

For use at 2:00 PM EDT

Wednesday

May 31, 2023

# The Beige Book

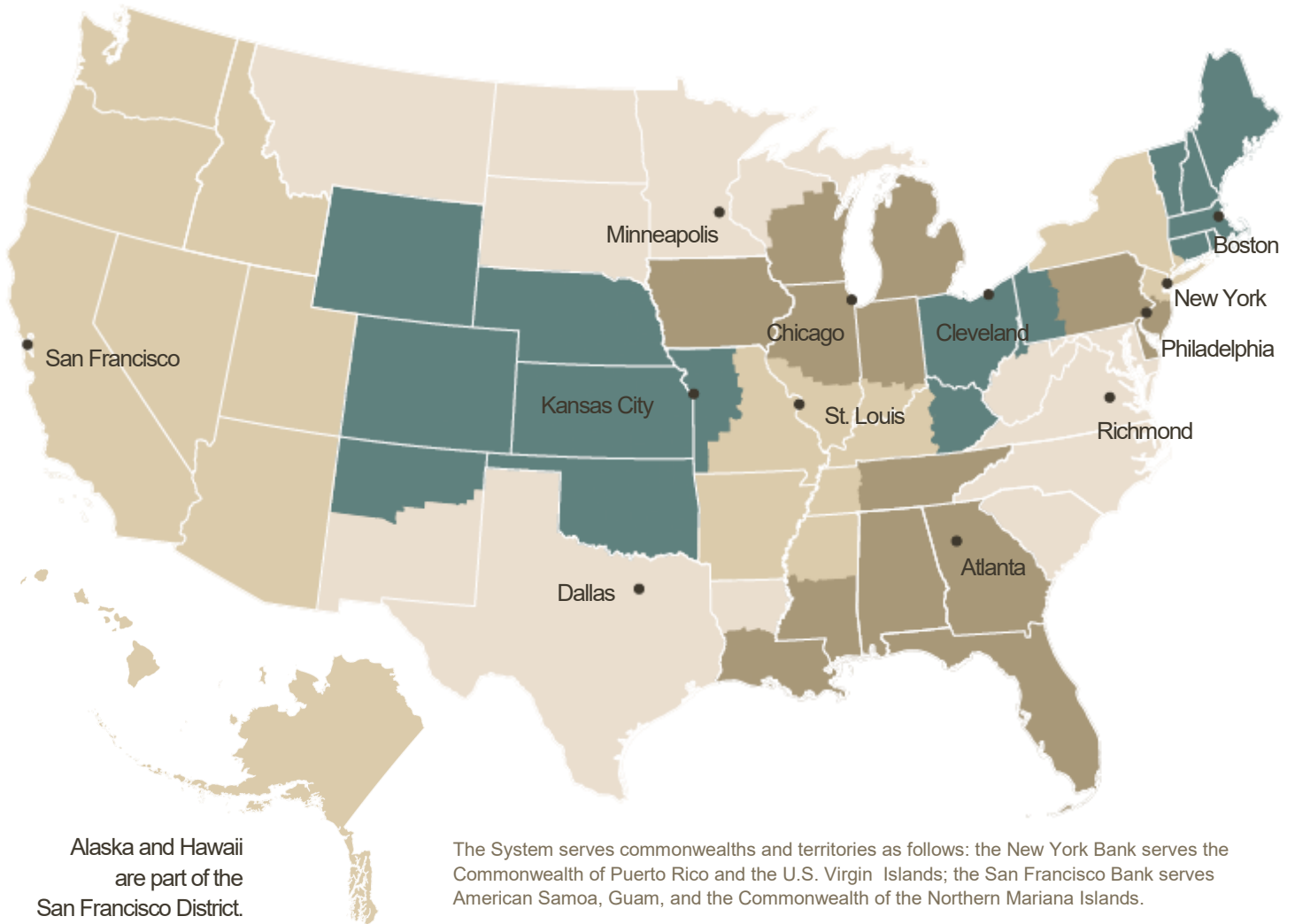
---

Summary of Commentary on Current Economic Conditions

By Federal Reserve District

May 2023

## Federal Reserve Districts



---

This report was prepared at the Federal Reserve Bank of Chicago based on information collected on or before May 22, 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.

---

<b>National Summary</b>	<b>1</b>
<b>Boston</b> First District	<b>A-1</b>
<b>New York</b> Second District	<b>B-1</b>
<b>Philadelphia</b> Third District	<b>C-1</b>
<b>Cleveland</b> Fourth District	<b>D-1</b>
<b>Richmond</b> Fifth District	<b>E-1</b>
<b>Atlanta</b> Sixth District	<b>F-1</b>
<b>Chicago</b> Seventh District	<b>G-1</b>
<b>St. Louis</b> Eighth District	<b>H-1</b>
<b>Minneapolis</b> Ninth District	<b>I-1</b>
<b>Kansas City</b> Tenth District	<b>J-1</b>
<b>Dallas</b> Eleventh District	<b>K-1</b>
<b>San Francisco</b> Twelfth District	<b>L-1</b>

### **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 ■ May 2023

## Overall Economic Activity

Economic activity was little changed overall in April and early May. Four Districts reported small increases in activity, six no change, and two slight to moderate declines. Expectations for future growth deteriorated a little, though contacts still largely expected a further expansion in activity. Consumer expenditures were steady or higher in most Districts, with many noting growth in spending on leisure and hospitality. Education and healthcare organizations saw steady activity on balance. Manufacturing activity was flat to up in most Districts, and supply chain issues continued to improve. Demand for transportation services was down, especially in trucking, where contacts reported there was a “freight recession.” Residential real estate activity picked up in most Districts despite continued low inventories of homes for sale. Commercial construction and real estate activity decreased overall, with the office segment continuing to be a weak spot. Outlooks for farm income fell in most districts, and energy activity was flat to down amidst lower natural gas prices. Financial conditions were stable or somewhat tighter in most Districts. Contacts in several Districts noted a rise in consumer loan delinquencies, which were returning closer to pre-pandemic levels. High inflation and the end of Covid-19 benefits continued to stress the budgets of low- and moderate-income households, driving increased demand for social services, including food and housing.

## Labor Markets

Employment increased in most Districts, though at a slower pace than in previous reports. Overall, the labor market continued to be strong, with contacts reporting difficulty finding workers across a wide range of skill levels and industries. That said, contacts across Districts also noted that the labor market had cooled some, highlighting easier hiring in construction, transportation, and finance. Many contacts said they were fully staffed, and some reported they were pausing hiring or reducing headcounts due to weaker actual or prospective demand or to greater uncertainty about the economic outlook. Staffing firms reported slower growth in demand. As in the last report, wages grew modestly.

## Prices

Prices rose moderately over the reporting period, though the rate of increase slowed in many Districts. Contacts in most Districts expected a similar pace of price increases in the coming months. Consumer prices continued to move up due to solid demand and rising costs, though several Districts noted greater price sensitivity by consumers than in the prior report. Overall, nonlabor input costs rose, but many contacts said cost pressures had eased and noted price declines for some inputs, such as shipping and certain raw materials. Home prices and rents rose slightly on balance in most Districts, after little growth in the prior period.

## Highlights by Federal Reserve District

### Boston

Business activity was flat on average. Modest revenue increases were reported among retail, restaurant, and manufacturing contacts. Labor demand weakened for a wide range of positions but headcounts declined only slightly. Wage and price pressures eased further on average but some sizable price increases were reported. The outlook was cautiously optimistic.

### New York

Regional economic activity declined at a moderate pace, with ongoing weakness in the manufacturing sector. Still, the labor market has remained solid, though there have been scattered signs of cooling due to heightened uncertainty. Inflationary pressures remained persistent. Conditions in the broad finance sector continued to worsen.

### Philadelphia

Business activity continued to decline slightly during the current Beige Book period. Contacts reported positive consumer sales, but that relatively high profit margins mean that volumes may be down. Labor availability improved, and employment grew slightly. Wage growth and inflation continued to subside. Contacts worried about the debt ceiling and bank failures but maintained positive expectations for growth over the next six months.

### Cleveland

Economic activity and employment were generally stable in the Fourth District, while cost and price pressures were little changed. Most firms indicated they were somewhat concerned about the standstill in Congress over raising the debt ceiling; however, these concerns did not appear to impact firms' outlooks for activity in the coming months.

### Richmond

The regional economy was little changed in recent weeks. Consumer spending on retail goods declined slightly but spending on travel and tourism picked up moderately. A lack of inventory ordering by retailers was felt in the manufacturing and transportation sectors. Commercial real estate activity and lending softened. Employment increased modestly and price growth eased slightly but remained robust, overall.

### Atlanta

Economic activity grew gradually. Labor markets became less tight, and wage pressures eased. Nonlabor costs moderated, on balance. Retail sales softened. Sales of new autos were solid. Leisure travel softened to pre-pandemic levels, and business travel increased. Housing demand was strong. Transportation activity declined. Energy demand was robust. Agriculture conditions slowed.

### Chicago

Economic activity was little changed. Employment increased moderately; nonbusiness contacts saw a small increase in activity; consumer and business spending were flat; and activity decreased modestly both for manufacturing and for construction and real estate. Prices and wages rose moderately, while financial conditions tightened modestly. Expectations for farm incomes in 2023 decreased some.

### St. Louis

Economic conditions have remained unchanged since our previous report. Labor markets remained tight, but reports of easing increased. Firms reported margin compression due to an inability to pass on input price increases. Residential real estate was largely unchanged, but demand for commercial properties weakened. The outlook worsened slightly due to concerns about weakening demand and macro uncertainty.

### Minneapolis

The region's economy grew slightly since early April. Labor demand was healthy, and wage pressures were high, but there were also significant layoffs. Price increases were generally modest, but levels remained high. Some manufacturers said input costs decreased, but most reported no change. Consumer spending rose modestly, and travel was strong. Minority- and women-owned firms saw a slight decrease in activity.

### Kansas City

Total economic activity across the Tenth District changed little during May. Job growth continued to slow, despite the number of job openings remaining elevated, as businesses were reportedly more selective in their hiring. Most businesses indicated price growth for finished products will likely moderate over the coming year. Growth in housing rental rates was also expected to moderate, even though it remains elevated in many parts of the District.

### Dallas

Modest growth continued, with revenue gains in the service and retail sectors. Housing contacts noted a decent spring selling season and stable prices. Credit conditions tightened further, and loan demand continued to decline. Payrolls rose moderately, and wage growth remained stubbornly elevated. Outlooks continued to worsen, and contacts voiced concern over waning demand, rising interest rates, and the overall health of the economy.

### San Francisco

Economic activity expanded somewhat. Employment levels were stable amid tight labor market conditions, while wage and price growth moderated further. Retail sales grew modestly, and activity in the services picked up somewhat. Manufacturing activity was robust, while conditions in the agriculture sector weakened slightly. Residential and commercial real estate activity fell, and conditions in the financial sector worsened modestly.



## Summary of Economic Activity

Business activity in the First District was about flat on balance. Retail sales increased modestly and restaurants enjoyed a seasonal uptick in activity in early May. Manufacturers posted mixed results, averaging modest revenue growth. Residential real estate sales were held back by inventory constraints, even though buyer demand strengthened moving into the spring season. Commercial real estate activity slowed moderately further, with new weakness in the suburban office market. Employment fell slightly amid broad declines in labor demand, and wage growth slowed somewhat. Prices increased at a modest pace on average, but some sizable price increases were noted. The outlook was cautiously optimistic on average, but the commercial real estate forecast weakened further on credit concerns.

### Labor Markets

Employment was down slightly amid muted hiring activity, and wage pressures eased a bit on balance. According to staffing industry contacts, labor demand slowed for a wide range of positions, including legal support and talent acquisition roles, as client firms trimmed hiring plans—though they so far have enacted no major layoffs. However, one manufacturing contact engaged in moderate layoffs related to receding demand for COVID-related products, and other manufacturers reduced labor by shedding temporary workers. Among restaurant industry contacts, hiring of waitstaff improved while back-of-house positions (e.g., chefs and managers) remained very hard to fill, resulting in further upward wage pressure for those roles. Retail headcounts were roughly steady, reflecting a combination of limited hiring and moderately lower attrition. According to staffing contacts, wage growth remained stable but workers seemed to lose bargaining power, as some employers at least partly rolled back flexible work arrangements. Contacts anticipated that selected wage pressures would persist but that average wage growth would decline considerably moving forward and that starting wages for some roles might even see slight declines through the end of 2023.

On the labor supply side, a workforce development contact continued to see many potential job candidates struggling with persistent barriers to labor force engagement. The barriers included childcare and eldercare

responsibilities, housing and transportation instability, and health challenges.

### Prices

Prices increased modestly on average as cost pressures eased further. Pricing activity was mixed among manufacturers, as some held prices steady and others enacted sharp price increases with little pushback from consumers. Retail prices were flat or down slightly as a result of increased promotions. Manufacturers and retailers alike said that freight and shipping costs declined further. Nonlabor cost pressures were mixed for restaurant owners, as wholesale food prices were flat in recent months but other costs such as rent, utilities, and health insurance increased further. The pricing outlook for the rest of 2023 was mixed, as most contacts expected to hold prices steady but some planned to post additional, above-average price hikes in response to ongoing cost pressures.

### Retail and Tourism

Among First District contacts, retail and restaurant sales increased modestly in recent weeks. An online retailer experienced an uptick in sales volume that was attributed in part to increased sales of outdoor furniture. Two discount retailers saw further modest improvements in sales volumes, pointing to their lower price points as a source of strength. A Massachusetts restaurant industry contact reported pockets of softer sales in April that were followed by broad improvements in recent weeks from



Mother's Day and graduation celebrations, as well as from seasonal increases in outdoor dining. Despite growth in restaurant sales volume, profits continued to lag due to upward wage pressures and selected increases in nonlabor costs. Retail and restaurant contacts alike were cautiously optimistic for sustained modest growth for their own businesses in the near-term, but nonetheless cited concerns about the broader economy moving forward.

### **Manufacturing and Related Services**

Reports from First District manufacturing contacts were mixed, but revenues increased modestly on balance. One manufacturer reported an abrupt decline in sales linked to the recent downturn in the semiconductor industry. A manufacturer of testing equipment said that sales were stable but short of expectations, in part related to slumping smartphone sales. A contact serving the scientific and life sciences industries said that revenue growth had returned to robust, prepandemic levels, in part owing to strong demand from China, although some of the firm's customers became more cautious in their spending. None of our contacts reported revisions to their capital expenditure plans. However, one contact heard that smaller peer firms were pulling back on spending on concerns about financing in the wake of recent bank failures. Looking ahead, contacts ranged from cautiously optimistic to very optimistic.

### **Staffing Services**

First District staffing contacts reported modest declines in revenue on balance through the second quarter of 2023, driven by decreased labor demand across many roles. Nonetheless, one firm reported sharply higher revenues from hiring for skilled manufacturing and engineering positions. Contacts described the recent slowdown in demand for staffing services as the continuation of a trend that began in late 2022 and that is expected to continue through the end of 2023. Contacts described the overall environment as one of caution, as firms anticipated a modest contraction in the economy. One contact noted further that demand for legal support roles had decreased, suggesting (in their view) that mergers and acquisitions might be slowing. Regarding the outlook, staffing firms expected their own revenues to hold relatively steady even with the anticipated further contractions in hiring.

### **Commercial Real Estate**

In the First District, the commercial real estate market experienced a moderate decline in activity since April. In the industrial class, rents continued to level off and leasing began to slow due to a lack of available space. The office class saw a further slowing of deal flow, now im-

pacting both the suburban and urban markets. Office rents were mostly stable but tenant allowances and other concessions increased further. The retail class was reportedly experiencing mixed conditions, with grocery-anchored and big-box retail spaces performing the best and the worst, respectively. On average, however, retail rents and leasing activity were unchanged since April. Across property types, investment sales slowed to a trickle and there was no new construction of note, facts attributed largely to financing difficulties. Looking ahead, contacts expected further declines in leasing and investment activity in both the office and retail property markets, with the office sector having the weaker outlook of the two. The industrial class is expected to see relatively stable activity, other than experiencing limited access to credit to finance new construction.

### **Residential Real Estate**

First District residential real estate sales ticked up slightly in March and April (the latest months for which data were available) in line with seasonal patterns, but continued to fall well short of year-earlier levels. Contacts around the District attributed the still-low sales numbers more to low inventories than to weak demand, as slightly lower mortgage rates helped bring more buyers to the market. Indeed, the Boston area enjoyed an above-average surge in single-family sales in March thanks to an uptick in inventories, and contacts reported a rise in instances of multiple offers and buyer concessions such as the waiving of inspections. Inventories were otherwise quite mixed, falling significantly from a year earlier in Massachusetts (outside of Boston) and Vermont, and down more modestly or flat elsewhere in the District. House price appreciation slowed on average but remained slightly positive, with the exception that home prices in Massachusetts (not including Boston) experienced modest declines from a year earlier. The modest price growth in the Boston area marked a reversal of trend from the preceding few months. Contacts anticipated that, despite healthy buyer demand, home sales would likely experience only a modest seasonal increase moving forward, owing to extremely low inventory levels. ■

For more information about District economic conditions visit:  
[www.bostonfed.org/regional-economy](http://www.bostonfed.org/regional-economy)





## Summary of Economic Activity

Economic activity in the Second District declined at a moderate pace in the latest reporting period. Still, the labor market has remained solid, though the pace of hiring has slowed slightly, and wage growth was little changed. Inflationary pressures have remained persistent, with the pace of selling price increases picking up slightly in the service sector. Supply availability, while still constrained, continued to improve, though goods production was sluggish. Consumer spending continued to increase at a steady clip, and tourism in New York City is nearing pre-pandemic peaks. The home sales market and rental market have been strong, with record-high rents in New York City. Commercial real estate markets were mostly unchanged. Conditions in the broad finance sector continued to worsen. Regional banks reported ongoing tightening in credit conditions and declining loan demand. Amid heightened uncertainty, businesses expect little improvement in the months ahead.

### Labor Markets

Labor market conditions have remained solid, though there have been scattered signs of cooling as heightened uncertainty has made some businesses more cautious. While employment has continued to increase, on net, the pace of hiring has slowed slightly. Moreover, businesses in the construction, transportation, and finance sectors reported a significant decline in employment in recent weeks. Nonetheless, layoffs have generally remained concentrated in large companies outside the region. Though still challenging, it has become slightly easier to find workers—particularly for smaller businesses that have struggled to do so through much of the recovery. Still, a contact at a New York City employment agency indicated that labor demand has remained strong and that recent stress in the banking sector has not had broader impacts in the local labor market. A contact at an upstate New York employment agency noted strong demand for workers with leadership and technology skills. Contacts report that attrition rates remain exceptionally low.

Wage growth has been little changed in the latest reporting period. Although some contacts expressed concern about ongoing increases in New York State's minimum wage, most businesses plan to hire in the months ahead.

### Prices

Inflationary pressures have remained persistent. Businesses reported that the pace of input price increases has held steady in recent weeks, though there has been some abatement in the prices of raw materials such as steel and aluminum. The pace of selling price increases in the manufacturing sector was also little changed, while selling price increases picked up slightly in the service sector and more noticeably among retailers. Businesses generally expect pricing pressures to remain fairly widespread in the coming months.

### Consumer Spending

Consumer spending continued to increase at a steady clip in the latest reporting period. Though spending on travel-related services declined somewhat from exceptionally high levels since the last report, this decline was offset by strong spending at apparel and department stores, hardware and home furnishing stores, and at restaurants and bars. Auto dealers in upstate New York reported that sales of new vehicles increased slightly as inventory continued to steadily improve, while sales of used vehicles softened. With elevated prices and more limited inventory of used vehicles, contacts noted that some consumers have opted instead for a new vehicle.

## **Manufacturing and Distribution**

Manufacturing activity fell sharply in recent weeks, continuing a prolonged period of weakness. New orders and shipments have been erratic but sluggish. Supply availability improved, delivery times shortened somewhat, and inventories declined. Businesses in transportation & warehousing also reported falling activity, while wholesalers saw activity increase. Manufacturing and distribution firms generally do not expect conditions to improve much in the months ahead.

## **Services**

Service sector activity declined moderately in the latest reporting period. Businesses in the personal services sector reported a particularly sharp contraction, while activity reportedly held steady for leisure & hospitality and education & health providers. On balance, businesses in the service sector expect little improvement in the coming months.

Tourism activity in New York City has remained strong and is nearing pre-pandemic peaks. Business travel has continued to pick up, particularly domestic travel, despite competition with destinations in warmer parts of the country. For the first time in three years, graduation season has brought many international visitors to New York City. European tourists are returning in large numbers but lags in visa processing have continued to constrain visitors from China and parts of South America. Hotel performance has remained on a strong upward trend, and New York City has had the highest hotel occupancy rates of all the major markets in the country in recent weeks.

## **Real Estate and Construction**

The residential sales market has been strong across the District in the latest reporting period. A New York City-area contact reported that the sales market in and around New York City has picked up strongly in recent weeks after a brief pause in early April due to uncertainty related to stress in the banking sector. After a slow start to the year, housing markets in upstate New York have also started to pick up, with bidding wars and multiple offers becoming more common. Inventory remains exceptionally low and is restraining sales activity in much of the District. A key factor suppressing new listings is the prevalence of homeowners with historically low interest rates on their existing mortgages, reducing the incentive to sell and move.

Residential rental markets have continued to firm. Rents are at all-time records in Manhattan, Brooklyn, and Queens and vacancy rates remain exceptionally low. Rents remain at a high level in much of upstate New York as well. A strong economy and relatively high mortgage rates have pushed some movers to the rental market, boosting demand.

Commercial real estate markets were little changed in recent weeks. Office vacancy rates were steady at elevated levels across the District and rents were mostly flat. New York City's retail market weakened, with increases in vacancy rates and rents trending down. By contrast, vacancy rates remained at low levels in the industrial market and rents trended up modestly, except in northern New Jersey, where vacancy rates increased somewhat.

Overall, construction contacts reported that conditions continued to weaken since the last report. 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 activity was little changed across the District, with some new space coming to market in the second and third quarters of this year. Multi-family residential starts increased in New York City and parts of upstate New York but remained weak elsewhere.

## **Banking and Finance**

Conditions in the broad finance sector continued to worsen in recent weeks at a similar pace to the last reporting period. Small to medium-sized banks reported lower loan demand across all loan segments, including refinancing. Credit standards tightened for all loan types, and loan spreads continued to narrow. Most banking contacts reported higher deposit rates. Delinquency rates increased on all mortgage and loan types.

## **Community Perspectives**

Community leaders reported that heavy congestion and long commute times make transportation difficult for many people, particularly those living in the New York City area. Employers noted that transportation is especially challenging for lower-wage workers, who often face extended travel times. Though hybrid working arrangements have reduced the number of workers commuting to city centers in the region, there has been an influx of younger remote workers residing in these areas to take advantage of urban amenities and conveniences. ■

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



## Summary of Economic Activity

On balance, business activity in the Third District continued to decline slightly. Although the consumer sector appeared to be growing, contacts suggest that higher sales, in part, reflect inflated prices rather than volume. High interest rates are limiting listings of existing homes for sale, which has helped new home builders. Employment edged up as labor availability improved. Wage growth and inflation continued to subside. Wages continued to grow within a modest range, while inflation cooled to a modest range for the first time since early 2021. Overall, contacts reported far fewer supply chain disruptions – instead noting that many sectors of the economy are enjoying unusually high profit margins. Contacts continued to note tighter credit standards, although credit quality remains very good. On balance, most firms noted no evidence of a recession, and most expect modest economic growth over the next six months. However, current sentiment is quite negative, as contacts worry about banking sector woes and the debt ceiling crisis.

### Labor Markets

Employment appeared to edge up after holding steady during the prior period. Contacts noted relatively few layoffs and observed that when layoffs or plant closings occur, other firms scoop up the workers. Most firms reported that labor availability continued to improve. A leisure firm noted shortages remain for housekeeping staff and cooks, but that was true before the pandemic.

In our monthly surveys, employment grew slightly as the share of nonmanufacturing firms that reported an increase in full-time jobs rose. This was offset, in part, by a rising share of nonmanufacturing firms reporting a decline in part-time jobs and by a rising share of manufacturing firms reporting a decline in overall jobs. Staffing firms confirmed that the demand for labor continued to be positive but had softened; clients are seeking more permanent placements rather than temporary positions.

Firms reported that wage inflation remained at a modest pace overall but continued to slowly subside. Moreover, firms expected worker compensation to subside further over the coming year. A construction contact noted that wages rose about 2.5 percent for basic trades and about 4 percent to 5 percent for specialty trades.

In our monthly surveys, the distribution of nonmanufacturing firms reporting higher or lower wage and benefit

costs per employee was typical of the pre-pandemic era, when modest wage growth prevailed.

On a quarterly basis, firms' expectations of the one-year-ahead change in compensation cost per worker fell to a trimmed mean of 4.6 percent in the second quarter of 2023, from 5.2 percent in the first quarter (and from a peak of 5.8 percent in the third quarter of 2022). Expectations averaged 3.2 percent prior to the pandemic. Expected compensation growth was essentially the same for manufacturers and nonmanufacturers.

### Prices

On balance, inflation subsided into a modest range – edging down from the moderate pace observed since October 2022. Moreover, reports of price increases were generally less widespread; however, expectations of future price hikes held steady this period.

Contacts reported that increases in prices received for their own goods and services over the past year were significantly lower in the second quarter of 2023 than in the first quarter. The trimmed mean for reported price changes as indicated by responses to our quarterly survey questions fell to 4.6 percent from 6.0 percent for all firms. Price increases fell to 3.7 percent from 4.7 percent among nonmanufacturers and fell to 5.8 percent from 7.8 percent for manufacturers. Reported price increases had

peaked during 2022 at 5.6 percent for nonmanufacturers and at 10.7 percent for manufacturers.

In our monthly surveys, reported increases in prices paid and received were significantly less widespread than one year ago. While the price indexes remain somewhat elevated for nonmanufacturers, among manufacturers, the prices paid index is well below its nonrecession average and the prices received index is negative.

Looking ahead one year, the increases that firms anticipated in the prices for their own goods held at a modest rate – the trimmed mean for all firms remained at 4.0 percent in the second quarter of 2023. It has fallen from a peak of 5.9 percent in the fourth quarter of 2021. The expected rate of growth remained at 3.9 percent for nonmanufacturers and near 4.1 percent for manufacturers.

## Manufacturing

Manufacturing activity declined modestly – rebounding from a moderate decline in the prior period. The index for new orders rose from the last period but was negative for the 12th consecutive month. The shipments index also rose but remained slightly negative.

Contacts reported a mix of positive and negative perspectives for current activity and for expectations. Some firms noted that their recent growth reflected the easing of the supply chain problems that constrained their output last year. Several large firms with extensive linkages to the broader economy reported steady or improving demand and no signs of a recession.

## Consumer Spending

Consumer spending held steady, at best. One retailer reported strong sales, although underlying volumes may have softened. Several contacts noted that their suppliers or their competitors are maintaining high profit margins – that competition has not emerged to drive prices down for the consumer. Auto dealers reported a modest increase in sales as new car inventories grew. However, the mix is weighted toward high-margin cars, including expensive electric vehicles. Consumer reticence has prompted an increase in incentives.

Tourism contacts continued to report slight growth – noting that the recovery was leveling out. Business travel and urban destinations continued to recover, while leisure travel and resort locations were flattening.

## Nonfinancial Services

On balance, nonmanufacturing activity appeared to decline modestly for most of the reporting period, and then late-arriving reports began to show a slight uptick in new orders and sales or revenues. Many contacts expressed concerns about the debt ceiling and prospects

for a recession, but few reported signs of a recession. Expectations for growth over the next six months have risen.

## Financial Services

The volume of bank lending (excluding credit cards) continued to grow moderately during the period (not seasonally adjusted) – faster than the modest growth observed in the same period last year.

During the period, District banks reported strong growth in home mortgages, auto loans, and commercial and industrial loans. The latter two segments represented a rebound from much weaker growth in the prior period in the wake of two prominent bank failures. Other consumer loans and commercial real estate lending grew modestly, while home equity loans were flat.

Credit card volumes rose modestly after holding steady last period, but the pace was slower than the moderate growth during the same period last year – a potential sign of an ongoing pullback in consumer spending.

Banking contacts reported good credit quality – noting only small upticks in loan delinquencies, which remain at very low levels. In the wake of recent bank failures, most contacts expressed concern about a credit crunch resulting from increased caution, whether from internal policies or external regulatory oversight. One contact described a one-page list of regional banks that had shut off the tap for new loans.

## Real Estate and Construction

According to contacts, high interest rates have continued to dissuade existing homeowners from listing their house and losing their low interest rate. Existing home sales fell moderately, and prices resumed rising as the market heated up again. New home builders benefited with unseasonably modest sales, as the resale market slowed.

Market participants in commercial real estate reported a slight uptick in construction activity but noted that the pipeline for future work continues to diminish. Leasing activity fell moderately as weakness in the office market continued to emerge. ■

For more information about District economic conditions visit:  
[www.philadelphiafed.org/regional-economy](http://www.philadelphiafed.org/regional-economy)



## Summary of Economic Activity

Fourth District contact reports suggested little change in aggregate business activity, though conditions continued to vary by sector. Retail sales were relatively flat as a seasonal uptick in consumer services spending, such as at restaurants and tourist locations, was offset by weaker goods spending. Some manufacturing and freight contacts suggested that customers were drawing down inventories, a situation which constrained demand for their own goods and services. Housing markets stabilized with the start of the peak sales season. However, interest rates remained elevated and were reported to be constraining nonresidential construction. Bankers noted declines in commercial and consumer lending. A majority of contacts expressed some concern about the impasse in Congress over raising the debt ceiling, but, on balance, this issue did not appear to alter their expectations for business activity in the near term. Employment was stable in recent weeks. Wage growth remained elevated, particularly for bankers and manufacturers troubled by persistent hiring challenges. Nonlabor input cost pressures and price pressures changed little in recent weeks.

### Labor Markets

Employment was stable in recent weeks. Some manufacturing and construction firms reported delaying hiring because of economic uncertainty, while others were reducing “noncritical” staff to cut costs in preparation for future softer demand. In contrast, leisure and hospitality contacts reported a seasonal increase in staffing, as did one manufacturing contact who also mentioned that hiring was less difficult than in the recent past. That said, hiring remained challenging for many firms across industries. Most firms generally planned to hold headcount steady in coming months.

On balance, wage pressures changed little from those in the prior period. In banking and manufacturing, where hiring difficulties persisted, contacts continued to raise pay to attract and retain workers. However, several contacts were holding wages steady because hiring had become less difficult, while others mentioned that wage increases were no longer sustainable. One manufacturer was considering a one-time bonus rather than a pay increase to keep workers “happy and loyal” without embedding long-term labor-cost increases.

### Prices

Nonlabor input cost pressures changed little in recent weeks. Manufacturers and retailers reported relief from increasing input costs, in particular for fuel, freight, and some raw materials. By contrast, contacts highlighted

higher costs for steel and utilities and for electronics and electrical equipment that have been in short supply. Multiple contacts said that costs for business services continued to increase, and some posited these increases were linked to higher labor costs. On balance, contacts expected similar nonlabor input cost pressures to persist in coming months.

On balance, selling-price pressures were relatively unchanged, as well. Some contacts raised prices modestly to account for higher input costs, while others raised prices simply because strong demand allowed for it. One nonresidential builder said, “We’re working to be as opportunistic as we can be.” However, some manufacturers and restaurateurs reported that increased price sensitivity from customers limited their ability to raise prices. Multiple freight haulers reported a drop in rates because of weakened demand.

### Consumer Spending

Consumer spending was mostly unchanged from that of the previous reporting period, though activity varied by sector. The arrival of spring boosted sales for tourist attractions and restaurants, with some restauranteurs describing better activity year over year. However, non-auto retailers generally experienced weaker sales. One department store contact reported a sharp sales decline in his stores that he said had “worsened throughout March and April.” Another contact suggested that some



retailers had begun “reducing future orders and current inventory levels” in response to slowing sales. Reports from auto dealers indicated continued pressure on sales because of higher interest rates, historically high vehicle prices, and an ongoing lack of manufacturer incentives. Industry contacts generally expected consumer spending to remain soft in the coming months.

### **Manufacturing**

Overall demand for manufactured goods was relatively stable. Demand remained strong for aerospace-related products and heavy trucks and trailers, and some manufacturers reported benefitting from an increase in international orders. Multiple contacts reported that slower end-market demand had resulted in fewer orders for their products as their customers sought to rein in inventories. One manufacturer indicating weaker demand said that customers were still “working off excess inventory stockpiled during pandemic.” On balance, however, manufacturers expected demand to remain stable in the months ahead.

### **Real Estate and Construction**

Demand for residential construction and real estate stabilized, and contacts attributed this stabilization to the arrival of spring and to flattening interest rates. One homebuilder indicated that potential homebuyers had been afraid that rates would continue to rise before they could close on a home, but the recent stabilization of rates had helped to increase activity. A couple of homebuilders reported an increase in speculative construction projects because many individuals want to purchase and move into homes immediately, in part to avoid further rises in interest rates.

Nonresidential construction and real estate activity softened on balance. One general contractor noted that clients have started to “put the brakes” on projects because of high interest rates and general economic uncertainty. Several commercial real estate brokers also noted that elevated interest rates were negatively impacting leasing activity. However, a contact who specializes in industrial space indicated there had been an increase in construction activity from manufacturing clients in recent weeks that he attributed to an uptick in reshoring projects.

### **Financial Services**

Overall, loan demand continued to decline this reporting period. Bankers posited that increased interest rates along with economic uncertainty contributed to a slow-down in borrowing from households and businesses. One lender suggested that small businesses were beginning to use available cash in lieu of borrowing because

of high rates. Delinquency rates remained low; however, one banker indicated that he expected delinquencies to increase in coming months. Core deposits continued to decline for a variety of reasons, most notably because of deposit-rate competition. Looking forward, bankers expected loan demand to weaken further in the coming months.

### **Nonfinancial Services**

Freight activity remained relatively weak this reporting period. One logistics company contact said that the persistent weakness was because many “customers have ‘paused’ projects and inventory builds.” Moreover, haulers anticipated that demand would remain soft in the months ahead. Overall, professional and business services contacts reported slower growth. A management consultant mentioned that clients were pulling back on spending as economic uncertainty grows. Looking forward, contacts anticipated that demand would decline in the coming months.

### **Community Conditions**

Nonprofit contacts indicated that housing affordability remained a challenge and had recently worsened for low- and moderate-income households. Contacts cited rising housing costs, low inventory, and purchases by institutional investors as factors contributing to the affordability issue. A community stakeholder reported that two outside investors purchased more than 500 units of affordable housing in one community, and the residents, all of whom were low-income tenants, were asked to vacate the property with minimal notice. Another contact reported that all-cash transactions limited access to first-time homebuyers, particularly those looking to purchase homes in lower-priced markets. To help counter these trends, one public agency acquired more than 190 properties from a private investment company and was recently working with renters to keep the units as affordable housing. ■

For more information about District economic conditions visit:  
[www.clevelandfed.org/en/region/regional-analysis](http://www.clevelandfed.org/en/region/regional-analysis)



## Summary of Economic Activity

Economic activity in the Fifth District was little changed, on balance, in recent weeks. Manufacturing activity was unchanged as new orders from retailers softened while orders from industrial clients were strong. District ports saw a moderate decline in total volumes as import activity fell; however, export volumes held strong. Trucking firms also reported declines in demand and shipping rates and put a pause on hiring as a result. Retail spending declined slightly overall, although some goods categories saw gains. Consumer spending on travel and tourism, on the other hand, increased moderately. Residential real estate activity picked up slightly amid historically low levels of existing home inventory. New home sales slowed, however, and builders offered incentives to close deals. Commercial real estate activity declined modestly, but some segments such as medical, industrial, and retail leasing remained strong. Overall, loan demand declined across commercial loan types, deposit levels declined, and delinquencies rose but were still near historically low levels. Meanwhile, nonfinancial services saw modest growth in demand and steady revenue growth. Employment rose modestly amid a tight labor market; however, wage growth moderated. Inflation remained high despite a slight slowdown in the pace of price growth in recent weeks.

### Labor Markets

Firms continued to grow their employment levels modestly over the most recent reporting period. Several firms reported having multiple open roles they were not able to fill due to a tight labor market. A textile manufacturer was struggling to hire the “next generation” of workers to replace retiring workers, as the average age of new hires is in the fifties. Many other firms, on the other hand, were adequately staffed and held employment levels unchanged. Firms reported already having gotten through their large wage increases and are feeling okay with the current level of moderate wage growth. A craft beer manufacturer reported that wage growth, although still somewhat high for the skill set of workers, has stabilized from last year.

### Prices

Price growth eased slightly in recent weeks, but overall inflation remained elevated. According to our surveys, year-over-year growth in prices received by services slowed slightly while growth in prices received by manufacturers was little changed. In both sectors, price growth remained well above historical levels. A small appliance manufacturer, however, said that costs had fallen as shipping costs from China returned to pre-covid levels. As a result, combined with pressure from big box retailers that were looking to cut prices to consumers, the firm was lowering its prices.

### Manufacturing

Manufacturing activity was mixed in the most recent reporting period. Finding and retaining workers remained a significant concern. A packaging manufacturer purchased two pieces of equipment so they could grow their business through productivity-enhancing technology rather than with new employees. A steel manufacturer increased the frequency and amount of bonus payments to maintain a stable workforce. New orders, on balance, were down compared to the previous reporting period. Several contacts reported that their clients had excessive inventory, resulting in lower levels of business. Contacts reported that retailers have “right sized” their inventory levels, resulting in new orders returning to pre-pandemic levels.

### Ports and Transportation

Fifth District ports reported a moderate decline in loaded import volume this period. Imports of consumer goods and automobiles were down. However, with the growth of investments in manufacturing, there was an increase in imports of machinery and parts. Loaded export volumes were strong and mainly driven by agricultural products and lower value commodities, as well as rolling stock. Container dwells have shortened dramatically and there were no issues with empty containers causing backups at the port. Spot rates were low relative to the



last two years, but transatlantic spot rates are still slightly above their pre-pandemic level mainly due to some blank sailings and carriers removing capacity. There was a return of some purchasing power back to the shipper.

Trucking firms reported a sharp decline in freight volume this period with excess capacity in the system. Respondents indicated that there was a freight recession, and it was more difficult to find loads. Weakness in demand was primarily in consumer and industrial segments. Spot prices have declined primarily due to more price sensitivity by shippers and competition for freight. Consequently, trucking firms stated that they had implemented a pause in hiring and were anticipating decreasing the number of drivers by attrition. Trucking firms also said that the supply chain had improved with better availability of equipment and parts.

### **Retail, Travel, and Tourism**

Retail spending softened slightly, on balance, but sales growth varied by market segment. For example, a couple of furniture stores said sales were down because home sales were low. Additionally, sales were reportedly down for some consumer durables—like household appliances, sports equipment, toys, and games—whereas some apparel and cosmetic products sales were up. Retailers continued to work down inventories and were hesitant to make new orders.

Travel and tourism increased moderately this cycle. Hotel performance remained strong with increased room nights sold and strong revenue per room amid continued, but slight, room rate growth. Sports and entertainment venues also reported increased demand and steady revenues in recent weeks.

### **Real Estate and Construction**

Residential real estate respondents indicated that the spring market was off to a good start with sales prices continuing to appreciate but not at the same pace as last year. Inventory of homes for sale remained constrained due to a fewer people putting their homes on the market after locking in a low interest rate during the pandemic. Buyer traffic was steady and days on market increased slightly in the last month. However, fluctuations in mortgage interest rates caused buyers to pull back, with pending sales and closed sales both down this period. Builders were offering strong incentives to close deals. Some residential renovation firms noted a steady decline in closing sales due to the cost of those services and the consumer's lack of funding.

Overall commercial real estate market activity slowed in the last month, except for retail, medical and industrial/

flex space leasing, which remained robust. Class A office vacancy/subleases increased this period in most markets. Rental rates remained flat; however, landlords were offering higher incentives and/or concessions to potential credit tenants. Respondents stated there was very little new construction activity and limited credit availability for commercial real estate deals, especially in the office sector. Additionally, respondents cited some cases of commercial real estate loan defaults. Commercial contractors noted a continued shortage of labor despite increased wages. As well, they reported that requests for new work had slowed down considerably.

### **Banking and Finance**

Loan demand was down slightly across all commercial loan types, including commercial real estate, where rising interest rates and increased underwriting scrutiny kept growth muted. Consumer lending continued to be stable, with moderate demand for both new and used auto loans. Deposit levels continued to drop but have started to stabilize. Institutions noted that they were working closely with customers to maintain deposit balances and tailoring products to meet their needs due to rising rates and increased competition in the overall marketplace. Loan delinquencies continued to rise, but at rates that were still near historically low levels.

### **Nonfinancial Services**

Nonfinancial service providers reported modest growth in demand for their services and stable revenues. Firms continued to work through their backlogs and backorders of work, and they noted those streams were what was keeping revenues stable for now. Firms continued to struggle with finding qualified employees and noted the labor markets were still “tight”, even with large technology firms announcing layoffs. They also noted that external costs continued to rise as well. One respondent noted that the future has never been “so foggy and murky” for their firm as well as their customers when it comes to expected revenues and growth. ■

For more information about District economic conditions visit:  
[www.richmondfed.org/research/data\\_analysis](http://www.richmondfed.org/research/data_analysis)



## Summary of Economic Activity

Economic activity in the Sixth District grew at a slow pace from April through mid-May. Labor markets, while still tight, eased, reducing wage pressures. Nonlabor costs stabilized, on net, though property and liability insurance premiums rose. Low- to moderate-income consumers showed further signs of declining household financial health. Retail sales continued to moderate as consumers traded down; new auto sales were solid. Leisure travel softened, but business travel continued to rebound from pandemic levels. Demand for housing was strong even amid interest rate fluctuations. Commercial real estate conditions were mixed. Transportation activity weakened. Activity in the energy sector was robust. Agriculture conditions softened.

### Labor Markets

Sixth District contacts reported that labor markets remained tight, but pressures have eased since late last year. Most firms continued to backfill open positions; however, some noted that weaker demand for products and services was slowing the pace of hiring. Several contacts noted they were increasing hiring standards. The majority of firms indicated that most positions were easier to fill, and retention had improved. Some challenges filling certain roles persisted; labor shortages varied from market to market but were most acute in South Florida, where housing availability and affordability were cited as limiting the pool of candidates.

Most contacts reported that wage pressures continued to ease, and the pace of increases was expected to moderate. However, wage pressure remained elevated for certain positions, particularly for skilled labor and those in retail/warehouse, accounting, and nursing.

### Prices

Nonlabor costs were largely reported as stabilizing over the reporting period. Construction inputs, particularly steel and other metals, moderated; freight and container costs were reported as back to pre-pandemic levels. Some contacts reported declining food costs. Various retailers implemented discounts amid slowing foot traffic and price pushback from consumers. Property and liability insurance costs rose markedly for firms in coastal areas threatened by storms. The Atlanta Fed's Business Inflation Expectations survey showed year-over-year unit cost growth at 3.5 percent, on average, in May, unchanged from April. Firms' year-ahead inflation expecta-

tions were also relatively unchanged at 2.9 percent in May from April's 2.8 percent.

### Community Perspectives

Workforce training providers and banking contacts who serve low- and moderate-income individuals continued to see signs of declining household financial conditions. Regional bankers observed that consumer financial stress had intensified from a period of higher savings as delinquencies returned to pre-pandemic levels. While some employers noted slightly lower staff turnover, workforce development contacts affirmed that workers continued to leave jobs in search of higher wages to offset rising expenses, especially housing. Others said workers continued to report a need to work from home to cope with household demands. Some owners of small businesses who previously relied on traditional banks for loans, faced credit constraints, leading them to turn to Community Development Financial Institutions for financing.

### Consumer Spending and Tourism

While consumer spending was still above pre-pandemic levels, District retailers reported some softening of sales since the previous report. Consumers continued to trade down and remained cautious with discretionary spending. Restaurants facing labor shortages continued to limit menu options or hours of operation. Automobile dealers reported further improvements in inventory levels along with continued strong demand for new and used vehicles.

Travel and hospitality contacts noted persistent strong demand, and activity was described as normalizing from

2022 peaks. Leisure and business travel rebalanced back toward the pre-pandemic mix as demand for leisure travel softened, and business travel improved. Contacts expect further stabilization throughout the remainder of the year.

### **Construction and Real Estate**

Housing demand throughout the District remained strong despite interest rate and home price volatility. Though below year-ago levels, home sales in many markets increased on a monthly basis as buyer sentiment modestly improved. The supply of existing homes for sale remained low as homeowners showed increased hesitancy to list homes for sale, especially if they had financed at a low interest rate. Home prices remained down from peak levels but have recently shown month-to-month improvement. New home builders have responded to inventory shortages by increasing speculative inventory production and some have begun to reduce buyer incentives.

Commercial real estate (CRE) conditions were mixed. The industrial sector remained healthy, while office, multifamily, and some segments of retail, slowed. Some contacts reported increasing expenses, especially property insurance, as an area of heightened concern. An increasing number of contacts reported worries about the availability of financing as some lenders reduced funding commitments and increased underwriting standards. Most CRE contacts noted increasing uncertainty and declining property values as a significant industry headwind.

### **Transportation**

Demand for transportation services softened, on balance, over the reporting period. Trucking contacts noted significant year-over-year declines in freight volumes and revenue amid what some referred to as a “freight recession.” Activity in the warehousing sector remained robust; however, warehouse development transaction volumes fell substantially. Ocean carriers reported lower container import volumes as retailers worked to deplete elevated inventory levels. Inland barge companies reported stable demand. Transportation contacts’ outlooks were mixed, but several downside risks were cited, including the potential for weaker consumer spending, rising interest rates, and persistent inflation.

### **Banking and Finance**

Liquidity remained a top concern for financial institutions over the reporting period. Continuous variations in interest rates, along with some deposit flight to higher-yielding alternatives, put stress on liquidity. Financial institutions reported that the fair value of securities portfolios continued to stabilize but unrealized losses remained elevated compared with pre-pandemic levels.

District banks also reported ongoing commercial real estate loan growth, albeit at a slower pace. Shifts in commercial real estate property values raised additional concerns about increasing credit risk as financial institutions began reevaluating the collateral values of underwritten loans.

### **Energy**

Energy contacts reported continued robust activity in liquefied natural gas expansion projects, power infrastructure, clean energy manufacturing, and crude oil production. Global demand for oil and natural gas was steady over the reporting period. Contacts reported that crude oil and finished products refining continued at a high rate. Utility providers described growth across sectors, including strength in the industrial segment due to electric vehicle manufacturing, data center development, and plant expansion projects across the Gulf Coast, as well as sustained growth in residential from in-migration to the Southeast.

### **Agriculture**

Agricultural conditions softened since the previous report. Demand for cotton remained weak, leading many farmers to plant less cotton than last year. Cattle demand was strong. Producers of poultry meat continued to struggle as limits on exports resulting from Avian Flu concerns have led to over-supply domestically. Domestic egg demand remained high. Dairy consumption declined. Demand for citrus remained strong amid lower production. ■

For more information about District economic conditions visit:  
[www.atlantafed.org/economy-matters/regional-economics](http://www.atlantafed.org/economy-matters/regional-economics)



## Summary of Economic Activity

Economic activity in the Seventh District was little changed overall in April and early May. Contacts generally expected slow growth in the coming months, though many expressed concerns about the potential for a recession over the next year. Employment increased moderately; nonbusiness contacts saw a small increase in activity; consumer and business spending were flat; and activity decreased modestly both for manufacturing and for construction and real estate. Prices and wages rose moderately, while financial conditions tightened modestly. Expectations for farm incomes in 2023 decreased some.

### Labor Markets

Employment increased moderately over the reporting period and contacts expected a similar rate of growth in the coming year. Many contacts continued to have difficulty finding workers, especially when hiring for skilled trades positions. However, more contacts said that hiring had become easier or that they were fully staffed. Wages and benefit costs rose moderately, with several contacts noting continued wage pressures.

### Prices

Prices rose moderately in April and early May, and contacts expected a similar rate of increase over the next 12 months. Producer prices increased modestly, with contacts highlighting higher costs for some raw materials and for energy. However, several contacts said that growth in many raw materials prices had slowed. In addition, a number reported that increases in shipping costs had slowed noticeably, particularly for trucking and ocean freight. Consumer prices generally increased due to solid demand and the passthrough of higher costs. That said, a retail industry observer said price growth was moderating across categories.

### Consumer Spending

Consumer spending was unchanged on balance over the reporting period. Nonauto retail sales were flat, as

strong demand for essentials was offset by relatively weak spending on discretionary items. For example, contacts highlighted solid demand for groceries and household items, but lower sales of furniture and jewelry. Unseasonably cool weather reportedly hurt lawn and garden sales. Light vehicle sales increased slightly. Several vehicle dealers said that high prices were putting a damper on demand. Leisure and hospitality spending fell slightly—notably sales at restaurants were down—but overall activity remained at a high level, with contacts reporting strong spending on cruises and at travel agencies.

### Business Spending

Business spending was little changed overall in April and early May. Capital expenditures increased slightly, with several contacts reporting purchases of new software. Transportation demand edged down, and one contact noted that truck freight activity had slowed enough that some trucking capacity was no longer on the road. Demand for industrial, commercial, and residential energy decreased slightly. Inventories for most retailers were a bit above desired levels. In manufacturing, inventories stayed slightly elevated, and many contacts indicated that they were no longer experiencing supply chain disruptions.

## Construction and Real Estate

Construction and real estate activity declined modestly on balance over the reporting period. Residential construction activity was down modestly. Contacts reported that high interest rates had led some projects to be postponed or cancelled, and that while construction costs had fallen, the decline wasn't enough to offset higher financing costs. Contacts in the multifamily sector were more sanguine, noting that many projects were moving forward despite tighter financial conditions. Residential real estate activity decreased modestly. Prices and rents declined, and contacts said that the low inventory of homes for sale helped prevent larger declines. Nonresidential construction moved down slightly, though warehouse building remained a bright spot. Contacts also noted that school construction was robust, supported both by American Rescue Plan funding and the passage of state and local referendums. Commercial real estate activity decreased moderately, with contacts pointing to high interest rates as a key factor behind the slowdown. Prices and rents were down, and the availability of sublease space increased. However, there were reports of rising retail rents in some areas because of a lack of high-quality new construction.

## Manufacturing

Manufacturing demand decreased modestly in April and early May. Manufacturing backlogs were down moderately, and inventories were slightly elevated. Contacts reported fewer supply chain problems, though some items were still difficult to find. Steel orders increased slightly. One contact noted that steel service center inventories were low, in part because high interest rates made it expensive to hold inventory. Fabricated metals orders were down modestly, with contacts pointing to the aerospace and construction sectors as reasons for the decline. Machinery sales were down slightly, and contacts also cited weaker demand from the aerospace sector. Auto production was steady on balance.

## Banking and Finance

Financial conditions tightened modestly over the reporting period. Bond and equity market participants saw little change in asset values or volatility. Business loan demand was flat overall, though one banking contact noted that clients manufacturing or selling discretionary consumer items had increased their credit line utilization in response to lower demand. Loan quality deteriorated some, but a few contacts noted that delinquencies remained below pre-pandemic levels. Business lenders reported slightly tighter standards, while borrowers said that credit conditions had tightened moderately. In the consumer market, new loan demand decreased slightly,

with contacts highlighting a slower mortgage market. Consumer loan quality was flat, while standards tightened slightly.

## Agriculture

Expectations for Seventh District farm incomes in 2023 fell some as prices for key products moved lower. Corn and soybean prices decreased, as rapid fieldwork and planting progress heightened expectations for a large harvest. Soft red wheat prices remained weak, but hard wheat prices rose due to drought affecting much of the U.S. wheat crop and uncertainty surrounding another extension of the agreement allowing exports out of Ukraine. There were lower prices for eggs and dairy products, especially cheese. Hog prices increased from a low level and cattle prices moved higher. In light of higher interest rates, contacts expected farmers to conserve working capital to minimize the need to take out farm operating loans. There were reports of slower farm machinery sales but also shortages of some types of equipment. Prices for farmland were higher again as demand remained solid and inventories of farms for sale were limited.

## Community Conditions

Community development organizations and public administrators reported a small increase in overall economic activity in April and early May. State government officials said tax revenue continued to grow but at a slower pace. Unemployment insurance claims remained low, though one contact noted a rise in claims from workers at temporary help firms. Demand for social services was elevated; contacts said that the need for food assistance had been exacerbated by the recent end of Covid-19 benefits. Tight labor market conditions were again a challenge for small businesses and community-serving organizations, as employees were reportedly willing to change jobs for modest increases in pay and were less swayed by benefit options. Elevated interest rates continued to be a factor limiting the supply of affordable housing. ■

For more information about District economic conditions visit: [chicagofed.org/cfsec](http://chicagofed.org/cfsec)





## Summary of Economic Activity

Economic conditions have remained unchanged since our previous report. Contacts continued to report difficulty hiring workers, but generally had a slightly easier time finding and retaining workers. Wages and other input costs increased modestly, which led to margin compression, as firms were unable to pass on these cost increases as sales prices. Consumer spending was mixed: Some firms noted they had lowered expectations due to weaker overall economic conditions while others were limited by their ability to meet strong demand due to labor shortages and supply chain issues. The residential real estate sector was largely unchanged, but commercial real estate contacts reported softer sales and concerns over looming vacancy and debt issues. Banking contacts noted loan demand softened and delinquencies continued to tick up. Overall, the outlook was slightly weaker due to concerns about future demand and broader concerns about weakening macroeconomic conditions in the second half of the year.

### Labor Markets

Employment has improved slightly since our previous report. Unemployment rates remained low, and hiring and retaining workers has remained a challenge in several industries. However, more contacts have been reporting an ability to hire and retain workers to meet demand over the past few reports. A healthcare contact in Louisville reported that the labor market has improved to where only lower paid jobs are left to fill, and a St. Louis startup reported that they have been able to hire new talent more quickly than was the case a year ago.

Wages have grown slightly since our previous report. A majority of contacts reported an overall net increase in wage costs. Agriculture contacts in Memphis reported wages were still rising, and financial services contacts in St. Louis had an increase in wages for employees and in overall labor costs.

### Prices

Prices have increased modestly since our previous report. Half of District survey respondents reported higher or slightly higher prices since the first quarter, 31% reported similar prices, and 19% reported lower or slightly lower prices. These responses appear to be driven by increasing input costs, with over three-fourths of respondents reporting higher or slightly higher nonlabor

costs and a similar share reporting higher or slightly higher labor costs. Just under half of survey respondents projected that third quarter prices will be higher than in the previous year. Respondents reported that consumers continued to become more price sensitive, which prevented businesses from fully passing on increasing costs to consumers. A contact in the automobile industry reported that wage pressures, higher interest rates, and increased inventories industry-wide have decreased profit margins. A contact in the retail industry reported softening demand due to higher prices, causing them to lower prices and decrease their margins.

### Consumer Spending

General retailers, auto dealers, and hospitality contacts reported mixed business activity and a slightly weaker outlook. April real sales tax collections increased in Kentucky, Missouri, and Arkansas relative to March and decreased in West Tennessee. Retailers in Memphis noted that business activity met their expectations; however, they had lower expectations for future business activity due to rising interest rates and broader economic uncertainty due to the looming decision on the debt ceiling. A St. Louis auto dealer reported that business activity was relatively unchanged from the previous month and noted that they have lowered expectations for upcoming sales because they do not have enough prod-

uct to meet demand. Restaurants in Little Rock that were impacted by the tornado at the end of March were preparing to start reopening. According to contacts, economic activity linked to the Kentucky Derby rose more than 10% from the previous year, and contacts estimated that the event surpassed pre-pandemic numbers.

### **Manufacturing**

Overall, manufacturing activity has slightly increased since our previous report. Firms have reported moderate increases in new orders, while production has moderately increased for firms in Missouri and modestly decreased for firms in Arkansas. Relative to last year, average work hours have risen and wages have increased by over 5%. Contacts reported that retaining workers also remains an ongoing issue. On net, firms expect slight increases in productivity, capacity utilization, and new orders, but a minority are concerned about weakening demand going forward.

### **Nonfinancial Services**

Activity in the nonfinancial services sector has remained stable since our previous report. Air traffic remained stable, and a transportation contact in the St. Louis region reported that their clients' desires to replenish shrinking inventories have led to higher demand for transportation and logistics services. Transport contacts reported delaying capital investment projects due to increased labor and input costs. Healthcare contacts reported that conditions worsened due to increased input costs and lower-than-expected sales.

Investment in workforce education and development by both nonprofit and for-profit firms increased across the District. In the St. Louis region, an energy firm invested in summer programs for high school students to provide them with training in the hope they would return as full-time employees in the future. In the Little Rock region, universities received grants from local businesses to invest in manufacturing, engineering, automation, design process, and technology programs, and a nonprofit-run education and community center began offering classes, transportation, and childcare for adults to earn high school diplomas and receive career services.

### **Real Estate and Construction**

The residential real estate market has remained unchanged since our previous report. Rental rates for residential real estate increased slightly. The number of new listings in residential real estate has dropped sharply in Louisville since our previous report, while new listings in the Memphis and Little Rock regions have remained unchanged. Seasonally adjusted home sales have remained unchanged since our previous report.

Residential real estate contacts reported that sales met expectations in recent months.

Commercial real estate has slowed slightly since our previous report. One commercial real estate contact reported concern over "shadow vacancies" – offices that are still leased due to longer-term leases, but not actually used due to remote work. The contact expressed concern that the majority of the leases on these office spaces will not be renewed. Construction contacts were most worried about shortages of labor, followed by a slowdown in demand for new projects. A majority of construction and commercial real estate contacts reported sales falling short of expectations.

### **Banking and Finance**

Banking conditions in the District have remained unchanged since our previous report. Contacts surveyed reported that overall loan demand across all loan types softened in recent months. Contacts expect loan demand to further weaken in the upcoming quarter and noted recent increases in consumer credit use, particularly for everyday purchases, due to higher prices. Meanwhile, high interest rates have held down demand for business credit. Contacts reported that clients have been taking distributions from their portfolios to pay off loans and avoid new borrowing. Credit standards were largely unchanged from the previous quarter, but delinquency rates saw a slight uptick, a continuation of an ongoing slow rise over the past several quarters.

### **Agriculture and Natural Resources**

Overall conditions have remained unchanged, but the outlook has weakened slightly since our previous report. Most agriculture contacts surveyed reported that their costs, including labor, have increased, which has contributed to the slightly worsening outlook. The percentage of row crops planted has increased as expected since the previous reporting period and is up slightly from this time in 2022. The progress of acres planted is mixed across the District: Some states, such as Missouri and Illinois, have improved strongly over last year, and the other District states have fared slightly to materially worse. ■





## Summary of Economic Activity

Economic activity in the Ninth District increased slightly since the previous report. Employment grew modestly with some volatility; labor demand remained healthy, but some firms reported significant layoffs. Wage pressures remained high, while price pressures were stable. Growth was noted in consumer spending and manufacturing, and agricultural conditions were solid. Commercial construction was flat and commercial real estate activity fell, while residential construction and real estate remained subdued. Minority- and women-owned business contacts reported a slight decrease in activity.

### Labor Markets

Employment grew modestly in the District since the last report, but with some volatility. Overall labor demand remained healthy. Several recent surveys of various sectors and geographies all found strong recent demand for labor. Businesses expected growing demand heading into the summer season but continued to report difficulty with turnover and finding labor. However, there were also some signs of softening labor demand. In April alone, Minnesota saw almost as many mass layoff events as in all of 2022, affecting more than 2,600 workers in total, a greater number than last year.

Wage pressures remained high. A survey of construction firms found that about 35 percent reported wage increases of 5 percent (annually), and a similar share increased wages by 3 to 5 percent. A survey of hospitality and tourism firms found that more than 40 percent gave annual wage increases of 5 percent or more. Firms in both surveys expected some easing in future wage pressures, even though they also reported strong labor demands and a lack of worker availability.

### Prices

Since the last report, additional price pressures were minimal. Just over half of respondents to a Ninth District business conditions survey reported an increase in input prices in April relative to a month earlier, while a smaller share reported increases in final prices for products or goods sold. Most manufacturing contacts reported no change in recent nonlabor input prices, and about a quarter reported a slight decrease. Construction survey respondents indicated a mixed picture for materials

costs, with an overall flattening in the pace of increases over the past three months. Lumber and certain steel prices decreased. Contacts in construction and agriculture reported that heavy equipment prices remained elevated despite some reduction in demand. Retail gasoline prices increased slightly since the last report, while diesel prices declined. Prices received by farmers increased from a year earlier for corn, potatoes, hay, cattle, turkeys, and eggs; prices decreased from a year earlier for soybeans, wheat, milk, hogs, chickens, sugar beets, dry edible beans, lentils, and canola.

### Worker Experience

Workers and job seekers in low- and middle-income households prioritized better pay and benefits as they looked for work, according to a recent survey. Food, gasoline, and household energy costs continued to tighten people's budgets. "Gas is rising to a point where I cannot afford it," shared a South Dakota agricultural worker. A preschool teacher reported that his paycheck was barely sufficient to pay for necessities. He and others in similar situations were looking for second jobs to supplement their incomes. Young migrant workers at a Minnesota milk factory reported working 12 hours a day and having one day off every two weeks. Their hourly wages ranged from \$10 to \$13 for "hard work that others don't want to do." They shared feeling as if they had no freedom because they spent most of their time working and resting for the next day.

### Consumer Spending

Consumer spending rose modestly since the last report. Gross sales in April were flat in South Dakota year over

year, and the Montana accommodation and lodging sector remained strong this spring. Air travel continued to grow at District airports, with several seeing double-digit passenger growth in April compared with last year. An airport contact said that leisure travel “remains very strong,” adding that business travel has continued to recover. A May survey found that Minnesota restaurants continued to see strong patronage, while hotels and entertainment venues reported mostly flat revenues compared with the same period last year. Businesses were optimistic regarding the summer season, particularly among restaurants and entertainment venues. A dealership with multiple locations in the western part of the District reported that new car sales in April were 23 percent higher year over year, thanks mostly to “getting some vehicles out of railyards,” but there remained significant pent-up demand.

### **Construction and Real Estate**

Nonresidential construction activity was flat overall since the last report, with subsectors experiencing some variability. Firms in infrastructure and other heavy construction reported generally stronger activity, in part from federal infrastructure initiatives. Firms in industrial and commercial construction reported some softening. However, increases in project cancellations were seen across the industry, the result of high input prices, higher financing costs, and general uncertainty about the economy. New projects out for bid, as well as project backlogs, were also reported to be lower than this time last year. Smaller firms reported some unwillingness to commit to longer-term projects, or doing so only with elevated work bids, due to the volatility of material costs. On the positive side, supply chains reportedly improved overall, though they have not yet had a material effect on project completion times, in part because of labor shortages. Residential construction remained subdued. Single-family permitting in April was more than 40 percent lower year over year in the Minneapolis-St. Paul region; most other large markets in the District saw even bigger declines. Discounts have started to appear for some speculative developments. A Wisconsin homebuilder said the “majority of the work comes from people who have cash and not from people taking out loans.”

Commercial real estate fell since the last report. Industrial and multifamily markets remained strong, and new construction has slowed recently in both sectors, helping keep vacancy rates low and rents healthy. Office real estate was seeing real strain from continued low levels of worker occupancy. Incentives to retain tenants were common because many were looking to downsize

their office footprint. Those purchasing buildings with debt faced a tightening market for refinancing. Residential real estate remained subdued. Closed sales in April fell notably year over year across the District, with many larger markets seeing declines of 30 to 50 percent. Median sale prices declined in western and central Montana and were flat in several other markets.

### **Manufacturing**

Manufacturing activity increased modestly since the previous report. A regional index of manufacturing conditions indicated that activity expanded in April from a month earlier in Minnesota, North Dakota, and South Dakota. Contacts in agricultural equipment and processing mostly reported growth in recent activity. Other manufacturers gave mixed reports on recent demand, with roughly similar numbers reporting increased or decreased sales.

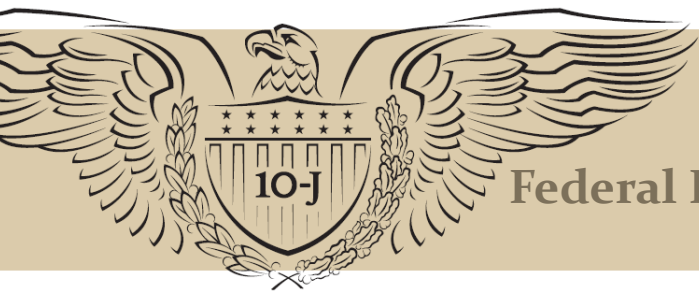
### **Agriculture, Energy, and Natural Resources**

District agricultural conditions were solid heading into planting season. About half of respondents to a survey of agricultural credit conditions reported that farm incomes increased in the first quarter from a year earlier. Lenders noted improvements in liquidity and in the financial condition of producers, but they were concerned about commodity price volatility and rising interest rates. Heavy snow over the winter and persistent cold weather will significantly delay spring planting in some areas, contacts reported. District oil and gas exploration activity decreased slightly since the previous report.

### **Minority- and Women-Owned Business Enterprises**

Minority- and women-owned business contacts reported a slight decrease in activity over the last month. Higher nonlabor input costs were narrowing profit margins for some entrepreneurs, who said that they were hitting a limit in their ability to increase final prices. Compensation was mostly unchanged and finding applicants remained a challenge for those hiring. Entrepreneurs expected to see some improvement in sales but remained wary in their profit forecasts. A contact who provides technical assistance to women entrepreneurs said she has seen an increase in demand for services, including among working mothers. She warned that higher interest rates “scare new entrepreneurs” and presented additional challenges to some who already struggled with financial literacy and access to capital. ■

For more information about District economic conditions visit: [minneapolisfed.org/region-and-community](https://minneapolisfed.org/region-and-community)



---

## Summary of Economic Activity

Total economic activity across the Tenth District changed little during May. Consumer spending at restaurants and for travel picked up in recent weeks, but most contacts did not expect the surge in spending to persist into coming months. Job growth continued to slow. However, the number of job openings remained elevated as businesses indicated they recently became more selective among potential candidates. Worker retention improved substantially, supporting the more cautious recruiting practices among businesses. Prices rose at a moderate pace. Growth in housing rental rates remained elevated in several western District states, but the pace of increases declined broadly and swiftly from the growth rate experienced during the past year. Although many businesses indicated some persistence in their ability to pass on higher costs, they also reported slower expected growth in costs ahead. Corn and soybean prices declined slightly since April based on reports of ideal planting conditions throughout most states and early projections that production could hit record levels due to historically strong yields. Banking customers continued to diversify account balances among multiple banking institutions. Overall, deposit levels remained stable across the District, with continued rotation of balances toward time deposits.

---

### Labor Markets

Although the overall pace of hiring in the Tenth District continued to be modest, most businesses indicated they had just as many, or more, job openings over the past month as they did at the beginning of the year. Contacts indicated they became much more selective in their hiring recently even as the number of applicants increased, partly explaining the disparity between the number of jobs posted and the level of hiring. Contacts reported that worker retention improved further in recent weeks. Several businesses also noted that competition for talent from businesses in different industries became less prevalent recently. Most businesses indicated that some of the slowness in hiring activity was also due to ongoing labor shortages, particularly for skilled workers in jobs with limited education requirements.

Although businesses reported ongoing wage pressures, most contacts indicated they expect the pace of wage growth to slow further during the second half of the year. The reported expectations of moderate wage growth in coming months were a marked downshift compared to the beginning of the year, when businesses had indicated they expected robust wage growth at the same levels they experienced last year.

### Prices

Prices continued to rise moderately across the District. Businesses were mixed in their ability to pass along higher costs to their customers. Regardless, the pace of input price growth slowed broadly, suggesting easing cost pressures. Accordingly, most businesses indicated that price increases for finished products will likely soften over the coming year. Housing rents rose at a moderate pace generally, increasing somewhat faster in western District states. However, rents were growing much more slowly across the District than the accelerated pace witnessed over the previous year. “Since peaking in September of last year, growth in rental rates is returning to the pre-pandemic trend,” one contact reported.

### Consumer Spending

Consumer spending at restaurants, in hotels and at entertainment venues rose at a robust pace in several District cities over the past month. Some of this surge in spending was tied to success of certain professional sports teams, which led to inbound travel and activity for post-season games and for a highly attended player draft event. Notably, both hotel occupancy and daily rates picked up recently. However, several contacts reported that spending for personal care services continued to decline at a moderate pace.

### **Community Conditions**

Organizations serving low-to-moderate income (LMI) communities reported increased demand for their services compared to six months ago. The growth in demand was noted across food assistance, housing assistance, and care economy segments of the non-profit space. As consumer prices have increased, organizations noted clients were more likely to be experiencing depleted savings and high credit card utilization, suggesting LMI populations are struggling to accommodate the recent growth in the costs of living. Non-profit leaders indicated they anticipate adverse effects of tightening credit availability on the communities they serve over coming months.

### **Manufacturing and Other Business Activity**

Manufacturing contacts reported little change in overall production volumes. However, most contacts indicated the number of new orders and the length of their production backlogs declined modestly over the past month. In characterizing the downshift in new orders, one contact stated, “things are slowing, but no cliff in demand seems to be coming.” Certain premium and specialty manufacturing activities, namely high-tech manufacturing and agricultural equipment production, reported ongoing strength in demand. The majority of contacts at manufacturing businesses indicated little difficulty in securing financing for their operations and planned capital expenditures. Services contacts broadly reported a moderate increase in business activity, with leisure and hospitality and health care establishments indicating especially strong sales growth over the past month. Although activity among services businesses picked up, expectations for growth over the next six months declined modestly. Some contacts at services businesses suggested access to credit slightly worsened over the last few weeks, primarily for funding large capital spending projects, but most businesses reported no change in their access to financing.

### **Real Estate and Construction**

Several contacts in commercial real estate reported worsening conditions associated with higher refinancing costs over the past month. Heightened requirements for additional equity to reduce loan-to-value ratios were making refinancing deals difficult to close. Challenges in valuing properties reportedly exacerbated headwinds for refinancing activity. Some office property managers indicated assessing tenet quality became more difficult because the large companies that are historically stable renters have become more footloose, asking for shorter lease terms, or are reducing their demand for space altogether.

### **Community and Regional Banking**

Loan demand weakened modestly in the past month as higher interest rates and the uncertain economic environment deterred loan growth, particularly for commercial real estate. Contacts expected loan demand to remain at current levels over the next six months. Rate pressures remained elevated in the deposit market. Customers continued to diversify account balances among multiple banking institutions in response to volatility in the banking industry. Overall, deposit levels were stable across the District during the past month, with continued rotation of balances toward time deposits. Given that funding costs are growing faster than new loan growth, net interest margins were projected to compress. Credit standards remained unchanged, and contacts noted stable credit quality and low past-due levels. However, contacts expected credit standards to tighten somewhat further due to concerns about future deterioration in asset quality, as higher borrowing costs adversely affect repayment capacity.

### **Energy**

Energy activity declined slightly over the last month. Though oil production increased slightly, and natural gas production stayed flat, District rig counts declined in the face of depressed price levels. Still, there was some divergence among District states. The number of active rig counts held steady in New Mexico and Colorado but fell moderately in both Oklahoma and Wyoming. Furthermore, as an additional sign of slowing energy activity, the number of drilled but uncompleted wells continued to increase in the District and contacts expect an additional reduction in well completions going forward. Lastly, while access to credit is generally not an issue for most energy firms, companies with a heavy concentration in natural gas have seen tightening credit conditions due to sustained lower natural gas prices.

### **Agriculture**

Conditions in the Tenth District agricultural economy remained strong through early May but showed signs of moderating. Corn and soybean prices declined slightly since April and were moderately lower than a year ago. Prices moved down recently based on reports of ideal planting conditions throughout most states and early projections that production could hit record levels due to historically strong yields. Wheat prices increased slightly since April, but poor yields caused by drought could limit revenues, particularly in Kansas and Oklahoma. Profits among cattle producers continued to be pressured by high feed costs and drought that damaged pasture conditions throughout the region. ■



## Summary of Economic Activity

The Eleventh District economy continued to expand modestly. Manufacturing output was flat while revenue in the service and retail sectors grew. Energy reports were mixed with oilfield activity steady, but declines seen on the natural gas side. Housing contacts noted a decent spring selling season and stable prices. Credit conditions tightened further, and loan demand continued to decline. Agricultural conditions improved in some areas but remained strained by drought in others. Local nonprofits cited higher demand for assistance. Overall payrolls rose moderately, and wage growth remained elevated. Outlooks continued to worsen as uncertainty remains on the rise, and contacts voiced concern over waning demand, rising interest rates, and the overall health of the economy.

### Labor Markets

Employment growth rebounded slightly to a more moderate pace over the reporting period. Hiring resumed in the service sector in April after stalling in March, and manufactures continued to add to payrolls at an average pace. Oilfield services firms were still hiring, though some layoffs were seen in natural gas regions. Scattered reports of layoffs also came from transportation services and manufacturing. In an April Dallas Fed survey of 370 Texas business executives, more than half were currently trying to hire. Forty percent said the availability of applicants improved over the past month, significantly higher than the 14 percent share reporting a worsening. Reports of binding labor constraints continued in the energy sector, and mentions of worker shortages came from a few other sectors as well, including healthcare and retail.

Wage pressures remained elevated. The notable wage deceleration seen last year seems to have largely flattened out this year. A few contacts said they were unable to pay the required wage rate to attract workers.

### Prices

Input cost inflation remained below average for manufacturers but was still elevated in the service sector. Fuel costs declined over the reporting period, though a few

contacts noted that continued increases in labor costs offset any relief in input costs (fuel or otherwise). Several contacts noted an increase in borrowing costs, in some cases significant. Selling prices remained elevated in the service sector. Airlines reported high ticket prices amid strong demand and constrained supply (pilots and aircrafts).

### Manufacturing

Texas manufacturing experienced lull in output growth in April, continuing the pattern seen so far this year of bouncing between little to no expansion. New orders continued to fall, though not as fast as the prior couple of months. One contact said customer inventories were high from overstocking last year. Durable goods demand is holding up better than nondurable, led by fabricated metals and transportation equipment. Reports from refineries and chemical producers were mixed. Overall, manufacturing outlooks worsened further, and uncertainty continues to climb.

### Retail Sales

Retail sales increased modestly in April after holding steady in March. Auto dealers reported a decline in sales. They cited low consumer confidence and noted that higher interest rates were starting to affect profitability due to increased costs to finance new-vehicle inven-



tories. Wholesalers and pharmacies noted particular strength over the past six weeks. Overall outlooks were more pessimistic than other sectors.

### Nonfinancial Services

Service sector activity continued to grow at a fairly modest pace in April. Revenue growth was led by health care followed by professional, scientific, and technical services. Notable revenue declines were seen in leisure and hospitality, with contacts citing a slowdown in spending by customers due to economic uncertainty. Some services firms noted a decreased availability of equity and debt capital, but the majority continued to note no difficulty obtaining financing for either short- or long-term use. Staffing firms reported stable demand, with more optimism for placements of white-collar workers than manufacturing workers. Multiple contacts said one source of strong demand is IT workers—connecting small to mid-size firms with workers laid off by large firms. Overall outlooks continued to worsen in April, though pessimism waned slightly.

### Construction and Real Estate

Housing demand broadly held up during the reporting period, though sales continued to be weaker than a year ago. Contacts noted a decent spring selling season, with prices largely stable, and builders were able to raise prices slightly in selected areas. With housing starts notably below year ago levels, building cycle times and labor availability has improved. New land and lot development remained subdued. Outlooks were cautious with some voicing concern about whether demand would hold up beyond the spring selling season.

Activity in the apartment and retail market was little changed since the last report. Apartment rents were flat, and a contact noted an uptick in evictions in some areas. Office markets continued to face headwinds, with rising vacancy and subdued demand. Outlooks were mixed, with concern about the uptick in office commercial mortgage-backed securities delinquency and loans coming up for renewal this year.

### Financial Services

Loan demand declined for the sixth period in a row amid further loan price increases and worsening general business activity. Overall loan volumes continued to decline as well, though at a slower pace. Residential real estate loan volumes stabilized after falling for several months, and consumer loan volume declines slowed notably. Significant volume declines continue to be seen in commercial and industrial and commercial real estate lending. Credit conditions tightened further; 48 percent of bankers in the Dallas Fed Banking Conditions Survey

said they tightened credit standards and terms over the past six weeks, the highest share since the survey began in 2017. Loan nonperformance continued to increase slightly. The banking outlook continues to deteriorate, with contacts expecting a further contraction in business activity and loan demand and an increase in nonperforming loans over the next six months.

### Energy

Drilling and frac activity for oil wells was essentially flat over the past six weeks, while natural gas-directed drilling declined amid low natural gas prices that have been pressured by swelling inventories and mild weather. Overall, the Eleventh District rig count fell by 14 rigs over the reporting period. Outlooks were mixed. The industry is still expected to increase oil-directed drilling and completion activities modestly through year end, while prospects on the natural gas side have worsened.

### Agriculture

Recent rainfall improved drought conditions in the eastern part of the district while severe drought persisted in much of the western part. Grain prices generally decreased over the reporting period, amid a positive outlook for U.S. crop production this year. Drought will hamper crop production in Texas, however, and, in particular, contacts expect a below average cotton crop this year. A bright spot for agricultural producers is on the livestock side, where cattle prices rose notably over the past six weeks and are significantly above last year's prices, supported by tighter supplies and solid demand for beef.

### Community Perspectives

Nonprofits continued to see increased demand for their services. Food insecurity remains a rising concern for lower-income families, and some nonprofits report record use of their food pantries. Contacts pointed to inflation and the cessation of pandemic-era expanded SNAP benefits in March. Housing affordability was also a primary concern, and one contact said low housing inventory has made their provision of housing vouchers difficult. The nonprofit has sufficient funding for the vouchers but cannot find enough landlords willing to accept them, often because they believe they can get a higher rent from other perspective tenants. Multiple contacts mentioned consequences of the digital divide—a struggle with digital literacy and access to technology is a barrier to employment for lower-income individuals, as well as a barrier to credit access given the decline in brick-and-mortar banks. ■

For more information about District economic conditions visit: [www.dallasfed.org/research/texas](http://www.dallasfed.org/research/texas)



## Summary of Economic Activity

Economic activity in the Twelfth District expanded somewhat during the April through mid-May reporting period. Employment levels were stable and overall labor market conditions remained tight, accompanied by wage increases that showed some signs of leveling off. Price increases persisted, although at a slower pace than in the last reporting period. Retail sales grew modestly, and activity in the services sectors picked up somewhat. Demand for manufacturing goods was robust, while conditions in agriculture and resource-related sectors weakened slightly. Activity in residential and commercial real estate markets eased further. Conditions in the financial sector changed little over the reporting period and lending standards have tightened. Communities across the Twelfth District were challenged by a shortage of specialized professionals and small businesses' limited access to credit. Contacts expressed concern over a weaker outlook for the economy and increased overall uncertainty.

### Labor Markets

Employment levels were largely unchanged during the reporting period. Labor supply remained tight across several sectors, including health care, hospitality, food services, and aviation. However, contacts from retail, manufacturing, transportation, finance, and business services reported fewer issues filling positions. Although some employers are still facing difficulties finding skilled workers, reports across the District indicated improvements in employee turnover and retention rates. Furthermore, contacts from both the agriculture and hospitality sectors mentioned better success in hiring seasonal workers this year. One contact from Alaska, however, expressed concerns over attracting enough seasonal workers for this summer. Labor market conditions in the technology and financial services sectors continue to soften. A report from the Pacific Northwest highlighted a surge of unionization efforts in the retail and distribution sectors.

Wage growth moderated across many sectors. The recent layoffs and hiring freezes in financial services and technology eased wage pressures in these sectors. Contacts in the health-care, retail, and manufacturing sectors, as well as non-profit organizations, reported pay increases that are closer to historical rates. However, some industries, including the gaming industry and insurance companies, are continuing to pay above-average salary increases to attract and retain qualified workers.

### Prices

Price increases persisted, although at a slower pace

than in the last reporting period. Production costs increased due to higher expenditures on labor, utilities, and shipping. Firms reported that they generally passed on these higher costs to consumers. Nevertheless, some contacts reported some demand pullback, which in some instances resulted in a reversal of price increases. Prices of some goods and services were reportedly stable or down in recent weeks, including those for residential rentals, lumber, insurance, business services, and banking services. Prices rose for agricultural products such as apples and seafood.

### Community Conditions

Conditions in the community support and services sector were mixed. Some contacts mentioned increased availability of resources for addressing homelessness issues in areas of the Pacific Northwest, as well as assistance from philanthropic foundations and online fundraising in Nevada and California. Nonetheless, reports also highlighted the challenges in meeting the demand for housing services and accessing funds for small businesses. In addition, contacts reported difficulties hiring specialized professionals, which have contributed to staff burn-out and turnover at institutions including those supporting children's health, education and training, and local journalism.

### Retail Trade and Services

Retail sales grew modestly in recent weeks largely driven by strong spending on food and beverages and steady demand for furnishings, appliances, and apparel. Reports also indicated that elevated inflation and economic uncertainty led consumers to be more selective



with their purchasing decisions. Consumers continued to trade down to lower cost items. Spending at small grocery stores and gas stations in suburban and rural areas was reportedly up. Conversely, food establishments and retail stores in downtown urban areas that traditionally relied on foot traffic from office workers continued to report weak sales as hybrid work arrangements persisted.

Conditions in the services sectors picked up somewhat. Demand for professional services remained strong, particularly for consulting, talent acquisition, catering, and janitorial services. Providers of legal and insurance services reported mixed conditions by type of service. Contacts noted weaker demand for elective medical procedures and surgeries in recent weeks. Consumer spending on pet care reportedly increased. Major tourist hubs across the District experienced a pickup in leisure and business travel as convention attendance and international travel continued to recover. Conversely, smaller tourist destinations saw lower-than-expected traveler volumes during spring break and Easter. Activity in the entertainment and media production industries slowed significantly due to ongoing collective agreement negotiations between the major studios and writers' unions.

### **Manufacturing**

Manufacturing activity was robust during the reporting period. Demand was notably strong for food manufacturing, metal fabrication, and heavy machinery. Manufacturers generally reported lighter order backlogs, due mainly to softening demand. Supply bottlenecks, especially those related to ocean freight, eased significantly in recent weeks. Nevertheless, contacts continued to highlight limited availability and extended delivery times for products and equipment that rely on semiconductor chips.

### **Agriculture and Resource-Related Industries**

Conditions in agriculture and resource-related sectors weakened slightly. Reports on exports were mixed as ocean freight costs eased somewhat, while the war in Ukraine continued to contribute to shipping disruptions. Contacts in California noted that wet weather conditions lowered yields for brassicas and berries. Rains also

disrupted pollination for tree and vine crops, which is anticipated to reduce yields. Seafood stocks were reportedly stable in the Pacific Northwest. Contacts noted lower costs for transportation and irrigation water and higher costs for other inputs such as for packaging, fertilizer, and energy.

### **Real Estate and Construction**

Activity in residential real estate slowed further over the reporting period. Contacts across the District reported stable demand for single-family homes, although high mortgage rates restrained prices. Inventories of existing single-family homes were low, and owners appeared hesitant to forego their existing low-rate mortgages. Asking rents were largely stable, and one contact in Southern California noted that new multifamily construction put downward pressure on rents in some areas. Despite reported improvement in the availability and cost of materials, construction of new homes was flat to down as developers responded to higher financing costs.

Conditions in commercial real estate were weaker overall. In the face of changing workplace needs, leasing activity for downtown office space remained weak, and new office construction stalled. Demand for retail and industrial spaces remained stable. Contacts around the District noted that plans for new projects stalled, which has led to more competitive construction bids.

### **Financial Institutions**

Conditions in the financial sector changed little over the reporting period, and uncertainty remained high. Contacts cited higher interest rates, tighter lending standards, ongoing uncertainty in the banking sector, and lower overall confidence as the main dampeners of activity in the sector. Depository institutions mentioned tighter competition for deposits. Lending institutions observed reduced demand for residential loans and uneven demand for commercial loans. Contacts reported that recent stresses in the regional banking sector negatively affected access to credit, particularly for smaller businesses. Reports also noted increasing delinquencies in consumer loans, including for auto and credit card debt. ■



