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# The Beige Book

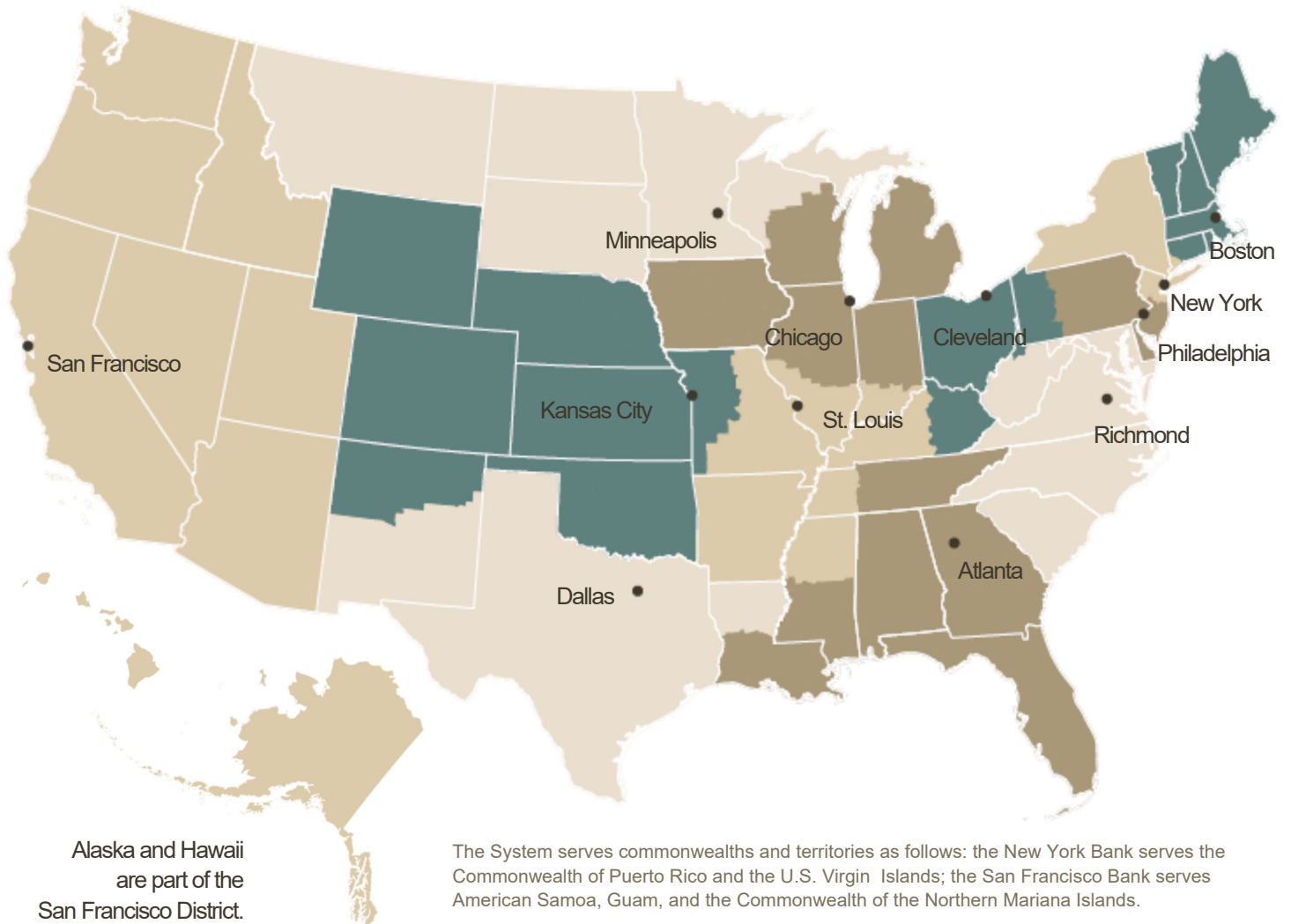
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Summary of Commentary on Current Economic Conditions

By Federal Reserve District

May 2022

## Federal Reserve Districts



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This report was prepared at the Federal Reserve Bank of Philadelphia based on information collected on or before May 23, 2022. This document summarizes comments received from contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.

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

## What is the Beige Book?

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

## What is the purpose of the Beige Book?

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

## How is the information collected?

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

## How is the information used?

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

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

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



# National Summary

The Beige Book ■ May 2022

## Overall Economic Activity

All twelve Federal Reserve Districts have reported continued economic growth since the prior Beige Book period, with a majority indicating slight or modest growth; four Districts indicated moderate growth. Four Districts explicitly noted that the pace of growth had slowed since the prior period. Contacts in most Districts reported ongoing growth in manufacturing. Retail contacts noted some softening as consumers faced higher prices, and residential real estate contacts observed weakness as buyers faced high prices and rising interest rates. Contacts tended to cite labor market difficulties as their greatest challenge, followed by supply chain disruptions. Rising interest rates, general inflation, the Russian invasion of Ukraine, and disruptions from COVID-19 cases (especially in the Northeast) round out the key concerns impacting household and business plans. Eight Districts reported that expectations of future growth among their contacts had diminished; contacts in three Districts specifically expressed concerns about a recession.

## Labor Markets

Most Districts reported that employment rose modestly or moderately in a labor market that all Districts described as tight. One District explicitly reported that the pace of job growth had slowed, but some firms in most of the coastal Districts noted hiring freezes or other signs that market tightness had begun to ease. However, worker shortages continued to force many firms to operate below capacity. In response, firms continued to deploy automation, offer greater job flexibility, and raise wages. In a majority of Districts, firms reported strong wage growth, whereas most others reported moderate growth. However, in a few Districts, firms noted that wage rate increases were leveling off or edging down. Moreover, while firms throughout the country generally anticipate wages to rise further over the next year, one District indicated that its firms' expected rate of wage growth has fallen for two consecutive quarters.

## Prices

Most Districts noted that their contacts had reported strong or robust price increases – especially for input prices. Two Districts noted that this rapid inflation was a continuation of trend; however, three Districts observed that price increases for their own goods or services had moderated somewhat – across the board (among Philadelphia firms) or for some segments (used cars in Boston and manufacturing in Richmond). About half of the Districts observed that many contacts maintained pricing power – passing costs on to clients and consumers, often with fuel surcharges. However, more than half of the Districts cited some customer pushback, such as smaller volume purchases or substitution of less expensive brands. Surveys in two Districts pegged year-ahead increases of their selling prices as ranging from 4 to 5 percent; moreover, one District noted that its firms' price expectations have edged down for two consecutive quarters.

## Highlights by Federal Reserve District

### Boston

Economic activity in the First District increased slightly amid robust wage and price growth. Labor scarcity remained a widespread problem as headcounts increased only slightly. Restaurant profits fell on steep input price increases. The outlook for summer tourism was bright, but many contacts' optimism was tainted by growing fears of recession.

### New York

Growth slowed to a modest pace, with much of the slowing attributed to supply disruptions, worker shortages, and a COVID resurgence. Businesses added staff amidst high turnover. Tourism strengthened, but consumer spending and manufacturing activity weakened. Businesses continued to report widespread increases in prices and wages. Contacts were somewhat less optimistic about the near-term outlook.

### Philadelphia

Business activity grew slightly – at a slower pace than in the prior Beige Book period, and some sectors remained below pre-pandemic levels. Rising prices and recession fears have turned consumers and firms more cautious. The labor market remained tight with modest growth. Wage and price growth continued to expand at a moderate and strong pace, respectively, although the pace of both eased somewhat lower.

### Cleveland

Business activity decelerated and was slightly positive as firms grappled with ongoing supply chain challenges, tight labor market conditions, and escalating costs. Employment rose moderately. Contacts reported broad increases in wages, costs, and prices. Overall, contacts were less certain about the economic outlook and expected upward pressure on prices to persist.

### Richmond

The regional economy grew modestly over the last several weeks. Consumer spending remained strong while manufacturers and service providers reported modest to moderate growth. Import activity slowed slightly, as did trucking demand. New vehicle and home sales were limited by low inventory levels. Employment increased modestly and wages continued to rise moderately. Overall, price growth remained robust.

### Atlanta

Economic activity expanded at a modest pace. Labor markets remained tight, and wages continued to rise. Nonlabor costs rose. Retail sales moderated somewhat. Tourism activity remained strong. Housing demand softened slightly. Commercial real estate conditions remained mixed. Manufacturing activity was strong. Banking conditions were mixed.

### Chicago

Economic activity increased modestly. Employment increased strongly, manufacturing was up moderately, consumer spending moved up modestly, business spending was slightly higher, and construction and real estate activity declined slightly. Wages and prices rose rapidly, while financial conditions deteriorated some. Agriculture income expectations for 2022 were little changed.

### St. Louis

Economic conditions have improved at a modest pace since our previous report, although the outlook has weakened. Prices for raw materials and fuel increased robustly. Consumer spending showed increased signs of price sensitivity and a shift from goods to services. Manufacturing firms reported that a backlog of orders should sustain production even as orders slow due to higher prices.

### Minneapolis

The region's economy grew moderately since mid-April. Demand across sectors remained strong but higher input and labor costs put downward pressure on profit margins. Construction and real estate contacts reported some slowing due to interest rate increases. Demand for credit among minority- and women-owned business enterprises was down amid uncertainty about the economy.

### Kansas City

The Tenth District economy grew at a moderate pace, but expectations for future growth softened somewhat due to a variety of factors. Contacts noted a number of shifts in consumer behavior as prices continued to rise at a robust pace. Labor demand remained elevated, and the number of hours worked increased in recent weeks. Wage growth aimed at retaining workers was much faster than observed in recent years.

### Dallas

Economic growth in the district slowed to a moderate pace. Growth remained largely broad-based, except for home sales and retail activity, which dipped. Prices rose at a rapid clip, though several firms noted diminished ability to fully pass on cost increases. Employment and wage gains generally remained solid. Outlooks weakened, and uncertainty increased because of rising headwinds.

### San Francisco

Economic activity strengthened moderately over the reporting period. Conditions in the labor market remained tight. Wages and price levels increased significantly. Retail sales continued to increase while demand for services rose considerably. Conditions in the agriculture sector deteriorated somewhat. The residential real estate market remained robust overall, and lending activity was little changed.





## Summary of Economic Activity

Economic activity in the First District increased slightly on balance. Employment increased slightly as many firms struggled to hire and retain workers, and labor shortages contributed to above-average wage growth. Price inflation persisted at a moderate to fast pace. Retail contacts posted flat or somewhat better sales, while restaurants saw slight revenue gains, and tourism contacts expect record-breaking occupancy rates this summer. Manufacturers reported a wide range of results, and some were hurt by softer demand from Europe and China. Business at staffing firms was restrained slightly by labor scarcity and changes in demand composition. Home sales were steady at a slow pace amid a slight seasonal uptick in inventories, and commercial real estate activity was healthy but offered some signs of a slowdown. While many contacts remained optimistic, an increasing number expected a recession by year's end.

### Labor Markets

Employment was flat or up slightly among First District contacts amid persistent hiring and retention difficulties, and labor scarcity fueled above-average wage increases. Restaurants faced acute worker shortages and responded with sharp wage increases. Tourism industry contacts face a looming shortage of seasonal workers owing to an ongoing lack of temporary work visas, and some are planning to cut capacity (such as restaurant seating) as a result. In the retail sector, worker headcounts were flat, hours were down, and wages increased moderately on average as some retail firms reportedly poached employees away from childcare positions. In the New Hampshire auto industry employment was flat and wage pressures, previously muted, started to intensify. Manufacturers mostly had strong labor demand but only a few managed to increase their staffing levels, as all complained that hiring was difficult, and turnover was high. Manufacturing wage increases were moderate to strong, and some sought to compensate workers for inflation with one-time bonuses rather than—or, in some cases, on top of—permanent wage increases. The hiring outlook was mixed, as some contacts expected labor market tightness to ease, and others expected persistent labor shortages.

### Prices

Prices increased at a moderate to robust pace at most contacted firms, although pricing pressures eased for used cars in response to increased inventories. Restau-

rants faced steep food price increases, especially for meats, eggs, and oils, and incomplete pass-through to menu prices resulted in weaker profits. A salvage retailer exposed to high freight costs raised its own prices by moderate margins. In advance bookings, hotel room rates on Cape Cod reached record highs. Most manufacturers enacted above-average price increases to defray inflation in the prices of a variety of inputs, including semiconductor chips, plastics, glass, energy, logistics, and labor. Yet the war in Ukraine still lends uncertainty to the pricing outlook.

### Retail and Tourism

Retail and restaurant contacts reported flat to moderately higher sales, and tourism contacts enjoyed robust summer bookings activity. An online retailer had flat recent sales but said that supply chain pressures eased. A salvage store enjoyed a better-than-expected increase in recent sales but rejected some potential inventories over high freight costs. A contact in the New Hampshire automobile industry reported a moderate increase in used car inventories but also observed that supply chain issues in the new car industry had spread to a broader set of auto manufacturers. A Massachusetts restaurant industry contact reported a slight recent increase in sales but said that cost pressures had crimped profits. Boston restaurants, which have lagged suburban restaurants in the recovery, were happy to see healthier sales thanks to the ongoing return of office workers and travelers to

the urban core. Some Cape Cod restaurant owners plan to curtail service this summer due to labor shortages, but hotels and B&Bs on the Cape are planning for record-breaking occupancy and room rates based on advance summer bookings. The outlook was a mix of optimism and concerns about ongoing inflationary pressures and labor shortages.

### **Manufacturing and Related Services**

Contacts offered mixed results. Three of the seven firms reached this round reported robust increases in sales, one had strong but stable sales, and the others saw slightly to moderately weaker sales. Among the firms with the strongest results, a manufacturer of laboratory equipment said that business was up across all product lines except those related to COVID testing, and a semiconductor manufacturer continued to enjoy record-breaking sales growth. At the other end, a garden hose maker lamented that supply chain issues were driving up prices and that retail customers increasingly balked at paying them. Two contacts experienced recent softness in overseas sales, which were hurt by the war in Ukraine and lockdowns in China. Firms continued to invest despite higher interest rates. The outlook was mostly unchanged and mostly positive, but the Ukraine war presented downside risks for some contacts, and one perceived a high chance of recession in the next six months.

### **Staffing Services**

Among the three staffing firms reached this round, two experienced slight and sharp revenue declines, respectively, and another enjoyed a moderate uptick in receipts. All described the labor market as extremely tight, yet also shifting in terms of demand composition. For example, positions at COVID testing sites have mostly evaporated, a shift that explained the large decline in business at one firm. Although upward wage pressures persisted for most positions, some employers sought to reverse “COVID wage premiums” but faced resistance from workers seeking compensation for inflation. Competition for scarce labor was intense, particularly in specialized roles, as workers were reportedly “besieged” with offers. Contacts reported high rates of temp-to-permanent conversions and noted that salaries for junior level professionals increased very steeply from a year earlier. Looking ahead, two firms predicted that their revenues would rise as conditions continued to normalize, and one worried that the shortage of workers would restrain their business. The state of the national economy was a point of concern, although two noted that worsening macroeconomic conditions could alleviate the worker shortage.

### **Commercial Real Estate**

Commercial real estate activity in the First District was steady at a healthy level, but signs of a potential slowdown became more prominent. Investors were reportedly slower to spend, suggesting they expected deal terms to turn in their favor. Industrial activity, while still very strong, slowed further since last round as big players sought less space than they did at the height of the pandemic. Higher-end and suburban office spaces enjoyed improved leasing demand, but activity remained limited for downtown and older office buildings, and uncertainty concerning return-to-work plans lingered. Contacts described retail activity as “chugging along” at a steady pace thanks to the release of pent-up consumer demand, but some wondered how long such demand would hold up. Apartment rents climbed further at a fast pace, but in other sectors contacts reported no significant changes in rents or vacancy rates. Most contacts expressed greater pessimism about the outlook for commercial real estate than they did last round, and only one remained very positive. Several perceived that the Fed’s interest rate increases had already slowed the economy, and a few contacts expected a recession by year’s end.

### **Residential Real Estate**

Residential real estate sales in four New England states (Connecticut and Vermont offered no data) held roughly steady at a slow pace in April, despite slight seasonal improvements in inventories. Closed sales were down over the year for single-family homes and condominiums, at about the same pace as in March. Median sales prices increased over the year in all reporting markets, at rates that were on par with March results for single-family homes and moderately higher for condos. Year-over-year, inventories were down in all reporting markets, but by slightly smaller margins than in the previous report. All contacts mentioned that higher mortgage rates have created affordability issues for many prospective buyers, cooling demand. The Massachusetts contact noted again that competition was highest for lower-priced homes and observed that increasing numbers of buyers are shifting to the condo market after being priced out of the single-family market. ■

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





## Summary of Economic Activity

Economic growth in the Second District slowed to a modest pace in recent weeks, hampered by ongoing labor shortages, supply disruptions, and an upturn in COVID cases. Contacts have also become somewhat less optimistic about the near-term outlook. Businesses continued to report widespread increases in selling prices, input prices, and wages, as well as ongoing difficulty obtaining necessary supplies. The job market has remained exceptionally tight, with businesses continuing to add staff amidst high turnover. Both manufacturing activity and consumer spending slowed noticeably in recent weeks, although tourism continued to strengthen. While there were scattered signs of easing in the home sales market, it remained quite robust, and the residential rental market continued to strengthen. Commercial real estate markets were generally steady. Construction activity was little changed, with a good deal of multifamily residential development in progress. Finance-sector contacts reported little change in activity, while regional banks reported weaker loan demand but steady to lower delinquency rates.

### Labor Markets

Businesses continued to report widespread labor shortages, impeding both new hiring and retention—particularly at small firms. Still, many businesses indicated that they continue to add staff—particularly in retail & wholesale trade and in professional & business services. A number of contacts indicated that COVID has exacerbated worker shortages, due to illness-driven absenteeism and resistance to vaccination requirements. Businesses in all major industry sectors plan to add staff, on net, in the months ahead.

A New York City staffing agency noted that demand for workers has remained strong across the board, despite recent financial market turmoil. An upstate staffing agency, however, suggested that the labor market, while still quite strong, had become less frothy. Likewise, a large business services firm noted some pullback in hiring in its industry.

A majority of businesses continued to indicate that they were raising wages and anticipated further increases in the months ahead. Wage gains have been most noteworthy in the construction, wholesale trade, transportation, and leisure & hospitality sectors. One employment agency observed that job seekers in the finance sector have become somewhat more negotiable on pay.

### Prices

Most business contacts noted ongoing escalation in input costs for a wide range of supplies, as well as energy and freight. Contacts in all major industry sectors expect input prices to rise further in the months ahead.

The vast majority of businesses reported recent hikes in their selling prices, most notably in the manufacturing, wholesale & retail trade, and transportation sectors. Selling price increases were not quite as widespread as in the last report. Businesses generally expect their selling prices to rise by about 4-5 percent over the next year, but they expect inflation overall to run closer to 6-7 percent. However, a top concern expressed by a number of business contacts was that price volatility and the related uncertainty made it difficult to plan ahead—that is, set prices, negotiate contracts, and budget. When asked about longer-term inflation expectations, the typical firm expected inflation to be around 3 percent five years out.

### Consumer Spending

Consumer spending slowed noticeably in recent weeks. Non-auto retailers reported a dip in sales activity, though a few contacts attributed this more to supply constraints than weak demand. Consumer confidence among New

York State residents rose in April to its highest level in nearly a year, exceeding pre-pandemic levels.

New vehicle sales remained sluggish in recent weeks, still restrained by a dearth of inventory, reflecting the ongoing microchip shortage. Almost all new cars delivered to dealers are still being pre-sold 6-8 weeks in advance. Sales of used vehicles weakened, and prices have retreated somewhat though they remain high. One contact noted that high gas prices have shifted demand toward more fuel-efficient vehicles.

### **Manufacturing and Distribution**

Manufacturing activity has turned down moderately in recent weeks, while the pace of growth slowed in the wholesale, transportation, and warehousing sectors. For the first time in well over a year, manufacturers noted some leveling off in unfilled orders. Contacts in these sectors continued to report widespread disruptions in transporting and obtaining goods. Wholesalers have grown less optimistic about the near-term outlook.

### **Services**

Activity in the service sector has largely leveled off in the latest reporting period. Professional & business service firms indicated a pause in growth, while education & health providers and information firms reported subdued growth in business. However, contacts in the leisure & hospitality sector continued to see brisk growth, though not quite as strong as in the last report.

Similarly, tourism activity in New York City has continued to strengthen, despite the recent upturn in COVID cases, financial market turmoil, and strong dollar. The first half of May was exceptionally strong, buoyed mainly by domestic leisure visitors. One industry expert noted that hotel occupancy and average daily room rates, as well as attendance at Broadway theaters, have almost fully rebounded to pre-pandemic levels, and that there have been more trade shows and numerous gala events. While international tourism remains sluggish, visits from Canada and Europe have risen noticeably. However, visitors from Asia and countries where visas are needed remain sparse.

### **Real Estate and Construction**

Housing markets have generally remained solid, though there have been some scattered signs of slowing in the sales market. Sales activity continues to be restrained by low inventory, but there are also signs that declining affordability has deterred some buyers. Still, real estate contacts in upstate New York cite bidding wars, all-cash deals, and homebuyers waiving inspections as signs that

it is still a sellers' market. In Manhattan, apartment sales transactions so far this year have been the highest on record, and sales volume in the rest of the city has also been exceptionally high. Home prices continued to climb across the District.

Residential rental markets have remained strong, as reflected in rising rents, brisk leasing activity, and low inventories—particularly at the higher end of the market. In New York City, rents rose sharply in April, reaching a new record high. Rents on smaller and lower-end apartments had been lagging but are now catching up. Landlord concessions are no longer common, while bidding wars for both doorman and non-doorman apartments have become more frequent. With rents rebounding to well above pre-pandemic levels in New York City, affordability has been a widespread and growing concern.

Commercial real estate markets have been mixed since the last report. Office markets across the District were steady to slightly weaker, with vacancy rates edging up in Manhattan but little changed elsewhere. In New York City, office rents remained flat and well below pre-pandemic levels. Elsewhere across the District, office rents are holding at or above pre-pandemic levels and are trending up in northern New Jersey. The industrial market has remained firm, with vacancy rates leveling off but rents continuing to rise briskly. However, the market for retail space has remained weak.

Construction activity has remained steady overall. Nonresidential construction starts have weakened for both commercial and industrial space. Industry contacts, however, were quick to note that much of the softness reflects widespread shortages of labor and materials, as well as escalating costs. New residential starts have also been somewhat sluggish, but a great deal of multi-family construction activity is in progress.

### **Banking and Finance**

Contacts in the broad finance sector continued to report little change in activity and remained fairly optimistic about the outlook. Small to medium sized banks in the District reported lower loan demand overall: Demand rose for commercial mortgages but declined for consumer loans, business loans, and residential mortgages. Refinancing activity also decreased. Credit standards were little changed. Loan spreads widened across all loan segments, and bankers reported higher deposit rates overall. Delinquency rates were lower on business loans and residential mortgages but steady otherwise. ■

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



## Summary of Economic Activity

On balance, business activity in the Third District grew slightly – at a slower pace than during the prior Beige Book period. Activity in a few sectors remained below pre-pandemic levels. Since the prior Beige Book, the rate of COVID-19 cases has grown fourfold. Moreover, official statistics appear to be underestimating the actual incidence of COVID-19, as more people take home tests and recover at home. Employment grew modestly, and some firms have begun reassessing their future staffing needs in fear of a recession. Wage and price inflation moderated for most firms, as have inflation expectations; however, wages continued to rise at a moderate pace and prices at a strong rate. Firms continued to cite hiring difficulty and supply chain disruptions as their key challenges; coping with COVID-19 cases has become routine. On net, expectations for continued economic growth over the next six months fell for all firms and were well below their nonrecessionary historical averages. Among manufacturing firms, expectations nearly turned negative.

### Labor Markets

Employment grew modestly – at a slower pace than in the prior period. The share of firms reporting employment increases fell below one-fourth of the nonmanufacturing firms and fell to nearly one-fourth among the manufacturers. Contacts described many firms as “hunkering down” in anticipation of a recession – hiring managers are more carefully assessing their future needs, and firms are deploying automation wherever possible. Also, the share of manufacturers that expect to hire more workers fell to one-third from over one-half in December.

Employers and staffing firms tended to describe hiring and retention of employees as their biggest challenge. Firms that can't or won't raise their starting wage reported few applicants and high turnover. Many employers described losing experienced workers to firms offering much higher salaries and to full-time remote opportunities. Firms that carefully calibrate their wage rates above the market averages tended to report fewer difficulties.

On balance, wages continued to increase moderately. However, most firms, including staffing firms, noted that the pace of wage growth is slowly subsiding, as they have reported since year-end. Wage increases remain widespread. In our monthly surveys, the share of nonmanufacturing firms reporting higher wage and benefit

costs per employee edged higher to about three-fifths in May; a small percentage reported lower compensation costs.

Firms also expect lower wage growth in the future. On a quarterly basis, firms reported lower expectations for the one-year-ahead change in compensation cost per worker – the second consecutive decline. Expectations (measured as a trimmed mean of all firms reporting) fell to 5.2 percent from 5.5 percent in the first quarter of 2022 and from 5.8 percent in the fourth quarter of 2021.

### Prices

On balance, price increases attenuated throughout the supply chain – to a moderate pace for nonmanufacturers and to a still-strong rate among manufacturers. Moreover, while price increases remained pervasive, they were less widespread than during the prior period.

Contacts reported that price increases received for their own goods and services over the past year slowed for the first time in the past six quarters. The trimmed mean for reported price changes in our quarterly survey questions fell to 6.3 percent from a peak of 7.3 percent in the first quarter of 2022 for all firms. Price increases fell to 4.8 percent from 5.5 percent for nonmanufacturers and to 8.1 percent from 9.6 percent among manufacturers.

In addition, the share of firms reporting higher prices for their own goods and services edged down, as did the share of manufacturers that reported higher prices for factor inputs. The share of nonmanufacturers reporting higher prices for their inputs edged up.

Looking ahead one year, the price increases that firms anticipate receiving fell for the second consecutive quarter – the trimmed mean for all firms was 5.0 percent in the second quarter of 2022, down from 5.6 percent in the first quarter of 2022 and 5.9 percent in the fourth quarter of 2021. The expected rate of growth was 4.1 percent for nonmanufacturers and 5.9 percent for manufacturers.

### Manufacturing

On average, current manufacturing activity continued to grow modestly. The indexes for shipments and new orders trended lower but remained above historical averages for nonrecessionary periods.

However, sentiment appeared to hover on the verge of turning negative. The index of current general activity fell to nearly zero – its lowest reading since spring 2020 as the pandemic gripped the economy. The index of future general activity also fell to nearly zero – its lowest reading in 13 years. Correspondingly, manufacturing firms lowered their expectations for future capital expenditures, with that index falling to a six-year low.

### Consumer Spending

Retailers (nonauto) and restaurateurs reported slight sales growth overall – a weaker pace than in the prior period. Contacts noted that rising prices for food and fuel appear to have lowered the frequency of customer visits and reduced the average spend per visit. Moreover, sales may be weaker after adjusting for inflation.

On balance, auto dealers have reported a modest decline in sales since the prior period; sales are now significantly below the levels in 2019. With demand far outpacing supply, very high prices are ensuring ample profitability.

Overall, tourism grew modestly, as the sector's key components continued their recovery. Domestic leisure travel remains strong – despite rising gas prices – while conventions and other group travel have been resuming with intermittent disruptions from COVID-19 outbreaks. Business travel is recovering more slowly, with less certainty.

### Nonfinancial Services

On balance, nonmanufacturing activity grew slightly – slowing from the prior period's pace to that experienced at the height of the Omicron surge. Overall, the share of firms reporting increases in sales and in new orders fell,

while the share of firms that reported decreases rose in both categories.

### Financial Services

The volume of bank lending (excluding credit cards) grew modestly during the period (not seasonally adjusted) – a similar pace as seen during the same period in 2019. However, inflation is contributing more to the growth during the current year relative to past years – overall and for the lending categories that follow.

Loan volumes grew moderately for home mortgages, home equity lines, and commercial real estate. Auto lending grew modestly, as did commercial and industrial lending. Other consumer loans fell modestly. Credit card volumes grew moderately. Typically, credit card volumes grow modestly during this season of the year.

Bankers, accountants, and attorneys noted that the combined impacts of labor market challenges, inflation, supply chain issues, the war in Ukraine, and lingering COVID-19 disruptions have caused some firms to put plans on pause and to consider their strategic options.

### Real Estate and Construction

Existing backlogs will keep homebuilders active into 2023; however, contacts reported that sales traffic and contract signings for new homes fell moderately. If the trend continues, contacts noted, repricing, restructuring, and layoffs are under consideration; already, some land deals have been halted.

Existing home sales fell slightly but remained near recent high levels. Contacts reported that demand remained strong despite some buyers – especially first-time buyers – exiting as prices and interest rates have risen. Quick sales featuring cash offers and waived inspections continued to outpace new listings – suppressing inventory levels and further reducing housing affordability.

On balance, construction activity and leasing activity for commercial real estate held steady and were busy for industrial/warehouse space, multifamily housing, and institutional projects. A contact noted that the rising costs of materials and labor are driving a wedge between project estimates and eventual bids – often resulting in modifications to lower the total expense. Ongoing COVID-19 cases have further delayed return-to-office plans for some firms. ■

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





## Summary of Economic Activity

Business activity decelerated and was slightly positive as firms grappled with ongoing supply chain challenges, tight labor market conditions, and escalating costs. These challenges also clouded the near-term outlook for the economy, a situation leading firms to be conservative with their investment spending. The soft growth of demand was evident in most sectors save for professional services, which grew strongly. In a change from recent reports, concerns about COVID-19 were largely absent from commentaries, and contacts were mainly concerned about the uncertainty of the economic outlook and the inflation environment. Employment rose moderately, but firms continued to report that they were understaffed. Contacts suggested they were more focused on employee retention than in the recent past and had broadly raised wages and bonuses. Costs rose for a wide range of items, most notably for energy and food. Firms generally had little difficulty raising prices to offset cost increases, and many contacts expected upward pressure on prices to persist over the next 12 months.

### Labor Markets

Employment rose moderately. A few manufacturing and hospitality firms observed a slight increase in the number of job applicants. That said, many firms said it remained difficult to find workers and that they were operating below desired staff levels. One manufacturer said that the firm's hiring activity was maintaining its staff level and that it was 10 percent short of its desired level. Staff turnover was high for many firms, a fact which they attributed to a variety of factors including retirements, employees' leaving for other higher-paying jobs or opportunities to work remotely, and burnout with workloads. Several contacts observed an increase in workers' quitting their jobs without having lined up another one. One workforce development agency said that it had become so difficult to find workers that the entity resorted to essentially knocking on doors in the community to find potential workers.

Amid tight labor market conditions, reports of wage increases remained widespread. Many reported that they were more focused on retaining workers and that in addition to raising wages, they were boosting variable pay. Some firms instituted retention bonuses, while others shifted from giving bonuses annually to giving them more frequently to aid retention. A few firms reported that employees had become more concerned about

rising living costs and were demanding more pay. One university let employees work from home more often to reduce the impact of rising fuel costs. Contacts generally expected wage pressures to remain high over the next 12 months.

### Prices

Most contacts reported that nonlabor costs rose for a broad range of items. Higher energy costs were a particular pain point, but other inputs, including food, paper products, building materials, and IT equipment, also increased in cost. There were more reports that vendors were adding fuel surcharges, even in instances in which that was not the norm. A few contacts reported that lumber prices declined and that steel prices plateaued. However, these decreases were outweighed by increases in other input costs. Contacts generally expected upward pressure on nonlabor costs to remain high over the next 12 months. One contact at a business association noted that its members had been hopeful in the recent past that cost pressures would abate sometime this year, but that optimism had waned recently.

Most firms raised prices as they passed through higher costs of labor, materials, and energy to customers. Contacts generally reported that they had little difficulty passing through costs to customers. However, some consumer-facing firms observed that customers were starting to

trim expenses because of higher food and gas prices. One large grocery chain said that “customers have recently taken aggressive steps to save. They’ve shifted from national brands to cheaper store brands. They are also doing things such as purchasing half a gallon of milk instead of a gallon.” Contacts broadly expected to continue to push up their prices over the next 12 months to keep up with rising costs.

### Consumer Spending

Reports suggested that consumer spending was little changed overall, although there was variation by segment. General merchandisers and apparel retailers reported improved demand, while restaurateurs reported a pickup in sales related to improved weather and the onset of wedding and event season. By contrast, auto dealers reported that sales declined even though demand was elevated. One contact explained that auto dealers were selling every car they received from manufacturers, but the number of sales was lower because of limited inventory. Retailers expressed concern that high inflation could weaken consumer spending in the near term, but hospitality contacts remained optimistic that activity would continue to increase going into the summer.

### Manufacturing

Demand for manufactured goods softened following strong growth in the previous period. High inflation, supply chain disruptions, labor shortages, the war in Ukraine, and COVID-19-related shutdowns in China contributed to heightened uncertainty about the economic outlook and caused some manufacturers’ customers to reduce orders. Despite softer demand, many manufacturers noted that they still could not meet demand because of shortages of workers or inputs. The unreliability of supply chains motivated several firms to temporarily move away from just-in-time inventory management and to stockpile supplies where they could. Spending on capital equipment was modestly positive, with firms saying they were preserving cash, could not get equipment, or were cautious because of rising prices and economic uncertainty. On balance, manufacturers expected demand to increase modestly in coming months.

### Real Estate and Construction

Demand for residential construction and real estate softened. Contacts reported that higher home prices and interest rates had reduced affordability and that many potential buyers had become increasingly concerned about the economic outlook. Although contacts expected housing demand to soften further, they noted that demand remained strong overall. One homebuilder expected rising interest rates would have less of an impact

on demand for residential construction than it would for other industries because of the shortage of available homes.

Nonresidential construction activity slowed because of rising interest rates and construction costs, although it remained positive. One general contractor noted that building costs have escalated to the point that prevailing rents are no longer able to support development costs. As a result, some clients delayed or scaled back projects. Contacts anticipated that nonresidential construction activity would diminish further as higher interest rates and cost pressures persist in the near term.

### Financial Services

Overall, loan demand increased modestly. Contacts reported some improvement in commercial and industrial loan demand. By contrast, demand for mortgages declined, a situation which bankers attributed to low housing inventory and higher mortgage rates. Demand for auto loans also declined, and this decline was attributed to the limited inventory of vehicles for sale. Lenders noted that delinquency rates for commercial and consumer loans remained low but that they expected higher borrowing costs would lead to an uptick in delinquency rates in the months ahead. Core deposits remained steady, although multiple bankers said they expected deposits to decrease in the next couple of months as households draw on their savings to cope with rising prices. Looking ahead, bankers expected loan demand to slow as interest rates rise.

### Professional and Business Services

Professional and business services firms continued to report strong activity. Demand for IT-related services such as artificial intelligence, software services, and authentication services, was especially strong. One software provider indicated that labor shortages pushed some firms to seek software and cloud-based solutions to assist with administrative tasks. Contacts anticipated demand for professional and business services would remain strong in the near term.

### Freight

Freight demand remained soft following a decline in the previous period. Supply chain challenges had variable impacts on firms. While COVID-19-related shutdowns in China reduced the need for freight from port cities, demand for air freight was reportedly strong. One airport contact reported a recent double-digit increase in air cargo volume. Looking forward, contacts expected demand to improve slightly in coming months. ■

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





## Summary of Economic Activity

Since our previous report, the regional economy grew at a modest rate. Manufacturing activity increased at a modest to moderate rate as producers continued to face challenges meeting demand due to supply chain disruptions and labor shortages. Fifth District ports reported an increase in loaded exports but a slight decline in imports, although import volumes remained historically high. Similarly, trucking demand eased slightly but remained strong relative to prior years. Retail sales remained strong while new vehicle sales remained low due to low inventory levels. Leisure travel held strong with some increases noted for group travel, weddings, and small events. Residential real estate activity slowed modestly, and some potential buyers were getting priced out of the market as interest rates and home prices rose. Meanwhile, commercial real estate activity remained strong, particularly for Class A office and industrial space. Financial institutions reported a slight slowdown in lending across most loan types, one exception being used vehicle lending, which continued to grow. Nonfinancial service firms saw moderate growth in sales but expressed some concerns that inflation could hamper growth in coming months if it remains elevated. Employment increased modestly and wage growth remained moderate, overall, as many employers continued to cite challenges finding and retaining workers. Price growth remained robust in recent weeks.

### Labor Markets

Employment in the Fifth District increased modestly amid ongoing reports of worker shortages and high turnover. A majority of contacts continued to cite difficulties finding and retaining workers across all skill levels. Among the small number of contacts reporting improving worker availability, most said that improvements came after raising wages. Additionally, one contact said that they recently made a change to their payroll policy that allowed hourly, part-time employees to be paid in a much shorter amount of time and that helped increase interest in those positions. Overall, wages increased at a moderate rate, with some reports of larger increases for highly specialized positions and for those in very short supply.

### Prices

Overall, price growth remained significantly elevated in recent weeks. According to our surveys, service sector firms reported that price growth picked up from an already robust rate. Manufacturers, on the other hand, reported a slight moderation in price growth, but compared to last year, prices were still growing at a strong rate. Firms in both manufacturing and nonmanufacturing sectors continued to cite material shortages and rising fuel costs as contributors to price escalation. Labor costs also contributed to price growth as many firms continue to increase wages and benefits to recruit and retain workers.

### Manufacturing

Since our previous report, Fifth District manufacturers reported a moderate increase in shipments and a modest increase in new orders. Several contacts noted that supply chain issues and worker shortages limited their productive capacity and added to their backlogs. In response to labor challenges and continued strong demand, some companies looked to invest in automation and technology to increase production and reduce dependence on labor. A few manufacturers, however, said that demand softened slightly, which was attributed to inflation and consumers shifting spending away from durable goods.

### Ports and Transportation

Overall, ports experienced continued strong container volumes, with solid growth in loaded containers and empties for export. Meanwhile, import volumes declined slightly, which relieved some of the congestion at the ports. Spot shipping rates continued to decline slightly but remained well above 2019 levels. Fifth District ports were watching for a potential summer surge in imports caused by Asian ports reopening after COVID disruptions and carriers potentially diverting ships to East Coast ahead of the West Coast longshoreman union negotiations in July. Air freight volume declined slightly while air freight rates increased this period.

Trucking companies reported that demand remained strong, but that the number of booked orders decreased despite businesses' inventory levels still being low. Capacity loosened slightly, though still tight, and spot rates declined this period; however, fuel surcharges offset much of the cost savings. Most trucking companies noted improvement in their ability to hire new drivers. Trucking firms were receiving deliveries of the new equipment they ordered in 2021, though they still had to rely on older equipment to meet demand.

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

Since our last report, retail sales remained strong with most stores able to pass on increased costs to consumers. However, labor availability continued to be a headwind for most retailers with wages increasing in order to attract and retain workers. Rising inventory and materials costs were an issue in terms of future pricing as well. With automotive manufacturers unable to maintain production due to supply chain issues, automobile dealers stated that their inventory of new cars continued to be extremely low, negatively impacting their sales revenue.

In the Fifth District, leisure travel remained strong, and contacts reported that group travel had started to come back. More weddings and smaller events occurred, but conventions have not fully returned yet. Both hotel occupancy rates and average daily rates were increased in recent weeks. Passenger counts at airports had almost fully recovered to their pre-pandemic levels despite ticket prices being far higher than in 2019. Overall, the hospitality sector continued to experience strong demand, but were still grappling with staffing shortages despite increased wages and benefits.

### **Real Estate and Construction**

Sales and buyer traffic decreased this period compared to the first quarter of 2022 as housing inventory levels remained constrained and home prices continued to rise. Since our last report, some potential homebuyers were starting to be priced out of the market by higher interest rates combined with elevated home prices. Residential construction costs for both materials and labor continued to rise, but availability of construction materials improved. Real estate agents noted that it still was very competitive market for buyers.

Overall, commercial real estate activity remained strong this reporting period. Class A office leasing activity was robust, especially in suburban markets. Supplies of existing buildings in most commercial real estate categories were tight. Availability of industrial properties continued to be constrained due to demand outpacing supply,

despite slowing absorption rates and rising rental rates. Commercial property sales were strong with lots of investment money reportedly chasing too few deals. New commercial construction was hampered by escalating costs and availability of materials, as well as shortages of skilled labor.

### **Banking and Finance**

There continued to be strong loan demand across most commercial loan types, but there are signs of a slowing due to rising rates. Residential mortgage demand continued to slow, which was observed as a byproduct of increasing rates and rising home prices. New auto lending was still being impacted from inventory shortages, however, used auto lending demand continuing to increase. Deposits continue to trend upward, but at a slowing pace. Commercial credit quality remained good, and delinquencies remain low. Some institutions noted that consumer loan quality is beginning to weaken, and delinquencies are starting to increase slightly, especially from borrowers with limited discretionary income.

### **Nonfinancial Services**

Nonfinancial service providers continued to report moderate growth in revenues and solid demand in recent weeks. Although many firms were experiencing positive growth, there was widespread concern that inflation could hamper growth in the near-term. One professional service firm said that their plans for hiring, and capital spending were put on hold because they saw their clients capping or cutting budgets out of caution. Additionally, a consultant was concerned that they might lose one of their major clients because that client was facing a contract renewal for electricity and might need to cut spending to offset increased costs of energy. ■

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



## Summary of Economic Activity

Economic activity in the Sixth District expanded at a modest pace from April through mid-May. Labor market tightness and wage pressures continued for some. Most nonlabor costs rose, and firms' pricing power was sustained. Retail sales softened somewhat, and auto sales were down from year-earlier levels. Leisure travel was robust, and business travel and convention bookings picked up. Demand for housing slowed slightly as rates picked up, inventory levels remained low, and home prices remained elevated. Commercial real estate activity remained mixed. Manufacturing activity was strong. Conditions at financial institutions were mixed as lending activity strengthened and deposit levels declined.

### Labor Markets

Most contacts continued to report tight labor market conditions. Turnover rates remained elevated. Reports on the pool of candidates for open positions were mixed. Among professional positions, the availability of candidates improved by most accounts; however, for firms seeking to fill skilled trades, manufacturing, and hourly service jobs, talent remained in short supply. Businesses continued to respond to labor constraints in a variety of ways including increasing wages, bonuses, and benefits; offering scheduling flexibility; curtailing capacity; offshoring jobs; and slowing growth. Many noted the speed of hiring had increased dramatically across all position types and wage levels to secure talent; strong salary offers were typically in-hand at the time of the interview to offset counteroffers from existing and other employers.

Expectations about faster wage increases remained mixed. Some firms anticipate wage growth will increase this year across all jobs, while others plan to be more targeted with raises, and yet some expect growth will slow a bit.

### Prices

Reports of cost increases were widespread over the reporting period, including the cost of freight, labor, nonlabor inputs, and food. Supply chain constraints continued to plague firms, and some noted a shift to shipping freight by air, though it was much more costly. For some businesses, the volatility of the current pricing environment has impacted the variety of products available and reduced contract negotiations to shorter terms with more "cost plus" conditions. Margins largely remained at record highs for many firms as price increases were met with little resistance; however, several contacts

noted a slight dampening of demand or consumers "trading down" to second tier products. The Atlanta Fed's Business Inflation Expectations survey showed year-over-year unit cost growth was relatively unchanged at 4.2 percent, on average, in May. Firms' year-ahead inflation expectations also remained relatively unchanged at 3.7 percent, on average.

### Consumer Spending and Tourism

District retailers reported some softening in unit sales and a shift in discretionary spending since the previous report. Contacts noted that some customers began foregoing discretionary spending to cover the rising costs of rent, food, and fuel. Though demand for luxury goods continued to hold up, demand for items such as home decor slowed among lower- and middle-income customers. Year-over-year automotive unit sales remained well below 2021 levels amid persistently low inventories.

Demand for leisure travel remained robust and hospitality contacts reported strong advanced bookings through the summer. Consumer spending at tourism destinations was described as having returned to (or in some cases, surpassed) pre-pandemic levels. Business travel and convention bookings continued to improve.

### Construction and Real Estate

Home sales throughout the District slowed somewhat as housing prices and mortgage interest rates rose. Inventory levels remained low in most areas, and homes new to the market continued to sell quickly. On balance, home price acceleration continued, as markets like Nashville, Tampa, and Atlanta experienced very strong growth over the past year. Declining homeowner affordability remained a major concern among market partici-

pants. Contacts indicated that, although buyer interest remained robust in many markets, higher prices and rising interest rates resulted in a shrinking pool of eligible buyers, and contract cancelations slightly increased as fewer buyers qualified for mortgage loans. Although housing starts rose, builders indicated that supply chain disruptions remained a challenge.

District commercial real estate (CRE) conditions remained mixed. Contacts reported continued robust activity in the multifamily and industrial sectors. Lower-tier office demand was identified as cooling somewhat. Employers' return-to-office stances appeared to be mitigating some of the downward trend in the office sector; however, heightened levels of sublease space remained an impediment to recovery. While overall transaction levels were healthy, CRE contacts reported shrinking pools of buyers, more instances of buyers seeking greater concessions, and price declines in some property sectors.

### Manufacturing

Manufacturing activity in the District remained strong. However, some contacts noted an inability to meet demand due to staffing constraints and shortfalls of supplies, notably steel sourced from Ukraine. Several manufacturers reported spreading supply purchases across multiple sources to alleviate supply chain constraints and implementing advance supply ordering to avoid depletion of parts inventories. Half of manufacturing respondents participating in the Atlanta Fed's Business Inflation Expectations Survey reported increasing capacity by adding staff or shifts to meet demand, while others simply turned away customers.

### Transportation

Transportation activity remained mixed. Inland barge companies reported increased shipments of refined petroleum products, chemicals, and aggregates. District ports experienced further growth in container volumes. In the spot market, freight brokers reported a slight pullback in the van sector, which was attributed partially to a shift from the purchasing of goods to services by consumers; demand for flatbeds was steady as housing and construction activity remained high. Despite continued year-over-year declines in freight volumes, railroad contacts reported double-digit increases in revenue due to pricing gains. While most transportation contacts expect activity to remain steady over the next 6-12 months, some voiced concerns that elevated inflation and higher fuel prices could slow activity in the sector.

### Banking and Finance

Conditions at District financial institutions were mixed. Bankers reported higher loan growth, a decline in depos-

its, and a shift in the interest rate environment. Consumer, commercial, and industrial lending strengthened, but construction loans fell. Residential mortgage lending moderated due to a combination of low housing inventory and a move toward higher interest rates. Deposits declined further, leading to increased short-term borrowings among financial institutions. Provisions for credit losses increased as delinquencies rose slightly but remained below historical norms.

### Energy

Energy contacts reported that demand for crude oil fell over the reporting period. At the same time, oil production picked up, helping global crude markets withstand the loss of Russian supplies. Still, for many producers, increasing production remained a challenge as labor shortages and supply chain bottlenecks inhibited access to equipment and raw materials for drilling. Refinery utilization remained strong. Demand for some chemical and petrochemical products declined. Utility contacts reported that rising natural gas prices are expected to result in higher utility bills for consumers. Across utility segments, commercial and industrial activity were up, while residential activity was flat, the latter attributed to customer growth being offset by falling residential usage as customers returned to work in offices space. Investment in renewables remained robust, particularly in solar and offshore wind.

### Agriculture

Agricultural conditions remained mixed. Most of the District remained drought free. On a month-over-month basis, the May production forecast for Florida's orange and grapefruit crops were below last year's production. The USDA reported year-over-year prices paid to farmers were up for cattle, corn, cotton, eggs, milk, soybeans, rice, and broilers. On a month-over-month basis, prices increased slightly for cattle, corn, cotton, boilers, milk, and soybeans, but decreased for eggs; rice was unchanged. ■

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



## Summary of Economic Activity

Economic activity in the Seventh District increased modestly overall in April and early May, though contacts expected a slower pace of growth over the coming months. Labor and materials supply constraints continued to weigh on the expansion. Employment increased strongly, manufacturing was up moderately, consumer spending moved up modestly, business spending was slightly higher, and construction and real estate activity declined slightly. Wages and prices rose rapidly, while financial conditions deteriorated some. Agriculture income expectations for 2022 were little changed.

### Labor Markets

Employment increased at a strong pace over the reporting period, and contacts expected moderate growth over the next 12 months. Despite robust hiring, there were reports of difficulty in finding workers across sectors and at all skill levels, and a number of firms indicated that a lack of staffing prevented them from operating at desired capacity. High turnover rates continued to be an issue for some contacts, and there were multiple reports of new hires never showing up for work. One contact noted that they were able to hire but had to settle for less-qualified candidates. A contact in manufacturing reported investing in robotics to substitute for labor in some of their production processes. Overall, wage and benefit costs increased rapidly, both to attract new workers and to retain existing talent. In addition to labor market tightness, contacts cited high inflation as an impetus for workers requesting higher wages. Many contacts indicated that they were offering workers more flexibility in terms of hours and work-at-home arrangements.

### Prices

Overall, prices rose rapidly in April and early May, and contacts expected price increases to continue at a strong pace over the next 12 months. There were large increases in producer prices, spurred by passthrough of higher costs for labor, transportation, energy, some metals, and

other materials. That said, some contacts reported that the pace of growth in raw materials and energy prices had slowed. Consumer prices generally moved up robustly due to solid demand, limited inventories, and passthrough of higher costs. Most contacts indicated that they were experiencing only limited pushback on price increases from customers, but some said they were seeing more resistance to higher prices than in previous reporting periods.

### Consumer Spending

Consumer spending increased modestly over the reporting period. Nonauto retail sales were up moderately, though much of the increase reflected higher prices rather than greater volumes. There were reports of a shift in the mix of purchases from discretionary items toward essential goods. Moreover, a growing number of consumers were picking less expensive options when purchasing products. In addition, a regional food bank reported a considerable increase in demand. Among product lines, grocery sales increased modestly, but spending was flat on appliances and electronics and at discount stores. Spending on furniture and home furnishings fell. Leisure and hospitality results were mixed overall, though future bookings indicated that demand for summer travel was strong. Light vehicle sales were flat and still constrained by low inventory levels. Elevated



prices continued to support high dealer profit margins.

### **Business Spending**

Business spending increased slightly in April and early May. Retail inventories were up a bit overall but remained at low levels in many sectors as supply chain bottlenecks persisted. Only spotty improvement was expected by the end of the year. Manufacturing inventories were comfortable overall, though some contacts said lead times lengthened. A wide range of inputs remained difficult to find. Manufacturing and retail contacts expressed concern that the COVID-19 outbreak in China would result in further supply disruptions. Demand for transportation services was little changed as the industry continued to operate full out. Capital expenditures grew slightly, with many contacts reporting purchases of new equipment and technology for hybrid work environments. Lead times remained lengthy for some types of capital equipment. Commercial and industrial energy consumption increased slightly, led by manufacturing, while residential energy consumption decreased slightly.

### **Construction and Real Estate**

Construction and real estate activity decreased slightly on net over the reporting period. Contacts in both residential and nonresidential construction noted that higher labor and material costs continued to encumber activity, and that rising interest rates had also begun to weigh on demand. Multiple contacts mentioned that it was more cost effective to buy materials in advance of a project start than to purchase materials as needed once building began. Residential construction decreased slightly. While demand remained strong on the multifamily side, activity levels in the single-family segment fell, including for remodeling. Residential real estate activity decreased modestly as rising prices and mortgage rates hurt affordability. Low inventory levels continued to put upward pressure on home prices. Rents increased moderately. Nonresidential construction activity rose slightly. Demand for industrial projects, specifically for warehousing and infrastructure, remained robust. Overall, commercial real estate demand was unchanged, as were prices and rents. However, contacts noted that demand for smaller spaces, particularly in freestanding buildings, had increased.

### **Manufacturing**

Manufacturing production increased moderately in April and early May despite challenges with supply chain shortages and securing labor. Auto output increased some, though contacts were still reporting shortages of microchips and other materials. Heavy truck demand rose slightly; production was also up a bit, but high prices persisted amid very low inventories. Demand for

heavy machinery was strong, outstripping availability because of manufacturers' capacity constraints. Steel production increased a bit, and demand moved up, with contacts highlighting greater sales to the energy industry. Sales of fabricated metals decreased slightly overall.

### **Banking and Finance**

Financial conditions deteriorated on balance over the reporting period. Participants in the equity and bond markets reported rising interest rates, greater volatility, and net declines in asset values. Business loan demand increased slightly, with contacts reporting growth in lending for commercial vehicles, restaurants, and construction. Business loan quality and standards remained unchanged on net. In consumer markets, loan demand decreased modestly, with contacts noting large declines in mortgage refinancing. Loan quality was unchanged on balance, while credit standards tightened slightly over the reporting period.

### **Agriculture**

Farm net income expectations for 2022 were little changed overall during the reporting period, as prices and costs increased by similar amounts. Corn, soybean, and wheat prices were all up, as were prices for diesel and propane. Cool, wet weather slowed spring planting for corn and soybeans. In addition, concerns lingered about whether fertilizer would arrive at farms on time. Strong dairy exports helped boost milk prices. Bird flu continued to ravage poultry farms, pushing up egg prices. Hog prices moved sideways, while cattle prices were lower. As with crop farmers, livestock producers also faced higher input costs. Agricultural land prices continued to rise strongly. ■

For more information about District economic conditions visit:  
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## Summary of Economic Activity

Economic conditions have improved at a modest pace since our previous report. The outlook for the remainder of the year weakened due to concerns about continued price increases and softening demand. Competition for workers continued to place upward pressure on wages. Prices for raw materials and fuel increased at a robust pace; firms passed on prices to consumers and adjusted behavior to try to mitigate the impact of price volatility. Consumer spending shifted from goods to services and became more sensitive to prices; retailers reported that credit card usage rose. Manufacturing firms reported that a backlog of orders should sustain production even as the rate of new orders declines due to higher prices. Residential real estate demand has cooled slightly due to rising mortgage rates, but inventory remains low due to supply constraints that have limited construction projects. Banking contacts reported that consumer lending demand has softened.

### Labor Markets

Employment has increased modestly since our previous report. Labor shortages remain widespread, with firms noting difficulty hiring and retaining workers. Contacts in industries with predominantly in-person roles noted particular difficulty hiring. Some contacts remarked that remote work was allowing coastal firms to hire workers in the District for higher wages than local employers were willing to pay, causing an in-place “brain drain.” Firms expanded benefits, increased outreach, turned to automation, and considered offshoring to handle the scarcity; one healthcare contact reported that he had to start his hiring process two to three months earlier than usual to find sufficient workers.

Wages have continued to grow strongly. One transportation contact reported that wages had increased for both low-skilled, hourly workers and skilled employees by 20% or more in the past six months. Some healthcare contacts reported that raising wages was more difficult due to the industry’s contract and payment structure, but nevertheless reported that labor costs had increased substantially in the past year.

### Prices

Prices have increased robustly since our previous report. Contacts in the construction industry reported high price volatility for plumbing materials, roofing materials, and asphalt. One such contact reported that prices for those items are, in some cases, increasing every 10 days. Contacts reported a decline in lumber prices. Contacts are hopeful the price of steel will decline in the near future. Contacts in the manufacturing industry have started announcing price increases to customers several months in advance. A Missouri manufacturer noted that industry attitudes toward price increases have shifted, with sales staff and customers “numb” to continued increases.

### Consumer Spending

General retailers, auto dealers, and hospitality contacts reported slightly higher business activity and a mixed outlook. April real sales tax collections decreased in Missouri and Arkansas relative to March and increased in Kentucky and west Tennessee. St. Louis retailers noted that business activity has been consistent over the past month, but reported a negative outlook for the upcoming months, citing inflation and stronger demand for travel. One luxury car dealership in Northern Mississippi said that they are starting to sell fewer large cars and more small, fuel-efficient cars as demand shifts due to

rising gas prices. Restaurants in Louisville saw a return to normal business activity during the Kentucky Derby, which was greatly affected by the pandemic in previous years. Hospitality contacts noted higher business activity compared with last month and last year, citing pent-up demand for travel. They also had a mixed outlook for the upcoming months, citing higher prices.

### **Manufacturing**

Manufacturing activity has increased moderately since our previous report. Survey-based indices suggest that production, capacity utilization, and new orders have all moderately increased, and firms expect slight increases in the coming quarter. The primary concerns within the manufacturing industry continue to be the availability of labor and inputs. Firms continue to explore automated processes, though substantial lead times on robotics mean they are not a short-term solution. There is cautious optimism about future sales due to high order backlogs from pent-up demand and high inventory from the limited availability of key inputs.

### **Nonfinancial Services**

Activity in the nonfinancial services sector has increased since our previous report. Airport traffic increased in April, with seaport bottlenecks increasing demand for air freight in Missouri. While business travel is rebounding, rising ticket prices are expected to cause slower growth in leisure travel across Northwest Arkansas and Tennessee. Transportation has seen a push toward automation, but contacts report struggling to train workers to maintain and repair the required technology. The nurse shortage has increased wages across the District, but nursing school enrollments are still down in Eastern Missouri.

### **Real Estate and Construction**

The industrial and warehouse market has remained strong since our previous report. Rents have increased faster than input costs due to high demand. Multiple contacts reported optimism that input costs would come down after Amazon announced slowing their expansion of distribution centers.

The residential real estate market has seen demand begin to cool now that mortgage rates are increasing. However, with inventory still low, it remains a seller's market. One contact reported that many prospective homeowners are favoring new builds despite elevated input costs, because they can buy the house at asking price without competing against other buyers. According to multiple contacts in Louisville, first-time home buyers are dipping into their 401(k)s or drawing from their parents' retirement savings to enable cash offers.

Construction activity remains strong despite continued supply chain issues and increased input costs. Contacts reported that banks are hesitant to agree on rates for any projects not beginning immediately, given the uncertain outlook. One contact complained that paint is the only input available at a normal price.

### **Banking and Finance**

Banking conditions have weakened slightly since our previous report. Although commercial lending has remained relatively strong, consumer lending has softened. Borrowing rates and secondary-market rates have begun increasing. Several large retailers reported that credit card usage increased. Mortgage and other lending rates increased significantly. Liquidity and deposits remain very high within the banking system, causing little pressure on banks to increase deposit interest rates. The combination of rising lending rates and stagnant deposit rates has allowed many banks to increase margins slightly from what have been persistent all-time lows.

### **Agriculture and Natural Resources**

Agriculture conditions have improved slightly since our previous report. Contacts reported thin margins despite increased commodity prices due to rising input and labor costs, but remain optimistic due to persistent high demand. Contacts noted that rising energy prices have created an unprecedented opportunity for alternative energy products and other new technologies in the sector. The percentage of row crops planted has increased since the previous reporting period, but is down from this time in 2021. Progress of acres planted is down this year for every crop and all states in the District, which reflects production issues due to staffing and supply chain concerns. ■



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## Summary of Economic Activity

Ninth District economic activity grew moderately since mid-April. Labor demand remained strong since the last report, but overall hiring was restrained by tight labor supply. Wage and price pressures remained elevated, and added costs were being passed on to consumers through higher selling prices. Consumer spending grew slightly, remaining at high levels; tourism and hospitality activity increased slightly from a year ago despite unfavorable weather. Commercial construction grew slightly, commercial real estate was mixed, and residential construction and real estate slowed, with rising interest rates a factor in each of these sectors. Agricultural conditions remained strong. Reports from minority- and women-owned business enterprises were mixed, as demand for services improved but margins narrowed.

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### Labor Markets

Employment grew strongly since the last report. Demand for labor was even higher, but hiring was restrained by tight labor supply. Several surveys found continued strong hiring demand by employers. Among more than 200 Minnesota hospitality and tourism firms, three of four were hiring in some capacity, and close to half were hiring more year-round staff. In the construction sector, 40 percent of firms were hiring to increase headcount, and a majority were hiring to replace turnover. Labor demand in the sector was also expected to accelerate in coming months. In a cross-sectoral pulse survey, significantly more firms saw an increase in labor needs over the previous month compared with those that saw a decrease. However, employee headcounts have grown more slowly than labor demand, as firms continued to report significant difficulty in hiring workers for open positions.

Wage pressures remained strong. A large majority of manufacturing firms reported increases of at least 5 percent. More than half of hospitality and tourism firms reported wage hikes of 5 percent or more. In the construction sector, roughly one-third said wages have risen by more than 5 percent, which was notably higher than a similar poll six months earlier. A large Minnesota manufacturer said turnover in low-skilled “is very high. They keep chasing wages and don't show up for their job. It's hard to keep a low-skilled job filled for one year.”

### Prices

Inflationary pressures remained elevated since the previous report. About 70 percent of respondents to a District-wide business survey reported that their nonlabor input prices increased in April from a month earlier. More than half said they increased their selling prices over the previous month; a slightly lower proportion expected to increase prices in May. About three-quarters of manufacturers at a recent event indicated that their input prices have risen faster since the beginning of this year than last year, compared with fewer than 10 percent who reported that prices increased at a slower pace. Retail fuel prices in District states increased swiftly since the previous report. Agriculture contacts continued to report significant increases in prices for both agricultural commodities and agricultural inputs.

### Worker Experience

Individuals moving through the labor market were mainly looking for better pay. Some workers were considering taking second jobs to meet the higher cost of living but faced constraints with balancing existing responsibilities. Preliminary results from a survey of workers in South Dakota indicated that rising prices have significantly strained family budgets. Most said they were mainly experiencing pressure from fuel, grocery, and electricity prices. Several reported forgoing activities like eating out or traveling for leisure to reduce expenses. Overall, workers saw their cost of living increase. A worker in the

finance sector said that “a 3 percent raise is not keeping up with the cost-of-living...We are definitely living more of a paycheck-to-paycheck lifestyle than a year ago.” A construction industry job seeker shared that gas prices were further reducing his mobility and employment options.

## Consumer Spending

Consumer spending grew slightly since the last report, remaining at high levels. Retail contacts reported modestly higher revenues compared with the previous month, but somewhat lower profits. Tourism and hospitality firms said that recent activity was slightly improved compared with the same period last year, but an unseasonably cool spring dampened what might have otherwise been stronger activity. The summer outlook was quite positive, contacts said, though travelers were booking later than normal, and COVID-19 surges and gas prices created some uncertainty. Airports also reported rising passenger levels, including rebounding business travel. Consumer and business contacts said it was still too early to gauge the net effects of interest rate increases on consumer spending. A vehicle dealership said new car sales were more affected by inventory shortages than interest rates.

## Construction and Real Estate

Commercial construction grew slightly since the last report. Marginally more firms reported higher recent revenue than those reporting a decrease. However, the general pace of activity appeared to be slowing due to persistent supply chain problems, high input costs, higher interest rates, and lack of labor. Contacts reported a noticeable increase in project cancellations, and delays continued to worsen. New projects out for bid held mostly steady with some increase in public projects; in general, contacts were optimistic heading into the summer season. Residential construction was flat. The sector reported higher levels of project cancellations and delays; however, new permitting activity remained healthy, particularly for multifamily units.

Commercial real estate activity was mixed. Several industry contacts said rate increases have started to negatively affect deal pricing by as much as 10 percent. Industrial space has seen less impact due to the current strength of that market. Contacts also expected more sales to come into the market over the next month or two in order to beat expected future rate hikes. At the same time, some sales have been pulled off the market due to a decrease in the number of bids and active buyers. Residential real estate fell moderately. Closed sales in April fell across most markets, the result of low

inventories, rising prices, and higher mortgage rates. Several contacts said that they expected some demand to get pulled forward to get ahead of rate increases. Contacts reported an increase in the use of adjustable-rate mortgages.

## Manufacturing

Manufacturing activity was strong since the last report. A regional manufacturing index indicated increased activity in Minnesota, North Dakota, and South Dakota in April relative to the previous month. Manufacturers generally reported robust demand; however, a greater share of firms noted decreased new orders in April than in recent months. Industry contacts continued to report long delivery times and difficulty securing inputs, such as aluminum, stainless steel, and packaging.

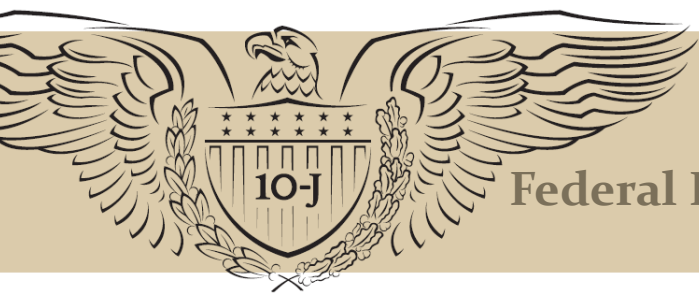
## Agriculture, Energy, and Natural Resources

District agricultural conditions remained strong. According to the first-quarter (April) survey of agricultural credit conditions, 87 percent of respondents reported increased farm incomes relative to the same period a year earlier. Farmland values increased briskly. However, due to an exceptionally cold and wet spring, crop planting and progress were well behind schedule in much of the District, except for Montana and western portions of the Dakotas, where drought conditions were rampant. District oil and gas activity increased modestly since the last report, as drilling and production gradually responded to surging crude prices.

## Minority- and Women-Owned Business Enterprises

Reports from minority- and women-owned business enterprises (MWBEs) in the District remained mixed. Warmer weather brought increased traffic to many service industry businesses, but input costs continued to put downward pressure on their margins. A restaurateur in the Minneapolis–St. Paul region expressed concerns about their ability to continue raising menu prices, as customers faced higher inflation. A restaurant equipment distributor noted healthy demand from their MWBE clients and highlighted a slight loosening of supply chain bottlenecks. A media company executive said that finding competent talent was a barrier to their growth, highlighting the persistent hiring challenges faced by many. Nonprofit finance contacts shared that demand for loans was down overall because entrepreneurs were feeling uncertain about the economy. ■

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



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## Summary of Economic Activity

The Tenth District economy grew at a moderate pace, but expectations for future growth softened somewhat due to rising costs, worsening supply chain disruptions and heightened uncertainty. Several contacts reported shifts in consumer spending. Demand for goods slowed while demand for services grew steadily, particularly in leisure and hospitality. Businesses also reported lower expected spending on more expensive discretionary items as prices continued to rise. Although expected growth softened generally, construction activity grew at a robust pace and backlogs for future projects extended further. Labor activity expanded moderately with solid job growth and increases in the average number of hours worked. Above average wage gains aimed at retaining workers were reported widely. Prices rose at a robust pace. Contacts in food manufacturing indicated that consumer prices for food are likely to increase further over coming months. Large retailers and grocers are reportedly accepting planned cost increases from food distributors that will be passed on to consumers through the summer and fall. Restaurant owners also indicated they are raising prices frequently, but with limited ability to fully offset rising costs.

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### Labor Markets

Job growth continued at a moderate pace, led by hiring in services sectors. Employment at leisure and hospitality businesses expanded to near pre-pandemic levels across the District. Hiring in manufacturing and other goods-producing sectors grew slightly, though contacts reported that labor demand and the number of jobs open in these sectors remains elevated. Employers noted that the average hours worked by employees each week grew moderately and is higher than pre-pandemic norms. The higher average number of hours worked was reportedly due to both strong labor demand conditions as well as fewer workers being employed on a part-time basis.

Most contacts reported solid wage growth. Businesses indicated that wage increases were being used more frequently to retain workers in recent weeks, as compared to previously offering bonuses, enhanced benefits or more flexible schedules to attract and retain workers. Moreover, the majority of contacts characterized the size of wage gains aimed at retention as larger than typical increases from recent years.

### Prices

Prices rose at a robust pace. Recent increases in commodity prices are leading to price pressures for food that have not fully passed through to consumers. Large retailers and grocers are reportedly taking price increases from food manufacturers with 90-day lags, so that additional increases in consumer food prices are likely. Some restaurants reported taking advantage of digital menus to implement “real time pricing” on most items, but noted that customers have been unwilling to fully accept higher prices when dining out. Contacts at craft breweries noted that higher wheat costs may lead to losses as consumers substitute to lower cost options.

### Consumer Spending

Consumer spending continued to grow at a moderate pace in recent weeks, but several contacts noted shifts in spending habits. Sales of food in grocery stores grew faster than at restaurants, but contacts were uncertain if this was due to labor shortages at restaurants continuing to restrict operating hours or because higher food prices led consumers to limit how often they frequent restaurants. Other contacts noted that spending on clothing and appliances declined slightly. Though demand for some goods softened, spending on leisure travel and other services continued to expand at a robust pace.



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

Manufacturing production grew modestly and new orders for products continued to rise. Overall demand for trucking and transportation remained elevated, even as logistics businesses reported raising shipping rates in recent weeks. Transportation parts and services businesses faced ongoing difficulties sourcing needed parts, challenges that worsened following Russia's invasion of Ukraine. Contacts indicated that lockdowns in China would increase input prices and worsen supply chain issues, leading some importers of consumer products to slightly reduce their orders for products to be delivered later in the year. Businesses indicated expectations that difficulties in procuring parts and materials will persist for the next 6-12 months, or longer. Facing ongoing labor shortages and raw material shortages, most manufacturing contacts indicated they expect production levels to remain at their current high levels over the next six months.

Several businesses reported slowing growth in their planned capital expenditures on equipment and less buildup in their inventories. Retailers highlighted shifting consumption patterns as a key reason they will undertake less inventory buildup over the summer. Prices for transportation vehicles and other production equipment on secondary markets increased rapidly over the past several months. Several contacts indicated that, although overall demand remains elevated, they see a heightened risk that demand could fall and cause their businesses to take losses on equipment purchases given their current high prices. These headwinds to business investment emerged recently alongside standing concerns about rising material costs and rising interest rates. On average, businesses in the District expected no changes in investment in inventory buildup over the next six months.

### **Real Estate and Construction**

Non-residential construction activity expanded at a robust pace in recent months. Expectations for future growth in non-residential construction remained elevated as backlogs of orders were widespread and longer than seen in recent history. Contacts noted strong demand conditions are likely to maintain wage pressures over the medium term because companies are more willing to pay premiums to retain workers amid long backlogs. Also, several contacts noted their clients are more willing to accept price increases due to wage pressures than due to materials costs or overhead costs, leading some companies to be more likely to increase wages recently.

### **Community and Regional Banking**

Loan demand remained stable over the past month, although customer appetite for residential mortgage loans weakened as interest rates increased. Contacts noted that commercial and industrial loan demand held steady, despite a reported increase in interest rates. Credit quality remained sound and problem loan levels were low amidst stable cash flow positions. Deposit growth moderated this month as customers pursued higher rates and utilized excess cash. Despite sound credit conditions, a moderate share of contacts' outlooks for loan quality over the next 6 months deteriorated modestly due to inflation concerns and supply chain pressures on consumer and small business loan segments.

### **Energy**

Tenth District energy activity expanded at a moderate pace in recent weeks. Active rig counts increased across District states in April and early May. Drilled-but-uncompleted wells declined across the Anadarko and Niobrara regions as additional wells came online. With more active rigs, regional oil production increased slightly over the past month, though new well productivity fell modestly. Oil prices are slightly higher from a month ago and drilling remains profitable for most District firms, despite rising costs. Natural gas prices continued to rise swiftly over the last month. District energy firms reported higher revenues in early 2022 along with higher materials and labor costs. Mining jobs, including the oil and gas sector, picked up across most District states in recent months, but continued to lag pre-pandemic levels. Expectations for future production, employment, and capital expenditures remained positive.

### **Agriculture**

Agricultural commodity prices remained at multi-year highs, providing ongoing tailwinds to the Tenth District farm economy. Market conditions remained favorable for prices of all major commodities in the region and prices of wheat, corn, soybeans, cotton and cattle increased modestly from the previous month. Farm income and credit conditions also improved further during the most recent survey period. However, contacts expected conditions to soften slightly in the coming months and many cited concerns about rising input costs, broad inflationary pressures and severe drought. The western and southern portions of the region have been most exposed to drought, affecting wheat, hay and grazing conditions that could reduce profit opportunities for both crop and livestock producers in those areas. ■

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





## Summary of Economic Activity

Expansion in the Eleventh District economy slowed to a moderate pace during the reporting period. Most notably, home sales slowed, retail sales fell, and growth in manufacturing and nonfinancial services decreased from a solid to a moderate pace. Growth in loan volumes remained strong across most loan types, except for residential real estate, which saw no change in loan volumes over the last six weeks. Activity in the energy sector expanded further, while worsening drought further hampered agricultural conditions. Employment rose robustly, and wage growth continued to be elevated amid labor market tightness. Supply-chain issues and high energy prices continued to drive up costs. Optimism in outlooks waned, and uncertainty stayed elevated amid concerns about inflation, rising interest rates, resolution of supply-chain issues, and expectations of weakening demand.

### Labor Markets

Demand for labor continued to be strong, though supply remained tight. Several firms noted that staffing shortages were a drag on growth. Three-fourths of the 230 Texas business executives responding to a Dallas Fed April survey cited a lack of applicants as an impediment to hiring workers, and 30 percent within that group noted the availability of applicants had worsened over the past month. Staffing firms reported increased interest in direct hires over temporary workers in recent weeks. One contact mentioned that a large e-commerce firm intends to automate half of the jobs at a new facility in Shreveport, Louisiana, due to difficulty hiring, and there were multiple reports indicating that firms were beginning to consider outsourcing work overseas due to local labor market tightness.

Wage growth remained robust amid labor shortages. Oilfield services firms cited intensifying wage pressures, and a large energy firm noted raising wages for oilfield workers by 10 percent. Over half of the firms in the above-mentioned April survey said job applicants were looking for higher pay than what was being offered. Multiple firms reported offering referral or hiring bonuses, and a nondurable goods manufacturer noted difficulty finding nightshift workers at an average hourly wage of \$27. Staffing firms reported pressure to decrease mark-ups on bill rates in response to rapidly rising wages.

### Prices

Selling prices climbed further at a rapid clip. Growth in non-labor input costs remained elevated, with contacts mainly citing material shortages, supply-chain issues, and/or high fuel prices as driving the rising costs. Energy firms said that day rates for rigs had climbed by 60 percent in six months, and many were revising up their expectations for overall cost increases from 10-15 percent to 15-20 percent for the year. Transportation costs remained high, and airlines said average fares rose above pre-pandemic levels. There were multiple reports of elevated or rising prices for feedstocks, metals, and construction materials. In contrast, prices for lumber and used vehicles declined. Pricing power generally remained solid, though several contacts, particularly in the service sector, noted diminished ability to fully pass along costs to end users and pushback from customers on the rapid pace of price increases.

### Manufacturing

Texas manufacturing activity increased moderately during the reporting period. Output growth was led by nondurable goods such as food and chemical manufacturing. Gulf Coast refinery utilization rates eased in April, while chemical production increased, buoyed by strong domestic and export demand. Among durables, strength was seen in transportation equipment and construction-related manufacturing. Enduring supply-chain backlogs

and logistical constraints were impeding the ability of several manufacturers to meet demand. Manufacturing outlooks were negative with contacts citing geopolitical tensions, COVID lockdowns in China, inflation, and supply-chain delays as headwinds.

### **Retail Sales**

Retailers and wholesalers reported sustained weakness in overall sales, with tight inventories and ongoing supply chain challenges continuing to hamper growth. Auto dealers cited continued declines in sales stemming from low inventories of new vehicles; however, demand for auto servicing and parts sales was characterized as normal. A few contacts noted that the opening of the border with Mexico has greatly benefited retailers in the area. Overall outlooks were pessimistic, however, with continued concern regarding supply side stresses.

### **Nonfinancial Services**

The service sector expanded moderately during the reporting period. Revenue growth was mostly broad-based, with continued solid increases seen in the leisure and hospitality and transportation and warehousing sectors. Staffing firms continued to report strong demand, particularly for healthcare, IT, and construction workers, and added that filling low-skilled positions was more challenging than finding high-skilled workers. Demand for air travel rose during the reporting period. Leisure travel continued to dominate airline bookings, and contacts said that strong momentum heading into the summer travel season was boosting outlooks. Vessel traffic at Texas seaports fell slightly in April but was up strongly year to date relative to 2021. Vessel dwell times remained elevated in part due to truck driver shortages. Air cargo volumes also rose, though shipments to and from China slowed. Service-sector outlooks were subdued due to expectations of weaker demand going forward and uncertainty surrounding the global economic outlook and inflation.

### **Construction and Real Estate**

Activity in the housing market softened. The slowing was particularly pronounced at the entry price level, though rising rates were beginning to hit the move-up market as well. Builders said cancellations were up, traffic was disappointing, conversions were taking longer, and waitlists were shrinking. Offers were coming in closer to asking prices, a departure from the large premiums seen earlier, and incentives, particularly in the form of rate buydowns, rate locks or closing costs, were being reintroduced. Some builders were releasing homes earlier in the building cycle to enable clients to lock in rates. Uncertainty in outlooks increased, with contacts voicing concern about the impact of rising mortgage rates and

higher home prices on affordability and future sales.

The multifamily market continued to tighten, with occupancy ticking up further. Apartment rent growth remained elevated, though there were reports of slowing at the lower end. Commercial real estate markets were steady to stronger. Office leasing continued to improve, and activity in the industrial sector remained elevated. One contact noted that underwriting standards for multifamily deals were gradually tightening, which may impact sales and valuations going forward.

### **Financial Services**

Loan demand rose over the past six weeks despite broad increases in loan pricing. Loan volume growth spanned loan types except for residential real estate, where lending was flat. Nonperforming loans continued to decrease, and credit standards and terms tightened further. Looking six months ahead, contacts expect a decline in loan demand and general business activity and an increase in nonperforming loans. Contacts note rising interest rates, inflation, and expectations of slower growth ahead as headwinds.

### **Energy**

Oilfield activity increased, with the Eleventh District rig count climbing further during the reporting period. Labor and supply chain constraints continued to worsen and were becoming binding in many cases, slowing the pace of drilling and well completion. Lead times for many critical parts and components were well over a year. Contacts said that raising capital was becoming slightly easier due to an improved outlook for returns. Industry sentiment was cautiously optimistic, with contacts increasingly concerned about further lengthening of lead times for materials and the probability of a recession.

### **Agriculture**

Drought intensified over the past six weeks, particularly in the western part of the district. Crop conditions generally declined, with increased risk of reduced yields for this year's row crops. Forage conditions suffered from the lack of moisture, putting additional strain on livestock grazing amid highly elevated supplemental feed costs. This has led to increased culling of herds and lower calf prices. Agricultural product prices showed mixed movements over the reporting period but generally remained high. Despite high prices, contacts noted increased financial risk this year due to drought and higher input costs. ■

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



## Summary of Economic Activity

Economic activity in the Twelfth District expanded moderately during the April through mid-May reporting period. Overall labor market conditions remained tight, accompanied by wage increases that showed some signs of leveling off. Price levels increased briskly, driven by food and energy price increases. Retail sales continued to increase, while conditions in the consumer and business services sector improved significantly due to pent-up demand for leisure travel and other services. Activity in the manufacturing sector remained strong, while conditions in the agriculture and resource-related sectors deteriorated a bit. The residential real estate market remained robust overall, while conditions in commercial real estate improved somewhat. Lending activity was little changed over the reporting period.

### Labor Markets

Conditions in labor markets were little changed and remained tight across all sectors. Many employers mentioned difficulty attracting skilled workers, such as IT and finance professionals, data scientists, mechanics, pilots, underwriters, and loan officers. Hourly workers, especially in the leisure and hospitality sector, have also been hard to find, which has led to rising burnout among existing workers. A few contacts noted a slight decrease in employee turnover, although levels remain higher than before the pandemic. In addition, recent hiring freezes at a few large tech firms combined with the tightening financial conditions have led a few employers to expect the labor market to cool down in the near future. Several contacts also mentioned a resurgence of unionization efforts in the health-care, retail, and distribution sectors.

Wages continued to rise, although with some slight signs of leveling off. Contacts in the health-care, agriculture, food services, and financial services sectors reported the highest wage increases. Some contacts mentioned budgeting several more wage increases in the middle of the year to keep pace with price inflation, while others mentioned having no such plans. A few small companies reported difficulty competing for talent with larger companies able to absorb more costs. A retailer in the Mountain West recently stopped increasing wages after noticing no significant impact in the number of applicants from previous wage increases.

### Prices

Prices continued to increase briskly over the reporting

period, most notably for food and energy products. Price increases were noted across many industries, including manufacturing, construction, food services, and health care. Cost pressures associated with energy price increases were expected to be passed on to consumers relatively quickly. Prices for agricultural products, such as seafood and tree fruits, also continued to rise, partly due to elevated shipping and fertilizer costs. On the other hand, price levels for steel and other manufactured metals were noted to have edged down in the past few weeks compared to their highs following the onset of the Russia-Ukraine war.

### Retail Trade and Services

Retail sales continued to increase, although with some moderation. Consumer demand for food and energy products slowed down somewhat due to pricing pressures, and a few contacts observed that consumers are curbing their spending and focusing more on necessities, especially in lower-income households. However, spending of higher-income households has not yet been affected as much, and auto sales were noted to have increased. Going forward, contacts across the District expected further pullback in demand due to increased uncertainty and concerns over high inflation.

Conditions in the consumer and business services sector improved considerably thanks to low reported numbers of new COVID-19 cases, warmer weather, and pent-up demand for services. Demand for domestic air travel is now above pre-pandemic levels and international travel is also on an upward trend. Despite increasing airfares,

the strong recovery in leisure travel has also increased activity at hotels, restaurants, and entertainment venues. Business travel was also noted to have ramped up. Demand for food services was generally strong, although one contact in the Pacific Northwest noted a recent decrease in restaurant diners after the rapid increase in fuel prices. Demand for health-care services remained stable but showed signs of normalizing away from COVID-related services.

### **Manufacturing**

Activity in the manufacturing sector remained strong. New orders continued to increase, and manufacturers' capacity utilization rates were either at or above pre-pandemic levels. However, supply chain disruptions and limited availability of raw materials as well as shipping issues continue to have a significant impact on production and delivery times. Several contacts expressed concern that recent COVID-19 lockdowns of major cities in China could exacerbate these issues further. To combat these disruptions, one contact mentioned maintaining approximately three months of additional inventory of supplies, while another manufacturer noted a modest inventory reduction in the past few months. A large equipment manufacturer in the Pacific Northwest observed that higher labor costs have led some businesses to look into automation.

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

Conditions in the agriculture and resource-related sectors deteriorated a bit. Exporters of agricultural products faced more challenges due to further shipping bottlenecks and container shortages stemming from an appreciating dollar, the war in Ukraine, and the lockdowns in China. Growers throughout the District noted rising costs for labor, fertilizer, and transportation, and one contact expected costs to continue accelerating in the near future. Another contact in the Pacific Northwest mentioned that these export challenges have led them to look at markets within the United States or Canada and Mexico. While demand for energy remained stable over the reporting period, a public utility contact noted that price increases in natural gas have not yet been passed on to consumers due to regulatory lags—once they do, demand is expected to decrease.

### **Real Estate and Construction**

Residential real estate activity remained robust overall despite some signs of easing. Demand for existing and new single-family homes, while still strong, has slowed down somewhat as higher prices, rising mortgage rates, and low inventories thwarted some potential buyers, especially those at the entry level. In addition, supply chain disruptions and rising labor and construction costs contributed to further price increases. As a result, several contacts noted a significant increase in demand for multi-family properties as they tend to be more affordable than single-family homes. In fact, a contact in the Pacific Northwest observed an increase in repurposing commercial downtown real estate into high-density residential units. Both single- and multi-family rental markets continued to be strong, with increases in rental prices and low vacancy rates.

Conditions in the commercial real estate market improved slightly. Demand for industrial and warehousing space continued to be strong, and a few contacts noted a pickup in construction of commercial real estate. However, a contact in the Pacific Northwest observed that some potential commercial projects are being reevaluated due to rising interest rates. Furthermore, a few others expressed uncertainty over demand for office space going forward as leases expire and hybrid work leads companies to downsize their footprint.

### **Financial Institutions**

Lending activity was little changed on balance. Several contacts observed a slowdown in deposits and refinancing activity, most of which was driven by fixed-rate mortgages due to rising interest rates. On the other hand, commercial, construction and auto loans were noted to have increased over the reporting period. Several contacts in California also mentioned a notable increase in home equity line of credit activity as homeowners take advantage of higher home values. Many banks continued to experience strong competition for new loans, although asset quality and liquidity remained high. One contact in the venture capital space noted that cleantech public company valuations have decreased notably in the past few months, although private company valuations remained strong. ■



