation has moderated, higher prices continued to be a challenge for businesses and nonprofits (especially those with narrow margins or fixed revenue streams), as well as for low- and moderate-income families. The limited supply of affordable housing remains a persistent point of concern for many contacts.

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

# Federal Reserve Bank of St. Louis

## Summary of Economic Activity

Economic activity across the Eighth District has increased slightly since our previous report, a continuation of trends reported over the past few months. Employment was unchanged and wage growth continued to moderate back to longer-run trends. Inflation pressures increased modestly, with slower price growth than in previous reports. Reports on consumer spending were mixed. Real estate activity was generally unchanged. District crop conditions remained stable, with high rainfall mitigating excessive heat. Banking conditions remained stable while manufacturing activity increased moderately.

## Labor Markets

Employment has remained unchanged since our previous report. The labor market continues to be tight, but some contacts have reported an easier time hiring. A retailer reported they have seen an uptick in applicants that meet qualifications, while an agriculture contact from St. Louis noted labor needs have eased with less turnover. Despite some improvement in ability to hire, several contacts still reported unfilled jobs and difficulty in finding the right candidates.

Wage growth has risen slightly since our previous report. A transportation contact reported that this year they returned to normal wage increases. An auto-parts manufacturer said the large one-time wage increases due to direct competition for workers has disappeared.

## Prices

Prices have increased at a modest pace since our previous report. Contacts continued to report limited ability to pass-on higher costs to households, given their heightened sensitivity to price increases, despite expectations costs will continue to climb. An auto dealer noted that higher-priced vehicles are slower to sell and are accumulating on lots without manufacturer incentives. A pet-supply retailer noted that manufacturers have continued to increase prices, albeit at a slower pace, even though commodity prices have decreased. Similarly, an agriculture contact noted that prices for some commodities have been stable recently, but that cost increases are anticipated going forward. A railroad contact noted that their firm still faces significant cost pressure, for electronics especially, but that final prices to customers have not changed recently. Conversely, a shipping contact noted that pricing related to the movement of goods continues to climb, primarily through fuel surcharges. Manufacturers in Arkansas reported that higher costs can still be passed down to customers through higher prices.

## Consumer Spending

Reports on consumer spending have been mixed. Retailer and auto dealers have generally reported flat to declining sales, restaurant contacts have generally reported increasing sales, while hospitality contacts reports were mixed. An Arkansas cycling retailer stated that bike sales are experiencing a slump, although bike rentals, especially e-road bikes, are thriving due to increased tourism. District auto dealers noted overall weaker sales and major disruptions due to a cyberattack affecting many systems. A Memphis restaurant contact stated that there's been a surge in demand, specifically in restaurants catering to social and nightlife scenes. A hotelier contact reported that occupancy rates are down across their hotels in Mississippi.

## Manufacturing

Manufacturing activity has moderately increased since our previous report. Firms in Arkansas and Missouri reported moderate increases in delivery lead times, production, and inventories. Several manufacturing firms reported higher prices of goods, which they passed on entirely to customers. Manufacturers reported ongoing issues with attracting and retaining employees, especially in entry-level positions. However, several firms noted that people are willing to commute longer to jobs that offer good culture, training, and funding for post-secondary education. Employment was generally unchanged, and firms expect slight increases in employment in the coming quarter.

## Nonfinancial Services

Activity in the nonfinancial services sector has remained largely unchanged since our previous report. Trucking contacts reported a mixed outlook, with more reports about layoffs and streamlining than about expansions. However, two airport contacts described the outlook as cautiously optimistic, noting passenger volumes being stronger than expected both locally and nationally, with future bookings also looking strong. A railroad contact reported a decline in shipments combining rail and truck transportation but expected a heavy grain shipment season to partially offset the drop. District healthcare and educational institutions continue to invest in new facilities, spurring regional development.

## Real Estate and Construction

Residential home sales have remained unchanged since our previous report. On average, homes are being sold for slightly less than asking price and are on the market for longer than they were a year ago, suggesting that buyer demand has slowed. In most metro areas, while inventory levels remain historically low, they are higher than a year ago. However, Memphis inventory is almost back to pre-pandemic levels, while inventories in St. Louis continue to trend lower.

Commercial real estate conditions are mixed, depending on the property type. Office leasing activity remains depressed. One contact noted that upon renewal, square footage was down by 20 to 30 percent. The industrial market remains weaker than a one year ago, but brokers are seeing a slight uptick in leasing activity. The retail market remains strong with low availability rates and stable construction activity. In the multifamily rental market, a contact noted that supply had increased and that demand continued to be strong, particularly in suburban areas.

## Banking and Finance

Overall banking conditions in the District remain stable. Loan growth increased at a modest pace for both consumer loans and commercial and industrial loans. Contacts reported that the volume of mortgage loans has been increasing in recent months. Competition for deposits remains elevated and total deposits continue to increase. While consumer loan delinquencies continue to rise, contacts reported that credit risk remains low to moderate.

## Agriculture and Natural Resources

Overall agriculture conditions have remained stable since our previous report. The share of major District crops of soy, rice, corn, and cotton rated fair or better declined slightly in every state except Tennessee, where the share remained the same. Despite extreme high heat, soil conditions have improved relative to the drought conditions observed last growing season. District contacts reported that rains earlier in the year have helped protect against high temperatures, but high temperatures remain a concern. Contacts in agriculture equipment and services stated that the slowdown in transactions relative to their peak in 2021–2022 has continued.

# Federal Reserve Bank of Minneapolis

## Summary of Economic Activity

Economic activity in the Ninth District was flat to slightly down since the previous report. Employment grew slightly, but labor demand continued to soften. Price pressures increased modestly, and wage growth was moderate. Consumer spending was mixed. Construction improved slightly, while real estate markets were mostly flat. Manufacturing slowed and agricultural conditions weakened as farm income fell. Activity among minority- and women-owned business enterprises was soft.

## Labor Markets

Employment grew slightly since the last report. Labor demand remained positive but continued to soften. The share of firms with unfilled labor needs fell in May and June compared with earlier in the year. Expectations for future hiring were also soft. Tourism and hospitality firms in Minnesota noted lower seasonal labor demand for this time of year, especially for full-time workers. Staffing contacts reported declines in job orders. Labor availability continued to improve. Workforce contacts said that job fairs and job centers were seeing increased traffic. A Wisconsin source said there were "still plenty of job openings," but employers were raising hiring standards and pausing on some hires. A Montana staffing contact said more job candidates were applying but employers were being picky with hiring because "have been burned time and time again since COVID so they are very cautious and hesitant when hiring."

Wage growth was moderate. Survey respondents reported wage increases consistent with levels seen earlier in the year. A Montana staffing firm noted that wage growth was "still higher than prepandemic levels, but I'm not hearing about regular increases that would match the previous breakneck pace."

## Prices

Overall prices increased modestly, an easing in the pace of increase since the last report. More than half of firms responding to a monthly survey reported no change to sales prices in June from a month earlier, while fewer than a third increased their prices. Input price pressures remained greater than consumer price pressures on balance, and expectations for both input and final prices in the month ahead were more moderate, as more than 60 percent expected no change in either. Contacts continued to report difficulty passing input cost increases through to customers. Retail fuel prices in District states were roughly unchanged since the last report. Prices received by farmers increased in May from a year earlier for dry edible beans, lentils, eggs, milk, hogs, and cattle; prices decreased for corn, soybeans, wheat, hay, canola, chickpeas, potatoes, chickens, and turkeys.

## Worker Experience

Employed workers who responded to a recent survey were mostly satisfied with the schedule flexibility and work-life balance they were offered. On the flipside, they were least satisfied with available career advancement opportunities. About half of them were looking for different jobs but would hesitate to apply for or accept a job if pay was low or schedules were difficult. Access to training or education as well as affordable housing were listed as the top things that would help these workers reach their objectives. A hospitality worker in Deadwood, South Dakota, said that housing in the area had become unaffordable. “I had to move 45 minutes away, and even though we get paid well, we are being priced out,” they said.

## Consumer Spending

Consumer spending was flat overall since the last report, with some variability. Tourism contacts reported some slowing, but activity remained healthy for some. A Montana camping contact noted that bookings had softened somewhat from last summer, “but operating at 90 or 95 percent capacity is still pretty darn good.” A contact in Michigan’s Upper Peninsula said that “inflation seems to have curbed some travel and talk of ‘staycations’ is returning.” Floods in southern Minnesota impacted tourism and other activities and caused some businesses to temporarily close. South Dakota retailers expected summer sales to be flat “at best,” said a contact there, adding that “consumers continue to trade down in a variety of areas, looking to spend less.” Hotel occupancy and average room rates saw healthy year-over-year increases in Minnesota and the Dakotas, but they were flat or declining in Montana and Wisconsin. Regional airports reported strong early summer traffic.

## Construction and Real Estate

Construction improved slightly since the last report. Industry data showed that new projects and overall activity increased compared with last year. However, contacts were more mixed in their assessment. A Montana source said that contractors were busy, but projects were seeing more bids and smaller markups. A Minnesota contact in commercial glass said the company was “feeling the softening of the nonresidential construction market.” Single-family permitting was down in many markets with the exception of Minneapolis-St. Paul, where permits rose more than 20 percent in May and June compared with last year. A manufactured housing firm said they were having a good year, but “our performance is an exception. Most that we talk to are down.”

Commercial real estate was flat to down slightly. Industrial space remained healthy but vacancy ticked slightly higher. Office property owners in Minneapolis-St. Paul continued to face “a glut of space” and refinancing challenges, according to an industry source. Retail and multifamily property owners have benefited from the lack of new construction, keeping a lid on vacancies; a contact said midlevel apartments “are faring better because of the value proposition.” Residential real estate was mixed, with recent home sales generally rising compared with last year in the eastern part of the District but slowing across much of the western portion.

## Manufacturing

District manufacturing activity decreased briskly since the last report. A regional index of manufacturing conditions indicated decreased activity in June from the previous month in Minnesota, North Dakota, and South Dakota. Manufacturing sector respondents to a monthly survey reported that orders were down on balance in June from a month earlier. The outlook for the month ahead was similar. A custom manufacturer in North Dakota reported that “all of our customer demand seems to be dropping off,” while a Wisconsin metal fabricator commented, “in 43 years I have never seen it this slow.”

## Agriculture Energy and Natural Resources

District agricultural conditions weakened since the last report. Lenders responding to an agricultural credit conditions survey overwhelmingly reported decreased farm incomes in the second quarter of 2024 relative to a year earlier, with expectations for further declines in the coming three months. Poultry producers were concerned about an avian influenza outbreak in the region. While ample precipitation was welcomed in some areas previously affected by drought, other areas were experiencing catastrophic flooding or delayed planting due to excess moisture. District oil and gas exploration activity was unchanged since the previous report.

## Minority- and Women-Owned Business Enterprises

Activity among minority- and women-owned business enterprises (MWBE) was lower on balance. Contacts reported that consumers were being more careful with their expenses. Both headcount and hiring demand were mostly unchanged among contacts. More contacts raised wages in recent weeks compared with those who did not. Some continued to resort to higher pay to attract needed talent. Expectations for future sales were slightly more upbeat, but hiring and headcount were expected to stay flat over the following weeks.

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

# Federal Reserve Bank of Kansas City

## Summary of Economic Activity

The Tenth District economy continued to expand at a moderate pace. Hiring activity slowed as many businesses pulled back on new job postings, but employment levels were stable. Ongoing tightness in labor markets across the District supported modest growth in wages over the last month. Consumer spending rose at robust pace, driven by particularly strong growth in travel-related consumption. Growth in spending on other non-discretionary categories, such as health-care and childcare, was lower due to persistent supply constraints. Commercial property sales rose slightly, but with significant reductions in prices as strained borrowers sought to exit certain positions. Commercial real estate lenders noted a slight rise in covenant breaches but were optimistic about the ability to work through the few problem loans that arose. Energy activity continued to decline. With energy price expectations below what is needed for a substantial increase in drilling, contacts expected future drilling activity will remain subdued. Agricultural conditions in the Tenth District faced headwinds from weak crop prices. Generally, consumer prices grew at a modest pace as contacts continued to note little ability to pass along costs.

## Labor Markets

Hiring activity in the Tenth District slowed during the past month, with the majority of businesses reporting stable employment levels. Many businesses pulled back on new job postings and reduced staff hours, with the most pronounced declines in hours worked reported by manufacturing firms. Only part of the reduction in hours was attributed to lower demand by businesses. Contacts in both services and manufacturing sectors expressed challenges in hiring stemming from workers' demands for more flexible hours, which constrained the effective supply of labor. Many contacts expected new hiring activity and labor utilization to remain subdued over the next six months.

Despite the cooling growth in demand for labor, ongoing tightness in regional labor markets supported modest growth in wages over that last month. Contacts indicated the pace of wage growth was slower than earlier this year. However, several businesses indicated they enhanced non-wage benefits focusing on education reimbursement, more flexible work schedules, and improved retirement savings plans as strategies for attracting and retaining employees.

## Prices

District contacts reported prices for finished goods and services grew at a modest pace over the past month. Most services contacts reported input prices continued to grow at a robust pace, resulting in a deterioration in the ability to pass higher costs on to customers. Conversely, raw materials price growth slowed according to manufacturing contacts, somewhat alleviating their margin pressures. Businesses that recently secured government contracts reported somewhat stronger growth in both selling prices and input prices, indicating fiscal support remains a price pressure within the District. Regarding the cost of shelter, rent growth stabilized across all major District metro areas over the past few months, driven by outsized growth in the supply of newly built units coming available.

## Consumer Spending

Household spending expanded at a robust pace, with continued strength in several consumer discretionary categories. Contacts reported that hotel stays grew at a strong pace, driven by both leisure travelers and elevated business travel. Restaurateurs who offer a wide range of price points all reported strong growth in sales. Retail spending also rose, but at a slower pace than travel-related services. Contacts' reported expectations for consumer spending over the next six months generally improved, as fewer firms anticipate slower consumer spending ahead.

## Community Conditions

Childcare prices continued to increase, and childcare providers reported parents were unlikely to see relief soon. Providers continued to face challenges in finding and keeping employees, particularly due to the inability to offer competitive pay. As such, several contacts noted some children may not be accepted due to staffing. Subsidy programs were a challenge as they only pay a fraction of what it costs to care for the child, and many providers have either stopped, or capped, their acceptance of subsidies. Contacts noted increasing liability insurance premiums are an emerging challenge for their business. One provider said their premiums increased 94% last year and another suggested a growing informal childcare network is operating without insurance due to the rising costs.

## Manufacturing and Other Business Activity

Overall business activity slowed slightly in the District, as modest growth in services activity was offset by slowing manufacturing activity. Growth in the service sector was led by robust growth in consumer discretionary activity at hotels and restaurants. In contrast, manufacturing businesses reported slowing demand, noting moderate declines in production, new orders, and backlogs. However, manufacturing contacts expressed optimism about future activity, with expectations of moderate growth in activity over the next six months. Planned capital expenditures remain subdued compared to historical norms for both manufacturing and services businesses, which contacts attributed to the high cost of capital,

## Real Estate and Construction

Commercial property sales and listings rose across the District, but reportedly at steep discounts that contacts suggested will trigger broad price corrections, with Class B office and housing properties being most significantly affected. The anticipated rise in commercial property sales and other financing activity were attributed to strained borrowers seeking relief as covenant breaches on commercial real estate loans picked up slightly. Vacancy rates rose across property types, but with stark differences between their reported drivers. The net supply of new industrial space and multifamily housing units were both significantly above their 10-year average in recent months, which contacts suggested drove vacancies higher for the near term and tempered rent growth. However, demand for office space remained subdued and declines in office leasing activity were the primary drivers of higher vacancies, a dynamic which contacts expect to persist.

## Community and Regional Banking

Loan demand was mostly unchanged across categories, albeit with weakness in commercial and industrial lending reported by many institutions. Several bankers noted that loan quality deteriorated broadly, but only modestly. Consumer delinquencies rose from low levels, some problems with specific commercial and industrial loans emerged, and past dues on agricultural loans were up slightly. Yet, bankers noted that overall loan quality remained strong, despite the recent worsening, and that they were optimistic about the ability to work through problem loans, which remain at a very low level. Credit standards were unchanged across lending categories.

## Energy

Tenth District energy activity continued its moderate decline. Nearly two thirds of contacts reported activity stayed steady in recent months, while most others reported decreased activity. The number of active rigs in the District fell at a faster pace recently, driven by declines in Oklahoma, as oil prices have fallen from highs earlier this year and natural gas prices remain well below profitable levels. Accordingly, firms' profits and capital expenditures have decreased while employment remained essentially flat. Contacts' near- and long-term price expectations are still under the price needed for a substantial increase in drilling, indicating that future drilling activity will remain subdued for the foreseeable future.

## Agriculture

Agricultural economic conditions in the Tenth District remained subdued alongside weak crop prices. The latest planting estimates and favorable growing conditions suggested corn and soybean production could be strong, factors likely to weigh on prices. Grain stocks from last year also remained elevated within District states and across the U.S., putting additional downward pressure on prices and reducing revenue opportunities. Cattle prices remained strong and continued to support favorable profit opportunities for cow/calf producers. Contacts throughout the region reported some deterioration in financial conditions for farm borrowers that was more pronounced in areas more heavily reliant on crop revenues and less concentrated in cattle production. In addition, elevated production costs, interest expenses and farm household expenditures remained primary concerns for many agricultural lenders.

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

# Federal Reserve Bank of Dallas

## Summary of Economic Activity

The Eleventh District economy expanded slightly over the reporting period. Activity grew in the non-financial services, finance, and energy sectors. Manufacturing output was flat, while retail sales and home sales declined. Agricultural conditions improved, and demand for nonprofit services increased. Employment rose modestly, and wage growth remained moderate. Selling price growth picked up in manufacturing but remained subdued in the service sector. Outlooks improved although they remained in neutral to pessimistic territory, with weakening demand, domestic policy uncertainty, and inflation cited as top concerns.

## Labor Markets

Employment increased modestly over the past six weeks. Staffing firms noted a broad-based pick up in hiring, including for HR and marketing roles. However, some firms said hiring was on pause in part due to an uncertain economic environment, and oil and gas companies reported a slower pace of hiring and some layoffs amid consolidation in the industry. Some firms noted difficulty filling certain skilled positions, while one staffing firm characterized the labor market as an "employer's market."

Wage growth generally remained moderate. Staffing services firms said wage pressures have eased and some firms are pushing for lower starting wages. A June Dallas Fed survey showed that Texas businesses expect wage growth in the next 12 months to be 3.5 percent, on average, down from 4.9 percent in the previous 12 months.

## Prices

Prices rose at a modest to moderate pace over the reporting period. While an acceleration was seen in finished goods prices in manufacturing, input cost and selling price growth was below average in the service sector, including in retail. Home prices were largely steady, but with some contacts noting discounting. A few companies noted pushback from customers on price increases, and a professional and business services firm cited downward pricing pressure from competitors because of slowing demand. Over the next 12 months, contacts expect input costs to rise 3.7 percent but plan to increase their prices by 2.8 percent.

## Manufacturing

Texas manufacturing activity stabilized in June, after contracting slightly in May. Some weakness continued on the durable goods side, particularly in primary metals, fabricated metals, and machinery manufacturing. However, output increased moderately in computer and transportation manufacturing. Among nondurables, food and chemical manufacturers saw a notable increase in new orders, and Gulf Coast refiners cited robust utilization rates. Manufacturing outlooks improved although they were still weak, with sluggish demand, election uncertainty, and elevated input costs cited as key headwinds.

## Retail Sales

Retail sales declined moderately during the past six weeks, with weakness ascribed partly to seasonality and partly to elevated pricing and borrowing costs curtailing consumer demand. Food and beverage stores noted modest sales increases, while auto dealers and nonstore retailers reported declines. Overall, retail outlooks remained negative.

## Nonfinancial Services

Service sector activity rose slightly over the reporting period. Contacts noted that economic uncertainty and high prices were curbing demand. Revenue growth was particularly strong in transportation services. Airlines said leisure travel continued to lead air passenger demand, and business travel was steadily increasing. Small parcel carriers saw a modest increase in shipments, and air cargo volumes remained robust, buoyed by strength in domestic demand. Activity in professional and business services as well as information services rose, and staffing firms cited a broad-based pickup in demand for their services. In contrast, revenues in health care and leisure and hospitality exhibited weakness. Outlooks were less pessimistic, but still weighed down by weakening demand, domestic policy uncertainty, inflation, and high interest rates.

## Construction and Real Estate

Housing demand weakened during the reporting period. Contacts reported a decline in sales and traffic as mortgage rates hovered around 7 percent. Builders noted that they had a good backlog of orders, but the spring selling season had petered out earlier than normal. Incentives such as discounting and rate buy downs remained widespread, squeezing margins.

Commercial real estate activity was little changed from the previous reporting period. Apartment leasing picked up, but there continued to be downward pressure on occupancy rates and rents due to elevated supply. Office leasing activity remained sluggish and was primarily concentrated in class A space. Retail and industrial demand grew moderately, and rents were stable to up. Outlooks were cautious, with certain commercial market segments expected to remain challenging due to weak demand, high interest rates, election uncertainty, access to financing, and/or elevated supply.

## Financial Services

Loan volumes grew at a faster pace in June as loan demand increased despite credit standards continuing to tighten. Credit tightening decelerated for all loan types except for consumer loans, and loan price increases moderated. However, bankers anticipate credit tightening for commercial real estate loans to accelerate over the next three months particularly for office, hotels, and multi-family loans. Loan nonperformance continued to rise, particularly for consumer and commercial and industrial loans. Close to half of bankers reported an increase in deposits and slightly more expect deposits to rise in the next six weeks. Bankers' outlooks remain mixed; they expect an increase in loan demand six months from now, but a deterioration in loan performance and business activity, although the expectations of a decline have moderated toward stabilization.

## Energy

Oilfield activity was flat to up modestly over the reporting period. Oil and natural gas production was largely unchanged, while oilfield services activity rose. Oil prices are expected to remain well above breakeven costs through year-end 2024, but pricing for natural gas remains challenging due to an oversupply of associated gas production in the Permian Basin. Several contacts, particularly smaller exploration and production firms said low natural gas prices would hamper their drilling and completion plans for the remainder of the year. In contrast, some contacts expect an increase in their production activity this year, aided by new natural gas pipeline capacity.

## Agriculture

Crop and pasture conditions broadly improved with sufficient rainfall in most areas, particularly early in the reporting period. Livestock conditions were strong with little to no supplemental feeding needed thanks to ample availability of grazing and hay, and cattle prices continued to strengthen. Expected row crop production is promising, with moisture conditions much more favorable than last year. However, crop prices have fallen to levels below the cost of production for many producers, even with average yields.

## Community Perspectives

Nonprofit service providers noted an uptick in demand, stemming from the severe weather events in late May. Some contacts noted difficulties in serving clients because their own organizations suffered damage and power outages. One contact noted that the storm-related loss of income puts some vulnerable small businesses, already operating on thin margins, at risk of failing. Housing affordability continued to be cited as a top concern facing low- to moderate-income households who are locating further out from the city into communities that lack reliable transit options, creating commuting challenges. Contacts noted that housing affordability was also impacting recruitment and retention of workers, including nurses, EMTs, and teachers. On the housing development side, one nonprofit executive said they could not build affordable units quickly enough to meet demand, largely due to increases in capital costs and the lack of gap financing.

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

# Federal Reserve Bank of San Francisco

## Summary of Economic Activity

Economic activity in the Twelfth District was stable on net during the mid-May through June reporting period. Labor availability improved, and employment levels were generally steady. Wages and prices continued to increase at a slight pace on net. Retail sales fell slightly, after slight prior growth. Activity was mixed in services and manufacturing sectors, and conditions in agriculture and resource-related sectors weakened somewhat. Activity in residential real estate continued to slow, while that for commercial real estate was mixed. Conditions in the financial services sector were little changed. Communities across the District faced affordable housing shortages, and demand for community services generally remained high. Looking ahead, contacts expect the pace of price increases to moderate further and overall economic conditions to weaken modestly.

## Labor Markets

Employment levels were again largely unchanged. Employers largely kept head counts steady, citing slowing demand for their products and services and continued investment in automation. The size of the labor force overall reportedly grew, and some firms found it easier to fill jobs, particularly those at the entry level. However, challenges continued for firms recruiting specialized workers in sectors such as information technology, manufacturing, and construction. Demand for workers with specialized skills rose more than overall labor demand in these sectors. Turnover across sectors such as finance, real estate, and retail was stable to down, and talent poaching by competing firms was less prevalent. A community banking contact noted easing in their own ability to hire because of layoffs at larger financial institutions.

Wages grew slightly on net, similar to the previous reporting period. The pace of wage growth generally subsided for workers in real estate, business services, and finance, while wages rose faster for workers in these sectors with specialized skills in high demand, such as experienced consultants and information security experts. Remote work remained an attractive nonwage benefit for workers, leading some firms to compete on the number of remote workdays offered. California contacts in retail trades, leisure and hospitality, and other sectors reported higher wage pressures following the recent increases in state and local minimum wages.

## Prices

Prices rose slightly overall, similar to the prior reporting period. Costs for some inputs, such as energy, utilities, and insurance, rose at a slight pace, while prices for inputs used in construction, including asphalt, wood products, steel, and equipment, rose more slowly or even fell slightly. Higher product inventories and softer demand lowered prices for some products and services including new and used cars and consulting. Contacts reported higher prices at some restaurants but lower prices at others, particularly at large chain restaurants aiming to attract customers.

## Community Conditions

Communities across the District continued to confront widespread shortages in affordable housing and associated increases in housing insecurity. Demand for subsidized and employer-sponsored housing units increased of late, but the supply of affordable housing remained very constrained. Financial stress from elevated costs, particularly for rent, reportedly pushed families to move in together and individuals to find roommates to help pay rent. More broadly, several contacts noted that demand for community services remained high, while capacity from providers was constrained by limited funding and challenges attracting and retaining workers.

## Retail Trade and Services

Retail sales fell slightly in recent weeks after slight growth in the preceding period. Reports suggested that households pulled back on their spending at a faster pace than retailers had expected. While demand was stable for groceries and produce, sales of luxury goods and other large purchases weakened as consumers continued to reduce spending on nonessential goods. Consumers were characterized as more cautious with spending decisions and reluctant to pay full price.

Activity in the consumer services sectors decreased somewhat, while demand for business services was unchanged relative to the previous reporting period. Demand for leisure and hospitality fell, and restaurants across the District reported lower consumer spending overall, driven in part by less spending per visit. The health-care services sector continued to experience strong demand and remained at or near operational capacity. Demand for legal services ticked up slightly, while demand for business consulting and staffing services ticked down. Medical laboratory service providers continued to report solid activity levels.

## Manufacturing

Manufacturing activity was mixed. Demand for manufactured goods generally weakened over the reporting period. Input costs also remained elevated, capacity utilization fell, and inventory levels rose. Demand for manufactured wood products declined noticeably with slower construction activity and lower sales at home improvement centers. Nonetheless, other contacts in manufacturing reported steady demand growth from local governments and increased orders for goods, such as those for packaging machinery. Contacts also mentioned ongoing investment in automation to help alleviate elevated labor costs. A metal fabricator in the Pacific Northwest observed an increase in custom orders and readily available raw materials.

## Agriculture and Resource-Related Industries

Activity in the agriculture and resource-related sectors decreased slightly. Crop yields and past harvest inventories of tree fruit, tree nuts, and seafood remained high, reducing prices to below the cost of production for apples, grapes, raisins, walnuts, almonds, and frozen salmon. Domestic demand from food services and the retail sector was stable but generally soft, and demand from abroad remained solid. Packaging and transportation costs reportedly decreased somewhat, and water availability was largely stable. Weaker domestic and foreign demand for harvested timber led landowners to reduce production in recent weeks.

## Real Estate and Construction

Activity in residential real estate slowed further, in line with the prior reporting period. The supply of new and existing single-family homes failed to meet ongoing demand due to low inventories. Construction of single-family homes was subdued because builders faced high interest rates, rising insurance costs, and limited availability of skilled labor. However, one contact in California mentioned that single-family housing starts appeared to be increasing in their local area. Multifamily completions continued, raising availability and vacancy rates, especially in high-end markets. This increased availability dampened rents and expanded concessions to renters. Contacts reported that new multifamily housing starts generally decreased across the District.

Commercial real estate activity remained mixed on net. Demand for office space continued to decrease, while demand for industrial space was solid. High financing and material costs as well as downward pressure on valuations and some lingering supply chain issues hampered construction in the commercial sector, putting some projects on hold. One contact in the retail sector mentioned lower investments in new developments, focusing instead on existing commitments and remodeling projects.

## Financial Institutions

Conditions in the financial services sector were largely unchanged. Business lending activity remained muted for the most part, especially for commercial real estate. Demand for auto loans and other consumer credit products remained steady, though one contact in financial services reported a slight uptick in demand for residential mortgages. Consumer loan delinquencies rose somewhat in recent weeks, but credit quality overall remained high. Competition for deposits was strong, and demand for high-yield time deposits reportedly increased in recent weeks. Several contacts highlighted ongoing weakness in the mergers and acquisitions market and a notable pullback in investments by private equity firms.

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