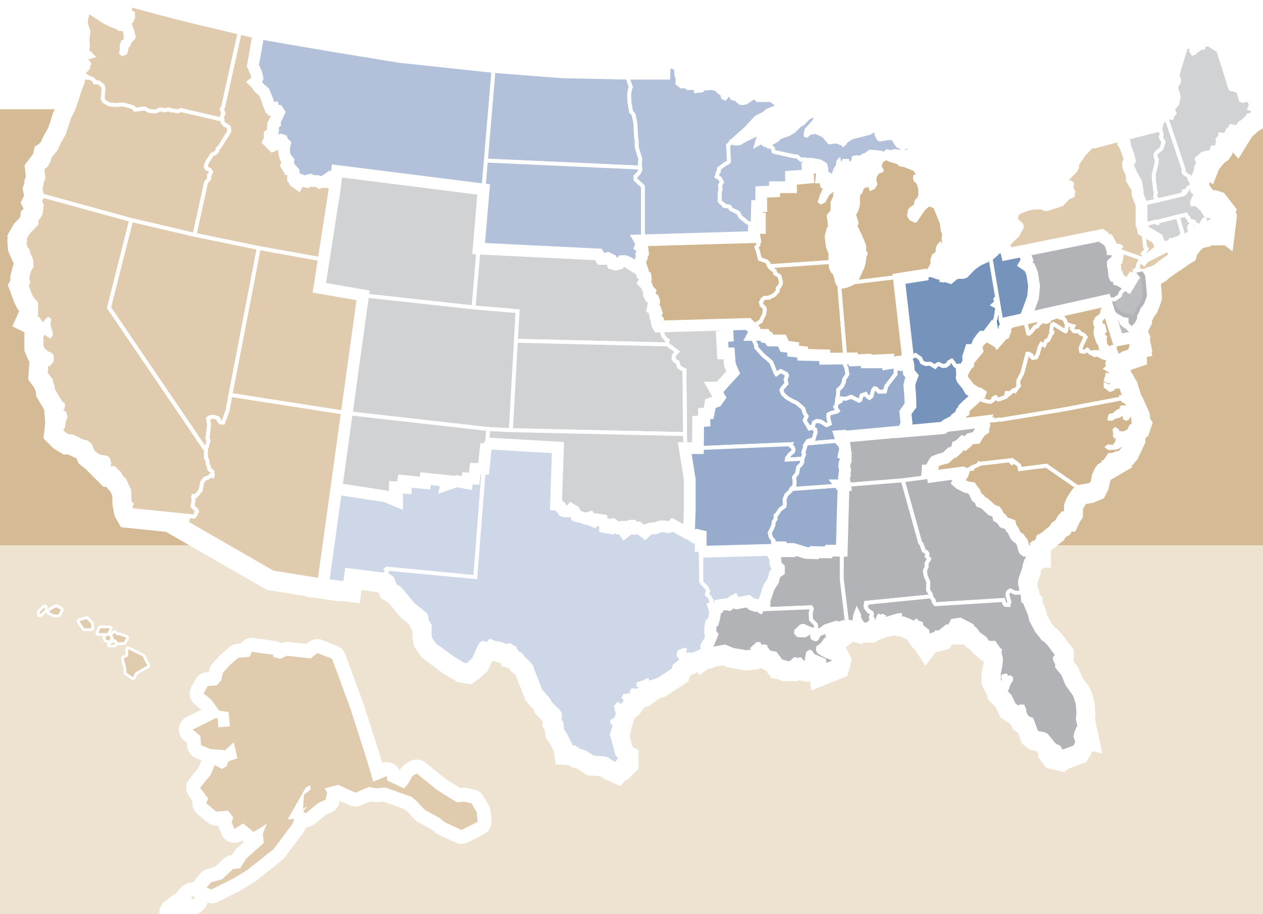
The Beige Book

Summary of Commentary on Current Economic Conditions by Federal Reserve District

January 2025



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 increased slightly to moderately across the twelve Federal Reserve Districts in late November and December. Consumer spending moved up moderately, with most Districts reporting strong holiday sales that exceeded expectations. Vehicle sales grew modestly. Construction activity decreased overall, with several Districts indicating that high costs for materials and financing were weighing on growth. Manufacturing decreased slightly on net, and a number of Districts said manufacturers were stockpiling inventories in anticipation of higher tariffs. Residential real estate activity was unchanged on balance, as high mortgage rates continued to hold back demand. Commercial real estate sales edged up. The nonfinancial services sector grew slightly overall, with Districts highlighting growth in leisure and hospitality and transportation, notably air travel. Truck freight volumes, however, were down. Financial service providers reported modest growth in lending and little change in asset quality overall, though lenders and community organizations voiced concerns about delinquencies among small businesses and lower-income households. Nonprofit social service agencies faced high demand amidst uncertainty about future funding levels. Agricultural conditions remained weak overall, with generally lower farm incomes and weather-related struggles in some areas. The spread of avian flu reduced egg supplies and pushed up prices. Energy activity was mixed. More contacts were optimistic about the outlook for 2025 than were pessimistic about it, though contacts in several Districts expressed concerns that changes in immigration and tariff policy could negatively affect the economy.

Labor Markets

Employment ticked up on balance, with six Districts reporting a slight increase and six reporting no change. Contacts in several service industries, notably healthcare, continued to see job growth. Construction employment increased slightly, while manufacturing employment was flat. Contacts across multiple sectors noted difficulty finding skilled workers, and reports of layoffs remained rare. However, contacts in some Districts expressed greater uncertainty about their future staffing needs. Wage growth picked up to a moderate pace in most Districts, though there were some reports that wage pressures had eased.

Note: This report was prepared at the Federal Reserve Bank of Chicago based on information collected on or before January 6, 2025, and thus, before the wildfires in the Greater Los Angeles area started. 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 modestly overall, with growth rates ranging from flat to moderate. Contacts in most Districts reported modest increases in selling prices, though there were instances of flat or decreasing prices as well, particularly in the retail and manufacturing sectors. Input costs also rose, with contacts highlighting higher insurance prices, particularly for health insurance. However, as with selling prices, there were several mentions of flat or lower input costs, particularly for fuel. Contacts expected prices to continue to rise in 2025, with some noting the potential for higher tariffs to contribute to price increases.

Highlights by Federal Reserve District

Boston

Economic activity increased slightly, with modest increases in tourism activity and home sales, slight increases in retail sales, and relatively flat activity otherwise. Prices were mostly steady despite slight cost pressures for some firms. Employment was stable, and wages increased modestly. Expectations were optimistic on balance, although some contacts remained uncertain about the outlook.

New York

Economic activity in the Second District increased slightly during the reporting period. Employment in the region grew slightly. Consumer spending increased moderately, with stronger-than-expected holiday retail sales. Commercial real estate markets improved slightly, with growth in demand in New York City office markets. Selling prices continued to rise at a modest pace, although manufacturers reported that prices largely held steady.

Philadelphia

Business activity continued to grow slightly in the current Beige Book period. Auto sales led consumer spending with a modest increase. Manufacturers reported a slight decline in activity. Real wages and prices continued to rise modestly, and employment rose slightly. Inflation expectations rose over concerns about deficits, tariffs, and immigration. On average, firms expect moderate economic growth over the next six months.

Cleveland

District business activity grew modestly in recent weeks, and contacts expected activity to increase further in the months ahead. Retailers noted higher-than-anticipated sales, while manufacturers said that demand remained soft. Employment levels were generally flat. Overall, contacts indicated that wages and nonlabor input costs grew moderately, and prices increased modestly.

Richmond

The regional economy continued to grow modestly this cycle. Consumer spending and travel grew moderately over the holiday shopping and travel season. Financial services firms reported modest growth while demand for nonfinancial services was subdued. Manufacturing activity slowed slightly this cycle and port activity was mixed. Employment levels were unchanged, and price growth was moderate.

Atlanta

Economic activity in the Sixth District expanded modestly. Employment was steady and wages grew slowly. Input costs and prices increased modestly. Consumer spending grew moderately. Demand for housing increased modestly. Transportation activity grew slightly. Loan growth was moderate. Manufacturing declined slowly. Energy activity grew modestly, but agriculture demand fell.

Chicago

Economic activity increased slightly. Consumer spending increased modestly; employment increased slightly; construction and real estate was flat; nonbusiness contacts saw little change in activity; and manufacturing and business spending decreased slightly. Prices increased modestly, wages rose moderately, and financial conditions loosened some. Farm incomes in 2024 were below those of 2023.

St. Louis

Economic activity has continued to expand slightly since our previous report. Reports on holiday sales were positive and generally better than expected. Reports from other sectors generally reflected the typical seasonal slowdown. Many of these contacts shared a positive outlook for the year ahead.

Minneapolis

District economic activity grew slightly. Employment increased slightly while wage growth was moderate. Prices increased slightly overall with greater pressure on input prices. Retail contacts were generally upbeat about holiday sales, with some seeing sales surpass pre-pandemic levels. Manufacturing contracted modestly but contacts were somewhat optimistic for the year ahead.

Kansas City

Economic activity expanded slightly in the Tenth District, led by consumer spending. Contacts indicated consumers are increasingly using longer-term financing and consolidating debt to manage household cash flows. Contacts broadly reported expectations that economic growth, hiring activity and price growth will all accelerate in coming months, but also expressed concerns over potential policy changes.

Dallas

The Eleventh District economy expanded moderately over the reporting period. Growth resumed in the manufacturing sector and revenues rose in nonfinancial services and retail. In addition, bank loan volume and demand expanded. Home sales increased slightly but energy activity was flat. Employment rose slightly, and wages and prices grew moderately. Outlooks continued to improve although concerns about anticipated changes in domestic policy remained elevated.

San Francisco

Economic activity expanded slightly. Employment levels and overall price levels were generally stable. Wages rose slightly. Activity in services sectors was steady to slightly up. Retail sales grew modestly. Activity in manufacturing and commercial real estate were varied, while the housing market and lending activity were steady. Conditions in agriculture softened slightly.

Federal Reserve Bank of Boston

Summary of Economic Activity

Economic activity increased slightly overall. Prices and employment levels were roughly unchanged, and wages rose at a modest pace. Air travel was a relative bright spot, as domestic air passenger traffic through Boston finally surpassed 2019 levels, and passenger traffic through the Worcester airport increased substantially in the past year. Tourism activity overall increased only modestly, however, and restaurants in some areas reported softer-than-expected sales. Retail revenues rose slightly, and consumers remained highly price conscious. Manufacturing sales were mixed, while software and IT services firms experienced stable and healthy demand. Residential real estate sales increased modestly, helped by improved inventories in some areas, while commercial real estate activity was flat. The outlook was modestly optimistic on balance, although some contacts had concerns for 2025 related to how national economic policies might change and where long-term interest rates would land.

Labor Markets

Employment was roughly steady, and wages increased modestly on average. Contacts in the retail, tourism, and software and IT services sectors all reported stable headcounts. Among manufacturing contacts, headcounts increased slightly at selected firms, decreased modestly at one in response to slower sales, and were reportedly unchanged otherwise. Labor supply to retail and tourism jobs improved modestly, with contacts noting greater ease of hiring and reduced attrition. Wages increased modestly on average, and contacts reported no elevated wage pressures. However, one manufacturing contact experienced a significant increase in health insurance costs that they partly passed on to employees, while offering a slight wage increase as an incomplete offset. No contacts mentioned plans for major changes in hiring or wages in 2025. Cape Cod contacts, whose businesses rely heavily on seasonal worker visas, expressed concerns that potential changes to visa programs could restrict their labor supply in 2025 or beyond.

Prices

Prices were about flat on balance. An online retailer reported only modest pricing pressures and remained keenly aware of consumers' heightened price sensitivity. The same contact was cautiously optimistic that any tariffs would not have a major impact on their prices, owing to changes made to their supply chain in recent years. Hotel room rates in the Greater Boston area decreased modestly on a year-over-year basis, but contacts pointed out that the change was in relation to the record high room prices of November 2023. Manufacturers held output prices steady, even though most experienced slight to modest increases in input prices. Software and IT services firms posted modest price increases on average. Contacts did not foresee major changes in pricing pressures for their businesses moving forward.

Retail and Tourism

First District retail contacts reported slight increases in revenues in recent months, while tourism activity experienced modest growth on average. An online retailer described fourth-quarter revenues as stable overall but said that promotions had been critical to those results and that demand for lower-end goods remained weak. On Cape Cod in the fourth quarter, hotel occupancy rates and retail sales met expectations and were roughly on par with the fourth quarter of 2023, but restaurants experienced weaker-than-expected sales. Airline passenger traffic through Boston increased moderately in the fourth quarter from one year earlier, with domestic travel finally surpassing 2019 levels. Worcester air passenger counts grew 18 percent from the previous year. Like the change in hotel room prices, hotel occupancy rates in greater Boston were down slightly in November from one year earlier, when occupancy rates had been at all-time highs. Contacts expected robust tourism and convention activity for Boston for 2025. The outlook for retail and restaurant activity was more cautious, as contacts in those businesses expected roughly flat activity going forward.

Manufacturing and Related Services

Manufacturing sales were flat on average since the last report. Most firms reported no change in revenues in the fourth quarter from the third, but sales were unexpectedly soft for one manufacturer and unexpectedly strong for another. The strong sales pertained to a frozen fish producer who speculated that retailers were accumulating inventories in anticipation of tariffs. A semiconductor maker with flat sales said that demand for their products was softening and that they would adjust employment downward moving forward. Capital expenditures largely stayed within forecast ranges. The outlook for 2025 was modestly positive on balance, as most firms expected sales to increase at least slightly in the new year, but one semiconductor manufacturer expected moderate declines in sales relative to 2024.

IT and Software Services

First District IT and software services contacts described demand as stable at healthy levels, and one firm's total revenues for 2024 exceeded expectations. Capital spending was constant, and physical investments were described as minimal given firms' reliance on cloud computing services. Contacts expected revenues to increase strongly in the first quarter of 2025, based on a combination of organic growth in demand and, in one case, the recent acquisition of another company. Considering the longer-term outlook, most contacts expressed confidence that demand for their products would continue to rise, even in an environment of heightened political and macroeconomic uncertainty. Nonetheless, one firm said that increased competition from China affecting its clients could either boost its business, as client firms invested in new technologies to keep up, or hurt demand if clients were pushed out of the market altogether by such competition.

Commercial Real Estate

Commercial real estate activity was mostly flat in the First District. Contacts reported uniformly that elevated long-term interest rates continued to limit transactions. One contact said that borrowers, hoping that long-term rates would decline, continued to favor extensions for maturing loans. However, several contacts downgraded the chances of significant rate declines in 2025. Office leasing activity remained slow, but prime Boston properties continued to experience relatively healthy activity. Contacts described industrial and retail leasing activity as stable. Rents and occupancy rates were unchanged across all asset classes. One contact said that a recent Massachusetts law intended to promote multifamily construction was yielding tangible results in some areas of the state. Around half of contacts were cautiously optimistic that the first quarter of 2025 would bring more robust commercial real estate activity, while others expected current activity levels to persist or, more pessimistically, that interest rates would stay higher for longer than previously expected and exert negative impacts on the market.

Residential Real Estate

Home sales in the First District rose modestly on a year-over-year basis in November 2024, the most recent month for which data was available. Supporting the increase in sales, home inventories were up moderately from a year ago overall, with very large increases in Maine and Vermont, although inventories declined moderately in Massachusetts from a year earlier. However, the typical number of days homes spent on the market increased, as multiple contacts mentioned that some buyers were waiting until after the presidential election to make purchasing decisions. Considering changes since November 2023, prices of single-family homes increased at a brisk pace, while condo prices increased moderately on average in Massachusetts and Rhode Island but decreased modestly in the northern New England states. Multiple contacts expressed optimism that more sellers would put their homes on the market in early 2025 and that this would lead to increased sales activity.

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

Economic activity in the Second District continued to increase slightly during the reporting period. Employment in the region grew slightly, on balance, and wages continued to grow moderately. Selling prices continued to rise at a modest pace, although manufacturers reported that prices largely held steady. Input price increases remained moderate. Manufacturing activity declined moderately, after strong growth during the previous reporting period. Consumer spending increased moderately since the last report, and New York City tourism was robust. Retail contacts indicated stronger than forecasted holiday sales, with stores in the District slightly outperforming the nation overall. The housing market remained strong at the end of the year, and commercial real estate markets strengthened slightly, marking the first increase after a long stretch of decline. The broad finance sector contracted slightly. Optimism about the outlook continued to improve.

Labor Markets

Employment in the region continued to grow slightly, on balance. Manufacturing firms reported little change to headcounts since the last report, while contacts in the education and health, wholesale, and finance industries saw increases. Contacts in transportation and warehousing, construction, information, and business services reported modest to moderate declines. Still, there were no mentions of major layoffs in the District.

Demand for workers picked up a bit, following an election-cycle pause, despite what is usually a slower time of the year. A contact at an upstate New York employment agency noted that finding qualified workers has continued to get easier as labor supply was greater than labor demand. This contact also reported that demand has remained strongest in the finance industry, but there is also more need for workers in sales and marketing, an indication that companies are again planning for growth. A contact with insight into employment across a broad array of industries noted there has been some uptick in firm expansions, though the resulting increase in hiring continued to be primarily for backfilling existing roles.

Wage growth has remained steady and moderate. Contacts noted that workers are on track to receive bonuses this year, but bonuses are not expected to be overly generous given the softer labor market, though Wall Street bonuses are expected to be strong.

Prices

Selling price increases continued at a modest pace, although manufacturers reported that their prices largely held steady. Input price increases remained steady and moderate. One contact noted sharply rising prices for commodity coffee, while another mentioned high prices for home-building supplies. Business leaders across many industries expressed concern that potential import tariffs would push up prices. More firms expected higher prices in the coming months.

Consumer Spending

Consumer spending increased moderately since the last report. Department store contacts indicated that holiday sales were stronger than forecast, with stores in the District slightly out-performing the nation overall. Higher-end items and brands, as well as beauty and fragrance items, continued to sell well, although consumers continued to seek value and responded strongly to discounts during the holiday season. Still, unusually warm temperatures led to sluggish sales of winter coats and cold weather accessories like hats and scarves. Auto dealers in upstate New York reported a strong year end. New car sales grew moderately, with manufacturer incentives continuing to spur sales, particularly among high-volume brands. Used car sales grew modestly, as price gaps between new and used cars have continued to make used cars appealing. Inventory remained at a healthy level. Generally, retailers and auto dealers are optimistic about sales in the coming months.

Manufacturing and Distribution

Manufacturing activity declined moderately, after strong growth during the previous reporting period. New orders and shipments declined. Wholesale and distribution-related firms saw continued modest increases in business activity. Supply availability and delivery times were little changed. Of note, a shipping industry contact indicated that there was an impulse among importers to stockpile goods in anticipation of tariffs, but worldwide shipping capacity continued to be limited due to Red Sea shipping route disruptions. A potential dockworkers strike in January was also contributing to some of the impulse to get ahead of demand. Manufacturers and distribution-related firms generally remained optimistic that business conditions will improve in the months ahead.

Services

Activity in the service sector was little changed. Contacts in the business services and personal services industries reported modest to moderate declines, while there was a slight increase in activity among firms in the leisure and hospitality sector, and education and healthcare activity largely held steady. Optimism among firms in the service sector continued to rise.

Tourism activity in New York City was quite strong at the end of the year, with the number of visitors matching 2019 levels for the first time since the pandemic. Hotel room rates hit record highs in December, though the high cost of hotel rooms detracted from spending on attractions, which have not recovered as quickly. However, Broadway attendance has been robust, with more shows open than in the 2019 season. Contacts expect 2025 to be a record year for tourism.

Real Estate and Construction

The housing market remained strong at the end of the year. New signed contracts surged in and around New York City, and demand remained solid in upstate New York. Sales upstate and in the New York City suburbs continued to be constrained by tight inventory, although inventory has improved slightly. With such low inventory, ongoing solid demand continues to push home prices higher, and bidding wars remained prevalent. Cash purchases continued to be an outsized share of sales, especially in Manhattan, as mortgage rates were still relatively high.

The rental market remained firm. Rents continued to rise in New York City, while they stabilized at a high level in upstate New York. Rising mortgage rates continued to push potential buyers to rent, although the very high end of the rental market softened somewhat.

Commercial real estate markets strengthened slightly, the first increase after a long stretch of decline. The New York City office market saw a pickup in demand, though the market remains bifurcated, with strength concentrated in renovated class A buildings in premier areas in midtown Manhattan. With tourism on the rise, retail markets in New York City have improved. Industrial markets were mixed, with Long Island's industrial market seeing growth, but there were declines in northern New Jersey's market.

Construction activity continued to decline, albeit at a more modest pace. Rising materials costs and high credit costs remained limiting factors. Still, construction industry contacts anticipated growth in business activity in the coming months after an extended period of pessimism.

Banking and Finance

Activity in the broad finance sector contracted slightly, though there were some signs of firming. Small-to-medium-sized banks in the region reported that demand declined for all loan types, including business loans, consumer loans, and commercial and residential mortgages, as well as refinances. For the first time in a while, credit standards eased, and delinquency rates improved. Deposit rates continued to decline. Contacts in the finance industry remained very optimistic about the outlook.

Community Perspectives

High prices of groceries and housing paired with rising debt service payments have stretched budgets for many consumers in the District. Credit counselors in the region have noted that younger community members are increasingly seeking assistance with managing debt. Challenges are more acute in lower-income parts of the District, with some areas of New York City facing unusually high delinquency rates on consumer debt.

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 has continued to increase slightly since the prior period. Consumer spending also rose slightly, despite price-conscious consumers; auto sales increased the most. Nonmanufacturing activity edged up, as it did last period, but manufacturing activity edged down—a reversal of its trend. Employment rose slightly this period—slower than the modest pace last period. Real wages and prices continued to rise modestly. However, most firms are expecting inflation pressure to increase because of anticipated fiscal, trade, and immigration policies. On average, firms expect moderate economic growth over the next six months. Optimism fell among all firms but remained more widespread among manufacturers than nonmanufacturers—the index for the latter slipped below its nonrecession average.

Labor Markets

Employment increased slightly, after rising modestly last period. Based on our December surveys, the indexes for full- and part-time employment narrowed slightly but remained positive for nonmanufacturing firms. The employment index for manufacturing firms also edged lower in December. The average workweek index edged higher for nonmanufacturers but fell sharply for manufacturing firms. Notably, for most of our employment indexes, over two-thirds of the firms reported no change in December.

Staffing contacts reported little change in the demand for their services and noted little wage pressure. Several contacts reported that their clients had imposed wage freezes, layoffs, or cutbacks on shifts. One contact noted that their firm had imposed a wage freeze on their own employees.

Many firms continued to note that finding skilled workers is a critical challenge. Employee retention has improved for most firms except those offering less than 14 dollars an hour (depending on the location).

Wages inflation continued to rise at a modest pace—typical of its long-run average. Several contacts noted that nominal wage increases of three percent or less were planned for 2025 (as much as five percent including benefits). One contact described a 10 to 15 percent increase for wages and benefits for the first year of a recently negotiated union contract. Planned increases would drop significantly in subsequent years.

Prices

On balance, firms' prices continued to rise at a modest pace. Contacts noted no relief for middle- and low-income families facing unaffordably high prices for houses and motor vehicles; however, many reported falling prices for food and fuel.

In our monthly surveys, the diffusion indexes for prices paid and prices received were at or above their nonrecession averages for nonmanufacturers and manufacturers. However, several contacts noted that their input costs had fallen, particularly for food commodities and for shipping. They also credit the drop in underlying fuel costs for some of the relief.

In December, manufacturers' expectations for future price increases over the next six months narrowed for prices paid and broadened for prices received compared with the prior month. However, both diffusion indexes remained more widespread than their nonrecession averages. Moreover, most contacts from all sectors continued to express caution about the impact of budget deficits, tariffs, and immigration policies on future prices.

Manufacturing

Overall, manufacturing activity decreased slightly after increasing modestly in the prior period. The indexes for new orders and shipments turned negative in December, and the general activity index fell moderately.

Manufacturers' expectations for growth over the next six months narrowed substantially for future activity, new orders, and shipments. Likewise, the indexes for future employment and capital expenditures fell. However, each of these future activity indexes remained at or above their nonrecession average.

Trade and Services

On balance, firms across a broad spectrum of nonmanufacturing industries continued to report a slight increase in activity. In December, the monthly index for new orders remained negative, but the indexes for general activity and sales/revenues remained slightly positive.

Retailers (nonauto) reported a slight increase in real sales—following no change in the prior period. Lower input costs allowed restaurants and retail grocers to lower retail prices and attract more customers. Contacts were optimistic that the uptick in demand would carry into 2025.

Auto dealers reported a modest increase in motor vehicle sales and that their inventories were nearing normal pre-pandemic levels. Contacts noted that normal levels also entail normal floor plan costs—narrowing dealer margins.

Tourism activity was flat to up slightly. Contacts noted that most segments of the travel industry have normalized following the disruptions from the pandemic. Now, the sector's demand growth appears to have reconnected to the rate of general economic growth. Overall, contacts were more optimistic for 2025.

The share of nonmanufacturers expecting growth over the next six months narrowed, with the index edging below its nonrecession average.

Real Estate and Construction

Brokers reported little change in existing-home sales but noted a bump up in new listings, steady traffic, and continued offers despite the holidays.

Homebuilders also reported no significant change in sales of new houses. One contact noted that December is typically slow but that 2024 had been a great year—adding that they entered 2025 with a large backlog of signed contracts and are already looking out one year and beyond.

Philadelphia area contacts described good demand and positive sentiment in the overall commercial real estate market. The retail and industrial segments were noted as especially strong with rising rents. Leasing activity for apartments remained resilient; however, the "current wave of new units will take years to digest." Contacts noted that the office market was just "marking time."

Commercial real estate contacts reported that construction activity decreased slightly this period. The pipeline of commercial projects continues to wane, and most of the federally funded public infrastructure projects still await groundbreaking.

Credit Conditions

The volume of bank lending (excluding credit cards) held steady for a third consecutive period (not seasonally adjusted)—weaker than the moderate growth observed during the comparable periods in 2022 and 2023.

District banks reported modest growth in home equity lines and slight growth in commercial real estate lending and home mortgages. These gains were offset by modest declines in commercial and industrial loans and in other consumer loans and by a slight decline in auto loans. Credit card volumes surged following slight growth during the prior period—typical for the year-end holiday season.

Banking contacts continued to report sound credit quality and relatively low delinquency rates. One contact noted that rising home values and larger, more frequent property insurance claims are driving taxes and insurance premiums higher, thereby triggering more mortgage delinquencies. However, in the former case, rising home values and the undersupply of housing make it easy for a delinquent homeowner to pay off the debt from the proceeds of a sale.

Contacts throughout the banking sector and the nonprofit community continued to warn that the high cost of housing and of automobiles further aggravates credit availability issues for low- and middle-income households.

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 grew modestly in recent weeks, and contacts expected activity to increase further in the months ahead. Consumer spending increased moderately, with some retailers noting higher-than-anticipated sales. Demand for manufactured goods remained soft, a situation which some contacts attributed to uncertainty surrounding potential policy changes. Employment levels generally remained flat. While some manufacturers reported reducing headcounts because of low demand, some construction contacts added staff to support planned growth. Overall, wages and nonlabor input costs increased moderately, and prices grew modestly.

Labor Markets

Contacts reported that employment levels were flat overall in recent weeks, a trend which is largely unchanged from those seen during the previous four reporting periods. Among firms that were maintaining flat headcounts, several said that they were fully staffed to meet current demand, while others were focused on replacing departing workers. Many manufacturers continued to report reducing headcounts by eliminating shifts or by not replacing departing workers, often because of decreased order volumes. Still, many business services and healthcare contacts noted that they were hiring to meet increases in demand, while some construction and real estate contacts were adding staff to support planned business expansions and because of an anticipated market recovery. Overall, contacts expected modest employment growth in the months ahead.

Wages increased at a moderate pace on balance in recent weeks. Consumer-facing firms were among those reporting continued upward pressure on wages. Some of these firms had increased their hourly rates to attract entry-level workers, citing strong competition for these employees. Other contacts in manufacturing and business services also continued to increase pay to attract and retain workers with specialized skillsets such as machinists or accountants. Still, many firms held wages flat, citing improved labor availability, slowing inflation, or unchanged demand.

Prices

Nonlabor input costs increased moderately on balance in recent weeks. Some construction contacts said that their costs have been stable over the last two months, though two contacts expected materials costs to rise in the months ahead. Contacts across industries continued to report increases in the costs of healthcare benefits and insurance. Many restaurateurs and food producers said that costs were increasing for beef, dairy, cacao, and eggs. Overall, contacts expected costs to grow moderately in the coming months.

Overall, selling prices continued to grow modestly in recent weeks, though over half of contacts indicated that they had held prices steady. Many business services and construction firms continued to report raising prices, with several doing so based on the market conditions. While some retailers said that they had raised prices, others offered more discounts to drive sales amid elevated consumer price sensitivity. Citing softer demand, some manufacturers noted decreasing their prices to compete for business.

Consumer Spending

On balance, consumer spending increased moderately in recent weeks after a period of decline over several reporting periods, and contacts generally expected sales to increase modestly in the coming months. Most reports of stronger sales were centered on holiday shopping, and one grocer noted that "customers appear[ed] willing to spend more this holiday season." Reports from auto dealers remained mixed. Most dealers continued to report soft demand for new and used vehicles; however, two dealers reported unexpected increases in sales. Some auto dealers were optimistic about sales in the coming months as loan rates had fallen somewhat for customers with higher credit scores.

Manufacturing

Demand for manufactured goods was generally stable after declining for several reporting periods, and most firms reported no change in demand. Still, some manufacturers noted low demand related to general uncertainty about potential policy changes. By contrast, a small number of reports indicated higher orders, a circumstance which some contacts attributed to data center construction and others to greater overall confidence in the economy. Contacts generally expected demand to increase modestly in the coming months, with some noting that client inquiries and quotations had increased.

Real Estate and Construction

Residential construction activity increased modestly in recent weeks. Over two-thirds of contacts said that demand was unchanged since the prior reporting period; however, two homebuilders commented that their consistently strong demand was an improvement compared to the typical year-end lull. A single-family homebuilder who reported increased activity cited more stable mortgage rates and the resolution of uncertainty regarding the election as factors supporting sales. On balance, contacts expected demand to decrease slightly in the coming months.

Nonresidential construction and real estate contacts reported a modest increase in demand over the last two months. Contacts attributed this increase to greater certainty after the election and additional cuts to interest rates. One builder observed that large projects were moving forward after previously being on hold. Commercial construction and real estate contacts anticipated modestly increased demand in the months ahead.

Financial Services

On balance, bankers indicated that loan demand rose modestly since the last reporting period. One banker said that consumer demand for credit increased, while another said that lower interest rates and the end of election uncertainty increased demand for credit among businesses. Looking ahead, bankers anticipated that loan demand would increase further, an expectation which one attributed to continued improvement in consumer confidence. Delinquency rates were relatively unchanged from the last reporting period, while core deposits grew slightly in recent weeks.

Nonfinancial Services

Professional and business services firms indicated that activity increased modestly in recent weeks and anticipated that demand would increase strongly in the coming months. However, two contacts mentioned that some clients held off on new projects because of uncertainty surrounding the future of federal and state policy decisions. Freight contacts reported an increase in activity compared to that in the last reporting period, though several contacts noted that freight volumes remain low. Contacts expected demand to be largely flat over the next couple of months.

Community Conditions

Workers and jobseekers responded to a District survey about their recent labor market experiences. Workers across all education levels indicated that their most important reason for being employed was access to benefits such as health insurance, while their second most important reason was wages. Roughly 20 percent of workers reported having multiple jobs; many of these multiple jobholders were engaged in gig work because of the flexible scheduling. Over the next three months, most employed respondents indicated that they were unlikely to search for jobs, accept a different job, or stop working altogether. Respondents noted challenges in finding jobs that offer benefits and provide wages high enough to cover living expenses.

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 modestly since our previous report. Consumer spending on retail, travel, and tourism increased moderately to end the year. Nonfinancial services firms reported no change in revenues amid subdued demand while financial service providers saw a modest increase in loan demand. Manufacturing activity slowed slightly. Firms across a variety of sectors voiced concerns and uncertainties around tariffs, port worker strikes, and general economic conditions moving into the new year. Residential real estate experienced a typical seasonal slowdown while commercial real estate activity picked up slightly. Employment levels were unchanged, on balance. Prices grew moderately in recent weeks.

Labor Markets

Employment in the Fifth District, on net, was unchanged in the most recent period. Some contacts continued to report challenges with labor availability. For example, an engineering consultant commented that they would hire five employees right now if they could find qualified candidates. Despite some labor availability issues, contacts generally expected wage increases to return to normal in the coming year. A pet groomer planned to scale back employee benefits to realign total direct labor costs to pre-pandemic levels. A technology-focused recruiter remarked that several candidates were not able to land a job due to outdated skills and/or AI has led to fewer job openings in their fields. For many of these workers, they expect the candidates will need to accept lower wages to find work.

Prices

On balance, year-over-year prices grew at a moderate rate. According to our most recent surveys, prices received by nonmanufacturing firms grew moderately while manufacturing firms continued to report modest price growth just below two percent. Firms' expectations for price growth a year from now increased. Manufacturers expected prices to rise at a faster rate a year from now compared to nonmanufacturers, with several citing tariffs on inputs as a reason for higher expected price growth in the future.

Manufacturing

Manufacturing activity in the Fifth District declined slightly in the most recent reporting period. Several contacts reported declines in new orders due to consumer pushback on prices. A premium wine manufacturer reported that consumers were opting for less expensive brands. A textile manufacturer relayed that customers reduced spending on big-ticket items despite inflation receding, noting that price levels were up considerably compared to 2019. A boat manufacturer cited high borrowing rates and consumer spending squeezes leading to declines in new sales. A few contacts reported increases in new orders, especially in areas with growing populations. A North Carolina based cabinet manufacturer reported increased new orders due to needs for new office space.

Ports and Transportation

Recent reports on import cargo volumes varied across the Fifth District with some ports seeing slight increases and others reporting slight decreases. Imports of assembled vehicles dropped by almost half at one port while another port saw a moderate increase in auto parts. Multiple ports noted a significant decrease in paper waste products exported to East Asia. Ports attributed lackluster cargo volumes to US big-box retailers cautiously rerouting to the West Coast in advance of disruptions if contract negotiations with the International Longshoreman Association are not settled in January. Some customers have begun repositioning empty containers and rail cargo to the West Coast at extra cost. Ports also described a weakening demand environment pushing spot prices down even from Asia to the West Coast. The rising cost of union and non-union labor is a significant concern for ports. One port implemented an eight percent labor surcharge on their base rate with increases expected in the new year, while others have introduced new incentive structures for their non-union employees.

Trucking contacts noted flat volumes this cycle and disappointing retail peak which continued what they described as a persistent freight recession this year. A larger firm cited difficulty in balancing the risk of losing market share over small price increases on contracts. The same firm also shared that skyrocketing insurance premiums led them to take on more financial risk and quadruple their deductible.

Retail, Travel, and Tourism

Consumer spending grew moderately in recent weeks. Retailers reported increases in sales and shopper traffic during the holiday shopping season. Many retail businesses expressed concerns about the next several months due to uncertainties around a potential port worker strike and tariffs affecting their ability to get products and the prices they will have to pay for them. A couple of businesses serving the District of Columbia market said that they could see an increase in sales and activity in the coming months if more government workers return to working in the office. Food service and hotel contacts reported a strong end of the year. Contacts in Western North Carolina, however, said that activity was much softer than usual because the area was still dealing with the aftermath of Hurricane Helene.

Real Estate and Construction

Overall, residential real estate activity slowed slightly as expected for the winter season, although agents in Virginia and South Carolina saw an increase in homes sales listed over one million dollars. Buyers continue to have no issues qualifying for loans but are challenged with limited inventory and mortgage rates. Almost every agent mentioned their optimism for 2025 and the chatter that sellers are wanting to sell. Multiple contacts, however, voiced concerns about impacts from potential policy shifts on government workers, immigration, and tariffs.

Commercial real estate activity had a slight uptick as buyers and sellers worked to close out deals before year end. Vacancy rates remained low in industrial and retail space while rate for lower-grade office space remained elevated. Multiple agents mentioned construction projects were finishing up, but that few new projects were being started because high construction costs mean that projects don't "pencil out." Agents in Virginia and Maryland noted an increase in rental rates as properties were becoming "turn-key" with virtually no concessions.

Hurricane Helene continued to impact residential and commercial real estate markets. A North Carolina agent noted Asheville is finally starting to see market activity while the areas around Boone were not. An agent in the Asheville market noted vacancies in industrial and retail were dropping as displaced business worked to reopen. Office vacancies in the area were also quickly dropping as government agencies and national engineering firms mobilize in the area.

Banking and Finance

Financial institutions continued to report a modest increase in loan demand with many noting this activity was coming from their consumer lending portfolios, including real estate and autos. Commercial lending, mainly in real estate secured loans, also saw modest increases in demand. Customers were still showing some restraint due to the current uncertain economic environment. Loan delinquency levels continued to show modest increases, with the most increases arising from consumer loan portfolios. Deposit levels continued to remain stable, however, competition for these balances appear to be easing as rates have started to lower throughout the marketplace.

Nonfinancial Services

Nonfinancial services providers reported subdued demand for their services and flat revenues. An engineering firm reported that there is a continued reluctance for clients to move forward on projects, while a digital services firm, as well as other respondents, echoed a similar sentiment with an observation that clients are reducing budgets for the coming year. An IT firm reported that they have been holding onto staff in hopes of an improvement in conditions, but they may have to make tough decisions if demand for their services doesn't stay the same or increase into the new year.

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

Federal Reserve Bank of Atlanta

Summary of Economic Activity

The Sixth District economy grew modestly since mid-November. Employment remained steady, with many firms reporting plans to hold employment levels flat in 2025. Wages, input costs and prices rose modestly, and firms' pricing power was mixed. Consumer spending and travel and tourism activity expanded moderately, and auto sales were strong. Home sales increased modestly, and existing home inventories improved. Demand for transportation services rose slightly. Manufacturing activity continued to decline. Loan growth was moderate. Energy activity increased, but agriculture demand declined.

Labor Markets

Employment was little changed in recent weeks, as firms held headcounts steady. Many contacts plan to keep staffing levels flat into 2025, although some expect to reduce headcount slightly, largely through attrition. A few reported they may need to pursue layoffs if demand softens. However, there were a few reports of hiring for growth. Firms continued to report ample availability of labor, which most contacts expect will continue in the coming months.

Contacts reported modest wage growth. Most said expectations for 2025 wage increases were roughly in line with pre-pandemic growth rates, and similar to or slightly below those observed in 2024. Easing wage inflation was particularly notable among white-collar workers. Only a minority of contacts noted continued elevated wage pressures for some roles such as frontline workers, union employees, or skilled roles that are difficult to fill.

Prices

Input costs and prices increased modestly over the reporting period. Insurance and labor remained the principal cost concerns for firms. While some contacts reported a slight moderation in insurance cost increases, even relatively modest increases in insurance costs created cost pressures for firms. On the health insurance side, many employers planned to pass on cost increases to employees, but increases in other types of insurance were likely to be passed through to final prices. Food and shipping costs were described as generally stable. Firms pointed to diversified supply chains as a potential buffer to proposed tariffs. Pricing power was mixed, with firms utilizing targeted discounting to maintain demand.

Consumer Spending and Tourism

Consumer spending grew moderately in recent weeks. Retailers reported strong holiday sales, which were characterized as better than expected. Buyers of luxury goods, in particular, continued to spend. Contacts said promotions remained effective, and customers looking for deals were willing to spend if the price was right. Spending on entertainment rose from an already strong level, as contacts reported plays and concerts were sold out. There was some softness in quick service restaurants, as ticket sizes shrank, or customers opted for value meals, while middle- and higher-end restaurants saw solid demand. Auto sales were strong, with inventories and days on the lot declining.

Travel and tourism activity increased at a moderate pace in recent weeks. Many industry contacts reported stronger holiday travel than last year. Some hotels noted room rates were down slightly, but many reported strong bookings and increased revenue. Cruising activity, as well as business and group travel, remained strong.

Construction and Real Estate

In spite of elevated mortgage interest rates and home prices, housing sales increased modestly over the reporting period. With some exceptions, existing home supply improved significantly throughout the District. Homebuilders continued to offer incentives and discounts to offset higher mortgage interest rates. Builders also slowed the pace of speculative inventory starts to allow existing inventory to be absorbed, in an effort to prevent an inventory buildup of new homes.

Commercial real estate (CRE) conditions remained mixed. With the aid of concessions, multifamily demand continued to increase, however, already elevated vacancy rates rose further. Contacts reported growing concern in a stable but slowing industrial sector. Non-bank lenders noted greater amounts of CRE loan delinquencies. The number of banks returning to the CRE lending market rose, but rising long-term rates and CRE loan maturities continued to create challenges for all lender types.

Transportation

Transportation activity grew slightly, on balance, since the previous report. Short-line railroad volumes were described as flat; however, Class I railroads saw solid increases in intermodal freight and total traffic. Some logistics contacts noted relatively stable volumes and flat revenues. Truckload service providers reported subdued peak season volumes and flat overall van cargo, but an uptick in industrial freight. Inland waterway freight activity picked up. District ports reported continued increases in container volumes and roll-on/roll-off cargo. However, the potential for an east coast port strike remains a downside risk. Transportation contacts noted uncertainty over future trade policy, the regulatory environment, and insurance costs.

Manufacturing

With some exceptions, overall manufacturing activity continued to decline modestly. According to the Atlanta Fed's Business Inflation Expectations Manufacturing Sector Report, more than two-thirds of respondents stated that demand remained the same or had declined over the past twelve months. Firms facing lower demand reported adjusting by eliminating open positions and/or laying off staff and reducing hours. Firms with improved demand increased capacity, prices, and capital investments. Risks to the outlook included labor shortages, concerns over tariffs, and potential supply chain disruptions at east coast ports that would result from a labor strike.

Banking and Finance

Sixth District financial institutions experienced moderate loan growth, driven by increases in multi-family loans and first-lien mortgages. Construction, land development loans, and auto loans contracted modestly; all other major loan categories increased moderately. Asset quality remained stable with low levels of nonperforming loans as a percentage of total loans. Both deposit balances and borrowings by banks increased, as loan-to-deposit ratios fell amid rising loan growth. Cash balances grew, outpacing asset growth.

Energy

Energy activity grew modestly, on net, over the reporting period. Rising demand was largely driven by data center growth across the U.S. Utility contacts noted that near-term demand will be met with a combination of natural gas, renewables, battery energy storage systems, and potentially keeping coal plants running longer than anticipated. Global demand for liquefied natural gas (LNG) remained strong, thus regional exporters operated near capacity and contacts described renewed interest in LNG export plant development. Gulf of Mexico deepwater oil and gas production projects continued to ramp up, a trend that is expected to continue into 2025.

Agriculture

Demand for agricultural products declined modestly over the reporting period. Cattle and beef prices remained historically strong amid limited supply but declined somewhat from recent highs. Demand for row crops declined further. Domestic demand for dairy was little changed, but global demand softened, resulting in lower prices in recent weeks. However, seasonal demand and supply constraints from new cases of avian flu drove up the price of table eggs. Demand for poultry was steady, while demand for timber remained low. Many southeastern farmers struggled to rebuild after hurricanes.

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 over the reporting period and contacts expected a similar increase over the next year. Consumer spending rose modestly; employment increased slightly; construction and real estate was flat; nonbusiness contacts saw little change in activity; and manufacturing and business spending decreased slightly. Prices increased modestly, wages rose moderately, and financial conditions loosened some. Farm incomes in 2024 were below those of 2023.

Labor Markets

Employment increased slightly over the reporting period and contacts expected growth to continue at a similar pace over the next 12 months.Some contacts continued to mention difficulty finding higher-skilled workers. However, there were also signs of softening in the labor market. One machinery manufacturer noted that labor had been easier to source recently, in part because nearby competitors were reducing hours or instituting layoffs. A fabricated metals manufacturer also said it was easier to hire and noted that absenteeism was down, while another planned to lay off some non-production workers should demand not pick up in the next few months. A retail contact noted that compared with last holiday season, stores were open about the same number of hours but hired fewer temporary workers and relied on existing staff to work more hours. Wages and benefits costs continued to rise moderately overall. Many contacts reported an increase in health insurance costs as new plans take effect in the new year.

Prices

Prices increased modestly overall in late November and December, and contacts expected a similar rate of increase over the next 12 months. Producer prices moved up slightly. Nonlabor input costs edged up, driven by increases in energy and overall shipping costs (truck freight rates were down). While most contacts reported some increases in raw materials prices over the last year, some highlighted flat or lower prices for certain inputs. Consumer prices again rose modestly overall. A retail contact indicated that they had not seen any anticipatory price changes in response to the potential for higher tariffs.

Consumer Spending

Consumer spending increased modestly over the reporting period. Nonauto retail sales were up modestly and close to expectations. Apparel, laptops, home entertainment electronics, and jewelry all showed strong sales growth. Retailers indicated that promotional offerings were similar to last year and that full-price sales were greater than expected. Leisure and hospitality spending ticked up, boosted by greater demand for air travel and at fast casual restaurants. Both new and used light vehicle sales rose slightly, as did leasing activity. Subcompact and compact vehicles continued to gain market share, though at a slower pace as excess inventories of mid- and full-size vehicles led to larger incentives on these alternatives. Contacts also reported a bump in electric vehicle sales.

Business Spending

Business spending decreased slightly in November and early December. Capital expenditures were down some, though expectations for spending over the next year moved up. Demand for truck transportation fell further, contributing to lower truck freight rates. Inventories at both nonauto retailers and auto dealers were comfortable overall, while manufacturing inventories were slightly elevated. There were few mentions of materials shortages, though several contacts again noted long lead times for power supply equipment.

Construction and Real Estate

Construction and real estate demand was unchanged over the reporting period. Residential construction was stable and demand for home renovation projects remained soft. The size of renovation projects continued to shrink. Residential real estate activity decreased slightly, held back by the recent rise in mortgage rates and ongoing tight inventory levels. Prices were unchanged, while rents increased slightly. Nonresidential construction activity was flat overall, though project pricing increased modestly in recent weeks. Commercial real estate activity was unchanged, as were prices, rents, and vacancy rates.

Manufacturing

Manufacturing demand decreased slightly in late November and December and several manufacturers expected January and February orderbooks to continue to be soft. Demand for steel was at a low level as sales to the construction and machinery sectors remained subdued. Sales of steel for renewable energy products were a bright spot in 2024 but slowed toward the end the year. Fabricated metals sales decreased modestly overall, though there were reports of increased demand from the medical equipment industry. Machinery orders edged down, with several contacts noting decreases from the automotive industry. Auto production slowed some, while demand for heavy trucks rose.

Banking and Finance

Financial conditions loosened slightly in late November and December. Bond values ticked down, while equities were flat. Volatility was unchanged on net over the reporting period, though there was a large spike in mid-December. Business loan demand rose modestly, with several contacts noting increased M&A activity. Business loan quality remained flat on balance, though one contact noted deterioration among manufacturers. Business loan rates fell slightly and terms were again unchanged. Consumer loan demand increased slightly, while loan quality decreased some. Consumer loan rates edged down and terms loosened a bit.

Agriculture

Seventh District farm income for 2024 was down from 2023, despite stronger-than-expected corn and soybean yields. Compared with an average year, income was about average for agriculture operations overall, but low for crop farmers. Contacts expected a further decline in income in 2025, with overall input costs expected to be roughly unchanged and product prices expected to be flat or down. Prices for corn, cattle, and cheese increased over the reporting period, while prices for soybeans, wheat, and dairy were flat. Hog prices declined. Egg prices jumped along with flock liquidations due to avian influenza, and there were concerns about avian flu spreading beyond the poultry sector. Slow farm equipment sales led manufacturers to offers of interest-free payment plans to entice borrowers. Contacts expected that smaller margins in 2024 and 2025 would require many farmers to borrow more; they also indicated that many loans made three to five years ago will soon reprice to higher interest rates. The farm sector will receive additional payments from the federal government to help cover disaster losses and lower product prices.

Community Conditions

Community, nonprofit, and small business contacts saw little change in economic conditions over the reporting period. Contacts were less likely to mention inflation than in prior periods, and more likely to mention softening in the labor market. State government officials saw mixed growth in tax revenues. Concerns around the lack of supply of affordable housing remained top of mind for community contacts, especially in the District's smaller markets, with some observing increases in homelessness and "couch-hopping." While nonprofit contacts reported healthy year-end donations, they also noted significant increases in operating costs, especially for insurance, and persistent high demand for their services. Higher costs led some nonprofits to close, leaving others to fill the gap by increasing efforts to find new sources of funding and support.

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 continued to expand slightly since our previous report. Impacts from the severe weather affecting the District beginning around January 5 were not captured in this report. Employment was unchanged and contacts were satisfied with their employment levels. Prices continued to increase moderately. Contacts continued to express inflationary concerns related to potential import tariffs or supply chain disruptions from a dockworker strike. Reports on holiday sales were positive and generally better than expected. Reports from other sectors reflected the typical seasonal slowdown. Many of these contacts shared a positive outlook for the year ahead.

Labor Markets

Employment has remained unchanged since our previous report. A retailer reported that they were fully staffed with a seasonal workforce. A manufacturing contact reported that, while they continued to hire workers, overall employment levels were unchanged due to employee turnover. An engineering firm reported ongoing challenges hiring skilled workers in construction. A Memphis area contact reported that generative AI technology will “shape their workforce” in the coming year: They are looking to new technologies to help existing employees and expect new hires will be prepared to use these technologies. A human resources company said that they expect their clients will experience an uptick in hiring during the first quarter.

Wages have increased at a moderate pace since our previous report. Contacts generally expected wages to continue increasing at a similar pace in upcoming months, typically between three percent and four percent from the same period one year ago. A professional services firm reported wage increases were about the same as one year ago. A manufacturing contact reported that wage growth remained as strong as it has been over the past few years. One contact reported they will increase the number of part-time employees to better manage their labor costs.

Prices

Prices have increased moderately since our previous report. Contacts reported the price of eggs has risen sharply with the rise of bird flu cases. A construction contact reported that costs of lumber and steel have stabilized. Contacts reported the price of trucks and used vehicles has increased over the past few months. A professional services firm reported they continued to increase prices to customers; however, price increases were less than one year ago because wage growth had moderated and they risked losing certain clients from further price increases. A retailer reported no major pushback on higher prices for seasonal items. Contacts across multiple sectors anticipate suppliers will announce price increases at some point in January.

Consumer Spending

Consumer spending has moderately increased since our previous report, with contacts reporting healthy holiday sales. Retailers indicated that December holiday sales were much stronger than in previous years, with a late Thanksgiving and cyber-Monday falling in December. A consumer electronics retailer reported steady holiday sales. A retailer with multiple locations noted surprisingly strong holiday sales and foot traffic at their shopping mall location. A lawn and garden contact reported that 2024 sales had met expectations but that a notable rise in credit card transactions was a concern, as it may indicate consumers are financially stretched. A home-furnishings retailer reported a ten percent increase in sales relative to one year ago, with an uptick in rent-to-own financing.

Manufacturing

Manufacturing activity has improved slightly since our previous report. Contacts expressed concern about discussions related to tariffs and the possibility of a dockworker strike. As a result, those with overseas supply chains have been negotiating expedited deliveries. Contacts also expressed concern about the future of recent investments in electric vehicle and battery plants projects across the District.

Nonfinancial Services

Activity in the nonfinancial services sector has remained unchanged, on balance, since our previous report. Rural hospital contacts reported ongoing challenges around reduced reimbursements and anticipated reduction in services to control costs. A human resources consulting firm reported that overall revenue and profitability ended 2024 higher than in 2023. A professional services firm noted that total revenue and revenue per client have increased in recent months. An insurance solutions firm reported that higher premiums have caused clients to reduce their coverage but their profits have been maintained.

Real Estate and Construction

Seasonally adjusted home sales have remained flat since our previous report, with transaction volumes and inventories declining due to normal seasonal patterns. A contact in Northwest Arkansas reported that customers are increasingly relying on home equity and remodeling rather than purchasing a different home. The optimistic outlook among contacts was closely tied to their expectation that mortgage rates will decline in 2025; however, many expect only a slight decline in mortgage rates, which will result in a continuation of the current trend of weak but improving home sales.

Commercial real estate activity has been generally unchanged since our previous report. Contacts attributed any slowing in activity to seasonal factors related to the holidays, with demand expected to rebound to normal levels throughout the first quarter. Business contacts looking to expand or improve office space reported “sticker shock” from contractors’ estimates, which is causing them to scale back initial plans.

Banking and Finance

Banking conditions have been generally unchanged since our previous report. Contacts reported a moderate increase in the demand for new loans heading into the holiday season. The overall cost of funding has risen due to increased competition for deposits. The volume of past-due loans has stabilized after increasing modestly over the past year. A private investment company reported a significant uptick in new leads for 2025, although the cost of capital may be too high to pursue many of these opportunities. Banking contacts reported an uptick in demand for commercial real estate loans.

Agriculture and Natural Resources

Agriculture conditions have been unchanged since our previous report and remain historically weak. With the 2024 row crop cycle complete, producers reported limited profits as strong yields were unable to offset lower prices and higher input costs. New farm equipment sales remain weak. Contacts expect conditions to continue to deteriorate in the upcoming months. Banking contacts expect a slight decline in farmland values over the next 12 months. Contacts in Arkansas pointed to lithium extraction opportunities as a bright spot for rural development that could support higher land values.

Federal Reserve Bank of Minneapolis

Summary of Economic Activity

Ninth District economic activity increased slightly since the previous report. Employment grew slightly and wage growth was moderate, while labor demand was positive but slowing. Overall prices increased slightly. Growth was noted in consumer spending, construction, and residential real estate. Energy activity was flat, while manufacturing decreased. Agricultural conditions remained weak. Activity among minority- and women-owned business enterprises was lower on balance.

Labor Markets

Employment grew slightly since the last report. Surveys and individual contacts suggested that labor demand remained positive but also continued to slow, especially for certain sectors. Hiring in health care, construction, and finance remained healthy. However, staffing contacts mostly reported that clients were not hiring, particularly in manufacturing. “Orders are down, there’s no way to sugarcoat it,” said a contact in Michigan’s Upper Peninsula (U.P.). Employers widely reported that labor availability continued to improve and felt “more normal,” according to one source. Some staffing contacts reported that there were more candidates than jobs, a flip-flop of earlier labor conditions. Others noted improvements in job candidates’ reliability. A Minnesota mall contact reported that holiday labor needs “seem to be less of a challenge this year than the past few years. I can’t think of one retail tenant that is or was concerned with staffing.”

Wage growth was moderate. Monthly survey respondents reported wage growth roughly on par with recent months, but slightly lower than the first half of the year. Wage growth was stronger among construction and finance contacts, but lower for job orders at staffing firms due to sagging demand. A South Dakota retail contact reported that the rate of wage increase “has slowed and has been relatively flat for several months now,” but it was still comparatively high and cutting into profitability.

Prices

Overall prices increased slightly since the previous report. Preliminary results from a District business conditions survey indicated a modest uptick on balance in prices charged to customers in

December from the month prior, though two-thirds of firms reported no change. In contrast, about 40 percent of firms reported an increase in nonlabor input prices for the month. The wholesale prices component of a regional manufacturing index ticked up slightly in December to a moderate overall level. Respondents to a construction survey continued to report that inflation was a problem, but they also indicated that prices were nonetheless moderating at the wholesale and retail level compared with last year. An alcoholic beverage retailer said that suppliers were clearing inventories by offering deep end-of-year discounts, which they passed along to customers. Retail fuel prices were roughly flat since the last report in most of the District except for Montana, where they fell moderately. Prices received by farmers increased in November from a year earlier for sugar beets, chickens, eggs, milk, hogs, and cattle; prices decreased from a year earlier for corn, soybeans, wheat, barley, potatoes, canola, lentils, hay, and turkeys.

Worker Experience

Workforce development contacts across the District reported a slight softening in job openings but noted that demand remained robust for some health care and construction jobs. Contacts highlighted ongoing challenges matching available talent to those high-demand occupations. Midcareer job seekers looking for management opportunities struggled, because those jobs were scarce. A union contact said that hiring commercial drivers, mechanics, and law enforcement professionals in some areas of the U.P. was a “perpetual struggle.” They added that public employees kept “moving backwards,” facing stagnant wages and a higher cost of living.

Consumer Spending

Consumer spending grew modestly. Retail contacts were generally upbeat about holiday sales. Stores reported strong crowds, with some seeing sales surpass pre-pandemic levels for the first time. One Minnesota mall contact expected sales increases from three percent to five percent over last year. Another Minnesota contact said that “traffic is up and a lot of people [are] carrying bags.” Some restaurants in Minneapolis-St. Paul reported slow holiday event bookings and lower overall sales. Sentiment among retailers in South Dakota was also somewhat softer, and a source there noted a spate of recent restaurant and brewery closings. Some contacts noted healthy consumer spending, but also expressed caution regarding rising consumer debt, particularly among middle- and low-income households. Hotel occupancy softened across the District, though Wisconsin operators saw decent gains. Vehicle sales were flat overall, with higher sales of new vehicles but lower sales among used vehicles.

Construction and Real Estate

Construction grew slightly overall since the last report. Industry data suggested that project activity increased somewhat, and contacts overall reported slightly higher activity in December compared with a month earlier. Recent permitting activity in the District’s larger markets was mostly lower for commercial projects, and flat-but-mixed overall for single- and multifamily activity. Recent surveys showed a notable uptick in the sector's near-term outlook, but some contacts noted that optimism has not yet translated to increased activity. A Wisconsin architecture and design firm contact said that "there is so much uncertainty . . . that I have heard would-be developers say they will have to wait before moving forward."

Commercial real estate fell slightly. Office space was still widely lower across most District markets. Industrial space continued to soften somewhat, with increased subleasing in some markets, but conditions were still considered healthy. Multifamily vacancy rates ticked higher. Retail continued to perform well in many markets, buoyed by strong holiday foot traffic and tight vacancy rates. Residential real estate was widely higher. A large majority of markets saw growth in recent home sales year over year, including strong, double-digit increases in Montana markets.

Manufacturing

Activity in manufacturing decreased moderately in the District since the previous report. Preliminary results from an annual survey of manufacturers indicated a contraction in 2024 from the previous year. Manufacturers responding to a monthly business survey reported orders decreased in December from the previous month, and more than 20 percent reported large reductions. A metal fabricator reported that incoming order volumes were "falling dramatically compared to the past six months, which were themselves down significantly from last year." In contrast, another index of regional manufacturing conditions found activity increased in Minnesota and North Dakota in December relative to the previous month, while activity in South Dakota decreased.

Agriculture Energy and Natural Resources

District agricultural conditions remained weak. An overwhelming majority of contacts reported that farm incomes fell in the fourth quarter from a year earlier due to low crop prices. Livestock producers continued to outperform crop producers. District oil and gas exploration activity was steady since the previous report.

Minority- and Women-Owned Business Enterprises

Activity among minority- and women-owned business enterprises was lower on balance over the month. Some categorized the slowdown as "normal seasonal changes." About one in five contacts experienced slightly higher labor costs, while one in three paid more for other inputs in the last four weeks. Staffing levels were slightly lower on balance, and labor demand was mostly unchanged.

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

Economic activity expanded slightly in the Tenth District, led by consumer spending on both goods and services. Contacts indicated consumers are increasingly using longer-term financing and consolidating debt to manage household cash flows and support ongoing spending. Growth in consumer spending supported modest hiring activity concentrated in service sectors. Similarly, prices rose at a modest pace overall but rose faster among consumer-oriented businesses. Contacts broadly reported expectations that growth and hiring will accelerate in coming months, driven by faster consumer spending, growth in manufacturing demand and rising construction activity. Contacts also noted several risks to their favorable outlooks. Agriculture and leisure and hospitality businesses highlighted risks to their capacity that could arise from potential changes in immigration policy. Professional service sectors with large technology outlays expressed concerns about sourcing equipment amid potential tariffs and are already adjusting inventories.

Labor Markets

Employment levels grew slightly over the past month and business contacts expected faster job growth early in the new year. Recent hiring activity was concentrated in services sectors, and wages for service workers continued to grow at a moderate pace. While hiring and wage growth were subdued in manufacturing, contacts shared the favorable employment outlook. District firms reported limited reliance on immigrant labor in general, but contacts in select industries and regions expressed concerns that potential immigration policy changes could exacerbate already tight labor market conditions by limiting the supply of labor. Food manufacturing and agricultural contacts in Kansas and Nebraska indicated restrictions on temporary migrant labor could lead to significant supply constraints. Similarly, leisure and hospitality contacts in Colorado suggested immigration restrictions could exacerbate labor shortages in towns near resort communities. Technology industry contacts expressed additional concerns surrounding the ability to employ overseas technology workers if offshoring policies were to shift.

Prices

Prices continued to grow slowly over the last month, driven by consumer goods and services prices. Contacts noted automobile prices rose moderately due to the combination of rising costs of sourcing vehicles and pent-up demand. As consumers were holding onto their cars longer, dealers had to pay more to find and transport used car inventory. While recent price growth was slow overall, expectations for price growth over the next six month rose at a moderate pace. Faster input price growth was a noted driver of higher expected prices across goods and services for the coming year. In general, businesses were not able to pass along recent cost pressures but expressed plans to do so.

Consumer Spending

Consumer spending grew slightly over the last month, driven by growth in discretionary spending and auto purchases. Overall leisure and hospitality spending continued to rise, albeit with some signs of a softer outlook ahead. Casino operators in New Mexico reported fewer visits and lower spending per visit, and contacts at Oklahoma casinos indicated the outlook for 2025 is lower than the previous two years. Ski resort contacts noted busy early-season bookings and a sold-out holiday season. However, out-of-state powder hounds opted for lower cost basic passes to save on their ski vacations and locals were reportedly less likely to book lodging in advance, gambling that lower prices on vacant lodging would be available. While durable consumption contracted over the past month, auto purchases grew moderately driven by pent-up demand as many consumers made year-end vehicle purchases. Consumers reportedly took on long-term financing (often more than 72 months) to reduce monthly auto payments in an effort to manage household budget constraints.

Community Conditions

Contacts reported low- and moderate-income (LMI) consumers were struggling with increasing debt burdens. Most contacts said that they were seeing higher credit card utilization, increasing debt-to-income ratios, and delinquencies. Community development financial institutions contacts noted more clients were seeking consolidation loans due to higher debt burdens. Contacts indicated LMI populations continued to struggle with food and housing prices, as the ability to offset prices was limited due to higher earnings pushing households toward a benefits cliff with a potential loss in government benefits. One contact noted workers would need at least a 10 to 15 percent increase in wages to offset lost benefits but were only finding jobs with much smaller increases.

Manufacturing and Other Business Activity

Activity in service sectors grew moderately over the past month, largely driven by consumer-facing services rather than business services. Contacts shared that households within the region had some pent-up demand for purchases that were delayed due to economic concerns that subsided recently. Service firms continue to face pressure on profit margins as input prices rose faster than selling prices. Margin pressures were further exacerbated by higher overhead costs. Select business contacts reported robust growth in inventories in the past month for specific imported goods—such as computers, phones, and other electronic equipment, as well as certain industrial products—due to concerns over potentially higher costs from proposed import tariffs. The manufacturing sector continued experiencing a slight decline in activity. Nonetheless, manufacturing firms remained optimist, anticipating greater activity in the early part of next year driven by improvement in future production and new orders.

Real Estate and Construction

The level of construction activity was unchanged in recent months, however several contacts noted substantial shifts in the sources of construction demand. Municipal construction projects had been a key source of demand in recent years, but municipal development activity is waning as the availability of public funds and outlook for fiscal spending dwindle. Contacts indicated more private sector customers are coming to the table to satisfy pent-up demand from delayed development projects and deferred maintenance, offsetting the declines in municipal projects. In particular, contacts highlighted growth in demand for construction of healthcare facilities. Demand for single-family home building also firmed slightly, primarily in luxury segments or homes with large footprints. Overall expectations for construction activity were favorable for the next six months, with contacts indicating an outlook for modest growth.

Community and Regional Banking

Loan demand and credit standards were mostly unchanged across categories. However, the trend of lower demand for residential mortgage loans continued. Concerns related to credit performance over the next six months were less prevalent overall but shifted notably to different segments of the regional economy. Much of the improvement in the outlook around credit performance was due to concerns with commercial real estate loans being modified in the lower interest rate environment. In contrast, contacts reported more pessimism for agriculture loans, as grain prices remained low. Deposit levels were stable, though bankers noted a continued migration into certificate of deposit accounts and money market accounts, as customers took advantage of the current rate environment.

Energy

Tenth District oil and gas activity fell modestly. While most contacts reported no change in activity, approximately a quarter of businesses reported declines. The number of active oil rigs in the District fell slightly, while gas rig counts rose as natural gas prices now meet the average breakeven price reported by firms. Despite declining revenues and profits, District firms raised capital expenditures and employment substantially from this time last year. Firms expect drilling activity to pick up somewhat in the next six months but still do not expect material increases in production heading forward. Contacts reported the prices needed for a substantial increase in drilling remained higher than their long-term price expectations.

Agriculture

Agricultural economic conditions in the Tenth District remained subdued alongside weak crop prices. Soybean, wheat and cotton prices were nearly unchanged from the prior month and stayed below average breakeven levels. Corn prices also remained weak despite increasing slightly following recent reports of higher than anticipated export activity. Strong market conditions and high prices supported broad strength in the cattle industry, but incomes were dampened in some areas heavily affected by drought. Lenders in the District reported slight deterioration in farm loan repayment rates alongside weaker incomes, but many noted that balance sheet strength of recent years kept financial stress limited.

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 continued to expand moderately over the reporting period. Growth resumed in manufacturing output and activity picked up in nonfinancial services and retail. Bank loan volume expanded, and banks reported increased demand for loans despite continued credit tightening. Home sales increased slightly, while energy activity was steady. Overall employment rose slightly in December, although manufacturing employment was flat. Wages and prices grew moderately. Demand for nonprofit services remained high amid uncertainty regarding government funding. Outlooks continued to improve although there was concern regarding potentially adverse effects of future immigration and trade policies.

Labor Markets

Employment rose slightly in December. Services employment increased led by education and health services, while employment fell in trade, transportation, and utilities and information services. Manufacturing employment remained flat as job gains in durable goods were offset by losses in nondurable goods manufacturing. According to a Dallas Fed survey, about a third of firms are looking to hire either for new positions or replacement, while around two percent are laying off workers, both percentages remained steady since August.

Contacts reported an adequate supply of low-skilled labor, but a tight supply of skilled workers. One firm is looking to hire remote workers abroad to meet its need for skilled workers and another firm noted increasing wages to retain talent. A third contact noted that their firm's growth is being held back by the struggle to find high-quality employees. Energy contacts stated that while overall hiring was on pause, exceptions were being made for certain skilled positions. Wage growth remained moderate, but firms anticipate wage growth to be slower in the upcoming year than it was in the past 12 months.

Prices

Prices increased at a moderate pace over the reporting period. Selling and input prices grew moderately in services, while slowing to a modest pace in manufacturing. Contacts broadly noted that potential tariffs would raise input costs, and, in response, several firms anticipate passing through the increased cost to consumers. Firms plan to raise selling prices by more than they did in 2024 although input prices are expected to grow more slowly.

Manufacturing

Manufacturing activity grew modestly in December, led by gains in computer and electronic product and food manufacturing. Manufacturers reported no growth in new orders, though many expect an increase in demand in the first half of 2025. A Dallas Fed survey showed that two-thirds of manufacturers are acting ahead of the anticipated tariffs, by raising prices, finding new suppliers, and in housing production or processes. Outlooks continued to improve in December but were tempered by concern about changes in domestic policy.

Retail Sales

Retail sales grew robustly in December driven by increased revenues for retailers and nondurable goods wholesalers. Meanwhile, durable goods wholesalers saw net declines. Auto dealers reported a modest increase in sales, although a few contacts noted that margins continue to remain under pressure. Overall outlooks remained positive with some contacts citing optimism about the implementation of business-friendly policies by the incoming administration.

Nonfinancial Services

Nonfinancial services activity continued to grow moderately over the reporting period. Revenue growth was led by trade, transportation, and utilities as well as professional and business services. Revenues fell in information and leisure and hospitality. A transportation services firm reported a small increase in parcel volumes, while another contact noted that despite slow growth, overall parcel volumes in 2024 will match the 2022 record-breaking level. Demand for air travel remained strong driven by leisure travel. Despite this, one airline industry contact reported not planning to increase capacity to keep upward pressure on airfares. Moreover, to further improve margins, the airline plans to implement cost cutting measures such as reducing discretionary spending and improving workforce efficiencies. Nonfinancial services outlooks remained positive in December, and most firms expect an increase in revenue over the next six months. However, many contacts expressed concern about the negative impact of some anticipated domestic policy changes.

Construction and Real Estate

Housing contacts noted mixed activity, with some reporting meeting or exceeding sales expectations while others citing sluggish demand. Homebuilders continued to offer incentives to capture sales. Home inventories inched upward, and elevated mortgage rates and high home prices continued to challenge affordability. Outlooks were cautiously optimistic.

Commercial real estate activity was stable during the reporting period. Apartment leasing was seasonally slow, and rents were flat to down as apartment operators remained focused on maintaining occupancy. Office leasing demand picked up in some markets but remained subdued overall. Industrial activity was characterized as solid, and rents rose modestly.

Financial Services

Loan volume accelerated sharply in December. Credit tightening continued, but loan pricing declined, both at the same pace as six weeks ago. Loan nonperformance rose but at a slower pace. In addition to swift growth in loan demand, bankers reported a sizeable pickup in general business activity for the first time in over two years. Meanwhile, bankers' outlooks turned even more optimistic. They expect rapid improvement in loan demand and business activity and just a mild deterioration in loan performance six months from now.

Energy

Oilfield activity was largely flat over the reporting period. Contacts noted that oil prices in early 2025 were not expected to support an increase in production. A lower price outlook than a year ago, rising productivity, and ongoing M&A activity are expected to keep a lid on production capex growth, if there is any. Exploration and production contacts noted that M&A activity is expected to remain healthy through 2025 resulting in some further layoffs though most operations are "operating as lean as they can already." Job losses are also expected by oilfield services contacts primarily in natural gas producing regions. Narrowing margins are being driven by consolidation among their customers, and rising insurance costs. Due to this narrowing, investment in equipment is expected to remain at "maintenance levels."

Agriculture

Drought conditions retreated in parts of the district and remained present in others. Conditions improved in the cattle sector with more ample grazing—thanks to recent rainfall—and significantly higher calf prices. Row crop producers faced financial struggles in 2024 with largely unprofitable crop prices, and contacts expressed continued financial concerns heading into the new year. The winter wheat crop is a bright spot looking ahead, with strong production prospects and solid demand. Several contacts noted concern about disruption from potential retaliatory tariffs on agriculture exports.

Community Perspectives

Nonprofit service providers reported a sustained high level of demand for social services. This comes at a time of heightened uncertainty regarding future funding from state and federal governments and possible changes in eligibility for social assistance programs. Nonprofits are looking for alternative sources of funding, as a result. An El Paso contact noted that if changes in eligibility require more work hours, the resulting influx of generally low-skilled workers into a saturated labor market will suppress wages. Another contact reported that close to half of the families they serve lost childcare benefits recently because they could not find a job within the required time. In higher education, 2024 community college enrollment exceeded pre-pandemic levels. In addition, many community colleges have surpassed performance expectations, and thus, will receive additional funding in 2025.

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 expanded slightly during the mid-November through December reporting period. Employment levels were largely unchanged, and employee retention improved further. Wages were up slightly overall, and year-end pay increases were in line with historical averages. Price levels were generally stable in recent weeks. Retail sales grew modestly as contacts reported a solid holiday shopping season. Consumer and business services sectors saw steady to slightly higher activity over the reporting period. Manufacturing activity varied by product category, while conditions in the agriculture and resource-related sectors softened slightly. Residential real estate markets were stable overall, and commercial real estate conditions were mixed. Lending activity was steady. Demand for services related to affordable housing, food assistance, and mental health remained high from communities across the District. Contacts' economic outlook worsened slightly relative to the prior reporting period.

Labor Markets

Employment levels were stable on net over the past few weeks. Employers generally noted improved retention rates, expanded applicant pools, and higher quality candidates. Open positions were easier to fill overall. However, a larger share of contacts expressed caution in their hiring decisions and hesitation to adjust their headcounts going forward relative to prior reporting periods, citing uncertainty regarding the business environment. A few reports highlighted a mismatch between job requirements and applicants' skill sets for some entry-level positions in information technology and the skilled trades. Additionally, employers noted lingering challenges hiring engineers, accountants, as well as mid-level managers in business services, finance, and health care.

Wages were up slightly up on balance. End-of-year pay adjustments and merit-based bonuses were generally in line with historical averages across sectors and geographies. Wage pressures eased in construction, manufacturing, real estate, and business services but remained somewhat elevated for engineers as well as for some senior positions in finance and information technology. Some contacts mentioned that the recent collective bargaining agreements between hotels and labor unions as well as changes to some minimum wage requirements made the leisure and hospitality sector more attractive to hourly wage workers in other sectors.

Prices

Price levels were generally stable in recent weeks. On balance, nonlabor costs were unchanged in several industries, such as manufacturing, consumer and business services, and financial services. Business owners continued to report large increases in insurance premiums and health-care costs, but some noted that recent declines in energy prices, particularly for fuel, helped ease some of the cost pressures. Looking ahead, contacts generally expected their ability to pass on higher costs to customers to remain limited, and most said their prices will likely increase at a slower pace in 2025 relative to 2024, or even remain flat or decline.

Community Conditions

Demand remained elevated for community support services such as affordable housing, food assistance, and mental health services. Funding for nonprofit organizations from both individual donors and government sources fell. Contacts across the District reported that public and private educational institutions of all levels faced tighter financial conditions due to lower funding inflows and higher labor costs. Generally easing inflation trends lessened strain on small businesses, though challenges persisted with insurance premiums, rents, and financing costs. Small businesses and nonprofit organizations reported that recent integration of software technologies allowed them to expand their outreach efforts and provide more personalized services.

Retail Trade and Services

Retail sales expanded modestly over the reporting period. Contacts observed a solid holiday shopping season, similar to last year's spending. Retailers noted higher demand for outdoor products and increased foot traffic in shopping centers across the District. Sales at organic specialty stores reportedly outpaced those at regular grocery stores, particularly in the Mountain West states. Consumers continued to take advantage of promotional pricing, which bolstered overall retail sales. However, demand for some products reportedly softened, including pet specialty items and wood products at home improvement stores. Retailers generally reported adequate inventory levels, although they were somewhat lower than levels observed last year.

Activity in consumer and business services was stable to slightly up in recent weeks. Activity in the leisure and hospitality sector picked up on balance, with increased travel demand from groups and businesses that slightly offset flat demand for leisure travel. Reports indicated lower guest counts at bars and restaurants in recent weeks, which were impacted by bad weather in parts of the District despite typical holiday-related activity. Demand for consulting services increased of late as firms inquired about the potential impact of economic policy adjustments on their business operations. Demand for health-care services remained strong. Conditions in the legal services sector were mixed by firm size, with smaller ones faring worse.

Manufacturing

Activity in the manufacturing sector varied by product category. Demand strengthened for capital equipment as more customers invested in using automation for cost savings on existing and new tasks in response to elevated labor costs. Demand for manufactured lumber products was unchanged. A contact in the Pacific Northwest reported some general slowdown in manufacturing activity in the region but noted strengthening demand for defense manufacturing.

Agriculture and Resource-Related Industries

Conditions in agriculture and resource-related sectors softened slightly. Demand was stable for agricultural and animal products such as fruits, vegetables, meat, and dairy. Yields of food crops were solid but down compared to prior harvests. Drought conditions in the Mountain West negatively affected grain yields, while growers in California reported that water supply was not an issue. Exports of almonds fell. Log harvesting activity experienced seasonal slowing, which reduced market supply and put upward pressure on log prices. Additionally, log exports remained low because of muted demand from China. Materials and agricultural inputs were generally available. Some contacts reported persistent challenges with labor availability and generally high energy costs.

Real Estate and Construction

Residential real estate activity was largely unchanged from the last reporting period. High financing costs and excess supply of multifamily housing properties continued to hold back new residential construction projects. Finding skilled labor remained a challenge. High mortgage rates and home insurance costs curtailed demand in single-family markets in some regions in California and Oregon. Contacts in the Mountain West noted that strong demand for housing in areas with a growing population put upward pressure on home prices.

Conditions in the commercial real estate market were mixed. Demand for office space remained sluggish overall, though one contact reported an uptick in demand and rental rates for the most desirable office spaces. Developers put some retail and industrial projects on hold due to a recent slowdown in demand. Demand in other sectors, including infrastructure projects and government offices, was reportedly strong. Availability of raw materials generally improved of late but remained an issue for some products such as electrical and HVAC components. Construction costs, including those for insurance, electrical equipment, and steel, increased overall.

Financial Institutions

Lending activity was steady. Demand for business loans improved somewhat over the reporting period. Demand for consumer loans, including mortgages, was subdued due to elevated interest rates. Credit quality remained healthy overall. However, reports highlighted some credit quality concerns coming from small businesses and low-income households. Demand for deposits was unchanged, and deposit flows were stable.

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