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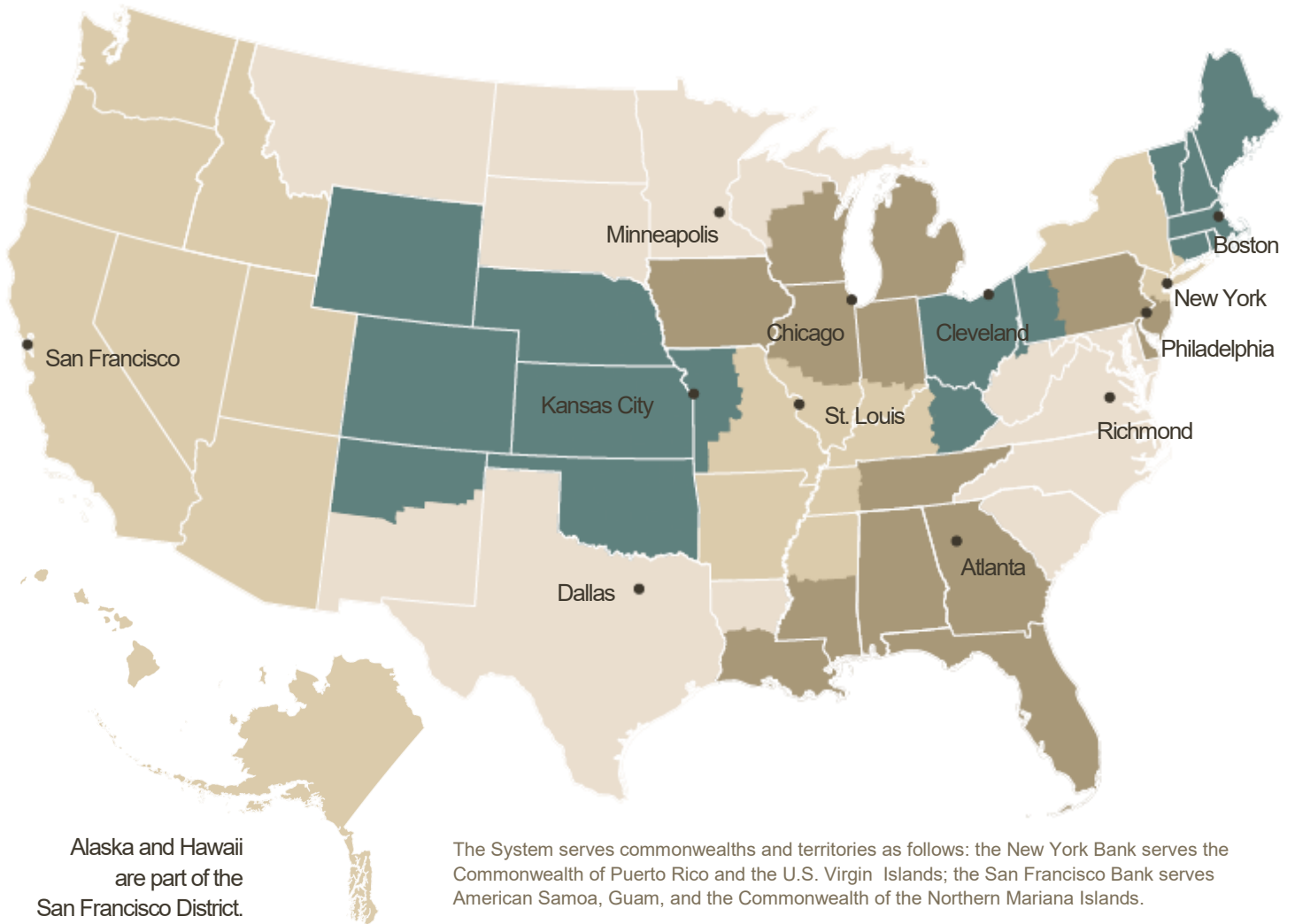
The Beige Book

Summary of Commentary on Current Economic Conditions

By Federal Reserve District

April 2023

Federal Reserve Districts



This report was prepared at the Federal Reserve Bank of Richmond based on information collected on or before April 10, 2023. This document summarizes comments received from contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.

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What is the Beige Book?

The Beige Book is a Federal Reserve System publication about current economic conditions across the 12 Federal Reserve Districts. It characterizes regional economic conditions and prospects based on a variety of mostly qualitative information, gathered directly from each District's sources. Reports are published eight times per year.

What is the purpose of the Beige Book?

The Beige Book is intended to characterize the change in economic conditions since the last report. Outreach for the Beige Book is one of many ways the Federal Reserve System engages with businesses and other organizations about economic developments in their communities. Because this information is collected from a wide range of contacts through a variety of formal and informal methods, the Beige Book can complement other forms of regional information gathering. The Beige Book is not a commentary on the views of Federal Reserve officials.

How is the information collected?

Each Federal Reserve Bank gathers information on current economic conditions in its District through reports from Bank and Branch directors, plus interviews and online questionnaires completed by businesses, community organizations, economists, market experts, and other sources. Contacts are not selected at random; rather, Banks strive to curate a diverse set of sources that can provide accurate and objective information about a broad range of economic activities. The Beige Book serves as a regular summary of this information for the public.

How is the information used?

The information from contacts supplements the data and analysis used by Federal Reserve economists and staff to assess economic conditions in the Federal Reserve Districts. The qualitative nature of the Beige Book creates an opportunity to characterize dynamics and identify emerging trends in the economy that may not be readily apparent in the available economic data. This information enables comparison of economic conditions in different parts of the country, which can be helpful for assessing the outlook for the national economy.

The Beige Book does not have the type of information I'm looking for. What other information is available?

The Federal Reserve System conducts a wide array of recurring surveys of businesses, households, and community organizations. A list of statistical releases compiled by the Federal Reserve Board is available [here](#), links to each of the Federal Reserve Banks are available [here](#), and a summary of the System's community outreach is available [here](#). In addition, [Fed Listens](#) events have been held around the country to hear about how monetary policy affects peoples' daily lives and livelihoods. The System also relies on a variety of [advisory councils](#)—whose members are drawn from a wide array of businesses, non-profit organizations, and community groups—to hear diverse perspectives on the economy in carrying out its responsibilities.



National Summary

The Beige Book ■ April 2023

Overall Economic Activity

Overall economic activity was little changed in recent weeks. Nine Districts reported either no change or only a slight change in activity this period while three indicated modest growth. Expectations for future growth were mostly unchanged as well; however, two Districts saw outlooks deteriorate. Consumer spending was generally seen as flat to down slightly amid continued reports of moderate price growth. Auto sales remained steady overall, with only a couple of Districts reporting improved sales and inventory levels. Travel and tourism picked up across much of the country this period. Manufacturing activity was widely reported as flat or down even as supply chains continued to improve. Transportation and freight volumes were also flat to down, according to several Districts. On balance, residential real estate sales and new construction activity softened modestly. Nonresidential construction was little changed while sales and leasing activity was generally flat to down. Lending volumes and loan demand generally declined across consumer and business loan types. Several Districts noted that banks tightened lending standards amid increased uncertainty and concerns about liquidity. The majority of Districts reported steady to increasing demand and sales for nonfinancial services. Agriculture conditions were mostly unchanged in recent weeks while some softening was reported in energy markets.

Labor Markets

Employment growth moderated somewhat this period as several Districts reported a slower pace of growth than in recent Beige Book reports. A small number of firms reported mass layoffs, and those were centered at a subset of the largest companies. Some other firms opted to allow for natural attrition to occur, and to hire only for critically important roles. Contacts reported the labor market becoming less tight as several Districts noted increases to the labor supply. Additionally, firms benefited from better employee retention, which allowed them to hire for open roles while not constantly trying to back-fill positions. Wages have shown some moderation but remain elevated. Several Districts reported declining needs for off-cycle wage increases compared to last year.

Prices

Overall price levels rose moderately during this reporting period, though the rate of price increases appeared to be slowing. Contacts noted modest-to-sharp declines in the prices of nonlabor inputs and significantly lower freight costs in recent weeks. Nevertheless, producer prices for finished goods rose modestly this period, albeit at a slightly slower pace. Selling price pressures eased broadly in manufacturing and services sectors. Consumer prices generally increased due to still-elevated demand as well as higher inventory and labor costs. Prices for homes and rents leveled out in most Districts but remained at near record highs. Contacts expected further relief from input cost pressures but anticipated changing their prices more frequently compared to previous years.

Highlights by Federal Reserve District

Boston

Business activity was roughly even. Tourism contacts enjoyed moderate growth, while retail sales were flat, and manufacturing slowed. Home sales fell further. Headcounts rose modestly and wage growth was moderate. Prices increased modestly amid further easing of cost pressures. Some contacts worried that smaller banks might restrict lending over liquidity concerns, putting a damper on economic activity.

New York

Regional economic activity was little changed, though goods production picked up noticeably. The labor market has remained solid, with ongoing slight job growth and wage gains. Inflationary pressures moderated somewhat but remained widespread. Conditions in the broad finance sector deteriorated sharply coinciding with recent stress in the banking sector.

Philadelphia

Business activity appeared to decline slightly during the current Beige Book period after increasing last period. Consumer demand ticked down, while employment held steady. Wage growth slowed to a modest pace. Price inflation subsided but continued to grow modestly. Banks reported tighter lending standards. Expectations were subdued as sentiment remained cautious.

Cleveland

Economic activity was generally flat in the Fourth District and developments in the banking sector appeared to have very little impact on either recent economic activity or credit availability. Labor demand eased, and the supply of workers increased, particularly for lower-wage positions. Wage and other cost pressures continued to ease.

Richmond

The regional economy contracted slightly in recent weeks. Manufacturing activity, retail spending, and loan demand softened. Travel and tourism picked up moderately while nonfinancial service providers indicated steady demand. Real estate firms reported reduced activity, while transportation freight volumes contracted moderately. Employment rose slightly with moderate increase in wages. Prices grew at a strong rate.

Atlanta

Economic activity grew modestly. Labor markets improved further, and wage pressures eased slightly. Some nonlabor costs moderated and others remained unstable. Retail sales softened. Auto sales were robust. Tourism activity remained strong. Housing demand improved further. Transportation was mixed. Loan growth was solid. Energy demand was healthy. Agriculture remained mixed.

Chicago

Economic activity was little changed. Employment increased moderately; consumer spending, business spending, and construction and real estate were flat; nonbusiness contacts saw little change in activity; and manufacturing demand decreased modestly. Prices and wages rose moderately, and financial conditions tightened moderately. Agricultural incomes were expected to be lower in 2023 than in 2022.

St. Louis

Economic conditions have remained unchanged since our previous report. Labor markets remained tight, but reports of easing increased. Firms struggled to pass on price increase to customers, and contacts across a range of industries reported supply chain improvements. Banking contacts reported slowing loan growth and a decline in deposits, but expressed confidence in their overall position.

Minneapolis

Economic activity in the region grew slightly in recent weeks. Employment gains were modest, and labor supply improved slightly. Prices were steady and wages rose slightly; levels for both remained high. Consumer spending was flat. Manufacturing declined a bit, but the outlook was more positive. Construction activity improved slightly, save for residential building. Minority- and women-owned firms reported steady activity.

Kansas City

Total economic activity across the Tenth District declined slightly in March and April. However, almost every business contact reported no pull back in planned capital expenditures, hiring plans or planned wage increases in response to recent financial volatility. Worker retention was reportedly much higher, even as wage growth slowed. Households pulled back on spending, particularly on bigger ticket items like cars or home construction projects.

Dallas

Modest growth continued, with steady gains in service sector activity and a pickup in home sales and manufacturing output. Job growth was modest, though hiring slowed sharply in services. The pace of price increases slowed. Outlooks were largely negative, and contacts voiced concern about weakening demand, a potential recession, and the spillover effects of the recent bank failures on the broader economy.

San Francisco

Economic activity expanded slightly. Employment levels were steady amid tight labor market conditions, while wage and price growth moderated further. Demand for retail goods softened, while demand for services was robust. Manufacturing activity was stable, while conditions in the agriculture sector slowed somewhat. Residential and commercial real estate activity fell, and lending activity declined substantially.



Summary of Economic Activity

Business activity in the First District was flat on average. Tourism maintained its strong momentum, with moderate further increases in air travel and convention activity, while retail sales were steady on balance amid mixed results. Demand softened moderately for manufacturers, although some continued to experience solid revenue growth. Software and IT services firms reported stable demand and somewhat higher profits. Residential real estate sales declined modestly, as low inventories and high prices continued to deter transactions. Commercial real estate activity was flat, but credit was expected to tighten moving forward. Employment increased modestly and wage growth was moderate. Prices increased at a modest pace and slower price growth was expected for the rest of 2023. The outlook was mostly positive, but some contacts worried that smaller banks might restrict lending over liquidity concerns, putting a damper on economic activity.

Labor Markets

Headcounts increased modestly on balance, led by strong labor demand in the First District's hospitality and tourism sectors, and wage growth was steady at a moderate pace. Contacts in manufacturing said that the labor market softened significantly, making for much easier hiring and helping to alleviate wage pressures some. employment was roughly flat, and its wage growth was moderate, as contacts said that turnover was stable at a manageable pace, marking an improvement from one year earlier. A clothing retailer was engaged in hiring additional warehouse workers, but the pace of filling the 200 openings was slower than anticipated. Robust convention activity and an anticipated increase in business travel from Asia gave a moderate boost to food and beverage staffing at Boston-area hotels. Cape Cod hospitality contacts ramped up efforts to recruit international workers to address labor shortages in advance of the busy summer season, and Massachusetts has funded an effort to place visa holders in temporary housing to facilitate such hiring. Looking ahead, labor demand is expected to soften modestly on balance, but only one firm—a manufacturer—was planning to make significant reductions in staff in the near future. Wage growth was predicted to slow to a modest average pace.

Prices

Price increases were modest on average as cost pressures eased further. Prices were mostly flat among software and IT services firms, although one enacted

modest price hikes for selected products in addition to annual cost-of-living adjustments built into contracts. Price changes were mixed among manufacturers, including moderate increases by some and more aggressive promotions and discounts by others. Retail prices were largely stable. Hotel room rates in the Greater Boston area declined in line with seasonal expectations but have increased 10 percent relative to the same time last year. Cost pressures abated noticeably, as contacts noted modest-to-sharp declines in the prices of raw materials and significantly lower freight costs. On balance, the outlook called for further easing of price growth for the remainder of 2023, and some contacts planned to hold prices strictly fixed moving forward on worries that additional markups would be counterproductive.

Retail and Tourism

First District retail contacts reported flat sales on average, while tourism contacts saw moderate further increases in activity relative to seasonal trends. A clothing retailer experienced softer demand throughout the early months of 2023, but revenues held steady due to earlier price increases. Cape Cod retailers experienced strong first quarter sales, but a large-scale infrastructure project crimped activity in recent weeks. Based on advance bookings, hospitality contacts on the Cape expect summer 2023 occupancy and room rates to match last summer's record-setting results. Airline passenger traffic through Boston increased steadily in recent months, on

both domestic and international routes, reaching roughly 95 percent of pre-pandemic levels as of the first quarter of 2023. The Greater Boston hotel occupancy rate increased relative to seasonal trends, and spring and summer bookings continued to climb. Scheduled convention activity and cruise bookings for the spring and summer are expected to exceed 2019 levels.

Manufacturing and Related Services

Manufacturing contacts reported mixed revenue results, but demand was moderately softer on balance. Some contacts reported modestly higher sales but also said that the pace of revenue growth had slowed recently. For one firm, overall results were hit by a steep slowdown in demand from customers in the semiconductor industry. Others experienced weaker sales as their customers continued to draw on inventories accumulated in 2022 in response to supply chain concerns. A contact in the semiconductor industry said that industry sales were down but that their own sales were up due to investment demand from electric car manufacturers. None of our contacts reported major revisions to capital expenditure plans, and a few pointed to increased spending on automation. Contacts were generally optimistic for their own results for the rest of 2023, although several described the outlook for the economy more broadly as highly uncertain.

Software and IT Services

Demand for software and IT services was stable on balance. Revenue growth at one firm exceeded expectations, and another experienced an ongoing pullback by clients facing internal liquidity concerns. Profits and margins were modestly higher on average. Capital and technology spending was unchanged and was expected to hold steady for most firms, although one mentioned the possibility that capital expenditures could soften moving forward. Contacts were largely optimistic and expected demand for their own products and services to hold steady moving forward. Although one contact perceived that the risk of a widespread banking crisis had abated recently, another contact felt that nervousness about the banking sector could dampen aggregate economic activity.

Commercial Real Estate

Commercial real estate activity in the First District was mostly unchanged since February. In the industrial property market, rents continued to level off even though leasing demand was still deemed strong relative to supply. Office leasing activity was mostly flat, although contacts noted a modest slowing of deal flow in both Boston and Providence. Office asking rents were roughly stable, but one contact noted that tenants demanded (and on

balance received) increasingly generous concessions. Conditions in the retail market worsened slightly in response to patches of weakness in consumer spending, and as a result firms became more cautious with capital spending. Concerning the outlook, contacts expected to see slight to moderate further declines in office and retail leasing activity moving forward, and perceived growing constraints on investment activity. In particular, several contacts predicted that lending to the commercial real estate sector would become more conservative in response to heightened concerns about banking risks, and one expressed that the credit contraction could be large enough to spill over to other sectors of the economy.

Residential Real Estate

First District home sales softened in February (the latest month for which data were available) following a temporary uptick in sales in January that was attributed to a slight—yet partly transient—decline in mortgage rates. Closed single-family sales were down sharply on a year-over-year basis, and in Boston dipped to their lowest level in over a decade. Condo sales were roughly flat since the previous report. Inventories grew over-the-year on balance, albeit at a somewhat slower pace than was reported last time, and several contacts noted that the supply of homes for sale remained extremely limited. Home prices showed signs of softening amid growing buyer frustration over the lack of home affordability. Median single-family home prices nonetheless posted modest year-over-year increases on balance, a fact that one contact attributed to a decline in the proportion of starter homes on the market, although the median home price in Boston was down moderately from a year earlier. Looking ahead, contacts expressed concerns that low inventories and high mortgage rates could dampen activity during the typically busy spring sales season. ■

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



Summary of Economic Activity

Economic activity in the Second District was little changed in the latest reporting period. The labor market has remained solid: employment increased slightly despite ongoing difficulty finding workers, wages continued to increase, and many businesses plan to add staff in the months ahead. Inflationary pressures eased somewhat but remained widespread. Supply availability, while still constrained, continued to improve, and goods production picked up noticeably. Consumer spending was flat to up slightly in recent weeks, while tourism has continued to strengthen. The home sales market has continued to pick up and the rental market has been steady. On balance, commercial real estate markets were mostly unchanged. Conditions in the broad finance sector deteriorated sharply, coinciding with recent stress in the banking sector. Regional banks continued to report widespread declines in loan demand, ongoing credit tightening, and modestly rising mortgage delinquency rates. Amid heightened uncertainty, most businesses do not expect economic conditions to improve in the coming months.

Labor Markets

Labor market conditions have remained solid. On balance, employment increased slightly in the latest reporting period despite ongoing difficulty finding workers across the region. However, businesses in the manufacturing, construction, and education & health sectors indicated that employment declined in recent weeks. Even so, contacts at two major employment agencies noted ongoing strong labor demand and continued to indicate that worries of widespread weakening in the labor market have not materialized. Indeed, thus far, layoffs have been concentrated in large companies, and mostly among their workers who are outside of the region. Further, a New York City employment agency indicated that the broader local labor market has yet to experience noticeable ripple effects from recent stress in the banking sector. Looking ahead, on net, businesses plan to add staff in the coming months.

Wages continued to increase, though at a somewhat slower pace than earlier in the year as major compensation adjustments tend to be concentrated at the beginning of the year for most workers. Businesses expect wage increases to continue to moderate.

Prices

Inflationary pressures moderated somewhat but remained widespread. Businesses reported that the pace of input price increases slowed slightly in recent weeks. Still, the costs of transportation, energy, and many raw materials remained high. The pace of selling price increases also eased somewhat, especially in the service sector though not among retailers or leisure & hospitality firms. Fewer businesses than in the last report expect prices to increase.

Consumer Spending

Consumer spending was flat to up slightly in recent weeks as consumers continued to face pressure from high inflation and heightened uncertainty. Nonauto retailers indicated that business was sluggish and down slightly in recent weeks, while spending on travel-related services, recreation, and in restaurants and bars has remained strong. Auto dealers in upstate New York reported that sales of new vehicles were steady with ongoing improvements in inventory levels, while sales of used vehicles firmed. Consumer confidence in the region rose to a nearly two-year high in March, driven by growing optimism among New York City residents.

Manufacturing and Distribution

Manufacturing activity picked up in recent weeks, following several months of contraction. New orders and shipments surged, and businesses indicated that supply availability, while still constrained, continued to improve. However, businesses in wholesale distribution and transportation & warehousing reported declining activity. While manufacturers remain mildly optimistic, distribution-related businesses have turned pessimistic.

Services

On balance, service sector activity rose modestly, though conditions varied across sectors. Personal services businesses reported moderate weakening, while providers of business & professional, education & health, and leisure & hospitality services noted some growth in activity after a sustained period of weakness. Businesses in the service sector generally expect little change in economic conditions in the months ahead.

Tourism activity in New York City continued to strengthen and is nearing pre-pandemic levels. While domestic travel remains strong, international travel continues to lag. Visitors from Asia—especially China—remain noticeably absent, in part due to long wait times for visas. Though business travel has yet to fully bounce back, it has picked up beyond expectations in recent weeks. Demand for hotel rooms continued to increase with advance bookings trending up as people have grown more comfortable traveling. Even with the steady uptick in visitors to New York City, the reduction in daily commuters continues to exert pressure on the City's retailers and entertainment-related businesses.

Real Estate and Construction

Residential sales have picked up with the start of the spring selling season, with prices steady at a high level. Sales activity in and around New York City has continued to increase beyond the seasonal norm. By contrast, real estate contacts in upstate New York indicated that the spring selling season has gotten off to a slower start in part due to unseasonably harsh weather, though demand remains strong for homes in the middle of the region's price range. While listings have increased, the inventory of available homes has remained exceptionally low across the region except in Manhattan. Contacts pointed to heightened uncertainty and the prevalence of homeowners with mortgages locked in at historically low rates as key factors keeping some people from listing their homes and moving.

Residential rental markets have been steady. After peaking last summer, rents including concessions have been little changed near record highs in Manhattan, Brooklyn, and Queens and rental vacancy rates have remained exceptionally low as people gradually continue to return to New York City. Rents have also plateaued at a high level in much of upstate New York.

Commercial real estate markets were little changed in recent weeks. Office vacancy rates edged up slightly in and around New York City and were steady across upstate New York, while office rents were mostly flat across the District. New York City's retail market weakened somewhat, with vacancy rates up slightly and rents trending down. Vacancy rates remained at low levels in the industrial market and rents trended up modestly.

Overall, construction contacts reported weakening conditions in March and early April. Office construction remained steady at a low level in most of the District, though there were some new starts in northern New Jersey, Long Island, and upstate New York. Industrial construction was solid, but little changed across the District. Multi-family residential starts picked up from low levels in Manhattan and parts of upstate New York but remained weak elsewhere.

Banking and Finance

Conditions in the broad finance sector deteriorated sharply coinciding with recent stress in the banking sector. Small to medium-sized banks in the District reported widespread declines in loan demand across all loan segments. Credit standards tightened noticeably for all loan types, and loan spreads continued to narrow. Deposit rates moved higher. Finally, delinquency rates edged up on residential and commercial mortgages.

Community Perspectives

Community leaders noted that economic challenges for lower-income families have been increasing as pandemic-era assistance programs wind down. With the temporary boost in SNAP benefits and Medicaid supplementation being phased out, community organizations are stepping up their efforts to support the increase in vulnerable families facing difficulty affording food and healthcare. Contacts expressed concern that state and local budgetary pressures may impede the provision of community services. Labor shortages and understaffing in the not-for-profit sector have just begun to ease, with increases in the number and quality of applicants. ■

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



Summary of Economic Activity

On balance, business activity in the Third District appears to have declined slightly after a small increase last period. Consumer demand appeared to tick down, as contacts detailed slower traffic and smaller purchases by customers. Inflation and higher interest rates continued to weigh on demand for big-ticket items, including homes and autos. Employment held steady as the demand for labor cooled. Wage growth eased to a modest pace, and inflation continued to subside but remained moderate. Overall, firms continued to report less difficulty in hiring and fewer supply chain disruptions. Bank lending to businesses declined, as contacts within the banking industry reported a tightening of lending standards. On balance, expectations for economic growth over the next six months remained subdued, as both manufacturing and nonmanufacturing firms continued to expect slight growth.

Labor Markets

Employment held steady following a modest rise in the prior period. Contacts reported instituting hiring freezes, cutting overtime, and conducting layoffs. Other firms communicated they were not filling positions left open by employee departures. Multiple contacts, including staffing firms, noted that hiring continued to be easier, with more applicants, lower turnover, and less wage pressure. In our monthly surveys, employment growth appeared to be negligible, with most firms reporting no change in employment levels in March. The index for employment in the manufacturing sector turned negative and fell to its lowest level since May 2020.

However, firms still described staffing as one of their primary challenges. Contacts continued to report difficulty staffing night and weekend shifts. Firms revealed the need to frequently move workers along the production line or overstaff shifts to accommodate the ongoing high number of employees calling out.

Firms reported that wage inflation has continued to subside since the prior month and grew at only a modest pace – down from a moderate rise in each of the eight prior periods. In our monthly surveys, the share of nonmanufacturing firms reporting higher wage and benefit costs per employee dropped to 30 percent – its lowest level since March 2021; the share of firms reporting

lower compensation levels was just under 5 percent. Contacts noted warehouses have started to cut hours and jobs, which has led to lower wage pressure for other businesses in the area.

Prices

On balance, firms reported that prices continued to rise moderately; however, they noted that the rate of price increases appears to be slowing. In our monthly surveys, the prices paid and prices received indexes declined for both manufacturing and nonmanufacturing firms in March and are below nonrecessionary historical averages, except for the index of nonmanufacturers' input prices. On balance, contacts also noted fewer supply chain disruptions.

Two-fifths of the manufacturing contacts expected to pay higher prices over the next six months, while slightly less than one-quarter expected to receive higher prices for their own goods.

Manufacturing

Manufacturing activity declined moderately – after declining modestly in the prior period. The index for new orders fell from last period and was negative for the 10th consecutive month. Moreover, the shipments index dropped sharply and turned negative. Contacts confirmed that demand continued to slow and backlogs

continued to fall.

Despite the decline in manufacturing activity from the prior period, nearly half of the firms estimated increased total production growth for the first quarter of 2023 compared with the fourth quarter of 2022. Most firms reported labor supply and supply chains as slight or moderate constraints to capacity utilization.

Expectations among manufacturers for growth in the next six months remained subdued. The index for future activity turned negative, and the future indexes for new orders, shipments, and employment were little changed. The index for future capital expenditures turned negative for the first time since 2009.

Consumer Spending

On balance, retailers (nonauto) and restaurateurs reported a slight decline in sales in the current period – after those grew slightly in the prior period. Contacts reported sales grew on a year-over-year basis because of higher prices but described a slowdown in customer traffic and fewer items purchased per visit. One contact also noted the expiration of supplemental SNAP benefits was a drag on sales in March.

Tourism contacts reported an uptick in activity, particularly in urban areas, after reporting steady activity in the prior period. Auto dealers again reported a slight increase in sales as manufacturers continued to deliver more new cars. However, contacts noted some softening of demand because of higher financing costs. The increased inventory and softer demand has prompted some dealers to lower prices and reintroduce incentives.

Nonfinancial Services

On balance, nonmanufacturing activity appeared to decline slightly after growing slightly last period. The index for general activity at the firm level fell to a near-zero reading, and the new orders index turned negative as the share of firms reporting decreases exceeded the share reporting increases. The index for sales also declined from the prior period but remained positive.

Financial Services

The volume of bank lending (excluding credit cards) grew moderately during the period (not seasonally adjusted) – faster than the prior period but comparable with growth in the same period last year. Inflationary effects on big-ticket items continued to boost loan volume growth during the current year relative to past years.

During the period, District banks reported moderate growth in home mortgages and modest growth in auto loans, other consumer lending, and commercial real estate lending. Home equity lines declined modestly.

Credit card volumes were essentially flat after rising moderately during the same period last year – a sign of a potential pullback by consumers.

Banks reported a strong decline in commercial and industrial loan volumes. Most contacts within the banking industry confirmed a tightening of lending standards or that discussions were ongoing regarding a change in lending behavior, following the failures of Signature Bank and Silicon Valley Bank. Furthermore, multiple contacts noted they focused on lending to existing customers and became more prudent in lending to new customers.

Real Estate and Construction

Homebuilders reported steady sales following an unexpected uptick in the prior period. Contacts continued to attribute the recent improvement to incentives, discounts on older inventory, and new homes built with smaller footprints and lower-cost features.

Existing home sales fell slightly from already low levels in most markets – following a moderate decline in the prior period. Contacts noted that the lack of new listings and the continued decline in housing affordability meant the normally busy spring housing market may fail to materialize.

Requests for assistance with housing and utility bills fell but continued to dominate the share of 211 requests in New Jersey and Pennsylvania. Almost 32 percent of all requests in the two states were related to housing, while 27 percent of the requests regarded utility bills.

Market participants in commercial real estate continued to report steady current construction activity but noted that more projects in the pipeline have been delayed or canceled. Leasing activity continued to slow modestly. Rent growth in multifamily housing eased slightly, and landlords started to offer leasing incentives in some markets. Demand for life sciences space remained strong, but demand for warehouse space softened. ■

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



Summary of Economic Activity

Reports from Fourth District business contacts were consistent with generally flat aggregate economic activity, though conditions continued to vary by industry segment. While consumer spending appeared to firm somewhat from that of the prior period, it remained soft, and business spending was mostly flat. Concerns about developments in the banking industry reportedly had limited impact on recent business activity, though a small share of contacts reported a modest decrease in credit availability. However, many contacts indicated that these developments had increased uncertainty. Hiring slowed as firms' demand for additional workers eased and as a larger share of contacts sought to reduce headcount. Labor availability appeared to increase, particularly for those seeking to fill lower-wage positions. Wage and other nonlabor input cost pressures continued to trend lower, while price pressures eased from those of the previous reporting period.

Labor Markets

Employment growth in the Fourth District appeared to be flat in recent weeks. The apparent easing in labor demand was illustrated in more-frequent reports of employers reducing staffing through attrition, hiring freezes, or layoffs. Moreover, some banking and manufacturing firms noted replacing only revenue-generating positions or hard-to-fill production positions while holding off on hiring support staff. Firms looking to increase staff more frequently stated that labor supply had improved recently. On balance, firms planned to maintain current staffing levels or selectively fill critical positions in the coming weeks.

The softer demand for labor and the increased labor supply were accompanied by further easing in wage pressures. The share of contacts that reported increased pay fell to 36 percent, the lowest share in more than two years. Moreover, 62 percent of contacts reported holding wages steady, many in response to declining margins or increased labor availability. Even so, many contacts across industries indicated that wage increases remained necessary to attract and retain skilled labor.

Prices

Nonlabor input cost pressures eased in recent weeks, continuing a trend that started last summer. Several contacts reported that their overall costs had flattened. One homebuilder said he recently started "pressing people to lower [their] prices but haven't had much

success yet." That said, contacts in construction and manufacturing noted that costs for steel and concrete products increased recently. One steel producer said that he expected steel costs to rise further in the second quarter, but he expected costs to fall in the third quarter. More broadly, contacts expected further relief from input cost pressures in the months ahead.

Overall selling-price pressures eased from those of the prior reporting period, but they varied across industries. On the one hand, natural gas prices fell amid mild winter and early spring weather, and freight prices decreased because of a drop in demand. On the other hand, some manufacturers said they continued to raise prices to "catch up" from the cost increases over the prior two years. Similarly, some retail contacts reported selectively raising prices to cover higher costs, though they did so cautiously to remain competitive.

Consumer Spending

Reports suggest that consumer spending firmed somewhat from that of the previous reporting period. Still, demand for discretionary items remained soft as households faced continued pressure from inflation and increased interest rates. One general merchandiser noted that higher prices for food and other essentials continued "eating up more of the customer's wallet," leading customers to favor lower-priced options such as generic brands. Auto sales dipped in part because increasing interest rates and higher vehicle prices pushed out of the

market many buyers who want, rather than need, a new vehicle. One dealer hoped that more manufacturer incentives would increase demand, but he cautioned that higher credit standards had become an additional headwind for potential buyers. On balance, contacts expected consumer spending to remain stable in the coming months.

Manufacturing

Overall demand for manufactured goods increased slightly from that in the previous period. Orders for aerospace-related products remained strong, but demand generally weakened for items from manufacturers tied to the housing and automotive sectors. Some manufacturers benefitted from an increase in international orders, particularly from Europe, Asia, and the Middle East. That said, heightened uncertainty tempered some manufacturers' expectations because of a decrease in new orders and backlogs.

Real Estate and Construction

Demand for residential construction and real estate continued to be hindered by higher interest rates. One homebuilder stated, "As long as interest rates stay high, demand is going to be down. We're still selling, but it's down from where it was a year ago." Given low inventories, some builders reported that demand for housing seems stronger than expected. Some builders are attempting to offset higher interest rates through various incentives, including rate buydowns.

Nonresidential construction and real estate contacts indicated that demand had changed little in recent weeks on balance. While a few contacts reported that projects had been put on hold, others indicated they have still been able to secure new projects. One general contractor noted that demand had remained stable, but projects were taking longer to get started because the firm had been spending more time working on budgeting issues in the preconstruction phase. Several contacts anticipated construction and leasing activity to soften further in coming weeks because of rising interest rates and banks' tightening credit.

Financial Services

Overall, loan demand continued to decrease, albeit at a slower pace than in the prior period. Several bankers reported that recent developments in the sector added to heightened economic uncertainty that motivated customers to reach out about the safety of their deposits. Others posited that the increased uncertainty along with high interest rates had reduced borrowing. Lenders indicated that delinquency rates remained low for both commercial and consumer loans. Core deposits continued to decline, a situation which bankers attributed to rate competition

among banks and to outflows to higher-yielding alternatives. Looking forward, loan demand was expected to soften further in coming months.

Nonfinancial Services

Freight activity declined this reporting period. One hauler mentioned that contract customers have cut back their orders and that the spot market for freight has also weakened. Contacts anticipated that freight demand would continue to decline. Generally, professional and business services contacts expected demand to be flat.

Community Conditions

Nonprofit contacts reported increased demand for their services over the past six months because of rising costs for food, shelter, and utilities. One contact noted that food pantry use is up 30 percent compared to pre-pandemic levels, and another mentioned an increase in the number of first-time users of food assistance. Several contacts said that homelessness was rising and that more families were moving in with relatives because of higher rents, increased evictions, and a shortage of affordable housing. According to multiple contacts, fewer landlords were accepting Section 8 vouchers, a situation which contributed to the housing shortage. Some contacts who offer loan products to households and businesses noted that rising interest rates increased the demand for their products. One community service provider saw a rise in applications for zero-interest, small-dollar loans, and a community development financial institution contact reported that more individuals were seeking funding through her enterprise because of higher interest rates at local banks. ■

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



Summary of Economic Activity

The Fifth District economy contracted slightly since our previous report. Manufacturing activity softened as new orders fell and more customers started pushing back on price increases. District ports and trucking companies reported declines in freight volumes, particularly a sharp decline in import volumes, leading to lower shipping and trucking spot rates. Consumer spending on retail goods and autos slowed slightly; however, spending on tourism and travel increased moderately. Residential real estate markets softened as closings and pending sales declined while listing prices held flat. Commercial real estate activity declined, on balance. The retail and industrial real estate segments remained strong; however, the remaining segments, particularly office, softened. Financial institutions continued to report modest declines in loan demand. Deposit levels also declined, on balance, despite some institutions reporting an inflow of deposits from new clients. Demand for nonfinancial services was unchanged in recent weeks. Employment rose slightly and wages increased moderately, due in part to recent minimum wage increases in some Fifth District jurisdictions. Price growth remained robust; however, there were several reports that customers were starting to reject further price increases or insist on reduced prices.

Labor Markets

Employment increased slightly in the Fifth District over the most recent reporting period. Contacts continued to report a lack of qualified workers as a significant issue for their business. A Maryland construction contact reported better than expected demand, but projects were slowed by a shortage of skilled labor. A South Carolina staffing firm said that demand for engineering and skilled trades workers has been consistently high and doesn't show signs of slowing. Wages picked-up moderately, due in part from increases in the minimum wages in Maryland, Virginia, and the District of Columbia. A Virginia retailer reported that the minimum wage increase resulted in wage increase for all workers, not just those making the minimum.

Prices

Prices continued to grow at a strong rate, particularly for services. According to our recent surveys, manufacturers reported average price increases around 5.5 percent, but this was down considerably from the peak set in 2022. Services sector firms, on the other hand, saw prices continue to rise at a near-peak rate of about 6.5 percent. There were some reports by firms in both sectors that customers were starting to push back on further price increases. One manufacturer said that they were under pressure to cut prices, which would compress margins as input costs were still rising.

Manufacturing

Manufacturing activity in the Fifth District softened modestly in recent weeks. Overall, manufacturers reported a decline in new orders. A fabric manufacturer that produces products for retail stores said that they were working through an inventory glut, and were hoping that as inventories clear, new orders would increase. Manufacturers also reported more push-back from clients on price increases. A label printer reported increased pressure from purchasing teams to reduce pricing this year. With supply chain pressures easing, purchasing teams were "raging back and shopping the business." Finding workers remained an issue. An aluminum producer cited that growth is limited severely by availability of skilled labor and administrative workers.

Ports and Transportation

Fifth District ports reported a sharp decline in loaded import volumes this period. Imports of retail goods and household related items were down. Additionally, due to the extended Chinese New Year, there was an increase in blank sailings. Loaded exports were stronger and driven by auto and machine parts as well as rolling stock. Empty containers were dwelling slightly longer at the port. Shipping carriers had excess availability this period. Spot rates fell to pre-pandemic levels or below and were significantly under current contract rates. Air

cargo demand continued to soften with airfreight rates stabilizing as airlines pulled back on freight capacity.

Trucking firms reported a moderate decline in freight volumes this period. Respondents indicated that there was excess capacity in the truck load segment but less-than-truckload demand was not down as much. Spot market rates decreased slightly with carriers experiencing some push back from customers on further rate increases. Trucking firms stated that in response to lower freight volumes, they were still adding drivers, but they had scaled-back recruiting and were being very selective in hiring. Availability of new tractors and trailers from manufactures continued to improve and there was a glut of used trucks on the market due to a few regional trucking companies going out of business.

Retail, Travel, and Tourism

Fifth District retailers reported a slight pull back in sales and demand in recent weeks. An auto dealer said that sales were down and customers seemed skittish about making big ticket purchases. Similarly, an appliance and electronics store saw a slowdown in demand and customer traffic. A couple of retailers, however, noted that their typical busy season doesn't start until April, so they were expecting business to pick up soon.

Travel and tourism increased moderately in recent weeks. Hotels in the Fifth District reported increases in the number of rooms sold and because room rates were higher than last year, revenue growth was strong. One hotel in South Carolina said that their business was highly tied to events in the area and volumes were up in recent weeks because of sports tournaments. Lastly, a regional airport saw a rebound in air traffic but to a level still slightly below 2019 levels; however, they expected to surpass 2019 levels by this summer.

Real Estate and Construction

Residential real estate respondents noted that so far it hasn't been the typical robust spring market, evidenced by a decline in both sales and pending sales. Days on market have increased, but still not above the historic average; housing inventory has decreased year-over-year with substantially less new listings. Sales prices have remained flat for this period, but new contracts were starting to come in at less than list price. Many potential home buyers were priced out and sellers were having to offer concessions to close deals. Higher mortgage rates have made finding affordable homes even more of a challenge. Construction costs were down, but overall, home builders are no longer acquiring new building lots due to economic uncertainty.

Overall commercial real estate market activity de-

creased in the last month, particularly in the office sector. Retail and industrial/flex space leasing remained robust this period. The industrial market continued to be strong with higher rental rates and good absorption rates. However, rents were moderating in other commercial real estate sectors and landlords were increasing their incentives and concessions. Rising interest rates slowed sales and commercial real estate capital markets activity was negligible. Some banks had stopped lending for new commercial construction projects and/or had tightened underwriting standards; many equity lenders also had left the market. Many respondents cited a looming issue of certain CMBS loans that are coming due in 2023 being unable to qualify for refinancing.

Banking and Finance

Loan demand continued to slow modestly across almost all loan types, with the most weakness seen in the commercial loan portfolio. Consumer loan demand was mixed, with home equity and used auto loans showing some increased demand over the last few months. Consumer mortgage demand, especially refinancings, have slowed, which contacts attributed to rising rates. Deposit levels declined slightly, on balance, however a few banks did see an inflow of deposits following the failure of Silicon Valley Bank. Loan delinquencies continued to increase, albeit slightly and still not to pre-covid levels. Financial institutions expected moderate declines in loan and deposit levels for the remainder of the year.

Nonfinancial Services

Nonfinancial service providers continued to report steady demand for their services along with stable revenues. Providers also continued to express concerns over their ability to attract and retain employees. Common themes that were noted were the higher wages demanded by applicants, a lack of qualified employees, and retaining new hires employed after they arrive on the job. Firms reported getting push back from clients and customers over price increases and some were considering looking for lower cost alternatives or to cut costs elsewhere in their business to offset these higher prices. ■

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



Summary of Economic Activity

The Sixth District economy grew at a modest pace from mid-February through March. Labor markets improved, and wage pressures diminished slightly amid increasing labor availability. Some nonlabor costs such as shipping, eased, while others, like construction materials, remained volatile. Retail sales softened, but demand for new autos was robust. Tourism activity remained healthy. Demand for housing improved amidst lower mortgage interest rates and declining home prices. Demand for commercial real estate remained mixed. Transportation activity was unchanged, on balance, from the previous report. Manufacturing activity was mixed with consumer confidence cited as a risk. Loan growth at banks remained strong despite concerns about liquidity. Activity in the energy sector was mostly healthy. Agriculture conditions remained mixed.

Labor Markets

Labor market conditions continued to improve. Contacts noted that many positions were easier to fill, and most indicated retention had improved. However, businesses continued to cite challenges including acute shortages of various positions (for example, in hospitality, accounting and transportation), confronting an aging labor force, and facing sustained demand for flexible work arrangements by employees. Most firms have been hiring to back-fill open positions while a small number were hiring to grow business. Several firms noted efforts to move away from underperforming lines of business by downsizing through both attrition and layoffs while staffing up more profitable lines. Contacts noted turning to automation to fill repetitive, understaffed roles, and some have begun to leverage the use of artificial intelligence in lieu of hiring for certain professional positions.

Most contacts noted some relief from wage pressures and expressed certainty that wage growth would moderate further this year.

Prices

Contacts reported continued improvement in supply chain issues and shipping capacity, which has helped ease transportation cost pressures. Even though contracts still carried elevated escalation or contingency clauses, some degradation in pricing power at the wholesale level was reported. Buyers were reportedly winning more concessions compared to the last two years of a take-it-or-lose-it price environment. However, various other nonlabor costs

like food inputs and construction materials saw continued volatility and this, coupled with elevated labor costs, kept firms from passing easing cost pressures on to customers. The Atlanta Fed's Business Inflation Expectations survey showed year-over-year unit cost growth at 3.8 percent, on average, in March, up significantly from 3.5 percent in February. Firms' year-ahead inflation expectations increased to 3.1 percent, on average in March, up significantly from 2.9 percent in February.

Consumer Spending and Tourism

Retail sales softened over the reporting period but remained above pre-pandemic levels. Retailers continued to report that inflationary pressures have caused lower-income consumers to be more selective with discretionary spending. However, automobile dealers reported strong demand for new vehicles as inventory levels improved. Contacts were cautiously optimistic for the remainder of the year in spite of continued inflationary pressures and rising interest rates.

Travel and tourism activity was little changed from the previous report. Demand for leisure travel remained healthy and was described as normalizing from unsustainably high year-earlier levels. Business travel continued to recover. Hotel average daily rates remained above pre-pandemic levels and travelers' spending on experiences continued to be robust.

Construction and Real Estate

Though still weaker than a year ago, housing demand throughout most of the District was boosted by lower mortgage interest rates and continued declines in

home prices. A higher percentage of homes have sold below asking price and median home prices in many metro areas declined from peak levels reached in 2022. This, combined with lower interest rates, has led to a steady improvement in home ownership affordability and increased demand for housing. Activity has been stronger in the entry-level price points compared to more high-end homes. However, inventory remained near historic lows in most markets. Cancellations in the new home market moderated and some homebuilders have increased speculative home inventory.

Commercial real estate (CRE) conditions were mixed. The industrial sector remained healthy, while office, multifamily, and some segments of retail slowed. An increasing number of contacts reported concerns about rising costs outpacing rent increases. More employers requiring staff to return to the office has helped stabilize some segments of the market; however, a significant amount of available sublease space is expected to create headwinds. A rising number of contacts mentioned concerns about the availability of financing as some banks reduced funding commitments amid weaker lending from larger financial and non-bank institutions. Concerns over declining CRE values accelerated.

Transportation

Transportation activity was largely consistent with the previous report. Ports continued to see a slowing in container trade, though volumes remained above pre-pandemic levels. Shipments of autos and heavy machinery through District ports increased. Railroads reported further declines in overall freight shipments. Air cargo contacts noted significant year-over-year volume declines. Truck capacity remained readily available, and some trucking contacts noted expectations for an improvement in volumes later this year.

Manufacturing

Some manufacturers reported significant slowing in activity, especially firms producing inputs for residential construction, where declines were attributed to elevated mortgage rates and persistently high construction costs. Lead times and supplier delivery times improved, and supply chains were characterized as normalizing. Auto manufacturers noted strong demand; however, consumer confidence was cited as a risk to the outlook.

Banking and Finance

Liquidity pressures persisted for some District financial institutions. Banking contacts reported that a limited number of customers expressed concerns about

recent bank failures and their level of uninsured deposits held at a single institution; however, banks have not experienced a large outflow of deposits. Unrealized losses remain elevated, limiting the ability to sell securities for liquidity without negatively impacting capital. Despite concerns about liquidity, banks indicated loan growth remained solid over the reporting period.

Energy

Energy contacts noted robust activity in exploration and production, crude oil refining, power infrastructure projects, liquefied natural gas, and renewable energy projects. Strong global demand and federal dollars for decarbonization from the Inflation Reduction Act were cited as factors influencing activity strength. Chemical manufacturers reported softening in the chemicals space, largely for housing sector inputs. Utility providers also reported some slowing in industrial segments tied to housing. Commercial and residential utility segments, however, remained strong.

Agriculture

Agricultural conditions were mixed. Domestic supplies of chicken exceeded demand as the Avian Flu limited exports. However, foreign demand for poultry improved as some countries loosened import regulations. Demand for eggs exceeded supply but softened in response to elevated prices. Cattle supply remained low, and beef producers expressed concerns that falling chicken prices may cause consumers to substitute chicken for beef. Demand for cotton and soybeans fell from already low levels. Contacts expect reduced plantings of cotton this year as discretionary spending softens. Contacts noted continued supply chain improvements. ■



Summary of Economic Activity

Economic activity in the Seventh District was little changed overall in late February and March. Contacts generally expected slow growth in the coming months, though many expressed concerns about the potential for a recession in the coming year. Employment increased moderately; consumer spending, business spending, and construction and real estate were flat; nonbusiness contacts saw little change in activity; and manufacturing demand decreased modestly. Prices and wages rose moderately, and financial conditions tightened moderately. Banking contacts reported some movement in deposits but little change in credit availability following the collapse of Silicon Valley Bank. Agricultural incomes were expected to be lower in 2023 than in 2022.

Labor Markets

Employment increased moderately over the reporting period and contacts expected slower employment growth over the next 12 months. Many contacts continued to have difficulty finding workers, especially those in the skilled trades. At the same time, however, many said hiring was easier compared with a few months ago. Some manufacturers reported that with a slowdown in orders, they were feeling less urgency to fill open positions and were more willing to wait for the right candidate. One contact in state government saw signs of less labor hoarding, as businesses were making less of an effort to keep underutilized or underperforming workers. Wage and benefit costs rose moderately, with several contacts indicating that regular annual wage and benefit increases had recently taken effect.

Prices

Prices rose moderately in late February and March, and contacts expected a similar rate of increase over the next 12 months. Producer prices rose modestly, with contacts highlighting higher costs for raw materials (particularly steel) and energy. Several contacts noted that growth in shipping costs had slowed noticeably, particularly for containers and ocean freight. Consumer prices generally increased due to the continued elevated level of demand and the passthrough of higher costs.

Consumer Spending

Consumer spending was unchanged on balance over the reporting period. Nonauto retail sales were slightly softer, with contacts noting declines for gasoline and building materials and lower than expected sales of furniture and electronics. Light vehicle sales were unchanged overall, and service and parts demand remained strong. Leisure and hospitality spending increased slightly, driven by greater spending in travel categories such as cruise lines and travel agencies.

Business Spending

Business spending was stable overall in late February and March. Capital expenditures increased modestly, with several contacts reporting spending on renovation or expansion of existing structures. Demand for transportation services decreased some, though activity remained at a high level. Demand for residential, commercial, and industrial energy decreased slightly, with one contact highlighting declines from manufacturing and small commercial enterprises. Inventories for most retailers were at comfortable levels. Though auto inventories continued to move up, according to a survey of dealers they were still only around half of pre-pandemic levels. In manufacturing, inventories stayed slightly elevated, and many contacts indicated that they were no longer experiencing supply chain disruptions. A construction contact

noted that materials availability had improved to the point that certain suppliers were no longer taking orders more than a few weeks in advance.

Construction and Real Estate

Construction and real estate activity was little changed on balance over the reporting period. Residential construction decreased slightly, while residential real estate activity was up modestly across segments. One contact attributed the pickup in sales to lower mortgage rates. Home prices and rents moved up modestly. Nonresidential construction activity was little changed overall, though contacts highlighted renovation of hospitality space as an area of growth. Elevated construction costs continued to hold back new projects. Commercial real estate activity decreased moderately, though some contacts said deal flow was still at a healthy level. Demand for leased multifamily space increased while demand for office space continued to fall. Prices and rents were down slightly. Vacancy rates increased slightly, and the amount of sublease space grew modestly.

Manufacturing

Manufacturing demand decreased modestly in late February and March. Steel orders decreased slightly. Fabricated metals orders were down modestly, with several contacts citing the automotive sector as a reason for declines. Auto production fell slightly. Machinery sales were up slightly, and one contact highlighted stronger demand from the aerospace sector. Heavy truck orders moved up slightly and backlogs remained very high.

Banking and Finance

Financial conditions tightened moderately over the reporting period. Bond and stock markets saw little change in asset values on net, though volatility spiked and asset values temporarily fell following the collapse of Silicon Valley Bank (SVB). Banking contacts reported fielding some inquiries about deposit safety after SVB's failure and also saw some deposit transfers. A contact at a large bank that received new deposits was uncertain whether the deposits would stick once there was more clarity about the health of smaller banks. Business loan volumes decreased slightly, with one contact noting that clients producing durable goods were most likely to be struggling. Business loan quality was stable, and contacts did not report changes in lending standards. The consumer loan market saw a slight decrease in the volume of loans, led by further declines in refinancing activity. Consumer lending standards tightened slightly, while loan quality was stable.

Agriculture

With input costs remaining elevated and many product prices down, contacts expected lower agricultural income for the District in 2023 compared with a strong 2022. Wheat prices were generally lower over the reporting period, during which the agreement for exporting grain from Ukraine was extended into May. Corn and soybean prices were also lower despite smaller estimates for the South American harvest. Planting delays were likely in some places in the District due to excess precipitation, though contacts noted the extra moisture could also recharge ground water levels for use later in the growing season. Although fertilizer costs fell, the cost of most other inputs remained high for crop farms. Cattle prices increased as the U.S. herd was squeezed by drought and a harsh winter. Egg prices moved up, while dairy and hog prices were down. High feed costs continued to compress most livestock margins. Prices for agricultural land continued to rise, reportedly at a slower pace.

Community Conditions

Community development organizations and public administrators reported little change in overall economic activity through March. Demand for social services remaining elevated despite reports of overall economic strength. State government officials again saw healthy growth in tax revenues and low levels of unemployment insurance claims. Despite slow growth and funding challenges, small businesses and nonprofits continued to be focused on employee recruitment and retention and were not reporting plans for layoffs. High interest rates and elevated supply costs continued to challenge plans to expand availability of affordable housing units and childcare facilities, non-profit developers reported. Family-facing organizations said there were signs of slower growth in consumer prices; however, the end of Covid-era benefits was putting new stress on household budgets. ■

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



Summary of Economic Activity

Economic conditions have remained unchanged since our previous report. Although labor markets remain tight, contacts reported further improvement in their ability to hire and retain workers. Firms struggled to pass on higher costs to customers, which resulted in wage growth compressing profit margins. Consumer spending was mixed, with reports of weaker demand among low-income consumers but more robust demand among high-income consumers. Construction and manufacturing contacts reported that supply chains continued to improve. The real estate sector saw home sales increase and inventory continue to decline, though rental rates remained flat. The banking sector saw loan growth slow and deposits fall, but expressed confidence in their overall position.

Labor Markets

Employment has increased slightly since our previous report. Although labor markets remain tight overall, reports of easing have increased since our previous report. While unemployment rates remain low and hiring workers is still a challenge, more contacts have been reporting an ability to hire and retain workers to meet demand than in recent months. A railroad contact in Louisville reported reaching full capacity in employment for the first time post-pandemic. A St. Louis staffing company, although still reporting hiring challenges and churn in the market, has seen these issues begin to relax compared with last year. A Memphis contact reported labor shortages and retention problems are no longer widespread and are primarily affecting the service industry.

Wages have continued to grow slightly since our previous report. Companies reported slow wage growth due to difficulties transferring labor costs onto consumers and slightly improved labor supply. An insurance contact in Louisville reported rising wages cutting into their profit margins, and a home building contact in Little Rock reported margins being down 15-20% due to increased wages for employees.

Prices

Prices have increased modestly since our previous report. Overall, contacts project increasing prices, but at a slower pace compared with the previous few quarters. Despite increasing input costs, business contacts reported a decreased ability to pass on costs to consumers due to increased price sensitivity of consumers and the desire to maintain competitive pricing. Of businesses that reported the ability to increase prices, the projected change in prices varied. A contact in the car industry indicated only slight increases in prices, while a contact in the hospitality industry estimated a larger 6-10% increase in prices.

Consumer Spending

District general retailers, auto dealers, and hospitality contacts reported mixed business activity and a mixed outlook. In Little Rock, some stores saw less and more-volatile foot traffic, whereas others reported that higher-income consumers are starting to spend more again. A St. Louis auto dealer reported that business activity did not change over the past month, and they have a positive outlook for spring and summer. This dealer also noted that sales of luxury cars have not decreased, since the people who buy luxury cars are typically cash buyers and they are less affected by interest rates. A restaurant contact in Memphis reported that business has been

stable, and they are careful about increasing prices to avoid driving away customer demand. The hospitality industry in Louisville is pessimistic about the tourism industry's chances of returning activity to pre-pandemic levels.

Manufacturing

Manufacturing activity has slightly decreased since our previous report. Firms in Missouri have reported a slight uptick in new orders, while firms in Arkansas have reported a slight decrease in new orders and a small rise in production. Raw material prices continue to decrease, with products from Asia returning to pre-pandemic levels. Supply chains continue to improve but remain suboptimal relative to before the pandemic. The manufacturing industry continues to expand in the region: Two companies in Lee County, Mississippi, added over 60 employees, which represents \$2 million in each of their payrolls.

Nonfinancial Services

Activity in the nonfinancial services sector has remained stable since our previous report. While air passenger traffic has increased, freight traffic has slightly decreased. In Northwest Mississippi, access to rural healthcare continues to be affected by rising costs and low Medicare reimbursements, which have caused hospitals to delay investment in new structures and services. Investment in technical training increased across the District. A community college in Tennessee has partnered with local businesses to provide customized work-centered training and short-term credentials to address student concerns about the rising cost of education and local business concerns about the lack of qualified workers. Similarly, community colleges in the St. Louis area are investing in advanced manufacturing training programs by procuring high-end equipment, building new facilities, and developing new curriculums to accommodate more students. Memphis-area nonprofits reported that volunteer engagement has increased since our previous report.

Real Estate and Construction

Home sales in all four major District MSAs have increased since our previous report. The median sale price of listings in Memphis has increased significantly, and other major District MSAs have seen small increases in median sale price. Inventory has dropped in all four major District MSAs since our previous report. However, rental rates remain unchanged.

Commercial real estate continues to see low demand for large office spaces. In Northwest Arkansas, one contact reported high demand for commercial warehouses, which has resulted in a vacancy rate of less than 1%.

Construction demand remains steady despite high interest rates. Contacts reported opportunities to bid on jobs if they have available capital. One St. Louis construction contact reported increased delays in project start times since our previous report. An Arkansas contact reported that, due to labor shortages, construction firms are winning bids and finding smaller subcontractors to bid on the jobs they have been awarded.

Banking and Finance

Banking conditions in the District have remained stable since our previous report. Loan growth in the commercial, industrial, and consumer lending sectors all declined slightly—a continuation of the cooldown in loan demand since the beginning of 2023. Real estate loan growth, on the other hand, saw an uptick. Total deposits fell. Contacts expect net interest margins to begin contracting if they have not already, as deposit costs are still increasing. Asset quality remains good, and bankers in the District are closely monitoring debt that will be renewed at higher interest rates this year. Memphis banking contacts reported a renewed focus in the industry on liquidity in light of recent bank failures, while expressing confidence in their diverse and strong deposit base. One Memphis-area contact reported inflows from local residents who had previously held deposits in distressed West Coast banks.

Agriculture and Natural Resources

District agriculture conditions have seen little change since our previous report. The number of acres planted in the District for corn, cotton, rice, and soybeans increased around 1% compared with last year; outcomes were similar for all District states. The composition of the crops has changed; cotton and soybeans were planted in lesser quantities compared with last year, while corn and rice increased in acreage. Southern parts of the District have planted significantly fewer acres of cotton and replaced it with corn and rice.

Natural resource extraction conditions declined moderately from February to March, with seasonally adjusted coal production decreasing 9%. March production was also down moderately compared with a year ago, falling over 5%. ■



Summary of Economic Activity

The Ninth District economy grew slightly since the previous report. Employment gains were modest; labor demand remained high, but signs of softness also appeared. Wage pressures rose slightly and remained at high levels. Price pressures were steady at high levels. Consumer spending was flat, though activity varied in different segments. Commercial construction rose slightly, but residential construction continued to be slow. Commercial real estate was flat, and residential real estate remained very slow. Manufacturing activity contracted slightly, and agricultural conditions remained strong. Activity among minority- and women-owned businesses was steady. A substantial majority of contacts reported no effect on their organization from recent banking turmoil.

Labor Markets

Employment grew modestly since the last report. Contacts reported a slight drop in job openings, but overall demand for labor remained healthy. A monthly business conditions survey showed that overall hiring sentiment remained positive; staffing contacts also noted increases in job orders with the coming of spring. Layoffs appeared to increase, but mass layoff events were still low. A Minnesota staffing firm said that businesses were “exfoliating the workers they don’t need.” A Wisconsin workforce contact said that hiring had softened; there was not widespread downsizing, but more the “abandonment” of recruiting for unfilled positions. Several sources noted that turnover also appeared to be ebbing and could be a factor in lower job postings. Numerous contacts said labor availability improved slightly. A Wisconsin staffing contact said the number of job applicants rose “but the quality is not strong.” Still, job placements were growing because clients “are becoming more open to more-questionable candidates.”

Wage pressures remained high but there were small signs of easing. Most contacts reported that they still needed to offer higher wages than previously to fill open positions. A staffing firm reported that wages for industrial positions had risen more than 10 percent over the past year, and additional increases were expected. But multiple contacts said there was less need for off-cycle pay increases, and raises were returning to an annual frequency.

Prices

Price pressures were steady since the last report, though levels remained elevated. Price pressures for inputs were greater on balance than for final goods, according to contacts. About half of respondents to a District business conditions poll reported no change to the prices they charged for their products and services in March from a month earlier, compared with a third reporting increases. Nearly two-thirds of hospitality and tourism contacts reported that inflationary pressures had gotten somewhat or much worse over the past three months. Several manufacturing contacts reported more resistance from customers to price hikes. Construction contacts reported that although prices of lumber and certain materials have retreated from highs, prices of other inputs, such as furnishings, remained elevated. Retail fuel prices in District states increased moderately overall since the previous report. Prices received by farmers in February increased from a year earlier for corn, soybeans, potatoes, hay, cattle, turkeys, and eggs; prices decreased from a year earlier for wheat, milk, hogs, chickens, sugar beets, dry edible beans, lentils, and canola.

Worker Experience

Job seekers continued to prioritize higher pay and greater flexibility as they looked for jobs and remained positive overall about their prospects. Many showed a strong willingness to learn new skills and consider a different line of work to advance their goals. Minnesota

and South Dakota immigrant workers employed in agriculture, food processing, and manufacturing reported stable employment conditions. Some wished to find employment outside their current industry but were limited by language barriers and job proximity. A food processing worker in her sixties said she reduced her working hours because driving in the winter was difficult, but she did not plan on retiring soon. "We came here to work, retirement is not for us," she added. Others shared similar sentiments.

Consumer Spending

Consumer spending rose slightly since the last report, with varied activity among different segments. Minnesota retail contacts reported modest sales growth in recent weeks. However, foot traffic at some South Dakota retailers has reportedly slowed compared with last year, said a contact there. The lodging industry in Minnesota and Montana continued to see healthy demand in March. However, industry contacts in both states noted some signs of softening demand. Vehicle sales in Minnesota and Wisconsin in March were lower compared with last year; in the western part of the District, sales at a dealership with multiple locations were slightly higher for new vehicles, despite inventory shortages, but 12 percent lower for used vehicles. Recreational, powersport, and marine vehicle sales remained subdued, with the RV industry "bloated with inventory," according to a contact, and higher interest rates dampening demand. Spring break airline traffic has been brisk, with monthly passenger levels at some District airports seeing double-digit growth over last year.

Construction and Real Estate

Commercial construction rose slightly since the last report. While new office projects remain slow, other sectors remained active, especially with the coming of spring. Industry data showed that recent nonresidential activity has been on par with last year. Contacts also reported that multifamily construction has remained healthy. A small sample of construction contacts reported that March sales were higher, on average, than a month earlier, and they had similar expectations for the coming month. Residential construction, on the other hand, was still in the doldrums. The number of single-family units permitted in March was down more than 40 percent, year-over-year, in the Minneapolis-St. Paul region; even larger declines were seen in Rochester, Minn., Bismarck and Fargo, N.D., and Sioux Falls, S.D.

Commercial real estate was flat since the last report. In the Minneapolis-St. Paul region, leasing activity for industrial property remained strong, and vacancy rates fell slightly in the first quarter, despite a considerable

amount of new supply coming online. Office space saw the opposite trend, with vacancies rising despite no new supply. Residential real estate remained slow, with higher mortgage rates heavily impacting sales. Available data on closed and pending home sales in March showed moderate-to-large declines across the District. A lack of inventory kept home prices elevated.

Manufacturing

Manufacturing activity decreased slightly since the last report. A regional index of manufacturing conditions indicated contraction in activity in March from a month earlier in Minnesota, North Dakota, and South Dakota. Manufacturing respondents to a District business conditions survey reported overall unchanged sales in March from a month earlier, though expectations for April were higher and many contacts noted strong backlogs. Inventories increased slightly, according to contacts, and several noted that supply chain pressures had eased. A producer of inputs for large engines and industrial equipment reported that it was expecting a dramatic reduction in sales and was planning to reduce staff by 20 percent in response. A producer of food and beverage equipment noted that "customers are hesitant to invest in costly equipment when interest rates are so high."

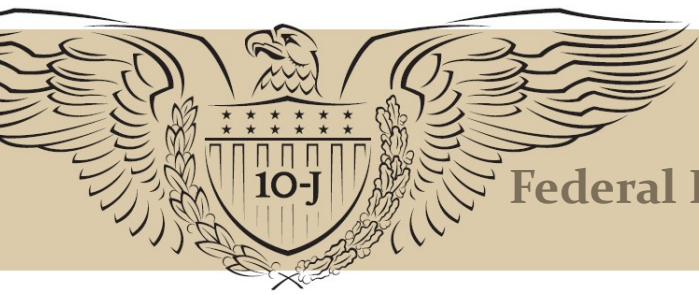
Agriculture, Energy, and Natural Resources

District agricultural conditions were stable at strong levels entering the planting season. Most contacts reported that farm incomes continued to increase from a year earlier, while capital spending was steady. However, persistent wintry weather, including a severe snowstorm, delayed preparation for spring planting in many areas. District oil and gas exploration activity was unchanged since the previous report.

Minority- and Women-Owned Business Enterprises

Minority- and women-owned businesses reported little change in activity compared to last period. A few were concerned that their inability to pass on increased input and labor costs through final prices was beginning to threaten their existence. A number of contacts were still unsuccessfully looking for workers; they quoted wage competition and mismatched skills as the main reasons. Sentiments around recent banking events were mixed. While some expected their access to credit to further narrow, others expected little or no impact. A contact working with startups expected area entrepreneurs in the tech sector to be affected but was unsure as to what extent. ■

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



Summary of Economic Activity

Total economic activity across the Tenth District declined slightly in March and April. However, almost every business contact reported no pull back in planned capital expenditures, hiring plans or planned wage increases in response to recent financial market volatility. Hiring activity slowed, leaving total District employment mostly unchanged. Worker retention was reportedly much higher, even as wage growth slowed. Consumer spending declined slightly. Households pulled back most on bigger ticket items like cars or home maintenance and improvements. Prices continued to rise at a moderate pace. Several food manufacturers indicated they do not expect to be able to negotiate the same pace of price increases as they did over the past year in the coming months. Deposit outflows at community and regional banking organizations raised funding challenges for many organizations in recent weeks. However, community development financial institutions, which typically serve microbusinesses and low-to-moderate income borrowers, reported stable funding conditions despite recent financial volatility. Agricultural lenders also indicated stable liquidity to support lending over the medium term. Generally, lenders expected somewhat tighter lending standards and stricter pricing related to credit risks in coming months.

Labor Markets

Manufacturing employment in the Tenth District increased modestly in recent weeks, which contacts tied to a better ability to recruit for open positions rather than an increase in overall demand for workers. Restaurant owners, hotel operators and most service businesses indicated that employment changed little over the past month. Although employment in healthcare grew at a moderate pace over the last month, labor demand at healthcare establishments slowed moderately in some parts of the District. Job losses in tech occupations were concentrated among larger companies operating in the region. Contacts noted that tech workers were finding new employment opportunities within a couple of weeks on average, but often at somewhat lower pay. Expected employment growth was reportedly much lower than just a few months ago.

Across industries and geographies, contacts reported that wage growth is slowing significantly compared to last year, and that mid-cycle wage increases are much less likely this year. Despite slowing wage growth, most businesses indicated that worker retention improved in recent weeks. Most contacts characterized expected wage growth over the near term as being above growth rates expected over the long term.

Prices

Prices rose moderately across the District. Services contacts reported selling prices grew only slightly. Yet, most contacts at services businesses anticipate changing their prices more frequently compared to the previous year, taking opportunities to raise prices incrementally when available. Most businesses said their recent difficulty with passing cost increases through to customers compressed their profit margins, with most indicating they expect to increase prices further over the medium term to rebuild lost profitability. One notable exception was processed food categories, where contacts do not expect to be able to negotiate as large, or as many, price increases with grocers as they did last year.

Consumer Spending

Household spending continued to fall slightly in recent weeks. Purchases of larger ticket items, such as cars or spending on home construction projects, declined significantly. Offsetting those declines were robust spending growth at restaurants and a rebound in leisure travel activity. Several contacts noted in-store retail spending growth picked up slightly, but also highlighted that the distinction between brick-and-mortar and online sales is less important as most establishments have developed some sort of online sales platform.

Community Conditions

Community Development Financial Institutions (CDFIs) across the District reported they have generally not experienced adverse effects resulting from the recent volatility in the banking sector so far. Most contacts reported their banking relationships were strong, with some banks proactively reaching out to quell any concerns about funding commitments. CDFIs expect strong and increasing loan demand as an alternative and competitive lender to commercial banks, especially as banks tighten credit. Looking ahead, several CDFIs reported concerns about the ability of businesses to pay on loans, especially as more Economic Impact Disaster Loan payment deferrals continue to expire throughout the year.

Manufacturing and Other Business Activity

Manufacturing activity was unchanged from recent months while activity at services businesses declined slightly. In response to recent financial volatility, almost every contact reported they quickly assessed their distribution of bank deposits; however, most business contacts reported no pull back in capex plans, hiring plans or planned wage increases resulting from recent events. Expectations of production and sales over the next six months were little changed, except in technology sectors where business activity is expected to decline moderately.

In contrast, District contacts in the venture capital and start-up space reported a much more adverse outlook compared to just a couple of months ago as a direct result of the closure and challenges among the key lenders to the sector. Businesses tended to point to prolonged declines expected for the start-up ecosystem, rather than declines in certain segments of the startup community, such as life/bio sciences or tech services.

Real Estate and Construction

Vacancy rates at commercial properties increased moderately in recent weeks, most notably at office properties. Yet, contacts indicated use of warehousing and distribution space, which had been the strongest property segment over the last year, declined over the past month. Several contacts noted subleasing prices declined further. Following the recent financial market volatility, most contacts noted that lending for commercial real estate development is almost completely unavailable. From the lender side, one contact commented “we’d already been focusing only on premium deals, but now we are being even stricter about what ‘premium’ means.”

Community and Regional Banking

After tightening credit standards over the past several weeks, many contacts reported expectations for further tightening or more strict pricing related to credit risks. Loan demand also weakened modestly in the past month, driven by increased borrowing costs and economic uncertainty. Most notably, contacts reported weaker demand in commercial real estate and commercial and industrial loans, though declines were broad-based. Credit quality remained stable, but contacts continued to expect loan quality to deteriorate over the next six months. Deposit levels declined moderately as large depositors withdrew uninsured balances amid the volatility in the regional banking sector and ongoing intensity of rate competition.

Energy

Tenth District energy activity declined moderately over recent months. The number of active gas rigs in the District decreased as natural gas prices continued to decline below profitable levels, and prices were expected to remain in an unprofitable range over coming months. However, declines in the number of active oil rigs were modest, as firms expect oil prices to remain in a profitable range in the near term, albeit with profitability falling in recent months. In line with these expectations, oil producers reported access to credit over the last month remained unchanged despite banking disruptions. The average price needed for a substantial increase in drilling to occur remains above near-term oil and gas price expectations, constraining future production growth. Most business contacts reported higher cost pressures across several key inputs and anticipate persistent cost pressures in the coming year. Accordingly, capital spending growth slowed relative to last year and is expected to decline over the next six months.

Agriculture

Agricultural economic and credit conditions in the Tenth District were reportedly strong. Elevated commodity prices continued to support profit opportunities for many producers. Farm loan repayment rates improved at a gradual pace in the first quarter and indicators of credit challenges were limited. Agricultural bankers throughout the region also reported that their liquidity was adequate to meet current credit demand and deposit withdrawals. The impact of higher interest rates on borrower finances and farmland markets was reportedly a growing concern. More broadly, drought and elevated production costs continued to affect many areas of the region. ■



Summary of Economic Activity

The Eleventh District economy continued to expand modestly. Manufacturing output rose slightly following a mild contraction in the previous period. Growth in the service sector continued at a modest pace, and retail sales and energy activity were flat. Loan demand weakened further, loan volumes fell, and credit conditions tightened. Agricultural conditions remained strained by drought in some areas. Home sales rose. Local nonprofits cited higher demand for assistance. Overall payrolls rose modestly, though hiring slowed sharply in the service sector. Wage growth remained elevated, while price pressures eased notably. Outlooks worsened, and uncertainty surged, partly due to heightened apprehension about the recent banking sector issues and high interest rates, and their spillover effects on the broader economy.

Labor Markets

Employment increased modestly during the reporting period. The pace of hiring picked up in manufacturing but slowed in energy and nearly stalled out in services. Difficulty hiring workers remained a top concern for many firms, though a few reported some improvement. Airlines cited capacity constraints due to pilot shortages, and a workforce development contact said some employers were taking a closer look at non-traditional talent pipelines to fill positions. In contrast, staffing firms noted clients were taking longer to make hiring decisions in part due to the increased economic uncertainty, and there were scattered reports of layoffs in construction-related manufacturing and upstream energy.

Wage pressures remained elevated, though they have stabilized or moderated in some industries. A food manufacturer noted having issues finding workers despite offering a starting salary that was more than twice the minimum wage, while construction contacts noted some easing in pricing for certain trades.

Prices

While input costs continued to rise, the pace of increases moderated in energy, construction, and manufacturing. Freight costs dipped. Some manufacturers noted continued price pressures from supply chain constraints, and a few firms said higher borrowing costs were slowing down expansion plans. Selling price pressures decelerated

broadly, bringing price growth close to or below its historical average in manufacturing and services. Homebuilders continued to use incentives and discounts to close sales. Airlines said ticket prices remained elevated, while energy firms reported declining rental rates for drilling rigs and said they expect cost inflation to continue slowing. More than a third of firms responding to a March Dallas Fed survey of nearly 400 Texas business executives cited inflation as a primary outlook concern over the next six months.

Manufacturing

Texas factory output expanded slightly in March after declining in February. New orders for manufactured goods continued to contract, however. Weakness in demand was most pronounced in primary metals and plastics, though construction-related and computer manufacturers cited declines in new orders as well. In contrast, demand for fabricated metals and machinery rose, and chemical and refinery utilization rates increased. Overall, outlooks weakened, with just under two-thirds of contacts noting waning demand and/or recession as a key concern. Other headwinds cited were elevated input costs, labor shortages, and higher labor costs.

Retail Sales

Overall retail sales held steady in March. Auto sales rose strongly, though one contact noted a pullback in demand due to high interest rates. Clothing and health and per-

sonal care retailers cited higher sales. In contrast, electronics and appliance store sales dipped, which some contacts attributed to slow activity in the housing market. Nonstore retailers reported sluggish activity in part due to more people traveling this spring break.

Nonfinancial Services

Modest expansion continued in the service sector. Revenue growth was the strongest in leisure and hospitality, and activity in professional and business services, education, and transportation services rose as well. Small parcel and air cargo shipments were flat to down, while sea cargo volumes remained robust and were up notably compared with year-ago levels. One contact noted that the recent train derailments had increased supply chain delays. Airlines saw continuing solid demand for leisure travel and some contacts expect business travel revenues to reach pre-pandemic levels this spring. Demand for staffing services was mixed, with firms making white-collar placements seeing continued strong activity while those filling blue-collar positions citing weakness. Health care and real estate rental and leasing firms noted declining revenues on net.

Construction and Real Estate

Single-family housing demand improved further during the reporting period partly due to lower mortgage rates. However, the level of activity remained well below year ago levels. Most contacts reported a solid spring market, with sales, particularly in popular locations at or above plan. Buyer traffic held up, and contract cancellations dipped. Housing starts remained subdued. Outlooks improved but uncertainty remained elevated particularly considering the recent banking challenges. Apartment leasing picked up slightly. Rents were flat and occupancy continued to dip as supply outpaced demand.

Demand for office space was lackluster, and heightened levels of sublease space remained an impediment to market recovery. Activity in the industrial market stayed solid, but vacancy edged up due to the arrival of new properties. The higher cost of capital, tighter lending standards, and financial uncertainty has made it challenging to price deals, diminishing investment sales activity. Some contacts voiced concern regarding the renewal of commercial real estate loans, particularly those secured by office properties.

Financial Services

Loan demand continued to decline in March as bankers reported worsening business activity. Loan volumes fell, driven largely by a sharp contraction in consumer loans. Loan performance worsened slightly overall. Credit standards and terms tightened sharply, and marked

increases in loan pricing were noted. Banking outlooks continued to deteriorate, with contacts expecting a contraction in loan demand and business activity and an increase in nonperforming loans over the next six months. Increased uncertainty and lack of confidence resulting from the recent banking issues were cited as concerns.

Energy

Energy activity was essentially flat over the past six weeks. The rig count was unchanged as activity shifted between and within basins in part due to lower natural gas prices. Oil and natural gas production increased in the first quarter, and expectations are for drilling and completion activity to rise moderately through the year. Outlooks worsened, however, partly due to uncertainty about the economy.

Agriculture

Drought conditions persisted in the western part of the district while soil conditions were quite favorable elsewhere. The La Niña weather pattern has ended, and rainfall is expected to increase moving into summer and fall. Cotton acres are expected to be down significantly this year, with farmers favoring crops with a relatively higher price and drought tolerance. On the livestock side, cattle prices increased dramatically over the past six weeks and were up from this time last year, and demand was solid.

Community Perspectives

Nonprofits saw increased demand for their services, with one contact citing higher activity compared with pre-pandemic levels. Utilization of housing assistance or temporary shelters increased notably, and some nonprofits said that housing assistance was the fastest growing need among their clients. Contacts cited growing financial difficulties for low- to moderate-income families in part due to the recent reduction in SNAP benefits. One nonprofit noted that more middle-class families were seeking financial help as their wages had not kept pace with rising living costs. High or rising operating costs remained a challenge for many nonprofits, and some were concerned that with many companies downsizing, they would not meet their fundraising goals. ■

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



Summary of Economic Activity

Economic activity in the Twelfth District grew slightly during the mid-February through March reporting period. Employment levels were stable, while labor market conditions remained tight overall. Elevated wage and price levels persisted though grew at a slower pace relative to the last reporting period. Sales of retail goods softened slightly, while activity in the consumer and business services sectors maintained strength. Demand for manufactured products was steady, while conditions in the agriculture and resource-related sectors continued to slow slightly. Residential and commercial real estate markets weakened. Lending activity decreased substantially. Communities across the Twelfth District faced heightened challenges in their ability to provide food, shelter, and services due to credit constraints and reduced philanthropic giving. Looking ahead, contacts had a weaker overall economic outlook and expressed uncertainty in their business planning amid current market conditions.

Labor Markets

Labor market conditions remained tight overall despite reported softening in some sectors such as financial services and technology. Employment levels remained mainly stable, although hiring challenges continued in most sectors due to skill mismatch and limited labor supply. Contacts reported difficulty finding workers across all skill and experience levels. There were some signs however of easing, which several contacts attributed to an increase in labor supply from recently laid-off workers seeking employment. Several contacts noted improved worker retention in recent months, although job turnover remained generally elevated. While employers in leisure and hospitality continued to hire, which alleviated ongoing staff shortages, businesses in the financial services, technology, and entertainment sectors reduced head counts in response to waning demand.

Wage growth moderated during the reporting period, but wage levels remained high. Although wage pressures eased somewhat, workers continued to demand higher pay, and employers maintained offers of higher wages to attract and retain workers in the face of consumer price inflation and high housing costs. Contacts noted that with stiff competition for labor, firms attracted talent with pay increases and better benefits.

Prices

Overall price levels rose during the reporting period, though at a somewhat slower pace. Reports indicated higher final prices for goods and services in several sectors, including manufacturing, leisure and hospitality,

consumer services, legal services, and agriculture. One contact in California noted that produce prices rose following supply disruptions due to recent flooding in the state. Firms largely continued to experience rising input costs, such as transportation, food, some construction materials, and insurance, though the pace of these increases moderated. Changes in energy prices were reportedly mixed, and a few contacts observed some softening in steel and aluminum prices.

Community Conditions

Conditions in the community support and services sector worsened in recent weeks. Nonprofit organizations reported that heightened uncertainty in the banking sector limited their access to credit and delayed ongoing affordable housing and community support projects. Nonprofit organizations noted that recent banking developments led many corporations to cut back on charitable donations, which further constrained their ability to meet demand for basic needs, including shelter, rental and food assistance, and mental health services. Employers across the District reported increased burnout and mental health strain among workers, particularly low-wage earners, due to higher living costs.

Retail Trade and Services

Retail goods sales softened slightly, as reduced savings and rising household debt hampered consumption expenditures. Food spending decreased somewhat as households continued to trade down to lower cost items. One contact from Washington noted that sales of organic produce weakened relative to conventional products.

However, home improvement and do-it-yourself projects continued to support strong sales at home centers.

Conditions in the consumer and business services sectors remained strong. Demand for health-care services continued an upward trend. Demand for air travel was strong, while that for leisure and hospitality moderated somewhat in parts of the District, including Southern California, due to consumers' concerns about economic uncertainty. At the same time, the tourism industry in Hawaii and Nevada remained strong. Record rain and snowfall across the West Coast had a mixed effect. While the hospitality sector in Southern California saw a significant slowdown, Northern California saw higher demand for outdoor recreation.

Manufacturing

Activity in the manufacturing sector was steady. Some reported softness in orders from the construction industry was offset by strength in metal production, engineering, and food manufacturing. Demand for capital equipment and metal recycling products increased in recent months, while demand for wood products weakened as rising mortgage rates and bad weather slowed down residential construction. Production costs remained above historical averages, and labor tightness persisted. While supply disruptions continued to improve, contacts across the District reported delays in getting various electrical components.

Agriculture and Resource-Related Industries

Activity in agriculture and resource-related sectors decelerated slightly. Exports of agricultural goods weakened, and domestic demand for agricultural products was mixed. While growers in the Pacific Northwest reported weaker sales overall, producers in California noted strong, stable demand for fresh produce and other agricultural goods. Persistent rains and flood conditions in California affected plant pollination, delayed the planting of crops like tomatoes and cotton, and cast doubt on the viability of some orchard crops. One contact in Central California reported that the recent rains made large portions of grazing lands unsuitable for cattle. Seafood

output in the Pacific Northwest remained stable. Sales of harvested timber cooled further, while investor demand for timberland remained elevated.

Real Estate and Construction

Conditions in the residential real estate sector worsened over the reporting period. Demand for single-family homes softened, and homes stayed on the market longer. Selling prices fell below initial asking prices, and the cancellation rate for purchase agreements reportedly increased. Multifamily housing demand was stable to weaker, depending on the region, and asking rents or the rate of rent increases fell. Uncertainty and high financing costs dampened new construction, but some reports indicated stronger activity in the lower-cost home category. Ongoing projects continued to be developed as planned across the District, but builders highlighted shortages of electrical equipment as a constraint to construction activity in the region.

Activity in the commercial real estate market weakened. Demand for office and health-care space continued to wane. Office vacancies rose as leases expired and occupants reduced their need for space due to hybrid and remote work arrangements. Demand for warehouse and industrial space remained generally strong, as did the demand for new data centers. One contact in Oregon highlighted local government's ongoing plans for continued development in downtown areas.

Financial Institutions

Lending activity fell significantly in recent weeks amid higher interest rates and elevated uncertainty in the banking sector. Lending standards tightened notably, and several depository institutions opted to reduce loan volumes, especially for new clients, despite reporting ample liquidity. Reports indicated that existing and planned projects across sectors were delayed or cancelled due to higher funding costs, heightened uncertainty, and more limited access to credit. Following recent volatility in deposit levels at regional and community banks, outflows have reportedly stabilized since late March. ■



