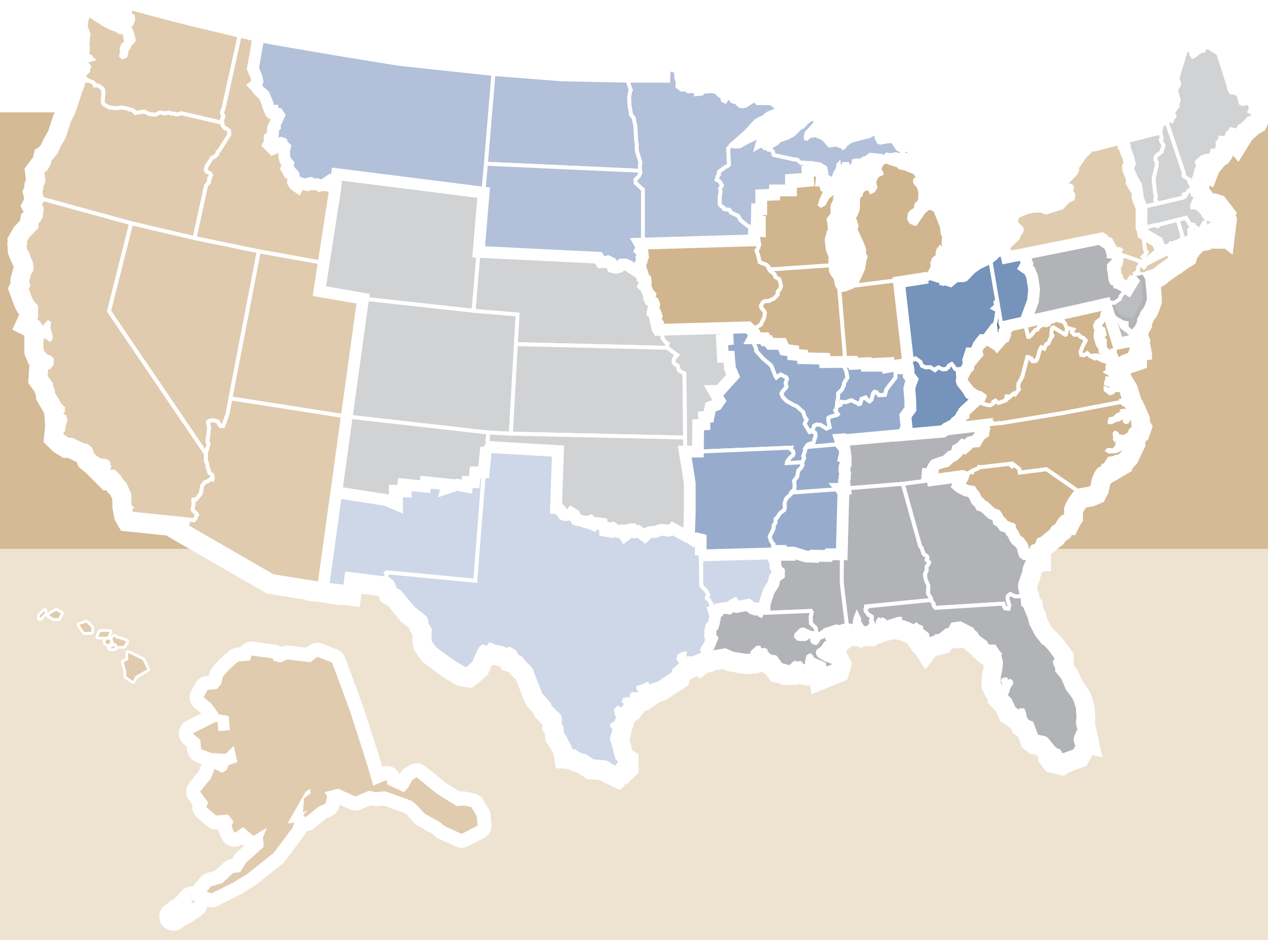
The Beige Book

Summary of Commentary on Current Economic Conditions by Federal Reserve District

May 2024



FEDERAL RESERVE SYSTEM

Contents

About This Publication

What is the Beige Book?

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

What is the purpose of the Beige Book?

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

How is the information collected?

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

How is the information used?

The information from contacts supplements the data and analysis used by Federal Reserve economists and staff to assess economic conditions in the Federal Reserve Districts. The qualitative nature of the Beige Book creates an opportunity to characterize dynamics and identify emerging trends in the economy that may not be readily apparent in the available economic data. This infor-

Note: The Federal Reserve officially identifies Districts by number and Reserve Bank city. In the 12th District, the Seattle Branch serves Alaska, and the San Francisco Bank serves Hawaii. The System serves commonwealths and territories as follows: the New York Bank serves the Commonwealth of Puerto Rico and the U.S. Virgin Islands; the San Francisco Bank serves American Samoa, Guam, and the Commonwealth of the Northern Mariana Islands. The Board of Governors revised the branch boundaries of the System in February 1996.

mation enables comparison of economic conditions in different parts of the country, which can be helpful for assessing the outlook for the national economy.

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

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

National Summary

Overall Economic Activity

National economic activity continued to expand from early April to mid-May; however, conditions varied across industries and Districts. Most Districts reported slight or modest growth, while two noted no change in activity. Retail spending was flat to up slightly, reflecting lower discretionary spending and heightened price sensitivity among consumers. Auto sales were roughly flat, with a few Districts noting that manufacturers were offering incentives to spur sales. Travel and tourism strengthened across much of the country, boosted by increased leisure and business travel, but hospitality contacts were mixed in their outlooks for the summer season. Demand for nonfinancial services rose, and activity in transportation services was mixed, as port and rail activity increased whereas reports of trucking and freight demand varied. Nonprofits and community organizations cited continued solid demand for their services, and manufacturing activity was widely characterized as flat to up, though two Districts cited declines. Tight credit standards and high interest rates continued to constrain lending growth. Housing demand rose modestly, and single-family construction increased, though there were reports of rising rates impacting sales activity. Conditions in the commercial real estate sector softened amid supply concerns, tight credit conditions, and elevated borrowing costs. Energy activity was largely stable, whereas agricultural reports were mixed, as drought conditions eased in some Districts, but farm finances/incomes remained a concern. Overall outlooks grew somewhat more pessimistic amid reports of rising uncertainty and greater downside risks.

Labor Markets

Employment rose at a slight pace overall. Eight Districts reported negligible to modest job gains, and the remaining four Districts reported no changes in employment. A majority of Districts noted better labor availability, though some shortages remained in select industries or areas. Multiple Districts said employee turnover has decreased, and one noted that employers' bargaining power has increased. Hiring plans were mixed—a couple of Districts expect a continuation of modest job gains, while others noted a pullback in hiring expectations amid weaker business demand and reluctance due to the uncertain economic environment. Wage growth remained mostly moderate, though some Districts reported more modest increases. Several Districts reported that wage growth was at pre-pandemic historical averages or was normalizing toward those rates.

Note: This report was prepared at the Federal Reserve Bank of Dallas based on information collected on or before May 20, 2024. This document summarizes comments received from contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.

Prices

Prices increased at a modest pace over the reporting period. Contacts in most Districts noted consumers pushed back against additional price increases, which led to smaller profit margins as input prices rose on average. Retail contacts reported offering discounts to entice customers. Many Districts observed a continued increase in input costs, particularly insurance, while some noted price declines in certain construction materials. Some Districts observed declines in manufacturing raw material costs. Price growth is expected to continue at a modest pace in the near term.

Highlights by Federal Reserve District

Boston

Economic activity was about flat on balance. Prices increased modestly, and wage growth was slow-to-moderate amid stable employment levels. Real estate activity, for both commercial and residential properties, weakened slightly after showing signs of improvement earlier in the year. The outlook became more uncertain for some contacts but remained cautiously optimistic overall.

New York

On balance, regional economic activity grew slightly. Labor market conditions remained solid, and labor demand and labor supply continued to come into better balance. Consumer spending picked up slightly after slow sales in the spring. Housing markets remained solid, though low inventory continued to restrain sales. Selling price increases remained modest.

Philadelphia

Business activity grew slightly in the current Beige Book period, up from no change last period. Employment edged up slightly, owing to increased demand and supply of labor. Wage and firm price inflation were up modestly. Existing home sales grew slightly, and new-home sales held steady at high levels. Expectations for future growth edged down and were less widespread for nonmanufacturers but remained positive overall.

Cleveland

District business activity increased slightly but somewhat more slowly than it had in the prior reporting period. Some contacts attributed the slowdown to interest rates staying higher for longer than anticipated. Consumer spending declined modestly, which some manufacturers said dampened demand for their goods. The majority of contacts indicated that wages, input costs, and selling prices continued to stabilize in recent weeks.

Richmond

Economic activity in the region expanded modestly this period. Consumer spending rose moderately, overall, which was driven by individuals with discretionary income as lower income individuals pulled back or traded down to lower priced goods. Import activity increased and the port of Baltimore was able to reopen one channel into the port. Manufacturing and nonfinancial services firms reported no change in demand in recent weeks.

Atlanta

The Sixth District economy grew slightly. Labor markets continued to stabilize; wage pressures eased. Growth of some nonlabor costs slowed. Consumer demand was generally healthy. Tourism remained strong. Commercial real estate conditions were mixed. Transportation activity varied. Loan demand was flat. Energy activity was robust. Agricultural conditions softened.

Chicago

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

St. Louis

Economic activity across the Eighth District continued to increase slightly since our previous report. The outlook among contacts was slightly pessimistic, which is weaker than our previous report but better than one year ago.

Minneapolis

District economic activity grew slightly. Employment grew but labor demand softened. Wage pressures were present but eased, while prices ticked up. Consumer spending rose but contacts were cautious, and manufacturing rose slightly. Commercial and residential construction improved slightly, and home sales grew strongly. Agricultural conditions remained weak but saw some positive developments.

Kansas City

The Tenth District economy expanded at a moderate pace. Household spending rose moderately, driven by increases in hotel stays, outings to restaurants, and auto maintenance. Job gains were modest, yet contacts indicated their employment outlooks were less vulnerable to a deterioration in conditions compared to six months ago. Prices grew slightly with broad reports that strategies regarding price changes were shifting.

Dallas

Economic activity was flat to up slightly over the reporting period. Some growth was seen in the manufacturing, banking, and energy sectors, while activity in nonfinancial services was flat, and declines were seen in retail sales. Employment levels held mostly steady overall, according to contacts. Outlooks were generally stable to slightly more pessimistic compared with the prior reporting period.

San Francisco

Economic activity and employment levels were largely unchanged. Prices, wages, and retail sales grew slightly. Activity in services sectors and residential real estate markets weakened a bit. Commercial real estate activity and financial sector conditions were largely unchanged. Demand for manufactured products picked up slightly, and conditions in agriculture were mixed.

Federal Reserve Bank of Boston

Summary of Economic Activity

Economic activity was about flat on balance, but performance was quite mixed both across and within sectors. Prices increased further at a modest pace, and employment was steady amid slow-to-moderate wage growth. Retail sales softened somewhat, and hospitality activity was stable or up modestly. Manufacturers reported strong revenue growth on average, while staffing firms reported only slight revenue gains. Residential home sales declined moderately compared with year-earlier levels despite some recent seasonal growth in sales. Commercial real estate activity decreased slightly, with new softness in the industrial leasing market, and the possibility of a surge in office foreclosures remained a significant concern. The outlook was cautiously optimistic on average, but selected contacts expressed either greater uncertainty or an uptick in down-side risks.

Labor Markets

Employment was unchanged overall, and wages increased at a slow-to-moderate pace. Labor demand weakened somewhat, as job openings fell slightly, and layoffs picked up a bit. A large clothing retailer let go 150 workers by closing a call center, citing the shift towards more automated customer service technologies as the driver. Headcounts were steady or up slightly among manufacturers. Demand fell for legal support roles but remained robust for convention-industry roles. Labor supply improved moderately in the medical sector and for retail and restaurant jobs. Employers enjoyed increased bargaining power relative to one year ago, and sign-on and retention bonuses have mostly reverted back to pre-pandemic levels. Among manufacturers, wages increased moderately on balance, although one contact said that recent wage growth had exceeded its typical pre-2020 levels. Wage pressures eased among retail and hospitality establishments, resulting in modest average wage increases. Hiring plans were muted across sectors, mostly aimed at offsetting retirements and other sources of attrition.

Workforce development contacts described new training programs teaching life skills and basic professionalism. One contact described efforts to match students with jobs before they graduated from the program as a way to reduce attrition.

Prices

Prices increased at a modest pace on average, and input cost movements were mixed. Restaurateurs reported modest increases across a range of food inputs but held menu prices steady, resulting in a further narrowing of profit margins. Hotel room rates increased from a year earlier at a pace of just under two percent, the slowest in recent years. Among manufacturers, input price pressures moderated, and costs were flat in some cases, but one contact noted that plastics and electronics prices remained elevated. Output prices increased by an above-average margin at one manufacturer, driven by robust demand and modest cost pressures, but otherwise manufacturers' output prices were up only modestly. Plans called for muted price growth on balance moving forward, as there was concern about consumer pushback from significant further price increases. In fact, one large clothing retailer, in response to recent input price declines, planned to enact modest price reductions on selected items in early fall in a bid to boost sales.

Retail and Tourism

Retail and tourism sales were slightly weaker overall in recent months, although results were mixed. A clothing retailer experienced softer sales this winter and spring, posting a moderate decline in sales from one year earlier. A discount retailer posted a weaker than expected March and April but pointed to late season snowstorms as the culprit, as recent weeks saw rebounding sales. A Massachusetts restaurant industry contact reported an exceptionally strong Mother's Day but said that sales had otherwise been flat. Hotel occupancy rates in Greater Boston were stable recently, with a year-over-year growth rate of two percent. Restaurants were optimistic for the summer months, and retailers were cautiously optimistic, but contacts in both industries emphasized that consumers remained highly price-conscious, and at least one retailer perceived that consumer spending risks were skewed to the downside.

Manufacturing and Related Services

Manufacturing revenues increased at a moderate pace on average but spanned a range of outcomes. A maker of veterinary care products posted robust sales growth amid strong demand for pet care but lamented that weak labor supply constrained the number of vet clinic visits. A small consumer goods manufacturer experienced remarkable growth in sales, exceeding already high expectations. Others reported flat or modestly lower sales that were nonetheless in line with or above expectations. Capital spending was steady and near-term plans were unchanged. Contacts expected modest to strong sales growth in the coming quarters, even those with relatively weak recent sales. Optimism for the second half of 2024 was driven in some cases by recent momentum in demand for AI-related products and other new technologies.

Staffing Services

First District staffing firms experienced mixed changes in activity, with revenues increasing slightly on balance. Contacts said that demand for direct hires was down sharply from one year ago, while demand for temporary hires and temporary-to-permanent conversions increased considerably for the same period. Expectations were split, in line with firms' own recent performance, but on balance revenues were expected to increase slightly in the second half of 2024. One contact expected that their recent acquisition of another staffing firm would enable them to expand their presence in New England.

Commercial Real Estate

According to industry contacts, commercial real estate activity in the First District decreased slightly since April. Industrial leasing activity softened modestly overall but declined sharply in Connecticut. Industrial rents continued to rise, albeit less rapidly than in previous months. In the office market, leasing activity was mostly flat at a subdued pace, vacancy rates edged up further, and rents were flat or down moderately. The retail class experienced stable activity and rents. Investment sales remained mostly frozen as borrowing rates remained high, and lending activity was very limited. Unfavorable borrowing terms also contributed to modest declines in construction activity. Banks continued to extend underperforming office loans in anticipation of eventual declines in interest rates, but contacts remained concerned that a significant uptick in foreclosures was inevitable, especially in the class B market. Contacts expected commercial real estate activity to remain largely static moving forward, or if anything to weaken slightly. The subdued outlook was attributed to uncertainty concerning the timing of rate cuts by the Fed as well as over the outcome of the presidential election.

Residential Real Estate

First District home sales, considering year-over-year changes, posted mixed results in March and April after increasing in February. Closed residential sales increased at an above-average pace in New Hampshire and Maine in April from a year earlier, in both cases buoyed by increased inventories. In both Rhode Island and Vermont, single-family sales fell moderately over the year, while condominium sales increased either slightly (in Rhode Island) or moderately (in Vermont). Massachusetts posted year-over-year declines in sales in March for all residential property types despite a modest seasonal upswing in sales from the previous month, as activity was held back by declining inventories. Contacts stressed that inventory levels remained very low across the region, leading to ongoing, moderate-to-robust increases in house prices, and realtors expressed support for policies that would make it easier to build accessory dwelling units on existing properties. The outlook was neutral to cautiously optimistic, with a contact in the Boston area encouraged by recent increases in pending sales.

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

Federal Reserve Bank of New York

Summary of Economic Activity

On balance, economic activity in the Second District grew slightly in the latest reporting period. The labor market remained solid, with ongoing slight employment gains and moderate wage growth. Still, labor demand and labor supply continued to come into better balance. Selling price increases remained modest. Manufacturing activity declined modestly. Consumer spending grew slightly after slow sales in the spring. Tourism activity picked up in New York City. Housing markets remained solid, though low inventory continued to restrain sales. Commercial real estate markets weakened further. Activity in the finance sector declined slightly, with loan demand continuing to fall—though delinquency rates edged lower. Optimism about the outlook became more subdued.

Labor Markets

Labor market conditions remained solid. On the whole, employment continued to increase slightly, with gains in leisure and hospitality, personal services, and health and education partially offset by ongoing reductions in information, construction, and manufacturing. A contact at an employment agency in New York City reported a notable uptick in hiring among financial services firms.

Labor demand and labor supply continued to come into better balance. Still, businesses in the region reported ongoing difficulty finding the workers they need. These shortfalls are particularly acute in the service sector. Firms anticipate solid hiring in the coming months.

Wage growth remained moderate during this reporting period, though contacts from trade, personal services, and construction firms noted sharper wage increases. The increase in New York State's minimum wage earlier this year is being felt by some food service and manufacturing firms.

Prices

Selling price increases remained modest, and input price increases remained moderate. Still, the prices of some inputs have risen more rapidly, especially among service firms. Food and beverage businesses point to rapidly rising costs of cocoa and coffee, and contacts reported that obstructions to shipping in the Suez and Panama canals are causing shipping delays and pushing up the cost of freight, putting additional pressure on selling prices. Businesses expect little change in pricing pressures in the months ahead.

Consumer Spending

Consumer spending picked up slightly after slow sales in the spring. Spending on goods mostly held steady, while spending on entertainment and recreation ticked up. Auto dealers in upstate New York reported solid but slowing new car sales, as the high cost of credit and some shipping logistics issues have limited sales activity. Interest rates on auto loans have risen noticeably in the past several months, and coupled with higher car prices, new cars have become unaffordable for many. With improved inventory levels, manufacturer and dealer incentives have become somewhat more prevalent. Sales of used cars have been solid, as the price gap between new and used cars has normalized.

Manufacturing and Distribution

Manufacturing activity continued to decline modestly. Shipments were flat, and new orders continued to decline. Transportation and warehousing firms also reported a modest decline in activity, with a contact reporting that third party logistics companies have seen a particularly sharp decline in activity amid a retrenchment in consumer demand for goods. In contrast, wholesalers reported a strong increase in activity. Delivery times shortened, and supply availability was little changed. Still, contacts noted ongoing difficulty obtaining some supplies, including copper, various electronics, and heavy equipment. Manufacturers anticipate modest improvements in business conditions in the coming months.

Services

Activity in the service sector increased slightly. Business services and leisure and hospitality continued to grow modestly, but the information sector saw a moderate decline. Service firms remained optimistic about the outlook, particularly those in the health and education sector.

Tourism activity picked up in New York City. An industry expert reported that an unusually spread-out spring holiday calendar brought in a steady stream of international visitors, particularly from Europe and South America. Still, tourism from Asia has not fully recovered to pre-pandemic levels because of reduced flight availability due to more restricted flight patterns, and business travel was more limited during the spring holiday season. Hotel rates held steady but are notably more expensive than pre-pandemic levels. Many visitors are offsetting high hotel expenses with reductions in spending on retail and dining. Broadway show attendance continued to improve. While tickets for some shows were in very high demand, less successful productions have seen low attendance, and five Broadway theatres remain out of use.

Real Estate and Construction

Housing markets remained solid, though supply remains extremely constrained in most parts of the District. Although inventory has edged up, it is still too low to satisfy existing demand, and prices have continued to rise. Sellers are hesitant to list because of high prices and limited inventory when looking for a new home. Mortgage lock-in remains a significant factor, and many people are waiting for a modest decline in interest rates to consider listing. Manhattan is an exception, where inventory is near normal levels. Home prices on Long Island have risen significantly, particularly at the higher end of the market, while upstate New York has seen greater demand at the lower end and middle of the market.

Residential rental markets continued to strengthen, and rents have risen across the District. Vacancy rates remain low, particularly in and around New York City, where rental vacancy rates are near long-term lows.

Commercial real estate markets weakened further. The industrial market in Northern New Jersey saw significant increases in vacancy rates, with multiple tenants exiting leases and significant deliveries of new space. Activity in the Manhattan office sector edged up slightly after a notable worsening in the first quarter. Strong demand remains for new high-end office buildings, and rents in these buildings have been resilient, but lower quality buildings are seeing slowly declining demand. Rent concessions for office leases are at historic highs. Finance and legal firms continue to seek office space, while tech sector businesses continued to reduce their office footprints during this reporting period. Office markets in upstate New York and the New York City suburbs have remained more resilient. Sales of commercial real estate reached low levels, and were down significantly for office, retail, and multi-family, as the high cost of credit constrained demand and transactions.

Construction contacts reported that activity continued to fall following a sharper contraction earlier in the year. Office construction remained at low volumes. Multi-family construction starts remained low across the District. Industrial construction was solid in Northern New Jersey but declined in upstate New York.

Banking and Finance

Activity in the broad finance sector weakened slightly this period. On balance, small- to medium-sized banks in the District reported slightly weaker loan demand, particularly for residential and commercial mortgages. Banking contacts indicated that credit standards continued to tighten for business loans and commercial mortgages but held steady for consumer loans and residential mortgages. Deposit rates increased, and loan spreads narrowed. Delinquency rates edged down slightly on business loans, consumer loans, and residential mortgages.

Community Perspectives

As the cost of providing services to communities has risen, federal, state, and local governments have responded with an array of grants and subsidies to help defray expenses for communities and populations in need throughout the District. With funds made available from the Infrastructure Investment and Jobs Act, the CHIPS Act, and remaining Covid subsidies, these grants and subsidies have been made to cover expenses for homeowners in disadvantaged areas, victims of natural disasters, and to communities in need of infrastructure improvements for utilities and broadband.

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

Federal Reserve Bank of Philadelphia

Summary of Economic Activity

On balance, business activity in the Third District was up slightly, after being steady last period. Employment continued to grow at a slight pace, led by hiring among nonmanufacturers. Wage inflation continued at a modest pace, with wage pressures continuing to moderate. Firm price inflation ticked up to a modest pace, despite contacts reporting more pushback against price increases. Activity in staffing and recruitment was reported slightly up this period because of increased demand for labor and more candidates seeking out career opportunities. Sales of existing homes improved slightly, and new listings edged up steadily throughout the period. Average sales prices of homes continued to increase. Expectations for economic growth over the next six months edged down slightly, but there was continued widespread optimism among manufacturers, while expectations for nonmanufacturers moderated and optimism was less widespread.

Labor Markets

Employment grew slightly, unchanged from last period. Based on our April and May surveys, nonmanufacturers reported slight increases in full-time jobs, unchanged from March, and a slight increase in part-time jobs, up from a slight decline. Manufacturing firms continued to report modest declines in employment and overall declines in the average workweek. Meanwhile, the average workweek for nonmanufacturers ticked up.

Staffing and recruitment contacts reported a slight uptick in activity this period, after being steady last period. Contacts reported a stronger demand for labor, as some manufacturers and firms with seasonal staffing needs ramp up hiring. More candidates are also searching for jobs, as evidenced by increased visits to staffing contacts' offices. Several contacts reported less staff turnover and a wider candidate pool. For instance, one contact reported receiving 400 résumés for a finance position within the first day of the vacancy being posted.

Wage inflation remained modest, as wage pressures continued to subside. On a quarterly basis, firms' expectations of the one-year-ahead change in compensation cost per worker fell further to a trimmed mean of 3.3 percent in the second quarter of 2024, down from 3.9 percent in the prior quarter.

Prices

On balance, firm price inflation was modest this period, up from a slight pace in March. Firms reported that increases in prices received for their own goods and services over the past year edged up in the second quarter of 2024 compared with the first quarter. The trimmed mean for reported price changes, based on responses to our quarterly survey, rose to 2.3 percent from 2.0 percent for all firms. Price increases rose to 1.8 percent from 1.2 percent among nonmanufacturers and edged down to 2.8 percent from 2.9 percent for manufacturers.

Looking ahead one year, the increases that firms anticipate in the prices for their own goods fell further. The trimmed mean for all firms fell to 2.3 percent in the second quarter of 2024, from 2.6 percent in the first quarter of 2024. The expected rate of growth fell from 3.5 percent to 2.4 percent for manufacturers and rose to 2.2 percent from 1.7 percent for nonmanufacturers.

Manufacturing

On average, manufacturing activity increased modestly over the April to May period, unchanged from the prior period. The index for new orders rose moderately in April and then declined slightly in May. The shipments index declined and turned slightly negative.

Expectations among manufacturers for growth over the next six months edged down slightly from March but continued to be widespread. More than 55 percent of the firms expected increases in new orders and in shipments.

Consumer Spending

Retailers (nonauto) continued to report slight decreases in sales. In-store visits continued to be flat to down slightly. Contacts reported that consumers continued to spend less on each trip as they continue to adjust to higher prices.

Auto dealers again reported slightly higher sales of new cars in the current period owing to continued strong consumer demand. Although auto prices have begun to moderate and dealers and manufacturers are offering promotions, affordability remains a concern because of high interest rates. While regulations at the federal level mandate increased sales of electric vehicles, auto contacts are worried about the potential mismatch between the increased supply and the weak demand for electric vehicles even with increased incentives.

Although the start to the year was slow, tourism grew slightly this period, after slowing slightly last period. One contact reported April was a good month for leisure tourism in the Philadelphia area despite some local consumers being more price sensitive and a low number of international visitors. Hotel demand as measured by nights sold and total revenue rose modestly year over year. Corporate and group travel were up slightly but still below pre-pandemic levels.

Nonfinancial Services

Nonmanufacturing activity increased modestly over April and May, following a slight decline last period. The sales/revenues index increased moderately—up from a near-zero reading. The index for new orders was flat on average, after being slightly negative in March.

Firms' current sentiment improved this period. Nonmanufacturers' perceptions of general activity for the region have improved consistently since March but remained in negative territory in May. At the firm level, nonmanufacturers have reported moderate increases in the general activity index over April and May.

Expectations among the nonmanufacturers for their own growth over the next six months were modest, significantly down from March and below historical averages.

Financial Services

The volume of bank lending (excluding credit cards) grew moderately during the period (not seasonally adjusted), up from slight growth last period and unchanged from the moderate pace of one year ago.

District banks reported strong growth in commercial real estate lending and home mortgages. Volumes of home equity lines increased moderately, while consumer lending (other than auto and credit cards) held steady. Auto lending grew modestly, and commercial and industrial lending grew moderately. Credit card volumes fell moderately after modest growth during the same period one year ago.

Banking contacts continued to report good credit quality, with only minor upticks in delinquencies and charge-offs. An overarching concern among contacts was the high cost of capital that prevented capital expenditures and deterred many of their business clients' investment plans.

Real Estate and Construction

Existing home sales continued to grow slightly this period. The inventory of for-sale properties continued to edge up slightly through April—with the spring market bringing a low but constant flow of listings after year-over-year declines last year. Average sales prices continued to grow, and some properties continued to attract multiple offers and above-asking prices.

With still lower-than-normal inventory levels of existing homes for sale and strong demand for housing, new-home builders continued to report strong sales. One contact noted that homes are sold out through May 2025, but with demand still strong, the firm reduced its marketing budget to slow that demand.

In nonresidential markets, leasing activity and transaction volumes continued a slight decline. One contact noted some strength in logistics and warehousing; however, the office subsector remains subdued.

Nonresidential construction activity remained muted in the current period. While some contacts reported less activity in this subsector, another contact that continued to be busy noted that several public infrastructure projects in planning and design could boost activity in the near term.

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

Federal Reserve Bank of Cleveland

Summary of Economic Activity

On balance, the Fourth District economy expanded slightly in recent weeks, somewhat more slowly than it had during the prior reporting period. Moreover, contacts expected slower growth to continue in the months ahead.Contacts often attributed both the slowdown in growth and lowered expectations to diminished hopes for interest rate cuts in the near future. Consumer spending declined modestly, which some manufacturers said dampened demand for their goods. By contrast, nonresidential construction activity picked up, with increased demand for public sector projects. Employment levels increased slightly in recent weeks, with many firms focused on hiring for key positions. On balance, wage and nonlabor input costs increased moderately, and selling prices increased slightly.

Labor Markets

Overall, employment increased slightly in recent weeks. Some contacts reported hiring more entry-level and management workers to staff long-term projects, meet higher demand, or facilitate business expansions. One manufacturer said they were hiring now in anticipation of increased demand in the second half of the year. By contrast, some contacts indicated that they had slowed or "paused" hiring to control costs amid decreased demand and declining margins. Most contacts expected only modest hiring for their organizations in the near term.

Wage pressures continued to be moderate in recent weeks. Many contacts across industries continued to report that new-hire wages had leveled off and annual wage adjustments had again become the norm. One auto dealer said that wage pressures had eased to the point that they were offering wage adjustments only "when necessary." Nevertheless, many financial services and construction contacts noted strategically raising wages to attract and retain staff with specialized skills.

Prices

On balance, nonlabor input costs continued to increase moderately in recent weeks. However, over half of contacts reported no change in input costs. Some restaurateurs said that food costs were increasing at a slower rate or leveled off after a period of rapid increases, and many contacts in other industries reported that the pace of cost increases continued to slow. Some manufacturers noted that they were starting to negotiate with suppliers to bring down costs, with one stating, “We have been able to partially roll back some select suppliers’ prices after two years of substantial price increases.” Still, many contacts across sectors continued to report cost increases for most services, including legal, accounting, and insurance services.

Selling prices continued to increase slightly, though most contacts indicated that they had not changed prices recently. Some firms did not adjust prices because they had previously implemented annual price increases, while others noted that increased competition prevented them from raising prices. One business services contact said that passing along cost increases had become more difficult as customers were more closely managing their costs. Some manufacturing, construction, and retail contacts increased prices selectively, while other retailers reported decreasing prices or offering larger discounts because of decreased demand.

Consumer Spending

Consumer spending declined modestly following modest increases during the prior reporting period. While restaurateurs reported stronger demand because of warmer weather, the bulk of retailers reported softer sales. Multiple retailers indicated that customer foot traffic was lower. Reports from auto dealers were mixed, with one reporting higher new vehicle sales because of more manufacturer incentives, while others continued to report slow sales because of high interest rates and vehicle prices. Retailers generally expected consumer spending to remain unchanged in the coming months.

Manufacturing

On balance, demand for manufactured goods remained flat during this reporting period. Some manufacturers reported stronger orders related to ongoing federal spending or the construction of data centers. By contrast, others noted lower order volumes because of softer consumer spending or general economic and political uncertainty. For example, reports from primary and fabricated metals producers indicated lower order volumes because their customers faced softer demand or managed inventories cautiously because of uncertainty about how well demand would hold up in the coming quarters. Manufacturers generally expected demand to increase slightly in the coming months.

Real Estate and Construction

Residential home sales and construction increased at a modest pace in recent weeks, with one homebuilder indicating that “We’re still writing contracts on houses, but it’s not like it was when mortgage rates were lower." Contacts expected demand to continue growing at a modest pace in the coming months. Still, as one contact stated, "It's all going to depend on interest rates. If they go down, business will get better. If rates stay the same, I don't expect any change."

Nonresidential construction activity increased moderately in recent weeks. Construction firms experienced an uptick in activity for public projects, and another contact saw more demand related to green energy projects. By contrast, some commercial real estate developers reported that demand continued to be dampened by higher borrowing costs. On balance, contacts expected activity to continue at a moderate pace in the coming months.

Financial Services

Overall, bankers indicated that loan demand increased modestly. One banker reported that, because of elevated interest rates, "demand for loans remained steady although not robust." Looking ahead, bankers expected loan demand to soften somewhat because of interest rate uncertainty. For example, one banker opined that loan demand would not increase further until households and businesses "get a better feel for the direction of our economy and [see] a cut in interest rates." Core deposits were flat, and there was continued movement from traditional savings accounts into higher-interest accounts. Bankers reported that delinquencies were little changed and remained at generally low levels.

Nonfinancial Services

Professional and business services contacts reported that demand remained robust as businesses moved forward with technology upgrades and capital projects. Overall, contacts anticipated that demand would increase in the coming months; however, a couple of consultants expected clients to pull back on spending as the upcoming presidential election has increased economic uncertainty. Freight contacts reported that demand increased slightly in recent weeks. One hauler noted that, despite increasing truckload volumes, both contract and spot rates declined. In the months ahead, haulers anticipated that demand would be flat as clients work through inventories.

Community Conditions

Affordable housing developers said that demand remained high but that community opposition and difficulty accessing financing were slowing housing production and could shut down some projects in the region. One contact reported that rising housing and food costs negated wage gains for many low-wage and entry-level workers. Moreover, increased housing costs contributed to a recent uptick in delinquent utility bill payments, according to some contacts. In addition, a nonprofit contact observed growth in the entrepreneurship space as people sought access to multiple income streams to cover elevated costs.

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

Federal Reserve Bank of Richmond

Summary of Economic Activity

The regional economy grew at a modest rate in recent weeks. Consumer spending on retail, restaurants, and leisure travel increased this period but new vehicle sales were down slightly. Import activity ramped up both from natural growth and from cargo that was diverted from Baltimore. Near the end of the reporting period, the Port of Baltimore was able to open a limited access channel, which would let most container ships traverse into the harbor. Residential real estate activity picked up in recent weeks, as did some commercial real estate leasing; however, very few new commercial construction projects were being started. Labor markets improved but labor supply remained tight. Price growth remained moderate, overall.

Labor Markets

Employment in the Fifth District grew at a moderate pace in the most recent reporting period. Labor availability was mixed. A chartered bus company remained constrained by a lack of quality candidates, but they noted greatly improved conditions and that they were getting close to “normal.” A quick-service restaurant reported continued significant staffing challenges in their cafes. Many contacts cited the need for “quality” workers. A seasonal outdoor recreational company was not able to recruit some candidates because of a lack of affordable housing in the area. Firms continued to increase wages and offer bonuses to recruit and retain workers.

Prices

Price growth increased slightly in recent weeks, but growth remained at a moderate year-over-rate. According to our most recent surveys, the rate of growth in the prices received by service providers remained elevated at around 4 percent compared to around 2.5 percent for manufacturers. In both sectors, businesses reported that input and labor costs continued to rise, and in some cases, their input costs increased at a faster rate than the prices they received because customers were pushing back on additional price increases. Firms generally expected for growth in prices received to moderate over the next six months.

Manufacturing

Fifth District manufacturing activity was unchanged in the most recent period. Several companies mentioned increased pressure on margins due to global competition. A precision metal fabricator reported all work had halted, and any new work must meet or beat international pricing. A dental implant manufacturer reported increased labor costs and competition from less expensive global competitors resulting in margin pressure. Future market uncertainty has created uneasiness for several contacts. A textile company's clients told them that they were not making big moves or long-term strategic decisions, which has affected the company's ability to plan for the rest of the year.

Ports and Transportation

Ports in Virginia and South Carolina reported moderate to strong (up to double-digit) increases in imports beyond the additional volume that they picked up from diverted Baltimore cargo. Exports of certain commodities like textiles and apparel were up, while exports of agricultural goods leveled or decreased. Freight rates decreased, but ocean carriers continued to add surcharges and fees for distance and hazards. The port of Baltimore opened a 45-foot limited access channel that will allow ninety percent of container vessels reentry to the port. Some container lines have waited for this depth clearance before loading new ships, and customers indicated an eagerness to return to Baltimore due to increased costs of getting cargo to the region from other ports.

Rail demand at inland ports was strong this period, continuing this year's record levels. Manufacturers in autos, auto parts, agriculture equipment and tools have favored rail due to lower carbon emissions and supply chain reliability. Trucking volume was up slightly, but spot rates continued to spiral downward due to oversaturation. Some firms noted that they picked up lost contracts because the service provider could not complete the routes as their operating costs exceeded their bid price.

Retail, Travel, and Tourism

Consumer spending on retail and travel increased moderately in recent weeks. Retail sales were up, but some retailers reported tighter profit margins due to rising input costs and an inability to pass along all of those costs to customers. On balance, spending on restaurants and leisure travel picked up and was largely driven by consumers with discretionary income. Conversely, low-to-moderate income consumers were reportedly pulling back on spending or trading down in the goods they purchased due to higher costs leading to tighter household budgets. New vehicle sales declined slightly this period.

Real Estate and Construction

Residential real estate activity picked up modestly in recent weeks. Total closed sales increased, and more homes came onto the market, which brought the total supply of homes for sale up slightly compared to prior months but remained below the pre-pandemic level of supply. Average sales prices rose modestly, and homes were selling at a slightly faster rate, particularly for low to mid-priced homes. An agent in South Carolina noted that home price escalation was pushing some potential buyers out of the market, but people moving to the area from higher-priced markets were unphased. New construction continued to expand in areas with population growth.

Commercial real estate activity increased slightly this period. Retail leasing activity picked up and vacancy rates remained low as new inventory was quickly absorbed. Office leasing increased slightly for class A space but declined for class B and C properties, which drove up vacancy rates in those buildings. Leasing and absorption in new multi-family buildings were strong. Construction of existing projects continued but developers from across regions and across sub-markets of commercial real estate noted that very few projects were being green lit as interest rates made it hard for deals to be financially viable amid continued high prices of material and labor.

Banking and Finance

Financial institutions reported that they continued to observe modest softening of loan demand over most loan types, but mainly in their commercial real estate and business loan portfolios. Higher interest rates were mainly noted as the primary driving force in this softening. Deposit levels continued to modestly decline with competition still high for any available balances. Some respondents noted that underwriting on new loan requests remained tight with most institutions decreasing their appetite for new loans. Loan delinquency rates remained stable, but one institution observed a slight decline in credit scores and credit quality for new consumer applicants.

Nonfinancial Services

Nonfinancial service providers continued to report that demand for their services as well as their revenues remained stable. A staffing firm noted that new orders for positions have started to increase from those in the first quarter, but finding qualified and willing-to-work applicants for these positions continued to be a challenge. Higher interest rates were still being noted as a limiting factor for new capital expenditures. Inflation and election year politics were also mentioned as factors impacting business expansion and overall confidence in the economy. Wages and workforce issues continued to be less of a challenge and to show modest stabilization.

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

Federal Reserve Bank of Atlanta

Summary of Economic Activity

The economy of the Sixth District grew slowly since the previous report. Labor market tightness eased, and wage growth slowed somewhat. Cost growth continued to moderate, but most nonlabor costs remained elevated. Firms' pricing power was mixed. Widespread concerns about household finances were noted by nonprofits serving low- and middle-income communities. Consumer spending was healthy overall. Tourism remained strong, but softened somewhat. Home sales slowed amid declining home ownership affordability, and existing home inventories increased. Commercial real estate conditions were mixed. Transportation activity varied. Banking conditions were stable, and loan growth was flat, on balance. Energy activity was robust. Agriculture conditions weakened.

Labor Markets

On balance, the pace of hiring grew slightly over the reporting period. Several staffing firms reported that job orders were down. Many contacts noted the supply of available talent continued to improve, and turnover rates declined; some firms described turnover as below pre-pandemic rates. However, pockets of shortages remained across the region, varying widely by position, location, and industry. Several Florida firms said that declining housing affordability hindered the ability to attract talent, and one non-profit noted that more employers were pondering building workforce housing. Some transportation, warehousing, and industrial development contacts said they were considering reducing headcount later this year to align with weaker demand. Others said that they had backfilled most of their open positions so hiring would be slower this year.

Most contacts indicated wage growth continued to moderate and was in the range of 3.5 percent to 4 percent.

Prices

Though the pace of wage growth continued to stabilize, elevated labor costs and rising insurance premiums contributed to higher operating expenses. However, food and transportation costs decreased, on balance. Construction costs were highly volatile, with some contacts noting a wide range of bids on a given project. Firms also noted adjusting inventory levels down due to the high-interest rate environment. Some firms reported holding prices steady in response to increasingly price-sensitive consumers, and some firms sought efficiencies to preserve margins, while others maintained the ability to pass through rising costs. The Atlanta Fed's Business Inflation Expectations survey showed year-over-year unit cost growth decreased in April to 2.6 percent, on average, from 2.8 percent in March; firms' year-ahead inflation expectations for unit cost growth ticked down to 2.3 percent, on average, in April, from 2.4 percent in March.

Community Perspectives

Career counselors noted increased competition for available employment opportunities as cost-of-living considerations encouraged more people to re-enter the labor force. Several workforce service providers said that employers adopted more selective hiring processes and extended trial on-boarding periods for prospective employees. Though many workers expressed optimism in their ability to secure employment, contacts shared concerns about the quality of available jobs in terms of flexible hours, paid time off, and compensation sufficient to cover basic expenses. Concerns about household finances remained widespread among nonprofits serving low- and middle-income households. Rising insurance costs were cited as both an immediate financial burden for many individuals and a longer-term threat to economic resiliency as property owners reduced or eliminated coverage due to high costs.

Consumer Spending and Tourism

Retailers reported consumer demand was generally healthy, but most expect year-over-year sales growth to be flat. Shoppers were price sensitive and continued to be cautious with discretionary spending. Auto dealerships noted that inventory levels met demand, and manufacturers offered incentives to boost sales.

Tourism and hospitality contacts reported healthy demand for leisure travel, but booking windows were shorter and hotel rates moderated. Contacts noted strong youth sports-related travel, but families opted for short-term rentals with kitchens to forego dining out. Group, international, and business travel continued to improve but were not back to pre-pandemic levels. Hospitality contacts remained optimistic about activity for the summer season.

Construction and Real Estate

District home sales lost momentum in April as higher interest rates and rising home prices led to declining home ownership affordability. Though dampened by the "mortgage rate lock-in effect," existing home inventory levels rose overall. Homebuilders maintained solid market share, although the use of rate buydowns and other incentives were more elevated than expected. Builders indicated less buyer urgency with rising interest rates and increased potential competition from higher existing home inventory levels. Home price appreciation in most District markets was in the single digits, consistent with longer term trends.

Commercial real estate (CRE) conditions remained mixed. Activity in office (especially in highly urban areas) and multifamily sectors continued to slow. Oversupply in the multifamily and industrial segments weighed on market conditions amid delivery of new construction. Vacancy rates grew. Rising insurance costs impeded activity, particularly in coastal markets. Lenders continue to report tight underwriting standards, making access to loans more challenging. Rising CRE loan maturities in 2024 and beyond remained a source of concern.

Transportation

Demand for transportation services varied across industries. Trucking firms characterized volumes as in-line with or slightly below normal seasonal demand. Warehousing contacts indicated demand was modest overall. Railroads saw gains in automotive, chemicals, forest products and minerals freight volumes, as well as growing momentum in intermodal shipments. Inland barge carriers reported strong activity. District ports along the eastern seaboard noted that catastrophic weather events and the potential for an east coast labor strike in the Fall are the greatest risks to their outlook.

Banking and Finance

Conditions at District financial institutions were stable. Overall loan growth remained relatively flat; however, consumer, industrial, and auto lending continued to contract. Credit conditions continued to normalize to pre-COVID levels with a minor uptick in the allowance for loan and lease losses as a percentage of total loans. Deposit balance growth was flat as compared with the previous report, with some institutions reporting increased reliance on borrowings. Financial institutions reported holding lower balances in cash accounts.

Energy

Activity across most energy sectors remained robust. While liquefied natural gas exports and plant expansions were active, new development was stalled by recent federal permitting limitations, which contacts reported had already slowed some activity. Petrochemical manufacturers reported continued progress in carbon capture and storage projects. Utility companies across the southeast report growing electricity demand in commercial and industrial segments, largely attributed to new and expanded data centers, as well as clean tech manufacturing like electric vehicle battery plants, a trend expected to continue across the southeast.

Agriculture

Agricultural conditions weakened slightly. Row crop farmers struggled amid low demand and excess supply, and many do not expect to turn a profit this year. Demand for timber declined, leading some farmers to pause production. Demand for beef was strong, but supply of cattle remained limited; demand for dairy held steady. Poultry producers saw some improvement in revenues from domestic sales, attributed to reduced supply resulting from avian influenza, but foreign restrictions continued to limit exports. Citrus growers reported solid demand and crop yields slightly above expectations.

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

Federal Reserve Bank of Chicago

Summary of Economic Activity

Economic activity in the Seventh District increased slightly overall in April and early May, and contacts generally expected a similar rate of increase over the next year. Employment and construction and real estate activity were up modestly; business and consumer spending rose slightly; nonbusiness contacts saw little change in activity; and manufacturing activity edged down. Prices and wages rose moderately, while financial conditions tightened a bit. Prospects for 2024 farm income increased slightly, though income is still expected to fall below its 2023 level.

Labor Markets

Employment rose modestly over the reporting period and contacts expected growth to continue at that pace over the next 12 months. Some respondents, particularly in manufacturing, continued to report difficulty filling higher-skilled positions, and small business support organizations continued to report their clients were having difficulty filling lower-skilled positions. That said, several contacts reported that hiring was not as hard as it had been, and one financial services contact indicated that worker availability was now comparable to before the pandemic. Wages and benefits costs increased moderately, and there were again several reports of health insurance cost increases. Some contacts said that an updated Labor Department rule raising the minimum salary above which workers are exempt from being paid overtime had the potential to create wage pressures.

Prices

Prices rose moderately overall in April and early May and contacts expected a similar rate of increase over the next 12 months. Producer prices moved up moderately. Nonlabor input costs continued to rise, with contacts highlighting increases in energy and equipment costs. That said, there was a slowdown in the pace of cost growth overall. Several manufacturing contacts noted flat, and in some cases decreasing, input costs. Consumer prices rose moderately overall, though one retail sector contact indicated that deflationary price trends continued.

Consumer Spending

Consumer spending increased slightly over the reporting period. Nonauto retail sales were softer than usual in April, but this largely reflected sales pulled into March due to the early Easter. Spending on groceries and at restaurants rose, while outlays for items related to spring yardwork were up from a year ago. Discount store sales were also up. Contacts noted flat durable goods spending overall, with activity being dampened by high interest rates. Vehicle sales were unchanged on net. The sales mix remained concentrated in more affordable models such as compact and mid-size SUVs and crossovers. There was a further decline in travel-related spending.

Business Spending

Business spending increased slightly in April and early May. The pace of new capital expenditures ticked up, with contacts highlighting spending on facilities, including new hotels, office, and retail space. Several manufacturers reported that high borrowing costs led them to delay planned expansions or to purchase used equipment rather than new. There was a modest increase in demand for truck transportation services and little change in freight rates. Inventories for consumer goods decreased some and ended the reporting period at more comfortable levels, though auto dealers said inventories were somewhat elevated. Manufacturing inventories were also generally at comfortable levels.

Construction and Real Estate

Construction and real estate activity increased modestly on balance over the reporting period. Residential construction was up slightly, led by growth in single family homebuilding. The bulk of in-progress multifamily construction projects proceeded without delay, though there were reports of new projects moving slowly because of financing challenges. Residential real estate transactions increased modestly, with growth concentrated in the mid-range segment. Contacts noted that when mid-priced homes come on the market, they often receive multiple bids and sell quickly. Home prices increased modestly, while rents increased slightly. Multifamily rent growth was faster than expected in many areas of the District. Nonresidential construction activity rose modestly, and prices and rents were mostly unchanged. In the retail sector, some malls were being converted to senior living while others saw child activity centers move into vacant spaces. Commercial real estate activity decreased slightly. Contacts noted that greater equity commitments were required to close large deals. Property values continued to trend lower, and rents were mostly unchanged. Vacancy rates moved higher.

Manufacturing

Manufacturing demand decreased slightly in April and early May. Machinery sales were down modestly, with reports of slower demand from the machine tools sector. Orders for fabricated metals decreased slightly and contacts highlighted a drop in sales to the heavy machinery industry. Steel volumes were unchanged on balance, and one contact noted that high interest rates were holding back sales to the construction and renewable energy sectors. Auto industry orders were up slightly overall, though there were multiple reports of slowing demand for electric vehicle parts. Heavy truck sales increased modestly, which was a faster-than-expected rate.

Banking and Finance

Financial conditions tightened slightly on balance over the reporting period. Bond and equity values fell and volatility spiked at the start of the reporting period, but values recovered and volatility had receded by mid-May. Business loan demand was little changed overall, though contacts noted weakness in the trucking and commercial real estate sectors. Interest rates were flat, but terms tightened slightly. Business loan quality was unchanged. Consumer loan demand was stable, while borrowing rates rose slightly and terms tightened some. Consumer loan quality edged down, with one banking contact noting that credit card delinquencies were now above pre-pandemic levels. Another banking contact saw a decline in consumer deposits.

Agriculture

Income expectations for District farmers increased slightly during the reporting period, as prices increased for several agricultural products. Widespread precipitation reduced the intensity of drought in Iowa, but also delayed corn and soybean planting after an early start. Corn, soybean, and wheat prices moved higher. Most livestock prices were up, though egg prices were down. Continuing concerns about the financial impact of avian flu in cattle were offset by additional support from the federal government. Butter and cheese prices rose, with reports of stronger exports. Several contacts noted increased costs for repairs, machinery parts, and fuel. Demand for operating loans was up, in line with lower levels of working capital for farms.

Community Conditions

Community, nonprofit, and small business contacts saw little change in economic activity overall, though activity continued at a solid level. Contacts' concerns shifted away from cyclical or pandemic-related issues to longer run, slow changing ones. State government officials reported solid tax revenues in line with growth in economic activity. Workforce development intermediaries said that employment opportunities, even for those who face barriers to employment, remained robust. Small business intermediaries again observed that hiring and retention of workers, particularly lower skilled ones, was the primary challenge for small businesses. Nonprofit and social service organizations struggled to right-size in response to decreased revenue as COVID-era funding sunsets, even as demand for services remains high. Contacts noted that many low-income tax filers received smaller refunds this year following the end of some COVID-era tax credits.

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

Federal Reserve Bank of St. Louis

Summary of Economic Activity

Economic activity across the Eighth District continued to increase slightly since our previous report. Employment was unchanged and wages increased slightly. Inflation pressures increased moderately due to higher input costs. Consumer spending was unchanged, with signs of weakness at higher price points. Real estate activity cooled slightly. Poor weather conditions slowed progress on District crop planting. Banking conditions remained stable. The outlook among contacts was slightly pessimistic, which is weaker than our previous report but better than one year ago.

Labor Markets

Employment remains unchanged from our previous report. The labor market continues to be tight, with businesses still struggling to find employees. A manufacturing contact in southern Indiana reported not being able to fill open jobs, and an agriculture contact in the Memphis area noted that low labor force participation was a problem. Some signs of labor mismatch also appeared, with a real estate contact in Louisville reporting a struggle to find employees matching their qualifications.

Wages have increased slightly, with growth starting to level off to pre-pandemic rates. A Louisville human resources contact reported wage growth has been increasing at normal rates compared to the past few quarters. Other contacts reported wage increases have strained budgets, with a St. Louis construction contact reporting wage raises have increased costs.

Prices

Prices have increased moderately since our previous report. About one-third of District survey respondents reported higher or slightly higher prices since the first quarter. Just over half of contacts reported similar prices, with the remaining contacts reporting 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. Contacts generally expect current cost pressures and pricing strategies to continue into the third quarter.

Consumer Spending

Consumer spending was generally unchanged since our previous report. Most retailers and auto dealers reported that overall sales met expectations; however, dollar sales were lower than the same period one year ago. Comments indicated slower growth in discretionary purchases due to smaller household budgets and increased price sensitivity. For example, auto dealers reported a significant decline in demand for high-end vehicles, while demand has increased for lower-priced vehicles. Tourism and hospitality contacts reported that sales were in line with expectations and overall activity is unchanged from the same period one year ago.

Manufacturing

Manufacturing activity was unchanged since our previous report. Manufacturers in the automotive, textile, and food processing industries also reported softer demand from consumers for their products. Firms in Arkansas and Missouri reported slight increases in delivery lead times, production, inventories, and new orders. However, employment has modestly decreased. On average, firms reported they expect slight decreases in employment in the coming quarter. Employee turnover remains high compared to previous years. Though there is a high demand for workers, several firms reported an inability to find people who are willing to work and that employees may voluntarily leave as quickly as one week.

Nonfinancial Services

Activity in the nonfinancial services sector has weakened modestly since our previous report. The exception to this was the transportation sector, where the outlook has improved, with higher demand and sales exceeding expectations. One Arkansas contact reported unexpectedly high travel demand, and another St. Louis contact had success executing sales strategies. In most other nonfinancial services, the outlook has worsened. A Louisville consulting and management contact reported project delays. This sentiment was echoed by a St. Louis architecture and engineering contact, who reported steady client demand but longer project start and cancellation times, coupled with higher construction costs and higher interest rates. An Indiana health care contact reported a worsening outlook, while an education contact reported low public college enrollment. Overall, multiple contacts cited a worsening outlook due to some combination of higher interest rates, inflation, and political uncertainty.

Real Estate and Construction

Residential home sales have declined slightly since our previous report. About half of contacts reported sales did not meet expectations, with particularly weaker sales of higher-end homes. However, median-priced home sales were strong and continually sold for over their asking price.

The District experienced a slight increase in home prices as the total inventory of homes for sale remains low across the District.

Commercial real estate sales leasing activity has slowed since our previous report, and construction has remained stagnant. Contacts indicated that the prospect of higher-than-expected interest earlier this year has kept prospective developers on the sideline. A construction contact reported many have delayed projects due to higher interest rates. However, construction demand for transportation, federal, and lodging projects remains elevated.

Banking and Finance

Banking conditions and lending activities have remained stable from our previous report. According to contacts, demand for loans continues to be lower than one year ago, However, the growth of credit card, mortgage, and commercial and industrial loans has risen modestly since the past quarter. Contacts reported that competition for deposits continues to be intense as cash flow remains tight with high interest rates. Contacts provided mixed signals on nonperforming loans, with some banks reporting low credit risk and optimistic projections, while others reported signs of slow payments due to steady consumer spending; yet, they have not seen a significant rise in delinquent loans.

Agriculture and Natural Resources

Agriculture conditions have declined slightly since our previous report, with most contacts describing conditions as falling below expectations. District contacts were mixed on inventory, sales, and capital expenditures and noted increased labor costs as an additional stressor. Elevated rainfall and extreme weather events such as tornados continued to disrupt the planting progress for soy, cotton, and corn across all District states, while rice-planting progress remained similar to one year ago. The most-active planting periods have either ended or will end in the next two weeks; however, soy, corn, and cotton were all around 50 percent planted as of mid-May, down from over 90 percent planted at the same time one year ago, and slightly below average over the past few years. District contacts were mixed on inventory, sales, and capital expenditures and noted increased labor costs as an additional stressor.

Federal Reserve Bank of Minneapolis

Summary of Economic Activity

The Ninth District economy grew slightly since the previous report. Employment grew slightly, and labor demand continued to moderate. Price pressures increased moderately, and wage growth was also moderate. Commercial and residential construction improved slightly. Consumer spending also rose slightly, with contacts noting some spending caution among customers. Manufacturing ticked slightly higher. Agricultural conditions remained weak amid some positive developments. Activity among minority- and women-owned business enterprises was slightly positive.

Labor Markets

Employment grew slightly since the last report. Labor demand continued to moderate but remained positive. A monthly survey of District firms found that the share of respondents with job openings remained positive, but a slightly larger share noted staffing cuts. Labor demand in construction remained healthy despite widespread reports of slower activity. Hospitality and tourism firms reported increased hiring of seasonal workers in anticipation of rising spring and summer business. A Montana accounting firm noted that it had “a lot of unfilled job openings at all levels.” Employers were also reporting better labor availability. A Minneapolis-St. Paul hotel owner said the facility was sufficiently staffed and applicant quality “seems to have gotten much better.” A winery in central Minnesota said that it received “a lot more applications for part-time [and] seasonal workers this year, which is very encouraging.” Not everyone had the same experience. A Minnesota manufacturer said, “I don’t expect to fill any of my open jobs. We are increasing our capital expenditures to adapt our processes to smaller headcounts.”

Wages rose moderately. District employers reported that median wages were generally growing between 2 and 3 percent. However, a monthly pulse survey found that a larger share of businesses reported higher wages compared with results from the previous two months. In separate surveys, construction and hospitality firms both reported that wages were rising overall, but at somewhat slower rates than the previous year.

Prices

Price pressures were unchanged since the last report, as overall prices increased moderately. Most respondents to an April District business conditions survey reported no change to prices charged from a month earlier, while one-third said they increased prices. Input price pressures remained greater, as more than half of firms reported that they increased in April. Reports from contacts across the region indicated that businesses were less able to pass input cost increases to customers, who are feeling stretched budgets. Manufacturing contacts reported that metals prices spiked recently. Retail fuel prices in District states decreased slightly since the previous report.

Worker Experience

Job seekers in Minnesota shared that they were hesitant to accept a job offer if schedules were inflexible or pay was insufficient to meet their needs. They also listed training, time for job search, access to transportation, and affordable housing as important in helping them reach their career objectives. A contact in the Minneapolis-St. Paul area commented that students were facing difficulties finding summer internships this year because some employers had a shortage of available supervisors. A contact in the Upper Peninsula of Michigan shared that older workers in the region often feel discouraged to apply for jobs because of the listed requirements. They added that many older workers wanted more schedule flexibility instead of retirement.

Consumer Spending

Consumer spending grew slightly since the last report, with contacts noting some spending caution among customers. Hospitality and tourism firms overall reported modestly higher revenues of late. Hotel demand rebounded somewhat from a poor winter, but contacts reported that they were reducing prices to bump up demand. Contacts were also cautious in their outlook for summer business compared with last year. A Minnesota winery and restaurant said it was seeing lower average spending among patrons. “Guests are being very careful with their money. We see less of our regulars and [more] moderate spending.” A Montana restaurant and hotel owner was trying to avoid passing further cost increases to customers. “At some point, they will say, ‘I am not paying $20 for a hamburger.’” Vehicle sales have flattened overall. New-vehicle sales were still growing, but dealer incentives returned. A Montana dealer said used vehicles were “on a big slide” due to higher interest rates. Airline traffic grew, but more slowly than in previous months.

Construction and Real Estate

Construction activity improved slightly since the last report. Industry data showed that recent activity increased as the sector moved into the traditionally busier spring season. A larger share of firms also expected increased activity going forward compared with those who expected a decline. However, other metrics were more cautious. Firms overall reported a decline in new projects out for bid for this time of year; project backlogs were also shorter, and cancellations continued to challenge the sector. Firms doing infrastructure work reported more activity and a better outlook; those in residential and commercial reported mixed but improving activity, and industrial firms reported slowing business. Large firms also reported consistently stronger activity than smaller firms.

Commercial real estate was flat and remained soft overall. Office vacancy in Minneapolis-St. Paul stabilized, but loan renewals were reportedly seeing discounted property appraisals and high loan-to-value ratios. Vacancy rates for industrial space nudged higher, though from low levels. Multi-family property benefited because new construction “has stopped in its tracks,” according to a Minnesota source. Residential real estate was strongly higher, as many regions saw sales in April increase from 20 to 40 percent year over year, along with strong increases in new listings.

Manufacturing

District manufacturing activity increased slightly on balance since the previous report. A regional manufacturing index indicated increased activity in Minnesota and South Dakota in April from a month earlier, while activity decreased in North Dakota. The number of manufacturing contacts who reported increased recent orders was similar to the number who reported decreases. A food producer added staff in expectation of increased sales. In contrast, a producer of construction equipment reported its sales were very weak compared with seasonal norms.

Agriculture, Energy, and Natural Resources

Agricultural conditions in the District remained weak amid some positive developments. Lenders responding to an agricultural credit conditions survey overwhelmingly reported decreased farm incomes in the first three months of 2024 relative to a year earlier, with expectations for further declines in the second quarter. However, contacts in the industry reported that some moderation in input costs was expected to benefit producer margins. Recent precipitation alleviated drought conditions in much of the region, and crop planting and progress was generally near average for early spring. However, poor snow cover over the winter negatively impacted the quality of the winter wheat crop in the western parts of the District. District oil and gas exploration activity was unchanged since the previous report.

Minority- and Women-Owned Business Enterprises

Activity among minority- and women-owned business enterprises was slightly positive over recent weeks. More contacts reported increases in sales than those who reported flat or lower activity. Some businesses saw a decline in job openings, and others continued to struggle to find qualified candidates. Profits remained under pressure among contacts due to increased input costs, but some were optimistic that pressure would lessen in the coming weeks.

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

Federal Reserve Bank of Kansas City

Summary of Economic Activity

The Tenth District economy expanded at a moderate pace, led by rising household consumption and growth in professional business service activity. Moreover, contacts indicated their employment outlooks were less vulnerable to a deterioration in conditions compared to six months ago. Hiring activity and expected job growth were modest, with some acute indications of rising barriers to work among low-wage occupations. Several contacts noted a willingness to accept elevated wage growth over the near-term, as the alternative of lost revenue due to vacant positions would be too costly. Price dynamics were reported to be changing due to a rise in the frequency of price adjustments as well as a greater use of clauses in supplier contracts to reduce the risk of outsized input cost growth. Consumer spending rose moderately. Spending on auto services and parts showed robust growth as households maintained their vehicles that faced lower trade-in values. Commercial real estate activity stabilized across the District, but at low levels. Conditions in agriculture and energy were mixed across segments.

Labor Markets

Tenth District contacts reported hiring activity expanded slightly over the past month. Businesses indicated their priorities in hiring were generally unchanged, with ongoing focus on recruiting early-career and entry-level workers. Mismatches in between open jobs and workers' skills remained an ongoing concern, and many businesses reported they are devoting significantly more resources to training workers to close skill gaps. Wages continued to grow at a moderate pace. Several contacts noted their current willingness to accept wage growth that is higher than historical norms because the alternative of lost revenue due to vacant positions would be too costly. Looking ahead, manufacturing businesses continued to report expectations that the pace of wage growth will be slightly slower than, or similar to, last year. However, services contacts were more mixed in their expectations of wage growth, with consumer-oriented businesses expressing greater wage pressures.

Prices

Business contacts reported prices for finished goods and services grew slightly over the last month, with declines in auto prices being a notable exception. Growth in input costs continued to outpace selling prices. Amid difficulties to pass higher materials and input costs onto customers, many contacts reported being willing to change selling prices more frequently compared to last year to protect margins when possible. Contacts also reported implementing several new strategies to alleviate cost pressures arising from suppliers for the coming year. Specifically, many businesses reported they are entering shorter duration contracts with vendors, adding escalation clauses that cap cost growth, or including new clauses to allow for renegotiation upon unanticipated cost changes.

Consumer Spending

Consumer spending rose moderately driven by increases in hotel stays, outings to restaurants, and other services. Spending on services and parts for auto repairs grew at a robust rate as households increasingly repaired and maintained their vehicles. Recent declines in auto prices from pandemic-era highs reduced trade-in values for used cars purchased two to three years ago. Those lower trade-in values, combined with the propensity to purchase cars with extended term financing in recent years, meant that many car owners could not exit their loans and instead elected to repair and maintain their current vehicles in lieu of trading in for new cars.

Community Conditions

The availability of jobs for low-wage workers was reportedly high, and contacts indicated the entry-level job market is still tilted in job seekers' favor. However, a few noted that some employers were bringing back restrictions on hiring such as background checks and drug testing. High prices of vehicles and rising costs of repairs and auto insurance continue to present barriers to work for low-wage workers. Additionally, contacts noted the preponderance of new jobs locating on the fringes of metro areas has made those jobs more difficult to reach for low-to-moderate income households. Contacts noted the benefits of switching jobs lessened considerably for workers, but the tendency to switch jobs for even marginal wage gains remains elevated.

Manufacturing and Other Business Activity

Business activity expanded at a moderate pace, led by robust growth among both consumer and professional service providers. Manufacturing contacts continued to report moderate and broad-based declines in activity. Compared to 6 months ago, contacts generally reported more optimism about avoiding the need to lay off workers if activity were to meaningfully slow. Instead, more firms reported they would reduce the number of open positions and reduce hours worked if demand were to decline significantly. Slightly more businesses expressed they would likely reduce headcount through natural attrition if conditions were to deteriorate, even as turnover continued to decline. Given current conditions, most employers expected modest job gains over the next six months.

Real Estate and Construction

Many aspects of commercial real estate (CRE) activity that were declining for several quarters reportedly stabilized over the past month, albeit at low levels. However, ongoing increases in vacancy rates kept downward pressure on rents. Property sales rose moderately throughout the District with slight increases in transaction prices, though contacts noted more self-funded equity was needed to finance deals. Contacts reported only modest increases in private equity funding being deployed but generally indicated that substantial amounts of equity remained on the sidelines. Bank lending and lending from insurance companies to the CRE sector reportedly declined recently. Despite the reportedly tight financial conditions, District contacts' expectations regarding property valuations improved moderately compared to earlier in the year.

Community and Regional Banking

Loan demand was mostly unchanged at District banks from the previous month, except for CRE loans, which declined due to higher financing costs. Contacts also noted portfolio credit quality was mostly unchanged and they largely expected similar loan quality in the coming six months. Bankers indicated that less than 10 percent of their CRE borrowers had exercised extensions in the past six months and expect less than 5 percent to require an extension in the coming six months, highlighting contacts' cautious optimism about CRE loans despite elevated interest rates. Deposits were unchanged on net amid short seasonal fluctuations driven by tax payments.

Energy

Tenth District oil and gas activity declined slightly over the last month. The number of active rigs fell as oil prices declined, and production in the District's major basins decreased modestly. Coal production in Wyoming also fell moderately over the last month due to a continued decline in price. Contacts indicated capital expenditures to support coal mining were increasingly oriented toward maintaining equipment, rather than expanding capacity. Renewable energy capacity has grown at a moderate pace in the District this year, driven by wind installations in Oklahoma and solar installations in New Mexico. However, District growth in non-wind renewable capacity lags the U.S. and is expected to continue underperforming the national average in coming months.

Agriculture

Conditions in the Tenth District agricultural economy softened through early May and farm finances tightened slightly. Corn, soybean, and wheat prices increased slightly since April, but remained weak, keeping profit opportunities narrow. Winter wheat conditions in Colorado and Kansas were particularly poor and raised concerns about reduced revenues while growing conditions in Oklahoma and Nebraska were comparatively better. Corn and soybean planting was delayed in some areas of the region, which also raised concerns about future crop conditions. In the livestock sector, cattle prices remained strong and supported profit opportunities for cow/calf producers. District contacts mentioned that financial stress has remained modest, but concerns about further deterioration were growing.

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

Federal Reserve Bank of Dallas

Summary of Economic Activity

Economic activity in the Eleventh District was flat to up slightly over the reporting period. Some growth was seen in the manufacturing, banking and energy sectors, while activity in nonfinancial services was flat, and declines were seen in retail sales. Home sales remained solid. Employment levels held mostly steady overall, and price and wage growth remained fairly moderate. Outlooks were generally stable to slightly more pessimistic compared with the prior reporting period. Waning consumer demand was an ongoing concern for many businesses, and the continued conflict in the Middle East and further geopolitical tensions across the world were noted as a downside risk.

Labor Markets

Employment levels were fairly flat over the past six weeks overall, according to contacts. Job gains were seen in leisure and hospitality, health care, and nondurable goods manufacturing, while head-counts were stable or down slightly in most other industries. Oil and gas companies said they were backfilling vacancies but not looking to materially expand their workforce. The uncertain economic environment has prompted some hiring reluctance. A few contacts expressed doubt whether they will be able to maintain their existing workforce, with a staffing firm noting they are “on a cliff’s edge” where they may have to lay people off. There were scattered reports of labor shortages, not concentrated in particular industries other than health care, which contacts said remained significantly understaffed.

Wage growth remained moderate. A staffing services firm noted that wage pressures have eased as workers who have been unemployed longer than expected are more open to negotiation on the wage front. A technology company said wage trends have reverted to the typical average raise of about 3 percent overall.

Prices

Prices rose at a modest to moderate pace over the reporting period. A slight ebbing was seen on the manufacturing side, for both materials and finished goods price growth. Multiple manufacturing contacts noted that they were experiencing a strong resistance to price increases, with one saying that customers ask to hold prices to last year’s level, which isn’t possible given the increases in costs. In services, growth in input prices remained in line with a typical rate while selling price growth slowed to slightly below average. Airlines reported upward cost pressure, partly stemming from elevated maintenance to upkeep older aircraft in the face of supply issues for new aircraft.

Manufacturing

Overall manufacturing activity grew modestly over the reporting period, with strength led by nondurable goods production. Food and chemical manufacturers noted a rise in demand, and Gulf Coast producers led year-over-year growth in U.S. industrial chemical output. Some weakness continued on the durable goods side, particularly machinery manufacturing. One contact noted that he "keep[s] thinking we'll hit bottom and either level out or turn up, but we keep pushing those hopes out a month, and another month, and another." Manufacturing outlooks worsened slightly on net, weighed down by waning consumer confidence and election uncertainty. Chemical producers also noted a weak Chinese economy as a risk.

Retail Sales

Retail sales declined moderately over the past six weeks, with contacts reporting that elevated pricing hampered consumer goods demand. Wholesale activity was a bright spot, while auto dealers noted declining sales amid continued volatility. Overall retail outlooks worsened slightly on net, with contacts citing inflation, high interest rates and instability in the Middle East.

Nonfinancial Services

Service sector activity was mostly flat over the reporting period, with contacts saying economic uncertainty curbed consumer demand. Revenue growth was seen in administrative and support services as well as information services. Health care reported a further deterioration of revenue, and reports from transportation services were mixed. Several transportation firms noted a decline in business, while small parcel carriers reported increased volumes and airlines reported strong, stable revenues. Leisure travel continues to lead airline demand, though business travel is showing signs of growth after plateauing in late 2023. Outlooks remained fairly stable, but contacts cited concern over an economic slowdown, geopolitical tensions, and Federal Reserve policy decisions, particularly a delay in cutting interest rates. High borrowing costs remained a concern for some companies.

Construction and Real Estate

Housing demand remained solid, though there were reports of rising rates impacting sales activity. Incentives such as rate buy downs remained prevalent, and some builders offered selected price discounts to move homes in inventory.

Commercial real estate market conditions were little changed from the previous reporting period. Apartment leasing growth remained moderate, but there continued to be downward pressure on occupancy and rents due to elevated supply. In the office market, leasing activity stayed subdued and was largely concentrated in class A space. Industrial demand grew moderately, and rents were stable even as vacancy rose. Outlooks were mixed, with some commercial market segments expected to remain challenging in the near to medium term.

Financial Services

Loan volumes grew for the first time in over a year despite credit standards continuing to tighten, and loan pricing continuing to rise. Credit tightening accelerated for commercial and residential mortgages while it decelerated for commercial and industrial loans and consumer loans. Loan nonperformance picked up slightly overall. Bankers' outlooks turned pessimistic: they expect a modest decrease in loan demand six months from now in addition to a deterioration in loan performance and overall business activity. Liquidity and net interest margins top the list of outlook concerns.

Energy

Oilfield activity was flat to slightly up over the reporting period. Oil prices are broadly expected to orbit $80 for the remainder of the year, a level well above what's needed to profitably drill new wells for most producers. Even still, contacts expect only modest increases in drilling and completion activity through year-end, which will limit U.S. production growth this year compared to 2023. Natural gas prices are expected to be "below cost" for many gas producers over at least the next few months.

Agriculture

Drought conditions remained in the western parts of the District, while other parts received ample rainfall, and some flooding was seen in scattered areas. Pastureland was in good condition, as were hay and wheat fields. Soil conditions are quite favorable for row crops this year. Better cotton production is expected this year compared with the past couple of years based on current conditions, though cotton prices have slipped. Most other crop prices rose over the reporting period while cattle prices eased off highs. The spread of avian influenza among dairy cows remains a concern for the supply of milk, though it is not a food safety issue due to the pasteurization process.

Community Perspectives

Affordability of housing and of quality childcare remained top concerns for lower-income families over the reporting period. Higher mortgage rates, property taxes, and insurance premiums are driving up costs of single-family homes, and a shortage of landlords willing to accept housing vouchers is affecting apartment availability. One contact noted that higher mortgage rates push middle-income homebuyers to the sidelines, driving up demand for rentals and pricing lower-income residents out of the buyer's market. Access to quality, affordable childcare continued to impede workforce participation among women in particular. One contact said that industries with shift work struggle to attract women since the work schedule often doesn't align with childcare hours. Several contacts expressed concern about the winding down of American Rescue Plan Act dollars and whether nonprofits and K-12 schools will be able to sustain certain programs without that funding. Contacts also noted that mental health continues to be a community concern.

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

Federal Reserve Bank of San Francisco

Summary of Economic Activity

Economic activity in the Twelfth District was unchanged on balance during the April through mid-May reporting period. Employment levels were generally flat, and labor was more available. Wages grew slightly, and contacts reported lower goods prices and higher services prices. Retail sales grew slightly. Activity in services sectors weakened a bit, as did activity in residential real estate markets. In contrast, commercial real estate activity was unchanged. Demand for manufactured products picked up slightly. Conditions in the agriculture and resource-related sectors remained mixed. Activity in the financial services sector remained largely unchanged. Communities across the Twelfth District sought services for mental health support as well as housing and food assistance. Looking ahead, contacts expect a modest decline in economic conditions overall.

Labor Markets

Employment levels were generally flat over the reporting period. Reports of low attrition rates continued, and employers preferred to fill only critical positions. One contact described the labor market to be in a “lock-in” situation—employers are generally not laying off workers, and workers are not quitting as often as in recent years. Employers across sectors reported receiving more applications for entry-level positions than before. However, they are still finding it difficult to attract experienced engineers as well as electricians and other skilled trades workers including machinists and welders. Several contacts in the hospitality industry reported hiring more foreign-born workers—on permanent and temporary bases—in recent months to address persistent labor shortages.

Reports indicated that wages grew slightly in recent weeks, in line with the prior reporting period. Wage pressures generally eased in many business services, such as consulting and financial services, but several contacts mentioned having to pay a premium to hire experienced workers. In addition, businesses needing workers knowledgeable in generative artificial intelligence technologies reported strong wage pressures and competition.

Prices

Prices continued to increase at a slight pace on net. Contacts emphasized the discrepancy between recent movements in goods and services prices. Good prices—such as for food products, lumber, steel, and building materials—fell or were unchanged, while services prices, particularly for insurance and utilities, rose notably. Several contacts in retail trades and leisure and hospitality reported limited ability to pass higher costs onto consumers, particularly in areas which experienced recent increases in state and local minimum wages.

Community Conditions

Conditions in the community support and services sector worsened somewhat in recent weeks. Demand for mental health services, housing assistance, food assistance, and other related services remained high. Contacts across the District reported more difficulties obtaining funding for nonprofit organizations in recent weeks as government agencies, firms, and individuals scaled back support. Faced with these challenges, nonprofit organizations turned to other funding sources such as offering new fee-based services and drawing down endowments. Reports highlighted that small businesses continued to face challenges covering labor and other business expenses, and some opted to reduce operating hours to reduce costs.

Retail Trade and Services

Retail sales grew slightly over the reporting period. Consumers continued to buy lower cost items, and they reduced spending on nonessential goods, as sales of big-ticket items and luxury goods reportedly weakened. Retailers reported stable consumer demand for home goods and food and beverages, while sales of pet care products slowed somewhat.

Activity in the consumer and business services sectors weakened a bit in recent weeks, after growing modestly in the previous reporting period. Demand for business consulting and accounting edged down, while demand for legal services was unchanged. Demand for health-care services remained strong, and supply was at or near capacity. Restaurants across the District reported slower consumer spending, with many customers replacing dining out with eating meals at home. Activity levels in the travel, entertainment, and hospitality industries were unchanged in most regions across the District, and business and leisure travel overall remained below pre-pandemic levels. Seattle tourism recently increased, which reportedly boosted sales for consumer-facing businesses.

Manufacturing

Manufacturing activity picked up slightly. Demand for capital equipment and fabricated metal strengthened. Seasonal maintenance projects and repairs led to a higher volume of new orders, and some previously delayed projects regained momentum and supported higher manufacturing activity. At the same time, a wood products manufacturer in the Pacific Northwest reported a slowdown in production due to a lower timber supply. More broadly, delivery times and availability of materials continued to improve but have not returned to pre-pandemic levels for some products.

Agriculture and Resource-Related Industries

Conditions in the agriculture and resource-related sectors remained mixed. Current yields and past harvest inventories of food products, such as tree fruit, tree nuts, and seafood, remained high over the reporting period. Domestic demand from food services and retail sectors was stable but not sufficient to absorb domestic supply. As a result, prices fell for some agricultural products, such as apples, and exports increased. Harvesting restrictions, softening domestic sales, and slower international demand for lumber weakened logging activity, which resulted in some sawmill closures.

Real Estate and Construction

Activity in residential real estate slowed further. Single-family home sales fell amid continued low inventory. Several contacts noted that despite high mortgage rates, demand exceeded the supply of available homes for sale. Construction of single-family homes already in progress, though at a low level, was stable, and single-family housing starts picked up. Multifamily housing starts fell, but construction completions continued to expand the supply of rental units, slightly lowering rents, raising vacancy rates, and increasing leasing incentives. A contact in California noted that a recent change in state regulations has raised construction costs.

Commercial real estate activity was unchanged on balance. Demand for retail space strengthened, which led to lower vacancies and higher rents in this subsector. Industrial leasing declined slightly, but activity remained robust. Construction of new commercial space was stable. Builders continued to work through a backlog of existing projects, although a contact in Arizona indicated that difficulties obtaining financing curtailed some new construction activity.

Financial Institutions

Lending activity was little changed on balance. Most banks continued to report soft demand for loans. Some contacts mentioned that clients deferred borrowing for new projects, while other contacts noticed subtle increases in loan originations, particularly to finance construction projects.

Competition for deposits remained elevated as some clients reportedly moved their assets to non-bank alternatives offering higher interest rates. Lending requirements tightened further, and credit quality was strong.

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