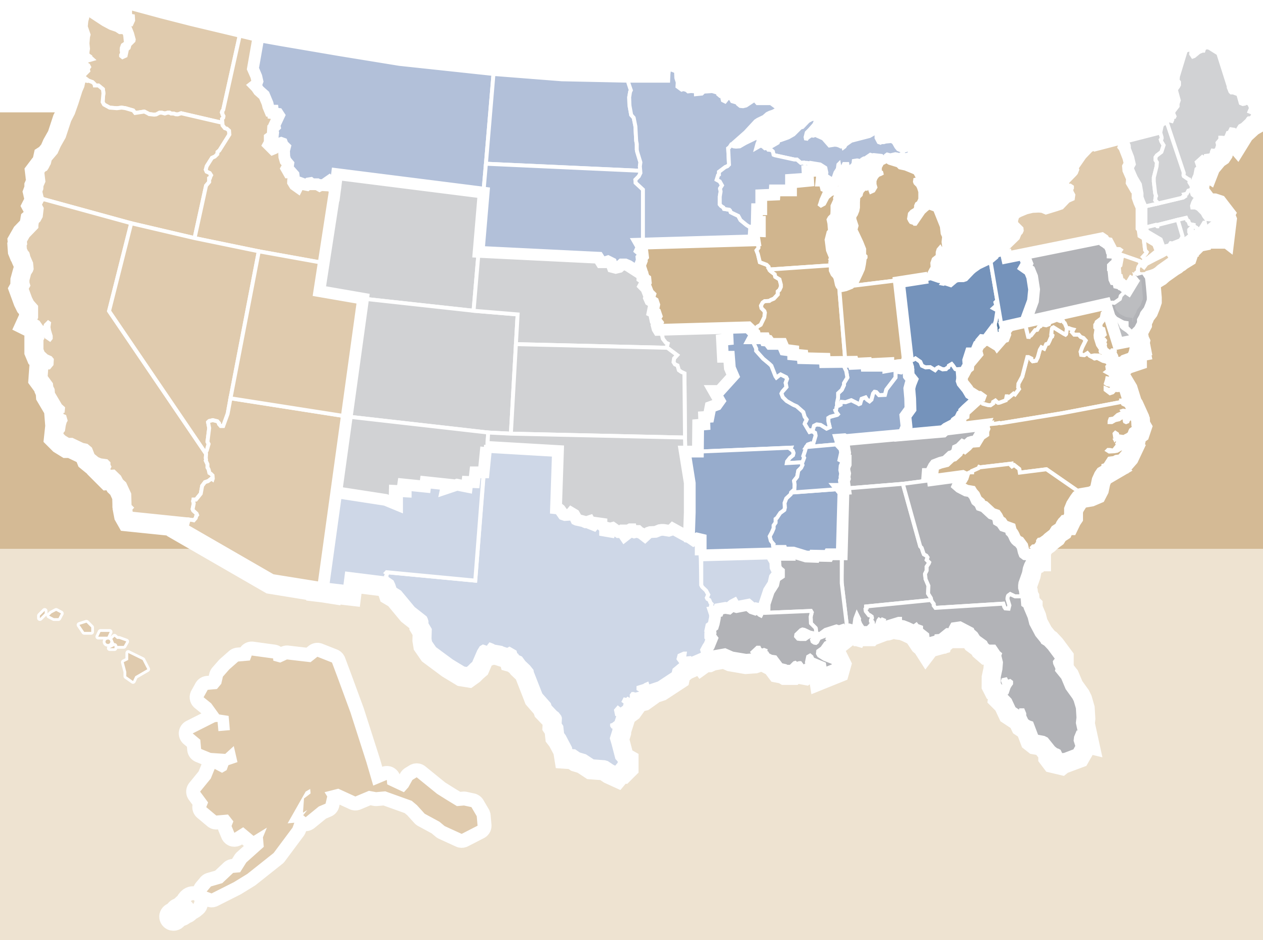
The Beige Book

Summary of Commentary on Current Economic Conditions by Federal Reserve District

February 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

Overall economic activity rose slightly since mid-January. Six Districts reported no change, four reported modest or moderate growth, and two noted slight contractions. Consumer spending was lower on balance, with reports of solid demand for essential goods mixed with increased price sensitivity for discretionary items, particularly among lower-income shoppers. Unusual weather conditions in some regions over recent weeks weakened demand for leisure and hospitality services. Vehicle sales were modestly lower on balance. Manufacturing activity exhibited slight to modest increases across a majority of Districts. Contacts in manufacturing, ranging from petrochemical products to office equipment, expressed concerns over the potential impact of looming trade policy changes. Banking activity was slightly higher on balance among Districts that reported on it. Residential real estate markets were mixed, and reports pointed to ongoing inventory constraints. Construction activity declined modestly for both residential and nonresidential units. Some contacts in the sector also expressed nervousness around the impact of potential tariffs on the price of lumber and other materials. Agricultural conditions deteriorated some among reporting Districts. Overall expectations for economic activity over the coming months were slightly optimistic.

Labor Markets

Employment nudged slightly higher on balance, with four Districts reporting a slight increase, seven reporting no change, and one reporting a slight decline. Multiple Districts cited job growth in health care and finance, while employment declines were reported in manufacturing and information technology. Labor availability improved for many sectors and Districts, though there were occasional reports of a tight labor market in targeted sectors or occupations. Contacts in multiple Districts said rising uncertainty over immigration and other matters was influencing current and future labor demand. Wages grew at a modest-to-moderate pace, which was slightly slower than the previous report, with several Districts noting that wage pressures were easing.

Note: This report was prepared at the Federal Reserve Bank of Minneapolis based on information collected on or before February 24, 2025. 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 moderately in most Districts, but several Districts reported an uptick in the pace of increase relative to the previous reporting period. Input price pressures were generally greater than sales price pressures, particularly in manufacturing and construction. Many Districts noted that higher prices for eggs and other food ingredients were impacting food processors and restaurants. Reports of substantial increases in insurance and freight transportation costs were also widespread. Firms in multiple Districts noted difficulty passing input costs on to customers. However, contacts in most Districts expected potential tariffs on inputs would lead them to raise prices, with isolated reports of firms raising prices preemptively.

Highlights by Federal Reserve District

Boston

Economic activity increased slowly, boosted by a surge in home sales. Prices increased modestly on average, but contacts perceived that upward pressure on prices could emerge in response to tariffs. Employment declined slightly, and wages increased modestly. Expectations were mostly optimistic but marked by growing uncertainty.

New York

Regional economic activity was little changed in early 2025. Employment grew slightly and wage growth was moderate, with labor supply and labor demand coming back into balance. Selling price increases picked up to a moderate pace after some slowing last period. Many businesses noted heightened economic uncertainty and expressed concern about tariffs.

Philadelphia

Business activity declined slightly during the current Beige Book period after a slight increase last period. Employment continued to grow slightly; wages and prices grew modestly. Contacts noted that changes in fiscal and trade policies pose a risk of higher inflation. Generally, sentiment fell, but firms remain optimistic about future growth amid economic uncertainty.

Cleveland

District business activity was flat in recent weeks, although contacts expected activity to increase in the months ahead. Consumer spending was down, and some contacts noted declining consumer confidence. Employment levels remained flat. Contact reports suggest that nonlabor input costs edged up, while reported price increases continued to be modest.

Richmond

The regional economy grew modestly in recent weeks. Consumer spending increased modestly, down from the moderate rate previously reported. Nonfinancial services firms also reported modest growth while manufacturing activity was unchanged. Price growth remained moderate, but firms across sectors expressed concerns about overall uncertainty in the economy and about tariffs potentially leading to future price increases.

Atlanta

The economy of the Sixth District expanded at a modest pace. Employment was steady. Wages, input costs, and prices increased modestly. Retail sales fell slightly. Travel and tourism were steady. Home sales declined somewhat. Transportation activity grew modestly. Loan growth was moderate. Manufacturing expanded slightly. Energy demand increased modestly.

Chicago

Economic activity was little changed. Employment was up slightly; consumer and business spending were flat; nonbusiness contacts saw little change in activity; and construction and real estate and manufacturing activity decreased slightly. Prices increased modestly; wages rose moderately; and financial conditions were unchanged. Farm income in 2025 was expected to be similar to 2024.

St. Louis

Economic activity and employment have been flat. Prices continued to increase moderately but were above expectations. Contacts noted that they were holding off investment due to policy uncertainty and indicated that tariffs would result in higher prices. The outlook has declined from slightly optimistic in our previous report to neutral.

Minneapolis

Economic activity was steady. Employment grew but labor demand and hiring softened. Wage and price increases were moderate. Consumer spending was flat with improvements in travel and tourism. Manufacturing experienced modest improvements. Construction of nonresidential units slowed but accelerated modestly for residential units. Commercial real estate was mostly unchanged, and home sales improved. Agricultural conditions were flat.

Kansas City

Economic activity was unchanged on balance, but consumer spending decreased moderately. Prices rose at a moderate pace. While higher prices deterred spending, business contacts indicated they were more likely to scale back rather than take a hit on margins by softening pricing. Employment levels remained steady, though contacts noted a rise in labor force churn.

Dallas

The Eleventh District economy continued to expand moderately. Nonfinancial services activity grew while retail sales were flat, and manufacturing activity was rather volatile. Lending picked up notably and commercial real estate activity improved, though housing demand was tepid. Employment held steady, and little change was seen in wage and price growth. Contacts noted sharply higher uncertainty around the outlook.

San Francisco

Economic activity ticked down. Employment levels were stable. Price levels and wages grew slightly. Retail sales fell modestly and demand for services weakened a bit. Manufacturing activity improved somewhat, while conditions in agriculture and residential real estate softened. Commercial real estate and lending activity were steady.

Federal Reserve Bank of Boston

Summary of Economic Activity

Economic activity was mixed yet increased slowly on balance. Home sales surged as buyers reportedly stopped waiting for interest rates to decline, but commercial real estate activity was flat. Retailers experienced modestly improved sales, while restaurants struggled under sagging demand and rising wholesale food prices. Manufacturing sales increased modestly, while staffing services demand grew slightly. Prices increased moderately on average as wholesale food prices spiked, and contacts expressed concerns that tariffs would contribute to more intense pricing pressures moving forward. Employment decreased slightly, and wages increased modestly on average. Employers reportedly became more selective in hiring, just as the number of job applicants increased. At the same time, workers became less likely to change jobs. The outlook was slightly optimistic on balance but was marked by a high degree of uncertainty. Some contacts perceived risks of rising inflation and slowing labor demand, while others saw upside potential for residential and commercial real estate activity.

Labor Markets

Employment was down slightly overall, and wage increases were modest. The slight decline in employment reflected moderate layoffs of corporate staff by one retailer, as headcounts were otherwise stable. Wage increases ranged from slight to moderate, depending on the sector and occupation. Manufacturers offered mixed wage increases, including one who held back on raising wages because of macroeconomic uncertainty and another who enacted an above-average wage increase to catch up to market rates. Restaurant contacts noted a decrease in wage pressure as labor supply improved. According to staffing services contacts, employers became more selective in their hiring—for example, by interviewing more candidates and/or adding drug screenings and background checks—and hoped that such measures would boost employee retention and reduce turnover going forward. Labor supply increased moderately for light industrial, skilled manufacturing, engineering, administrative services, and accounting roles. Existing employees reportedly sought to avoid changing jobs because of perceived economic uncertainty, and among jobseekers, the ability to work remotely was an especially prized job attribute. The labor market outlook was mixed, as some contacts expected hiring to hold steady or improve moving forward, and a staffing contact said that certain clients were planning to announce layoffs later this year.

Prices

Prices increased moderately on average despite isolated cost pressures. Wholesale food prices to restaurants were up nearly eight percent from one year ago, driven in part by large increases in the price of eggs that were tempered by slight declines in fresh produce prices. However, restaurants posted only modest increases in menu prices in recent months and said that profit margins narrowed as a result. Manufacturers' output prices increased modestly on average, although one firm enacted a sizable price increase for 2025 that exceeded its long-run target for price growth. Staffing firms' bill and pay rates were stable, but their insurance costs increased significantly. Aside from wholesale food prices and insurance rates, input price growth was described as slight, but contacts were concerned about emerging cost pressures related to actual and potential increases in tariffs. As a result, contacts said that the chances they would have to raise their prices in 2025 had increased recently. Nonetheless, one retailer planned to hold its prices steady at least through the fall.

Retail and Tourism

Retail sales improved modestly while restaurant sales fell sharply, leaving consumer spending roughly flat. Following a very slow fall season, a clothing retailer experienced a strong holiday season and an even stronger January, attributing the improvements in part to promotions that brought out price-sensitive consumers and in part to atypical weather patterns that boosted demand for cold-weather gear nationwide. A discount retailer reported slightly higher revenues from the previous quarter, but sales were nonetheless flat from one year ago. A Massachusetts restaurant industry contact said that sales in January 2025 were the weakest in years for any single month, even accounting for past seasonal patterns. Factors cited for weak demand included higher menu prices, poor weekend weather, and increasing popularity of "Dry January." Strong reservations activity in advance of Valentine's Day suggested that at least some of the weakness in restaurant demand would prove temporary, but on balance, the restaurant outlook became less optimistic. Retailers, on the other hand, were cautiously optimistic, despite signs of nascent weakness in demand from Canadian consumers.

Manufacturing and Related Services

Manufacturing sales grew modestly from the previous quarter, with results exceeding expectations for most firms. Firms reported modest declines in inventories consistent with plans. Capital expenditures stayed in line with targeted levels for all firms. Firms expected modest growth in the coming months on average. Nonetheless, the outlook was marked by a high degree of uncertainty related to the potential impact of tariffs on their own input and output prices.

Staffing Services

Demand for staffing services increased slightly among contacts in the First District, with greater emphasis on provisional ("temporary-to-hire") positions and legal roles. Employers reportedly became more selective in their hiring behavior, and jobseekers became choosier in their job searches. Contacts were generally optimistic regarding demand for staffing services in the coming months, despite having some concerns over how tariffs and inflation might impact their clients.

Commercial Real Estate

Commercial real estate activity in the First District was mostly flat. Multifamily housing and retail continued to experience solid leasing and investment demand, and rents in those sectors increased modestly. Industrial rents were stable at very high levels amid steady leasing demand and low vacancy rates in that sector. The office sector continued to struggle with mostly tepid demand, as vacancy rates and rents were flat, although Providence experienced an uptick in activity. Some contacts expected stronger return-to-office policies to gradually boost office leasing activity in the coming months, but proposed cuts to NIH funding threatened the District's life sciences sector. One contact noted that larger banks were starting to resume lending for select commercial properties, which led to small reductions in borrowing rates. At the same time, the prospect of tariffs introduced considerable uncertainty into construction costs, putting a damper on lending for multifamily developments despite strong demand for such loans. Loan maturations on distressed office properties remained a concern, as forced sales became more common. The outlook was slightly pessimistic on balance but included some cautious optimism. The pessimism stemmed from uncertainty concerning inflation and the expectation that interest rates would remain elevated for some time, while the optimism reflected perceived upside risks to office leasing and investment activity.

Residential Real Estate

According to residential real estate contacts across the First District, home sales increased sharply on a year-over-year basis in either December 2024 or January 2025 depending on the market area. Those results represented a strengthening of activity since the previous report that contacts attributed to the resolution of election-related uncertainty and the fact that prospective homebuyers no longer expected imminent declines in interest rates. Home prices continued to rise at a brisk pace year-over-year but did not accelerate. Inventories increased moderately on average from a year earlier and by large margins in some markets, but contacts stressed that inventory levels remained low, with very little new construction activity. Contacts were nonetheless optimistic that inventories were on an upward trajectory that would facilitate further robust sales activity for the spring season.

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 was little changed in early 2025. Employment grew slightly and wage growth was moderate, with labor supply and labor demand coming back into balance. Selling price increases picked up to a moderate pace after some slowing during the last reporting period, while input price increases remained moderate. Manufacturing activity edged up slightly. Consumer spending held steady, and tourism in New York City stayed near pre-pandemic levels. Housing markets remained solid, and new office leases picked up modestly in New York City. The broad finance sector weakened modestly. Many businesses noted heightened economic uncertainty and expressed concern about tariffs. Looking ahead, businesses were notably less optimistic.

Labor Markets

On balance, employment in the region continued to grow slightly. Businesses in leisure and hospitality, personal services, and healthcare and education saw modest increases in headcounts. However, construction firms reported moderate reductions, and transportation, information, finance, and business services firms noted more modest declines.

Demand for workers was steady, but employers expressed some hesitancy in hiring due to uncertainty about the outlook. Though there were no mentions of major layoffs in the District, there was some quiet downsizing at financial firms at year end leading to a slight increase in job hunters. Further, a New York City area recruiter noted that there have been a rising number of jobseekers from the healthcare sector, as hospital consolidations have resulted in some reductions in office staffing. Still, demand for workers in financial services remained solid, and some fields that were quiet much of last year, such as sales and marketing, have seen some pickup. With labor supply and labor demand back into balance, it is generally not difficult to find qualified workers.

Wage growth continued at a moderate pace. Several contacts noted that New York State's minimum wage law was a factor pushing up wages for all their workers, though some businesses reported holding the line on wages to only cost-of-living increases or even pay cuts in some industries.

Prices

Selling price increases picked up to a moderate pace after some slowing during the last reporting period. Manufacturing contacts noted a marked uptick in input price increases, while service sector firms reported that cost increases continued at about the same pace as in the prior reporting period. Prices for a number of food products increased sharply, including coffee, chocolate, and eggs; freight, insurance, and utilities costs also increased significantly. Tariffs and the impacts of shifting trade policies on prices were a source of significant concern for businesses across many industries. A manufacturing firm noted that either paying tariffs or adjusting sourcing to avoid tariffs would lead to higher selling prices. In general, firms expected some pickup in price increases in the months ahead.

Consumer Spending

Consumer spending held steady since the last report after a strong holiday sales season despite exceptionally harsh winter weather across much of the District. Auto dealers in upstate New York reported a modest increase in both new and used car sales in early 2025. Still, affordability remained a concern, and used cars have remained appealing due to the gap between the price of new and used cars. Inventory of new and used vehicles remained at healthy levels. Despite heightened uncertainty and some concerns about the impact of tariffs on global supply chains, retailers and auto dealers were optimistic about sales prospects in 2025.

Manufacturing and Distribution

Manufacturing activity edged up slightly, following a small decline in activity last period. New orders and shipments picked up. Activity among wholesale and distribution-related firms was largely unchanged. While supply availability was fairly steady, delivery times lengthened slightly. A shipping industry contact indicated that despite widespread apprehension among importers about the effect of tariffs and shifting trade policies, most are waiting until the changes are established before making any modifications to sourcing or shipping routes. Many contacts expect supply availability to worsen in the months ahead. One firm noted that interest rates are limiting investments, and capital spending plans were generally soft. Optimism among manufacturers and distribution-related firms dropped noticeably.

Services

Activity in the service sector weakened slightly. While business services firms reported steady activity, businesses in other service industries reported slight to modest declines. Service sector firms anticipated only modest growth in the coming months and were less optimistic than in the last reporting period.

Tourism activity in New York City was solid. Despite the usual seasonal slowdown, hotel occupancy rates were high and just below the levels from the same time in 2019. Broadway theatres continued to have high attendance. Even with the seasonal reprieve in hotel rates, high hotel costs cut into visitors' budgets, constraining spending on dining and other entertainment.

Real Estate and Construction

The housing market remained solid. Demand has continued to outpace supply in the New York City suburbs and upstate New York, limiting sales and pushing prices up. Exceptionally low inventory remains a constraint, and on Long Island inventory is at the lowest level in more than two decades. With inventory at relatively normal levels in New York City, new signed contracts have continued to rise. However, price dynamics in the City have been mixed, with the price of existing units moving sideways and the price of new development increasing.

The rental market strengthened. Rents continued to rise in New York City, where bidding wars were common, and a large share of units were rented at an amount over the asking rent. In upstate New York, rents remained stable at a high level. With mortgage rates still relatively high, many prospective buyers have continued to rent.

Commercial real estate markets were mixed. New York City's office market saw a modest uptick in new leases, and vacancy rates fell. Financial services firms accounted for the lion's share of new office leases. Northern New Jersey's industrial market continued to weaken slightly, with a continued rise in vacancy rates and rents declining slightly as new supply on the market has offset rising demand. Increases in industrial demand was driven in large part by third-party logistics firms from Asia as well as big box retailers. Retail markets in New York City worsened slightly, with a small uptick in vacancy rates amid sagging rents.

Construction activity declined at a moderate pace. Despite concerns about rising materials prices, construction industry contacts remained optimistic about business activity in the coming months.

Banking and Finance

Activity in the broad finance sector weakened modestly. Small-to-medium-sized banks reported that demand continued to decline for all loan types, including business loans, consumer loans, and commercial and residential mortgages, as well as refinances. One regional bank reported that rates had not dropped as much as customers had expected, dampening the demand for loans. Most banking contacts reported that credit standards continued to ease, and delinquency rates continued to improve. Deposit rates moved lower. Still, finance industry contacts remained optimistic about the outlook.

Community Perspectives

Housing shortages persist across much of the District. Although there have been some favorable changes in zoning, legislation, and availability of financing, progress in expanding the supply of housing has been limited, as communities have mounted resistance to real estate development. Still, urban neighborhoods and rural communities alike are finding some success in conversions from commercial properties, including offices but also churches and schools in more rural areas, offering some increase in supply in some communities.

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

Federal Reserve Bank of Philadelphia

Summary of Economic Activity

Business activity in the Third District declined slightly after edging up in the prior period. Employment continued to grow somewhat, although firms were more reluctant to hire amid economic uncertainty. Nonauto retailers reported little or no change in consumer spending on balance but noted that low-income consumers are trading down as they continue to be burdened by high prices; auto sales increased slightly. Nonmanufacturing activity decreased slightly after edging up last period. Manufacturing activity increased modestly on average after falling slightly in December. Wages and prices continued to rise modestly, albeit at slightly lower rates. Firms noted that changes in fiscal and trade policies pose upside risks to general inflation. Firms expect modest economic growth over the next six months but expressed more uncertainty. Nonmanufacturers were less optimistic than manufacturers.

Labor Markets

Employment continued to grow slightly based on our January and February surveys. Nonmanufacturing firms reported slight increases in full-time employment on average, with a modest increase for part-time employment. The employment index for manufacturing firms also moved higher over the two-month period. The average workweek index rose for manufacturing firms but fell slightly and turned negative for nonmanufacturers. Notably, more than half of our respondents have reported no changes in employment since December.

Overall, our staffing contacts reported strong demand and supply of labor, and less trouble retaining workers. However, two contacts noted that their clients are more reluctant to hire citing economic uncertainty. Other contacts reported increased use of artificial intelligence (AI) to replace workers. For example, banking and hotel industry contacts noted AI replaced fraud monitoring staff and food and beverage workers.

Wage inflation eased further on balance, but firms continued to report modest increases. Across industries, contacts reported less upward wage pressures, with wage increases in the range of one to three percent.

On a quarterly basis, firms' expectations of the one-year-ahead change in compensation costs per worker fell to a trimmed mean of 3.3 percent in the first quarter of 2025, down from 3.5 percent in the fourth quarter (and down from 3.9 percent one year ago).

Prices

On balance, firms' prices again rose modestly during the period. Many contacts stressed that the budgets of lower-income consumers continue to be burdened. One contact reported that low-income households have begun to stockpile shelf-stable items and switch from purchasing beef and pork to chicken. Nonprofit organizations that support low-income and immigrant populations feared that federal funding changes will impact existing programs.

Firms reported that increases in prices received for their own goods and services over the past year fell slightly in the first quarter of 2025 compared with the fourth quarter of 2024. The trimmed mean for reported price changes at all firms, as indicated by responses to our quarterly survey, fell to 1.4 percent from 1.7 percent. Price increases fell to 0.8 percent among non-manufacturers and to 2.1 percent for manufacturers.

Looking ahead one year, the increases that firms anticipated in the prices for their own goods ticked down after increasing in the fourth quarter of 2024. The trimmed mean for all firms fell to 2.6 percent in the first quarter of 2025, from 2.8 percent in the previous quarter. The expected rate of growth fell to 2.2 percent for nonmanufacturers and 3.1 percent for manufacturers. However, our contacts noted that changes in fiscal and trade policies may push prices higher.

Manufacturing

Overall, after decreasing slightly in December, manufacturing activity recorded a strong increase in January, before falling to a modest increase in February. The indexes for new orders and shipments followed a similar trend to overall activity.

Manufacturers' expectations for growth over the next six months increased on average for future activity. However, the indexes for future general activity, new orders, shipments, employment, and capital expenditures all rose in January, then fell sharply in February. Each index remained positive near its nonrecession average.

Trade and Services

On balance, firms across a broad spectrum of nonmanufacturing industries reported a slight decrease in activity. The index for general activity weakened in January and turned negative in

February. Meanwhile, the index for new orders turned slightly positive, while the sales/revenues index suggested a slight decline.

Retailers (nonauto) reported little to no change in sales during January, following a slight increase in the fourth quarter of 2024. Visits to stores remain down. Our contacts are not sure if this is attributable to weather—more snow days—or to rising financial constraints. One contact noted that customers are buying cheaper items and are using rewards more often.

Auto dealers reported a slight increase in motor vehicle sales after a modest increase in December. However, one contact reported a slowdown in leasing contracts that they expect to persist. One contact informed that the prices of cars with internal combustion engines continue to hold, while electric vehicle (EV) prices are falling as dealers offer incentives to meet their EV sales mandate.

Tourism activity increased moderately after recording flat to slight growth last period. One contact noted that the championship run and subsequent parade for the Philadelphia Eagles led to a significant boost in hotel demand and occupancy. Another contact noted that business travel continued to recover and is expected to strengthen further.

The share of nonmanufacturers expecting growth over the next six months fell further, with the index falling below its nonrecession average but remaining positive.

Real Estate and Construction

Brokers reported a slight decline in activity in the housing market due to fewer active buyers and sellers during January. One contact reported that pending transactions and new listings were both down 30 percent in January year over year.

Homebuilders also noted a slight decline. While one contact reported strong sales with delivery dates scheduled throughout 2025, most contacts noted that sales and inquiries are down slightly compared with one month and one year ago. One contact suggested that affordability issues were more common owing to high interest rates and high home prices; the contact further noted that incentives were not spurring demand as expected. Another contact has lowered prices on existing units and designed units with smaller square footage.

In nonresidential markets, leasing activity and transaction volumes remain suppressed in the retail, commercial, and industrial segments. The demand for office space remains weak. One contact reported that vacancies in the industrial real estate sector persist, but there has been more interest in that sector than there was one year ago. That said, industrial rents are holding, and there are no landlord concessions. One contact in the architect and engineering sector indicated that business is good, with a steady stream of projects planned for 2025.

Commercial real estate contacts continued to report a slight decrease in construction activity this period. One contact representing general contractors noted that 2024 was the third consecutive year of reduced hours worked. Federal spending cuts could also limit projects in the short to medium term.

Credit Conditions

The volume of bank lending (excluding credit cards) fell slightly during the current period (not seasonally adjusted)—much weaker than the slight growth and modest growth observed during the comparable periods in 2024 and 2023, respectively.

District banks reported a significant decline in commercial and industrial loans and modest drops in mortgages, auto loans, and other consumer loans. Home equity lines grew modestly, and commercial real estate lending edged up. Credit card volumes fell significantly as consumers paid down balances that had surged during the holiday season.

Banking contacts continued to report good asset quality despite a small uptick in delinquency rates among residential customers and in bankruptcies. Our contacts also noted that fewer credit opportunities are being extended as banks tighten lending criteria and customers request less credit simultaneously. Two contacts noted that rollover risks exist in commercial real estate as maturities become due in the short term.

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 was flat in recent weeks, although contacts expected activity to increase modestly in the months ahead. Consumer spending was down, and some auto dealers and consumer lenders noted declining consumer confidence related to policy uncertainty and inflation. Moreover, demand for manufactured goods generally softened. Commercial lending activity increased slightly, with some real estate investors moving forward on new projects. Also, some business services firms saw an uptick in demand driven by consultation requests amid government policy changes. Employment levels remained flat in recent weeks, and wage pressures were moderate. Nonlabor input costs edged up to a strong pace of growth, while reported price increases continued to be modest.

Labor Markets

Contacts reported that employment levels remained flat overall in recent weeks, a trend that has now spanned several reporting periods. Among the firms that were holding staff levels steady, several contacts said that they were reducing staff in areas of declining demand and hiring in areas of growth such as AI, while others were replacing underperforming workers. Some freight and manufacturing contacts reported not replacing staff who leave, slowing hiring, or laying off some workers because of slower demand or elevated costs. Still, many business and financial services contacts noted that they were hiring to meet increased demand related to mergers and acquisitions, immigration legal services, and data analytics. Contacts generally expected employment to increase slightly in the near term.

Wage pressures were moderate in recent weeks, and the share of contacts reporting increased pay was one of the highest in the past 12 months. Many firms across industries noted implementing standard annual cost-of-living and merit raises after larger-than-normal increases over the past few years. Still, some workers with specialized skills continued to see stronger wage growth. Additionally, some firms offered higher starting wages for warehousing, manufacturing, and construction roles to attract qualified candidates and keep pace with competitors.

Prices

Contact reports suggest that nonlabor input costs edged up to a strong pace of growth in recent weeks after a long period of moderate growth. Firms across industries continued to note rising costs of healthcare and other insurance. Both restaurateurs and food manufacturers reported still-higher egg prices, and multiple contacts noted cost increases for other proteins. Contacts generally expected costs to grow at a strong pace in the coming months, a circumstance which several attributed to the impact of evolving trade policy.

Reported selling price increases remained modest on balance, and the majority of contacts continued to report keeping prices stable in recent weeks. Among firms that raised prices, many said that they did so on a normal, annual basis. However, a few contacts reported unplanned price increases to offset higher compensation or materials costs. The majority of retailers and restaurateurs reported holding prices steady, with one citing competitive pressure as a reason for resisting price increases despite higher costs.

Consumer Spending

Consumer spending declined modestly after a period of moderate growth. Several food and hospitality contacts attributed sluggish demand to unusually harsh winter weather. An auto dealer suggested that policy uncertainty eroded consumer confidence and decreased demand despite increased inventory and manufacturer incentives. Meanwhile, a large retailer reported a continuing divergence between the weak mid-price retail and strong luxury retail sectors. On balance, retailers expected consumer spending to be flat in the coming months as affordability concerns hamper demand.

Manufacturing

Demand for manufactured goods declined slightly after a brief period of stability, though reports varied by industry segment. Firms selling into data center construction and adjacent projects, including chip manufacturing and electricity generation, continued to report strong demand. By contrast, producers from multiple industry segments reported flat or softer orders because of uncertainty about trade and energy policy. One manufacturer of metal products noted an increase in the number of firms seeking domestic sources of components normally imported from China. On balance, manufacturers expected demand to increase modestly in the coming months.

Real Estate and Construction

Residential construction and real estate demand declined modestly in recent weeks. One homebuilder continued to report that relatively high interest rates dissuaded some potential buyers, while another noted that unusually harsh winter weather had put a damper on business activity over the last two months. On balance, contacts expected a slight decline in demand in the coming months. One residential builder pointed to interest rates, inflation, and tariffs as factors keeping prospective homebuyers out of the market.

Commercial and industrial construction activity was flat in recent weeks. On one hand, two builders were optimistic about demand because of more bidding opportunities, and firms' return-to-office plans boosted demand for two real estate brokers. On the other hand, some contacts reported firms putting planned investments on hold until tariff policies and the direction of interest rates become clearer. Contacts anticipated slightly higher demand in the coming months.

Financial Services

Overall, bankers reported a slight increase in loan demand in recent weeks, with many citing increases in commercial lending, whereas consumer lending remained flat. One lender said that commercial demand increased as real estate investors started moving forward on new projects, and another added that outlooks improved as firms anticipated a more "business-friendly" administration. Conversely, some consumer lenders said that loan demand stalled amid a decline in consumer confidence related to continued inflation for essentials such as groceries. Looking ahead, bankers expected loan demand to grow moderately, with some citing growing commercial pipelines, an uptick in mergers and acquisitions, and reduced rates on auto loans.

Nonfinancial Services

Professional and business services firms reported moderate growth in recent weeks and expected a similar pace of growth over the coming months. One accountant attributed increased demand to policy changes and natural disasters. Several law firms reported that demand for their services remained steady, with one noting that it was increasingly providing general business counseling and corporate finance services to clients preparing for anticipated tariffs. By contrast, freight and transportation contacts reported no change in growth after a period of increased activity, and they expected modest growth in the coming months.

Community Conditions

Demand for food assistance increased over the past three months, particularly for households with children, according to the majority of food bank and pantry respondents in a recent survey. Several respondents had difficulty meeting increased demand and had to limit the amount of food provided and the frequency of visits per family. Declining in-kind donations for items such as eggs, meat, and produce led some respondents to purchase food to meet increased demand. Nearly all organizations expected demand for food assistance to rise over the next six months because of elevated prices and the impact of potential funding cuts on low-income households.

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

Economic activity in the Fifth District increased at a modest rate, on balance. Consumer spending slowed from a moderate rate to a modest one as winter weather adversely affected retail sales and leisure travel. Nonfinancial service providers reported modest growth in demand but expressed uncertainties about the overall direction of the economy. Financial institutions saw a modest increase in loan volumes. Manufacturing activity was flat, and many firms were worried about tariffs affecting their supply chains and costs. Port and trucking activity was little changed in recent weeks. On net, employment levels were unchanged as hiring slowed and some layoffs were reported. Prices grew at a moderate year-over-year rate, but some firms expected future price growth to increase due to tariffs on their inputs.

Labor Markets

Employment in the Fifth District, on net, was unchanged in recent weeks. Some federal employees were laid off and some private sector business said they cut jobs in response to a reduction or cancellation of federal funding. Several other private sector firms reported slowdowns in their hiring. An IT recruiting agency reported that their clients had significantly slowed down their need for tech talent. A furniture manufacturer was not hiring new workers and planned to allow attrition to right size their labor force. Finding workers with the right skills continued to be an issue in some cases. For example, a chartered bus company reported that due to increased competition from new businesses in their industry, finding workers had become more difficult.

Prices

Prices grew at a moderate annual rate this cycle. According to our most recent surveys, prices received by nonmanufacturing firms increased at a moderate rate and manufacturing firms reported modest price growth. A few contacts said that the threat of tariffs has already led to some increased input costs, and many more expressed concerns about tariffs leading to increased input costs and the prices they charge customers. Some firms, however, felt that they would not be able to raise their prices and would look to cut costs elsewhere.

Manufacturing

Manufacturing activity in the Fifth District was flat this cycle. Nearly all contacts reported increased uncertainty due to potential tariffs, but only a handful said that they were directly impacted so far. For example, a machine tool producer and an office equipment manufacturer reported increases in new orders and attributed it to customers pulling forward their orders due to being concerned about tariffs and future prices. A rail car manufacturer reported an unexpected decrease in new orders and was not sure if conditions would improve. A furniture manufacturer reported continued weakness across their retail division and signs of some softening in their commercial business.

Ports and Transportation

Overall cargo volumes in the Fifth District were relatively flat since the last reporting period. Winter weather disruptions along the East Coast caused some isolated shutdowns and delays while ports continued to feel the impact of temporary shipment diversions to the West Coast. Vessel traffic was expected to return gradually with the settlement of the International Longshoreman Association labor contract. Fifth District ports related that they did not see a recent spike in shipments responding to potential US import tariffs, though daily volumes have trended upwards. Despite the slow start, ports described a moderately favorable outlook for the spring and the remaining year with spot rates stabilizing and major capital investments underway to expand capacity like double-stacked rail capability, deeper harbors, two-way vessel traffic, and wharf extensions. Trucking conditions were little changed at low levels of volume; however, firms expressed “cautious optimism” from their customers and sales teams about improvement in the freight economy in the coming months.

Retail, Travel, and Tourism

Consumer spending increased modestly in recent weeks, which was a slowdown from the moderate rate of growth previously reported. Retailers reported positive growth but noted sales and customer traffic were impeded by winter weather and price sensitivity of consumers. A fast casual restaurant said that they were less optimistic about the year ahead, citing declining consumer sentiment, particularly among lower income customers that are central to their business. Tourism and hospitality contacts also reported a slowdown in activity due to disruptions from winter weather. A hotelier in South Carolina said that the adverse weather conditions led to lower occupancy rates compared to the same time last year. A Virginia hotelier added that while weekend leisure travel was lower, mid-week business travel had picked up and led to an increase in rooms sold across the state.

Real Estate and Construction

Residential real estate conditions remained the same for most of the district. Buyers had no issues qualifying for loans but were challenged with limited inventory and elevated mortgage rates. Agents in Virgina noted there is an added fear of job loss causing buyers to hold off on home purchases. Multiple contacts expressed their uncertainty regarding tariffs and the impact it will have on lumber and building supplies. Builders across the district noted weather events and slow regulatory permitting process continued to lengthen the expected time to complete projects. A North Carolina agent expressed that remote western North Carolina areas affected by Hurricane Helene was struggling to get homes back on the market as they struggle with insurance and repairs.

Commercial real estate activity took a slight pause as companies waited to get a clearer picture on policy changes. A South Carolina agent stated, "uncertainty is not good for business" while a Maryland agent mentioned "psychographic data is beginning to complicate buyer's decision making." Two Virginia agents noted office space saw a bit of an uptick as employees were slowly coming back in-person. New construction and remodel activity remained limited as costs remain high.

Banking and Finance

Financial institutions continued to report a modest increase in loan demand with one banker describing the demand as slow and steady. This demand was still being seen within the commercial real estate portfolios with slightly less demand in their business loan segments. With respect to consumer lending, home equity loan demand increased modestly while auto and first mortgages demand softened. One credit union reported that they were seeing decreased credit quality on new applications they have received from their members. Deposit levels remained stable with competition easing as rates remain level in the marketplace.

Nonfinancial Services

Nonfinancial service providers reported a modest increase in the demand for their services, but noted an uncertainty whether this trend would continue throughout the year. A business consulting firm mentioned the uncertainty of tariffs and other changes were leading their clients to be more cautious and could leave them with less funding for their businesses. Wage rates and labor force concerns were still top of mind with an engineering firm noting that finding qualified, trained labor was their primary impediment to growth. Most respondents were holding off hiring or adding staff until they have more clarity on the direction of the overall economy.

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 economy of the Sixth District grew at a modest pace, on balance, from January through mid-February. The labor market was relatively unchanged, and firms continued to report plans to maintain flat headcounts. Firms reported modest increases in wages, input costs, and prices. The higher cost of living remained a top concern for community organizations, and low-wage job seekers encountered challenges with job searches. Retail sales declined somewhat, but travel activity was steady. Housing demand declined slightly as mortgage rates ticked up and affordability declined. Commercial real estate conditions were mixed. Transportation activity grew modestly. Demand for manufacturing increased slightly. Banks saw moderate loan growth across portfolios. Energy demand rose modestly.

Labor Markets

Employment was little changed since the previous report. Most firms reported flat headcounts and noted plans to keep them relatively stable in the coming months. Labor availability remained much improved from recent years, as firms reported that they are generally able to hire and retain workers. Many contacts noted risks to the labor supply from potential changes to immigration policy. While these concerns were particularly acute among firms that rely heavily on immigrant populations for labor, others noted concerns about increased competition for workers if immigration policy leads to a tighter labor market.

Wage growth was modest over the reporting period. Many firms characterized wage growth expectations for this year as similar to 2024 wage increases, mostly in the two to four percent range. Businesses generally noted positions seeing the most wage pressure tended to be entry level.

Prices

Sixth District firms reported modest growth in nonlabor input costs and in prices over the reporting period. Cost pressures persisted for insurance and construction, and some businesses noted moderate increases in freight rates. Many contacts reported difficulty setting prices and noted ambiguity around costs, largely as a result of uncertain international trade policy. Most firms said they expected to pass through the bulk of any additional costs to customers. Some firms noted revising contract structures to mitigate cost risk, such as by eliminating guaranteed maximum pricing. Despite slightly increasing cost pressures, some consumer-facing firms reported the need to be selective and creative with price increases, as customers were more price sensitive.

Community Perspectives

Concerns about the cost of living remained top of mind among community contacts. In particular, the lack of affordable housing continued to financially challenge many individuals. Job seekers in lower-wage occupations reported declining confidence in the labor market and a more challenging job search experience. Contacts reported that a perceived lack of employer response to job applications also contributed to a growing sense of discouragement among some prospective workers.

Consumer Spending

Consumer spending declined slightly since the previous report. Furniture retailers, in particular, noted declining sales after a bump in late 2024. While some apparel retailers reported slower sales in recent weeks, it was noted as partially seasonal, and their 2025 outlook was positive. However, several contacts noted some softness in discretionary spending, especially among lower-income shoppers. Some casual dining restaurants described customers as being selective, looking for value, and skipping appetizers or desserts, and some quick service restaurants and cafes noted declines in foot traffic and transactions.

Travel and tourism activity was stable in recent weeks. Many contacts reported that demand remained healthy. Leisure travel held steady, and group travel and conventions remained strong. Hoteliers continued to see trends of last-minute leisure bookings. However, tourist attractions noted declines both in the number of visitors and in average spend per visitor.

Construction and Real Estate

Overall demand for housing in the District declined slightly since the previous report, as mortgage rates moved higher, and housing affordability diminished further. Though home prices increased modestly, on aggregate, moderating demand and elevated home inventories created less upward pressure on housing prices. Supply shortages persisted in some markets, but existing home inventory levels rose, on net. Homebuilders saw a modest decline in new home sales; some reported instances of sales below initial asking price or use of incentives to move inventory. Contacts cited mortgage rate volatility as the most significant headwind to housing demand.

Commercial real estate (CRE) conditions were mixed, though some contacts noted improving sentiment since the previous report. Challenges remained in the office sector, and some contacts noted a strategic pullback in office investments. Multifamily was also hindered by elevated vacancies due to an increase in supply, but demand accelerated somewhat, driven by concessions. Contacts noted that lower CRE property values and rising operating expenses eroded net operating income.

Transportation

Activity in the transportation sector grew modestly, on balance. Ocean carriers and southeast ports continued to see robust container volumes. Class I railroads reported modest increases in total traffic, but intermodal freight volumes were generally flat. Freight volumes for short-line railroads were up slightly from year-earlier levels. Warehousing contacts indicated that demand for space remained weak, citing economic uncertainty and an overbuilt supply. Trucking firms noted a decline in truck load volumes, which was attributed partially to winter weather events. Citing increased uncertainty around trade policy, some contacts reported difficulties in formulating a full-year forecast for 2025.

Manufacturing

District manufacturing activity expanded slightly over the reporting period. Some firms noted strong demand, particularly producers of chemicals, transportation equipment, and machinery. A manufacturer of packaging products reported an ongoing softening in demand, mainly for food packaging orders. While some contacts expected demand to improve over the next 12 months, risks to the outlook included changing policies around immigration and tariffs, along with global unrest and weather-related events.

Banking and Finance

Sixth District financial institutions saw moderate loan growth across most major lending categories. Multifamily lending outpaced other categories. Overall asset quality remained stable with low levels of nonperforming loans as a percentage of total loans, and consumer creditworthiness remained solid. Both deposit balances and borrowings by banks increased modestly, though loan growth outpaced growth of deposit balances, increasing loan-to-deposit ratios.

Energy

Oil and gas industry contacts noted modest demand and expected activity to be on par with or slightly greater than last year. Increases were expected to be concentrated in liquefied natural gas (LNG), offshore wind, and international oil and gas opportunities. Contacts described renewed interest in LNG projects since the beginning of the year. Regional utility companies continued to describe increasing power demand from expansion of data centers and population growth in the southeastern U.S.

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 was little changed on balance over the reporting period, though contacts expected a modest increase over the next year. Employment was up slightly; consumer and business spending were flat; nonbusiness contacts saw little change in activity; and construction and real estate and manufacturing activity decreased slightly. Prices increased modestly; wages rose moderately; and financial conditions were unchanged. Farm income in 2025 was expected to be similar to 2024.

Labor Markets

Employment increased slightly over the reporting period and contacts expected growth to continue at that pace over the next 12 months. The labor market remained in good shape overall, though there was some variation in contacts' assessments of the hiring environment and there were increasing reports of a loosening in conditions. Several contacts were struggling to fill positions, including for machinists and technicians. In addition, contacts in agriculture expressed concerns about potential labor shortages for livestock, meatpacking, and fruit and vegetable operations given efforts to more strictly enforce immigration laws. In contrast, there were many contacts that reported having little trouble filling positions. One contact in retail said they had "resumes stacked to the ceiling." A staffing firm again reported lower hiring by manufacturers, particularly from the auto industry. In addition, contacts at some machinery and food manufacturing firms reported layoffs, and other manufacturing contacts noted that they were able to hire more easily after recent layoffs at nearby factories. A few contacts were hesitant to hire because of uncertainty about how federal government policy changes could affect the economy. Wages and benefits costs were up moderately overall, with contacts attributing increases to annual cost-of-living adjustments and health care plan renewals.

Prices

Prices rose modestly overall in January and early February and contacts expected a similar rate of increase over the next 12 months. Producer prices moved up slightly. Nonlabor input costs increased, with reports of higher prices for raw materials, energy, and shipping. Contacts also noted increased costs for insurance. Consumer prices again rose modestly overall. One retail industry analyst said they expect consumer prices to reflect any increases in tariffs on consumer goods about three to six months after implementation.

Consumer Spending

Consumer spending was flat over the reporting period, though contacts noted more week-to-week volatility than usual. Nonauto retail sales increased slightly. Sales were up for bulk items at warehouse stores, for luxury items, and at fitness centers. Spending on household durable goods softened, however, and a furniture retailer noted lower take-up of promotional offerings. Leisure and hospitality spending increased, led by restaurants, though the pace of growth slowed some in February. While light vehicle sales were down modestly, the result was better than expected given stormy and frigid weather across the District.

Business Spending

Business spending was flat in January and early February. Capital expenditures fell slightly, though expectations for spending over the coming year were up. Demand for truck transportation edged up and freight rates increased a bit. Retail inventories decreased slightly from somewhat low levels. Stocks of both new and used vehicles were low, in part because of strong demand at the end of 2024. Manufacturing inventories were slightly elevated. Reports of materials shortages remained scarce, though one contact said castings from foundries were difficult to get.

Construction and Real Estate

Construction and real estate activity declined slightly over the reporting period. Residential construction was flat overall, with contacts highlighting declines in the Chicagoland market and a slowdown in growth in the Indianapolis metro area. Residential real estate contacts noted a modest decline in sales and a slight increase in home prices. Rental occupancy was up, and rents continued to grow, but at a slower pace. Nonresidential construction was unchanged, though some contacts reported strong interest in site studies for industrial projects. High costs for labor and materials continued to pose challenges to builders. In the commercial real estate sector, activity was up, selling prices decreased slightly, and rents and vacancy rates rose slightly.

Manufacturing

Manufacturing demand declined slightly overall in January and early February. Steel orders were flat, as higher sales to oil and gas customers were offset by lower sales to the construction and automotive sectors. Fabricated metals demand declined slightly, in part due to fewer orders from the automotive and agricultural industries. Machinery sales edged down, with contacts also reporting declines in demand from the automotive industry. Auto production decreased slightly, while heavy truck production was up slightly. Many manufacturing contacts said that higher tariffs had the potential to raise costs and disrupt supply chains.

Banking and Finance

Financial conditions were little changed in January and early February. Bond and equity values rose slightly, while volatility remained flat on net. Business loan demand increased modestly, though a banking contact noted activity was lower than usual for this time of year, particularly for acquisition financing. Business loan quality decreased slightly overall, with one contact noting a deterioration in asset quality for auto suppliers, who were facing lower sales and tighter profit margins. Business loan rates rose modestly and terms remained flat across the board. Consumer loan demand decreased slightly, though one contact highlighted an increase in demand for HELOC loans. Consumer loan quality, rates, and terms were steady.

Agriculture

Farm income for District crop producers in 2025 was expected to be similar to 2024, though livestock producers could fare better. Contacts noted higher-than-normal uncertainty given potential for federal policy shifts, especially regarding trade. Corn, soybean, and wheat prices increased during the reporting period, leading many farmers to sell stored crops at higher prices than were available during harvest. Major shipping challenges that farmers confronted in late 2024 were largely resolved, though there were still some train delays to Mexico. While input costs were stable for most products, prices for some fertilizers rose. Contacts noted an acceleration in the use of precision farming technologies, which can lower input costs and improve yields. Cattle, hog, and cheese prices rose, while milk prices declined. Egg prices hit record levels as avian influenza continued to reduce the number of laying hens. Contacts reported signs of greater financial stress among farm borrowers as delinquencies edged up but said that most problems could be resolved with modest loan restructuring. Financing for farm operations was seen as readily available.

Community Conditions

Community, nonprofit, and other nonbusiness contacts reported no change in economic conditions over the reporting period, though many expressed elevated uncertainty about the economic outlook related to recent and potential federal policy changes. State government officials said withholding revenues on personal income taxes were consistent with a stable labor market, while other tax revenues were mixed. Community contacts reported strong concern about the impact of the evolving federal policy landscape on social service organizations, as most lack the capacity to absorb any disruption in funding while maintaining services. Nonprofit and other community organizations stressed that demand for housing, childcare, healthcare, food, and other necessities remains high as families navigate persistently elevated grocery and housing prices.

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 been flat since our previous report. Employment was unchanged and contacts noted increased retention. Wages continued to increase at a moderate pace. Prices continued to increase moderately; however, price increases have been slightly above expectations. Throughout the District, businesses reported that increased labor and non-labor costs were negatively impacting their profits. Contacts across multiple industries expressed uncertainty about the impact of policy changes and were holding off on investment until further clarity. They also indicated that tariffs would result in higher prices. The outlook has declined from slightly optimistic in our previous report to neutral.

Labor Markets

Employment has remained unchanged since our previous report. Contacts reported that the labor market continued to be tight. Staffing agencies reported that the labor demand pipeline was stronger now than one year ago. Businesses reported fewer job-hoppers and increased employee retention. In Louisville, workers were "sticking and staying" according to employers. Contacts were concerned about a future reduction in available workers due to immigration policies. One construction contractor in Little Rock reported they had already experienced a decline in available workers due to a recent deportation, and another construction firm in Kentucky reported a rise in employee absenteeism.

Wages continued to increase at a moderate pace. Contacts reported that wage growth had stabilized between three percent and four percent in 2024 and were expecting wages to increase at a slightly slower pace in 2025. A manufacturing contact noted that wage pressure continued to be significant. Leisure and hospitality contacts reported that they had to increase wages to remain competitive and because of higher minimum wages.

Prices

Prices have increased moderately since our previous report, but increases have been slightly above expectations. Survey respondents across the District reported that prices increased by about 2.75 percent during 2024 and expect inflation to accelerate in 2025. The majority of contacts reported that they had some ability to increase prices charged to customers over the next three to six months. Contacts across the District reported higher labor and non-labor costs. Manufacturers reported price increases from suppliers. While this is the typical time of year for some product price increases, contacts noted that tariffs and the threat of tariffs were leading some suppliers, such as lumber, to adjust prices preemptively. Construction contacts noted that material costs continued to be a challenge, with some increases of 15 percent to 20 percent in the first quarter of 2025. A tourism contact noted an uptick in negative feedback regarding price increases and used discounts and promotions to retain business. Auto sales contacts reported that prices had fallen compared with last quarter and that they expect prices to continue to fall over the coming quarter.

Consumer Spending

Consumer spending has declined slightly since our previous report. District auto dealers reported that new and used vehicle sales had been significantly lower than expected despite lower-than-expected prices. They attributed this to cold weather. Retail sales have been mixed. A Little Rock retailer reported continued strong demand as they increased market share, whereas a St. Louis retailer reported fewer customers and smaller orders. A food service distributor reported consumers were buying less, buying less often, and trading down. Leisure and hospitality sales were mixed. Several St. Louis contacts noted that sales had fallen below expectations due to weather conditions.

Manufacturing

Manufacturing activity has increased slightly relative to our previous report. A consumer goods plant in Kentucky reported their operations went from running 24 hours for 5 days to 24 hours for 7 days per week. Manufacturers in Arkansas noted that the industry was flat and the market was soft despite their expectations that things would pick up early in the year. A St. Louis manufacturer noted that sales had fallen below expectations, attributing lower shipments in the first week of the period to snowstorms, and that the rebound in the remainder of the quarter would not be enough to catch up completely. Contacts across the District noted price increases from suppliers and concerns about tariffs further increasing input costs that would negatively impact their competitiveness in the market. A St. Louis manufacturer noted that, while they were seeing favorable business indicators and demand, they continued to struggle to hire qualified employees.

Nonfinancial Services

Activity in the nonfinancial services sector has declined slightly since our previous report. Transportation and logistics contacts noted a slight decline in activity due to lower demand; however, they expected conditions to improve in the second quarter. A contact in the healthcare sector noted that demand had been stable for the past three months; however, they expected a decline in revenue soon due to changes in federal healthcare policy. A dental service organization reported recent strong activity. A legal services business reported continued high demand for their services, whereas another business reported lower demand and an uptick in late payments and failed/declined payments.

Real Estate and Construction

Residential real estate activity has remained flat since our previous report. While lower seasonal activity was expected, contacts were expecting slightly stronger activity during these months than what has materialized, noting that high rates were holding back consumers. Expectations for the spring were optimistic, with a real estate agent in St. Louis noting that they were already seeing residential sales pick up dramatically in February and that agents were expecting a big influx of listings.

Commercial real estate has improved slightly. Multifamily demand remained solid; however, investors remain in a holding pattern due to cold weather and policy uncertainty. Retail property demand has been steady, continuing its recent upward trajectory. Some contacts reported a slight uptick in office space demand as businesses who went exclusively remote begin to make their way back into physical space. Construction has been slightly slower than expected: Construction costs, higher interest rates, and insurance costs are having a large impact on underwriting.

Banking and Finance

Banking activity has remained steady, with some increased optimism across contacts due to expected regulatory changes and net interest margin improvement. Loan demand has remained flat, despite higher expectations; nevertheless, contacts expect loan demand to pick up slightly. Commercial lending pipelines looked positive for several contacts, who noted optimism from their clients. Bankers noted that credit card delinquencies were on the rise and that past-dues and loan defaults were expected to continue to rise throughout 2025 as customers continue to spend more than their earnings and are reaching credit limits.

Agriculture and Natural Resources

Agriculture conditions have deteriorated since our previous report and remain historically weak. A contact in Memphis noted that the current agriculture market was in a worse spot than the same time last year, with low cash flows due to high input costs and low commodity prices. Contacts noted that tariffs, policy uncertainty, and lack of clarity regarding Farm Bill safety nets were negatively impacting the sector. Some farmers also reported having no expectation of profits in the 2025 crop year, and others have gone out of business. Bankers expressed concern about this sector, noting that they must be cautious; many have tightened their credit standards for agriculture lending. Farmers in Northwest Tennessee reported they would have to clean farms before planting could take place this year due to major flooding in the area.

Federal Reserve Bank of Minneapolis

Summary of Economic Activity

Economic activity in the Ninth District was steady since the previous report. Employment grew slightly, but hiring and labor demand softened. Price increases and wage growth were moderate. Consumer spending was flat with slight improvements in travel and tourism. Residential construction grew modestly, and nonresidential construction slowed. Commercial real estate was mostly flat, but sales of residential units grew moderately. Manufacturing experienced modest improvements and agricultural conditions were unchanged.

Labor Markets

Employment grew slightly since the last report. Labor demand was positive, but the rate of growth continued to decline somewhat. Surveys showed more employers were not hiring; those looking for workers were most often hiring to fill recent turnover. However, only a very small fraction of firms were cutting workers. Some employers were also cutting total staff hours in the face of slower business, rather than eliminating positions. For those hiring, labor availability continued to improve. A North Dakota manufacturing provider said it was seeing “a marked increase in qualified applicants for our open positions.” But a number of contacts complained of skill gaps. A Minneapolis construction firm reported that it “can get unskilled labor with relative ease, but they are unreliable. . . . Skilled labor is hard to find and keep.”

Wage growth was moderate overall but continued to soften somewhat. A number of contacts reported that wage increases were being held back by other cost increases. After a big wage increase last year, a Wisconsin transportation firm said it “will have to keep the status quo for now” due to cost increases elsewhere. A Minnesota construction firm said the costs for steel and insurance were keeping a lid on wage increases. “Employees expect better pay. I’m not saying they don’t deserve it. Just that we can’t afford [it].”

Prices

Prices increased moderately, which was a faster pace of growth than the previous report. In a January survey of District firms, 30 percent said they increased prices charged to customers from a month earlier, compared with 60 percent who reported no change. A larger share reported increases in input prices. Businesses continued to report significant pressures in insurance costs. Several food production and food service contacts reported passing on increased ingredient costs to customers. The wholesale prices component of a regional manufacturing index increased in January to its highest level in more than 18 months. Retail fuel prices increased modestly since the last report in most of the District except for Montana, where they increased faster.

Worker Experience

Workforce development professionals in Minnesota reported that it was taking longer for job seekers to find a job compared with a year ago. Information technology specialists and workers with administrative backgrounds were waiting an average of three months to get hired, while certified nursing assistants and other health care support workers waited less than a month. A health care contact said that there were “roughly the same number of openings and amount of churn in the market” than in recent years. Searches for nonprofit C-suite positions that used to get around thirty applications “recently ballooned into the hundreds,” according to a District recruiter. “Most are extremely qualified with decades of experience in government or non-profit.”

Consumer Spending

Consumer spending fell modestly. A majority of survey respondents in accommodation, food services, recreation, and retail reported that recent revenue declined early in the year compared with last year. They also did not expect improvements in the near future. However, the winter tourism sector recovered somewhat from last year’s warmer-weather debacle. Some areas saw improved snowfall, and persistently cold weather allowed ski resorts to manufacture necessary snow. A motel owner in Michigan’s Upper Peninsula noted that better snow levels this year “made for a significant increase in business.” January hotel occupancy rates declined slightly; however, revenue per average room was modestly higher. Vehicle sales were flat overall at one large dealer in the western portion of the District, with new-vehicle sales falling slightly for the first time since September.

Construction and Real Estate

Construction fell modestly since the last report. A larger share of survey respondents reported slower activity year over year than those who reported an increase. Industry data also suggested that construction starts in early 2025 were slower than last year. A Minnesota glass manufacturer reported that construction activity and related orders had been soft, resulting in some layoffs until an expected increase in spring work. A Minneapolis–St. Paul construction firm said it was “not seeing bid invites at the rate I have seen in previous years.” The head of a trade group in the District said, “We’re seeing a nervousness around tariffs and [its] impact on the industry.” There were some positive indicators; data center development remained active and residential permitting in larger markets was moderately stronger than last year.

Commercial real estate was flat overall. Office vacancy rates remained very high in the central business districts of Minneapolis and St. Paul. Industrial vacancy rates have ticked slightly higher but remained comparatively healthy. Retail vacancy stayed tight amid a dearth of new construction. Residential real estate was higher; January home sales rose in two-thirds of regional markets year over year.

Manufacturing

Manufacturing activity in the District increased modestly since the previous report. Nearly half of manufacturers responding to a monthly business conditions survey reported an increase in orders in January from a month earlier. An index of regional manufacturing conditions found activity increased in Minnesota and North Dakota in January relative to the previous month, while activity in South Dakota was roughly unchanged. However, metal fabrication contacts reported continued below-average demand and difficulty with metals prices. Some contacts expressed concern about the potential effects of new tariffs.

Agriculture Energy and Natural Resources

District agricultural conditions were steady at weak levels. Some contacts expressed concern about the possibility of widespread drought conditions persisting into the growing season. A contact reported that turkey producers in the region were “in a good place” with respect to the impact of H5N1 avian influenza due to investments in bio security. District oil and gas exploration activity was roughly steady since the previous report. Preliminary estimates suggested that production at District iron ore mines declined slightly.

Minority- and Women-Owned Business Enterprises

Activity among minority- and women-owned business enterprises (MWBE) improved but remained lower on balance, with more contacts reporting lower sales compared with those reporting higher sales. More than half of contacts said they had made capital expenditures. Profits margins contracted for the majority of businesses. Job openings trended downward from low levels among this subset of businesses, but headcount remained steady. Prices for nonlabor inputs were lower on balance, while changes in average compensation were higher for the majority.

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 was unchanged on balance across the Tenth District. However, consumer spending decreased moderately across several spending categories. Prices rose at a moderate rate. While higher prices deterred spending, business contacts indicated they were more likely to scale back production rather than take a hit on margins by softening pricing. Nearly all business contacts expected recent trade policy shifts will push their costs higher. Contacts in residential real estate construction highlighted discussions of escalation clauses during negotiations in recent weeks, as builders and investors sought protections from anticipated materials cost growth in lumber and metals, which they attributed to changes in trade policy. Employment levels remained steady overall, though contacts noted a rise in labor force churn. Most contacts maintained a favorable outlook for hiring plans and planned capital expenditures but reports of delaying plans or considerations of scaling plans back were common in recent weeks. The outlook among community service organizations was reportedly much less favorable.

Labor Markets

Employment levels remained steady in the Tenth District, though contacts noted a rise in the reallocation of workers. Several companies highlighted establishment closures with job losses that were offset by planned hiring at other locations. Other contacts reported they hired recently displaced workers from other businesses or sectors. Smaller firms indicated relatively more difficulty in recruiting or retaining workers as they struggled to compete with larger firms on wages and non-wage benefits such as training programs. Most contacts across a broad set of sectors continued to report positive expectations for employment growth over the next six months. However, many businesses indicated recently they delayed their hiring plans to “wait and see” how things develop going forward, and several reports of “scenario planning” to forgo hiring or reduce headcount arose in recent weeks.

Prices

The pace of price growth rose over the last month, with prices rising moderately. Input prices for manufacturing firms exhibited a notable uptick, while service inputs continued growing moderately. Most businesses expressed difficulty in passing higher costs to their customers, indicating potential demand destruction as a primary concern. Yet, business contacts indicated they were much more likely to scale back rather than take a hit on margins by softening pricing. Looking forward, most contacts anticipate higher business costs, with insurance expenses, materials costs, and transportation being the categories expected to rise the most. The majority of contacts also anticipated higher business costs in the coming year due to recent tariff announcements. In particular, contacts in agricultural manufacturing and real estate developers expressed concerns over rising metal and lumber prices.

Consumer Spending

Consumer spending decreased moderately across most categories. The largest pullback in spending was reported among retail businesses and in the leisure and hospitality sector, but spending on durable goods and at restaurants also softened. Contacts indicated consumers "pushed back against recent price increases," resulting in lower sales volumes and revenues. Despite recent declines in spending, contacts' expectations about sales growth for the next six months were generally positive, albeit less strong than reported in recent months.

Community Conditions

Service organizations involved in workforce training, small business support, and providing childcare broadly reported substantial amounts of uncertainty about their long-term funding. Most contacts suggested they were able to manage recent liquidity challenges to support their activities for the short-term, ranging from a week to a couple months. However, many organizations reported they are scenario planning in the face of uncertainty about funding, with plans ranging from significant cuts to their services and headcount to plans for closure. For example, a childcare provider associated with head start reported having available liquidity that will provide for one week of payroll but, without additional funds, will soon lay off staff and cease provision of nearly 1,000 childcare slots.

Manufacturing and Other Business Activity

Overall business activity across the District remained unchanged over the last month. Manufacturing activity continued to contract modestly, but that contraction was offset by a slight rise in professional services activity. On average, contacts in manufacturing sectors anticipated slight headwinds for demand in the coming year from changes in trade policy, but a small share of firms expected demand to rise. In contrast to the mix of views on the outlook for demand, nearly all contacts expected recent trade policy shifts will push their costs higher or significantly higher. Most business contacts reported a limited exposure to government contracts, but recent disruptions in federal funding have resulted in payment delays for some District manufacturing firms. Capital outlays were slightly below scheduled expenditures in recent weeks as several contacts reported delaying, though not deviating from, planned equipment investments. The outlook for capital expenditures remained positive, yet expectations were softer than reported a couple of months ago.

Real Estate and Construction

Development and construction activity in commercial real estate picked up modestly outside of the office segments of the sector. Completions of retail facilities and hotel upgrades and modifications also accelerated in recent weeks. Developers indicated the number of contractor bids for projects rose, and contractors reported subcontractors and workers were more available to support new work. Contacts in residential real estate construction noted escalation clauses were much more commonly part of negotiations in recent weeks as builders and investors each sought protections from anticipated materials cost growth in lumber and metals, which they attributed to changes in trade policy. Similarly, lenders reported they became more attentive to risks associated with potential increases in materials costs during their underwriting process.

Community and Regional Banking

Loan demand was mostly unchanged at District banks, although several bankers noted demand for residential mortgage loans continued to wane. Credit standards were unchanged across lending categories and loan quality remained relatively stable. Respondents indicated real estate taxes and insurance expenses increased significantly over the last year. Thus far, these additional expenses have had only a modest impact on overall borrower repayment capacity. Bankers noted high inflation, repricing risk for loans maturing in a higher rate environment and impacts from tariffs as the most prominent potential downside risk factors that could affect loan quality over the next six months. Conversely, contacts highlighted overall economic expansion and lower interest rates as potential factors that could improve loan quality over the same period. Deposit levels remained stable, while respondents noted a continued shift to certificate of deposit accounts.

Energy

Tenth District oil and gas activity was flat over the last month, but sentiment remains optimistic. The number of active oil rigs in the District was mostly unchanged as oil prices remain rangebound above contacts' breakeven price but below the price needed to substantially increase drilling. The number of active gas rigs ticked down slightly in recent weeks, despite higher spot prices driven by strong natural gas demand from cold winter weather and related power demand. Contacts are optimistic heading into 2025 as they are developing promising new plays in Oklahoma's Anadarko Basin and Wyoming's Niobrara Basin. Coal production in Wyoming is up slightly from last month but remains below 2024 levels despite price increases last year.

Agriculture

Conditions in the Tenth District agricultural economy improved slightly but remained relatively weak. Crop prices increased moderately in January, but profit opportunities were still narrow. Strong cattle prices continued to support profits among producers, however, low cattle inventories have been a challenge for beef processors. Contacts in several industries cited recent developments related to trade policy as a key concern, noting the potential for price volatility and uncertainty about the stability of current trade relationships. Those concerns about trade policy weighed on reported sentiment overall, but contacts noted the planned ad hoc assistance associated with the American Relief Act will provide broad support to the farm sector that could mitigate financial stress for some producers.

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. Nonfinancial services activity grew while retail sales were flat, and manufacturing activity was rather volatile. Lending picked up notably and commercial real estate activity improved slightly, though housing demand was tepid. Oilfield activity edged up. Employment held steady, and little change was seen in wage and price growth. Contacts noted sharply higher uncertainty around the outlook, with a wait-and-see stance echoed widely. Reduced labor supply as a result of stricter immigration policy, increased costs from tariffs, and decreased government spending were cited as headwinds for economic activity, while potential deregulation and corporate tax cuts were seen as tailwinds.

Labor Markets

Employment was fairly flat over the reporting period, though there were scattered reports of hiring for skilled positions, including in the energy sector. A couple of manufacturers said they expect forthcoming layoffs as a part of cost containment. A tech contact said that employment in the industry is expected to grow more this year than the modest pace experienced last year, driven by emerging technologies like AI.

Some contacts noted the labor market has loosened, with a low number of open positions and many companies hiring for replacement only or implementing a hiring freeze. However, chronic worker shortages continued for healthcare professionals. There was concern over labor availability in industries highly reliant on immigrant labor, including construction, manufacturing, energy, and hospitality. Some contacts noted an increased usage of automation and AI in some instances, in an attempt to offset labor shortages. Others plan to increase worker utilization and cross training. Wage growth abated slightly overall.

Prices

Prices continued to increase at a moderate pace over the past six weeks, though a pickup in growth was seen in manufacturing raw material prices and in retail selling prices. Several contacts noted rising costs for insurance and rent, while lower fuel costs have eased some price pressure for transportation firms. Healthcare costs are expected to increase more this year than last year, according to contacts. Numerous business leaders expressed heightened concern over inflation, largely stemming from expected pass through of increased tariffs.

Manufacturing

Manufacturing activity grew notably in January then declined in February. Recent production weakness spanned both durable and nondurable goods. Demand was similarly volatile over the reporting period, with growth seen in most types of durable goods while a sharp decline was seen in food manufacturing. Gulf Coast refineries said volumes of processed crude oil pushed to post-pandemic highs as refining capacity has expanded. However, refineries and petrochemical producers noted tariffs remained an outlook concern—a sentiment echoed by manufacturing contacts more broadly. Respondents said the back-and-forth tariff talk has been stressful and that the heightened uncertainty is highly disruptive.

Retail Sales

Retail sales were fairly flat over the reporting period. Rising growth in sales of nondurable consumer products was offset by declines in durables like autos and building materials. Auto dealers said affordability remains the primary challenge for sales, as consumers contend with inflationary pressures on vehicles in combination with lingering high interest rates. Overall retail outlooks were largely unchanged, and contacts say it is too soon to know the impacts of the Administration's many initiatives. Auto dealers in particular voiced concern over adverse impacts from trade and immigration policy changes.

Nonfinancial Services

Nonfinancial services activity continued to grow moderately in January and February. Revenue growth was led by professional and business services. Staffing firms said demand has risen, for direct hires as well as temporary workers. Transportation services firms reported increased cargo volumes, with one contact citing shipping ahead of potential tariffs as a driver. Airlines report continued strength in demand. Growth abated in leisure and hospitality after exhibiting strength in fourth quarter 2024. Overall, outlooks were fairly stable though there were pockets of increased optimism. A transportation contact expects import volumes to decline this year due to tariffs. Uncertainty spiked, and some contacts say it is impacting their ability to operate with confidence and take risks.

Construction and Real Estate

Housing demand was tepid during the reporting period. Home sales were seasonally slow, and high mortgage rates continued to negatively impact activity. Incentives on new homes remained widespread, exceeding normal levels. Contacts said the high cost of incentives, particularly mortgage buydowns, were squeezing margins. Outlooks were weak, weighed down by elevated mortgage rates and concerns regarding the potential adverse impact of immigration and trade policy changes on labor supply and construction costs.

Commercial real estate activity improved slightly. Apartment demand was stable, but rents were flat to down and the construction pipeline is expected to recede this year. Office absorption picked up in some markets though vacancy rates remained elevated. Industrial demand was solid but has moderated from its recent highs.

Financial Services

Loan volume continued increasing at a rapid pace in February while loan demand accelerated further. Credit tightening continued, while loan pricing declined. Loan nonperformance rose across all loan types, while growth in general business activity slowed. Bankers' outlooks remained optimistic but have moderated. They cited net interest margin, liquidity, and cybersecurity as top outlook concerns. Contacts expect improvement in loan demand and business activity over the next six months, but also a notable uptick in loan nonperformance.

Energy

Oilfield activity picked up slightly over the reporting period. Contacts expect slightly fewer wells drilled this year but an increase in overall production due to rising well productivity. They reported that capital spending plans for 2025 are largely unchanged from last year. Tariffs constitute the largest price risk to the oilfield, though contacts noted that the impact would likely be insufficient to affect capital investment plans. A couple of contacts credited significant expansions in Texas' battery storage capacity for the improved performance of the state's power grid during January's winter storm compared with past storms.

Agriculture

Drought conditions were largely contained to the southwest parts of the District, while most other areas had adequate soil moisture. Most crop prices remained at largely sub-profitable levels, though grain prices moved up over the reporting period. Corn prices rose to a value that is profitable for most Texas farmers, assuming the weather cooperates. Overall, most contacts expect favorable growing conditions this spring. Cattle prices rose further to record highs, driven by solid demand and ebbing supply. Egg prices have increased sharply as the outbreak of avian influenza continues to impact egg farms across the U.S.

Community Perspectives

Nonprofit service providers reported a sustained high level of demand, especially for rent assistance and household staples. Workforce development agencies noted wages in lower-skilled roles are not keeping up with inflation, causing financial strain for many households and increasing demand for childcare assistance beyond the available level, resulting in growing waitlists. Some nonprofit organizations reported cutting budgets, beginning layoffs, and making strategic pivots to sustain operations amidst federal funding disruptions. Funding cuts have had a direct impact on newly resettled refugees, as their 90 days of support services have been affected, including assistance with housing, food, healthcare and job placement. Social service organizations also observed a steep decline in service utilization over the past month from foreign-born clients, some of whom are undocumented, and said many are skipping work and missing healthcare appointments or even school out of fear of deportation.

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 ticked down during the January to mid-February reporting period. Employment levels were generally stable, and labor availability continued to improve. Wages grew slightly in recent weeks, and prices rose slightly overall. Retail sales fell modestly, and demand for consumer and business services weakened a bit. Manufacturing activity improved somewhat, while conditions in the agriculture and resource-related sectors weakened slightly. Conditions in the residential real estate sector softened slightly on net. Lending activity varied across business lines but was largely unchanged on balance. Overall conditions of community organizations and small businesses weakened. Wildfire recovery efforts were reportedly boosted by increased donations and improved coordination among individuals and institutions. Contacts' economic outlook worsened somewhat relative to the prior reporting period.

Labor Markets

Employment levels were generally stable over the reporting period. While most employers kept head counts steady, some firms in the information technology, entertainment, and aerospace industries reported layoffs. At the same time, hiring grew in subsectors that experienced solid demand and investment, such as business consulting and artificial intelligence solutions. Labor productivity improved overall, reportedly due to better job matching and enhanced use of technology. Employers across sectors continued to report lower staff turnover and improved availability and quality of job applicants. Positions were generally easier to fill except for certain service-related jobs such as housekeeping and building maintenance. Some contacts cited concerns about filling these positions going forward.

Wages grew slightly in recent weeks, in line with the prior reporting period and with historical averages. Ample labor supply reduced market wage pressures across industries. However, minimum wage laws and union contract negotiations continued to put upward pressure on wages for some positions in the service sector, especially in California.

Prices

Prices rose slightly overall after being generally flat in the previous reporting period. Manufacturing and construction firms reported modest price increases in recent weeks, while contacts in agriculture, business services, and retail trade noted largely stable final goods prices. Costs of insurance, electrical supplies, and building materials, such as wood products and various metals, ticked up. Contacts expected higher input costs going forward, including those for fertilizers, lumber, metals, and electrical components, as a result of recent trade policy developments. Due to perceptions of limited power to raise prices to mitigate rising costs, producers significantly expanded inventories of input goods at current prices and sought new vendors both domestically and abroad.

Community Conditions

Demand for support services remained elevated, while overall conditions of community organizations and small businesses weakened. Individuals across the District sought assistance with food, utilities, health care, and housing. Some workforce development programs expanded training for specific job roles that provide more stable long-term employment. Nonprofit organizations across the District reported being impacted by disruptions in federal government funding, with some organizations shifting budget allocations from public service provision to internal operations. Contacts in the Los Angeles area noted increased donations and improved coordination among individuals and institutions to support wildfire recovery efforts. Small businesses overall remained challenged by high operating costs, and some were acquired by larger companies.

Retail Trade and Services

Retail sales fell modestly in recent weeks, reportedly at a pace that exceeded typical post-holiday seasonal trends. Consumer spending on essential goods remained solid, while spending on big-ticket items and home improvement products generally weakened. Low snow volumes in parts of the District hurt demand for outdoor products and winter equipment. Some contacts highlighted that higher-income households across the District continued to spend at a brisk pace and that their demand for luxury items remained robust.

Demand for consumer and business services weakened a bit. Reports indicated that many businesses began the new year with a focus on cost efficiency and operational flexibility, largely driven by budget constraints and elevated economic uncertainty. This strategy reportedly reduced demand for janitorial, security, and catering services. Business and group travel volumes fell notably, with one hospitality contact in Southern California reporting a number of business trip cancellations from groups impacted by recent changes to federal government funding. Demand for consulting services and health-care services was unchanged at solid levels. Restaurant sales and demand for leisure travel strengthened somewhat in recent weeks.

Manufacturing

Manufacturing activity improved somewhat. Reports indicated stronger demand and order pipelines for capital equipment, office and home furniture, as well as footwear and apparel. Production of commercial aircraft and related third-party components picked up in recent weeks following reported production quality improvements and the conclusion of associated labor strikes. Several manufacturers expressed concerns regarding the impact of announced tariff rate increases on demand, production costs, and availability of inputs. A manufacturer in the Pacific Northwest increased inventory levels, as did its suppliers of critical components, as a hedge against future supply chain disruptions.

Agriculture and Resource-Related Industries

Conditions in the agriculture and resource-related sectors weakened slightly, as in the prior reporting period. Domestic produce sales were solid, but overall exports of agricultural products were down, particularly sales to Asian markets. Yields remained high for permanent crops such as apples, though some contacts reported that weather-related issues reduced produce supply levels. Producers and growers continued to invest in automation to address labor shortfalls. Some contacts observed weaker financial conditions in the industry, citing examples of late contract payments and requests for loan modifications. Producers across the District expressed uncertainty about the impact of recent changes to immigration and trade policies on labor availability, international demand, input costs, and final retail prices.

Real Estate and Construction

Conditions in the residential real estate sector softened slightly on net. Demand for single-family homes remained solid in some regions, such as Southern California, but reportedly cooled in others such as Arizona and Oregon. Inventories remained limited. Demand rose for multifamily rental units, particularly at the lower end of the market, and vacancies were easy to fill. Rents rose somewhat despite recently completed units increasing local supply in some areas. Contacts in the Los Angeles area attributed the increased demand for rental units and higher asking rents to the recent wildfires. Contacts observed fewer new single- and multifamily construction projects, citing higher construction costs and economic uncertainty.

Commercial real estate conditions were largely similar to those in the prior reporting period. Office space demand increased slightly but remained subdued overall. Rents for retail space rose at a pace in line with inflation. Commercial projects continued to be held back, with contacts citing higher construction and financing costs. However, work on public and infrastructure projects continued. Contacts reported that businesses paid attention to the possibility of further increases in construction materials costs and labor availability issues.

Financial Institutions

Lending activity varied across business lines but was largely unchanged on balance. Banking contacts highlighted a pause in most new borrowing and investment decisions among their business clients as they awaited clarity regarding possible fiscal and regulatory policy changes. Demand for consumer loans, including mortgages, remained subdued due to elevated interest rates. Reports indicated that competition for deposits among financial institutions began to normalize of late, allowing some institutions to offer lower deposit rates without notable changes to their deposit flows. Credit quality remained reportedly healthy overall.

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