

For use at 2:00 PM EST

Wednesday

November 29, 2023

# The Beige Book

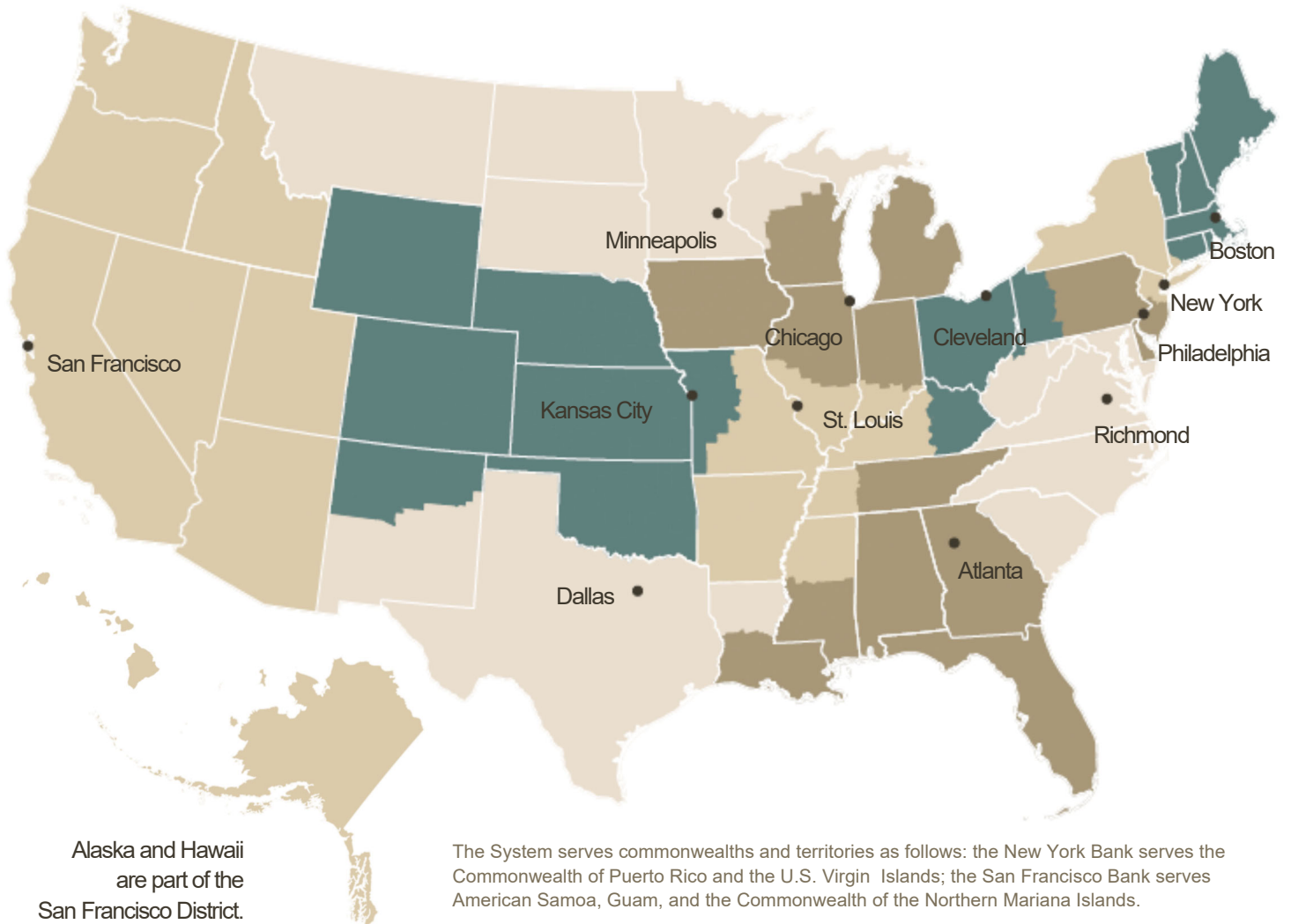
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Summary of Commentary on Current Economic Conditions

By Federal Reserve District

November 2023

## Federal Reserve Districts



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This report was prepared at the Federal Reserve Bank of Atlanta based on information collected on or before November 17, 2023. This document summarizes comments received from contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.

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### **What is the Beige Book?**

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

### **What is the purpose of the Beige Book?**

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

### **How is the information collected?**

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

### **How is the information used?**

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

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

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



# National Summary

The Beige Book ■ November 2023

## Overall Economic Activity

On balance, economic activity slowed since the previous report, with four Districts reporting modest growth, two indicating conditions were flat to slightly down, and six noting slight declines in activity. Retail sales, including autos, remained mixed; sales of discretionary items and durable goods, like furniture and appliances, declined, on average, as consumers showed more price sensitivity. Travel and tourism activity was generally healthy. Demand for transportation services was sluggish. Manufacturing activity was mixed, and manufacturers' outlooks weakened. Demand for business loans decreased slightly, particularly real estate loans. Consumer credit remained fairly healthy, but some banks noted a slight uptick in consumer delinquencies. Agriculture conditions were steady to slightly up as farmers reported higher selling prices; yields were mixed. Commercial real estate activity continued to slow; the office segment remained weak and multifamily activity softened. Several Districts noted a slight decrease in residential sales and higher inventories of available homes. The economic outlook for the next six to twelve months diminished over the reporting period.

## Labor Markets

Demand for labor continued to ease, as most Districts reported flat to modest increases in overall employment. The majority of Districts reported that more applicants were available, and several noted that retention improved as well. Reductions in headcounts through layoffs or attrition were reported, and some employers felt comfortable letting go low performers. However, several Districts continued to describe labor markets as tight with skilled workers in short supply. Wage growth remained modest to moderate in most Districts, as many described easing in wage pressures and several reported declines in starting wages. Some wage pressures did persist, however, and there were some reports of continued difficulty attracting and retaining high performers and workers with specialized skills.

## Prices

Price increases largely moderated across Districts, though prices remained elevated. Freight and shipping costs decreased for many, while the cost of various food products increased. Several noted that costs for construction inputs like steel and lumber had stabilized or even declined. Rising utilities and insurance costs were notable across Districts. Pricing power varied, with services providers finding it easier to pass through increases than manufacturers. Two Districts cited increased cost of debt as an impediment to business growth. Most Districts expect moderate price increases to continue into next year.

## Highlights by Federal Reserve District

### Boston

Economic activity was flat or down slightly. Employment was stable but labor demand showed weakness. Results were quite mixed among manufacturers, some of whom have recently experienced an extended period of weak activity. Contacts noted an increase in loan defaults for office properties and expected further distress moving forward.

### New York

Regional economic activity continued to weaken. Though still solid, labor market conditions cooled, and consumer spending slowed. Inflationary pressures were little changed after moderating in recent months. There were some signs of housing markets becoming more balanced in some parts of the District, though inventory remained exceptionally low.

### Philadelphia

Business activity continued to decline slightly during the current Beige Book period. Wage and price inflation subsided significantly – but price levels remain high for many items. Consumers became yet more price sensitive, and real consumer spending declined. Employment grew modestly as labor availability improved further. Expectations for economic growth remained subdued.

### Cleveland

The District's economy contracted slightly in recent weeks after a long period of stability. Accompanying slower business activity, labor demand eased further, and employers reported returning to more normal wage increases and schedules. Input costs continued to trend down. Moreover, some firms noted that pricing power was reduced by weakening demand and competition.

### Richmond

The regional economy grew slightly in recent weeks mainly due to modest increases in consumer spending. Manufacturers reported mixed activity. Underlying volumes in the transportation sector were low. Residential real estate continued to be constrained by limited inventory. Commercial real estate activity and lending demand declined. Employment increased modestly and price growth moderated slightly.

### Atlanta

Economic activity grew slowly. Labor markets cooled, and wage pressures eased. Some nonlabor input costs, mostly in construction, decreased. Retail sales softened. New auto sales remained strong. Leisure and group travel were solid. Housing demand slowed. Banking conditions were stable. Transportation activity weakened. Energy demand rose. Agricultural conditions improved somewhat.

### Chicago

Economic activity was up slightly. Employment increased moderately; business spending was up slightly; nonbusiness contacts saw little change in activity; consumer spending and construction and real estate activity decreased slightly; and manufacturing was down modestly. Prices and wages rose moderately, while financial conditions tightened slightly. Expectations for farm incomes in 2023 were little changed.

### St. Louis

Economic activity has slowed slightly since our previous report. Retailers and freight transport contacts reported slowing consumer demand, particularly for high-end goods. Construction activity slowed, with multifamily in particular seeing projects delayed or cancelled due to higher rates.

### Minneapolis

District economic activity was down slightly. Employment grew modestly but labor demand softened. Wage pressures were stable but still above average, and price pressures were modest. Consumer spending was flat as shoppers sought low-priced options, while construction and manufacturing sectors both faced challenges. Farm incomes were also lower.

### Kansas City

Economic activity in the Tenth District declined slightly in recent weeks. Consumers were increasingly likely to “share a roof and share meals” to manage household budget challenges. Wage growth remained steady, but job gains were modest. Most firms reported plans to raise prices in coming months and noted heightened uncertainty about the outlook for commodity prices. Renewable energy activity continued to expand at a moderate pace.

### Dallas

The Eleventh District economy expanded at a slower pace than in the previous reporting period, as growth in services stalled out, retail and home sales fell, and loan volumes declined at a faster rate. Job growth softened, and wage growth continued to normalize. Price pressures were above average in the service sector but modest in other sectors. Outlooks worsened, and uncertainty remained elevated with numerous contacts citing geopolitical instability and high interest rates as headwinds.

### San Francisco

Economic activity softened slightly. Labor market tightness eased moderately. Wage and price pressures moderated. Retail sales were flat, and demand for manufactured products remained largely unchanged. Conditions in agriculture were mixed, while real estate activity softened somewhat. Financial sector conditions weakened further. Local communities faced high demand for support services.



## Summary of Economic Activity

Economic activity was flat or down slightly on balance, as prices held mostly steady and labor demand slowed. Retail results were mixed but neutral on average, and restaurant sales fell slightly. Manufacturers reported modest recent revenue declines, and a few experienced sharp reductions in demand from a year earlier. Staffing services contacts enjoyed modest gains in revenues but noted a slowdown in hiring plans among their clients. Residential home sales were flat at very low levels, and sales were not expected to rebound until interest rates fell. Commercial real estate activity slowed modestly, and the outlook for office properties was increasingly dim. Outside of real estate, contacts on balance were cautiously optimistic for at least stable activity moving forward.

### Labor Markets

Employment appeared stable on balance, but hiring activity and hiring plans were dialed back noticeably in some sectors. Wage growth was moderate on average and eased further overall. Staffing services contacts reported slight increases in labor supply and sustained but modest demand for most roles. The same contacts said that clients were “rightsizing” their businesses through occasional layoffs and reduced hiring plans. Starting wages actually declined for some positions because of an increased candidate pool, and signing and retention bonuses became less common. Demand apparently picked up for legal staffing roles and remained robust for convention staffing positions. Restaurant industry contacts said that labor supply increased modestly further, with the exception that managers remained scarce. Retail headcounts were roughly steady, and contacts saw moderately lower attrition and a slight increase in applications. Labor demand weakened among manufacturers, as two firms reduced headcounts sharply from one year ago amid restructuring and others planned to let headcounts fall gradually through attrition and conservative hiring. Manufacturers said that wage growth was stable but stayed at an above-average pace. A workforce development contact said that select employers were willing to provide training to new hires with weak qualifications, enabling more first-time jobseekers to join the labor force, but that the practice was still not

widespread. The outlook was mixed but most contacts predicted stable or slower labor demand moving forward.

### Prices

Prices were stable on average across First District contacts. Retail sticker prices were flat and planned price increases remained muted relative to recent years. For restaurants, menu prices held roughly steady and wholesale food prices were also mostly flat in recent months, excepting modest increases in the prices of pork and eggs. Restaurants’ profit margins were down somewhat from a year earlier because menu price increases have fallen short of overall cost increases. Output prices were stable across manufacturing contacts, while input costs were down on balance and several contacts enjoyed sharply lower freight costs in particular. Contacts expected only modest pricing pressures moving forward.

### Retail and Tourism

Retail contacts had flat revenues on average and restaurants had slightly weaker sales. A clothing retailer experienced a moderate decline in year-over-year sales following months of modest growth. The contact said that unseasonably warm temperatures this fall had delayed winter purchases, but they saw a rebound more recently as the weather turned colder and they remained optimistic for the holiday season. A discount retailer saw further modest improvements in sales volumes, pointing to strong inventories and the ongoing shift of consumers toward discount goods. A Massachusetts restaurant



industry contact reported marginally lower sales throughout the state in recent months, with meal tax receipts dipping slightly from a year earlier despite a modest increase in meal prices over that same period. There are now more restaurant establishments in the state than there had been prior to the pandemic. Restaurant owners remained optimistic for the holiday season, but maintaining profitability was expected to be an ongoing challenge.

### **Manufacturing and Related Services**

Reports were mixed for our manufacturing contacts, with revenues down modestly on balance and only one firm reporting robust sales growth. Several contacts reported significant revenue declines from one year earlier, in one case because of a comparison to an unusually strong 2022 benchmark and in other cases because of lackluster demand in 2023. A maker of testing equipment attributed weaker demand to reductions in COVID-related medical spending. A microelectronics industry contact said that the down cycle that started in the third quarter of 2022 is the longest in the history of the industry. A chemical manufacturer said higher interest rates were at least partly to blame for sharply weaker sales in 2023. Contacts with slowing sales said they were reducing capital expenditures, but only slightly, as the returns to automation remained high. Outlooks were guardedly positive on balance.

### **Staffing Services**

First District staffing firms reported modest revenue increases on balance in the third quarter of 2023. Revenue gains were driven by elevated pay rates for temporary placements and temp-to-hire roles, positions which have rebounded since the pandemic. Nonetheless, the overall hiring plans of staffing firms' clients seemed to slow on balance. Given the slowdown, one staffing contact decided not to fill an internal talent acquisition position that had been created by a resignation. The outlook was cautiously optimistic, as firms expected stable demand on balance. One contact hoped to expand into a new geographic region, provided revenues held at least steady in the coming months.

### **Commercial Real Estate**

Commercial real estate activity slowed further on balance, albeit modestly. Demand for industrial space weakened a bit, particularly among e-commerce and warehousing tenants. Industrial rent growth slowed but remained positive, and vacancy rates increased slightly from near-zero levels. Office leasing was flat on balance; a Hartford contact described activity as anemic, and a Providence contact saw an uptick that was limited to renewals and downsizing moves. Office rents were

stable and vacancy rates edged up to near 20 percent. Retail market fundamentals were stable but prospective tenants delayed lease signings amid uncertain consumer demand. One contact noted strong performance of hotel properties, particularly in Boston. High borrowing costs continued to deter commercial property sales and construction. The outlook for office properties was seen as dire, with loan defaults on the rise and valuations likely to fall further. Also, contacts predicted a glut of life sciences space in Boston for 2024. Broadly speaking, contacts expected somewhat slower leasing and sales activity in 2024, but noted that results would depend heavily on the direction of interest rates and consumer demand.

### **Residential Real Estate**

Across the First District, residential real estate sales were about flat in recent months net of seasonal adjustments. Considering year-over-year changes to September or October, home sales were down sharply from a year earlier, although in some markets the pace of decline moderated a bit. The greater Boston area experienced its weakest September for single-family home sales since 1995. Condominium sales were down by more moderate margins but were also historically weak. Prices continued to climb at a moderate-to-strong pace owing to very low inventories. Although inventories fell again on a year-over-year basis, the pace of decline moderated, and modest seasonal supply increases were seen in September from August. Contacts again pointed to high interest rates as the most important factor holding back activity in the residential property market, and therefore pinned the outlook for sales on the course of interest rates in 2024. ■

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





## Summary of Economic Activity

Economic activity in the Second District continued to weaken during the latest reporting period. Labor market conditions cooled but generally remained solid. Though employment edged up slightly, labor demand softened and workers have become easier to find. Inflationary pressures were little changed after moderating in recent months. Consumer spending continued to slow. Manufacturing activity grew modestly, though orders were weak. Tourism activity in New York City slowly inched back toward pre-pandemic levels. Housing markets in parts of the region have started to show signs of becoming more balanced, though low inventory continued to restrain sales activity. Residential rental markets plateaued. Commercial real estate markets remained strained. Conditions in the broad finance sector weakened slightly, with loan demand declining and delinquency rates edging up. The outlook worsened, with businesses in the region no longer expecting economic conditions to improve in the coming months.

### Labor Markets

Labor market conditions cooled but generally remained solid. On net, employment continued to increase in the latest reporting period, edging up slightly. However, contacts reported some softening in labor demand and improvements in worker availability across the District. After nearly four months, the recent settling of the Screen Actors Guild strike is expected to restore jobs for many New York City-area workers who were affected.

Contacts noted that some companies have become cautious about adding to their headcounts in recent weeks. Layoffs and hiring freezes in the tech industry outside of the region have boosted the availability of tech workers. Still, despite some recent improvement in worker availability, labor supply remains an issue for most industries. Regional businesses overwhelmingly reported that the inability to find workers with the right skills was restraining hiring plans.

The pace of wage growth slowed somewhat in recent weeks, especially for finance and information services firms. In fact, a New York City-area company noted a reduction in starting salaries for recent college graduates as tech workers have become easier to find. Looking forward, firms plan on increasing employment only modestly in the coming months.

### Prices

Inflationary pressures were little changed in the most recent reporting period. The pace of input price increases generally held steady. While the prices of some inputs such as freight and logistics have come down, contacts reported rapidly growing costs for other inputs, particularly utilities and insurance. The pace of selling price increases also held steady this reporting period. However, looking ahead, more contacts expect the pace of price increases to pick up in the coming months.

### Consumer Spending

On balance, consumer spending continued to slow but remained solid. Increases in health care spending were offset by ongoing declines in spending on travel and entertainment. Auto dealers in upstate New York reported solid growth in sales activity for both new and used cars, as improving inventory continued to expand options for buyers. While creditworthy buyers were able to get financing, those with lower credit scores have increasingly found it difficult to secure auto loans. With higher interest rates, car loan terms are getting longer as 84-month loans have become the norm.

## Manufacturing and Distribution

Manufacturing activity grew modestly during the latest reporting period, though orders declined slightly. Delivery times shortened and supply availability continued to improve, but some contacts reported ongoing challenges with the supply of raw materials and durables. Motor vehicle inventory continued to improve, and dealers indicated that the UAW strike had minimal impact on inventory levels. Wholesalers and transportation & warehousing contacts reported declining business activity. Looking ahead, manufacturers do not expect activity to increase in the coming months.

## Services

Service sector activity declined modestly in the latest reporting period. While businesses in leisure & hospitality reported modest growth, businesses in education, finance, and those providing business services reported sluggish activity. Service firms do not expect much improvement in the months ahead.

New York City tourism continued to inch back slowly to pre-pandemic levels. While New York City hotel occupancy rates remained higher than other U.S. cities, the lack of visitors from Asia remained a drag on the tourism recovery. Contacts reported that geopolitical instability overseas is beginning to dampen travel planning. Still, mid-week hotel demand in New York City was strong, reflecting increased business travel—a positive sign that an important part of the City’s tourism economy is showing progress after lagging through much of the recovery.

## Real Estate and Construction

Housing markets in some parts of the region have started to show signs of becoming more balanced for buyers and sellers, though low inventory continued to restrain sales activity and other parts of the region remained red hot. Home prices have generally continued to trend up despite relatively high mortgage rates. Contacts in upstate New York noted some cooling in demand along with an increase in listings, in part due to people leaving New York state. While demand softened in New York City, demand in its suburbs remained extremely strong, with record high prices and bidding wars on about half of sales. While creditworthy buyers were able to obtain mortgages, the availability of credit has become an issue for some buyers. One contact noted that buyers needed increased attentiveness to get lenders to the closing table.

Residential rental markets plateaued, with rents holding steady near historically high levels. New lease activity continued to fall, with landlords focusing on retaining existing tenants. In New York City, there was a small uptick in the supply of rental units, possibly due to the increased enforcement of rules restricting short-term rentals.

Commercial real estate markets weakened for both office and industrial space, as vacancy rates edged up and rents declined across much of the District. Upstate New York office markets saw notable increases in vacancy rates, while the worsening trend in New York City’s office market continued after a pause during the last reporting period. The industrial market also deteriorated, with vacancy rates increasing and rents softening from long-term highs seen during the summer.

Overall, construction contacts reported declining activity since the last report. Office construction dropped across the District. Multi-family construction also slowed, constrained by tight credit conditions and increased costs. Still, industrial construction continued to grow, with high volumes under construction and new space set to come to market in the fourth quarter of 2023 and early 2024

## Banking and Finance

Conditions in the broad finance sector weakened slightly during the latest reporting period. Small to medium-sized banks in the region overwhelmingly reported lower loan demand across all loan segments, including refinancing. While most banking contacts reported that credit standards were unchanged, a substantial number reported tightening standards for business and commercial loans. On balance, loan spreads narrowed, deposit rates rose higher, and delinquency rates edged up.

## Community Perspectives

Homelessness has reached unprecedented levels in many parts of the District, driven by a shortage of affordable housing and the arrival of asylum seekers. Local governments are not able to meet the growing need for shelter, and the locations of new temporary shelters have been the subject of intense debate. Community planners, non-profit organizations, and government entities managing the homelessness crisis are considering new strategies to increase the supply of affordable housing units. While success has been limited, strategies have included repurposing government structures, incentivizing accessory dwelling units, and increasing tax incentives and private sector collaborations. ■

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



## Summary of Economic Activity

On balance, business activity in the Third District continued to decline slightly. High interest rates and tightening credit standards continued to constrain demand for big-ticket consumer items and private market transactions. Wage and price inflation subsided significantly – to a still-modest pace somewhat higher than the pre-pandemic rate – but price levels remain high for many items. Consumer spending fell modestly in real terms across most segments as consumers became yet more price sensitive. Low-income households have struggled the most. Despite demand falling slightly, employment grew modestly as more job candidates applied and hiring difficulties eased. Overall, contacts' concerns have shifted away from COVID-19, supply chain issues, and labor market issues to uncertainty about interest rates, world affairs, and the 2024 election cycle. On balance, expectations for economic growth over the next six months are mostly positive but remain well below historical averages.

### Labor Markets

Employment grew modestly – faster than the slight growth in the prior period. In our monthly surveys, non-manufacturing firms reported further increases in full-time jobs and an uptick in part-time employment. Manufacturing firms reported a slight increase in employment levels but noted a modest decline in the average employee workweek.

Contacts continued to note an increase in job applicants but a dearth of qualified candidates. Looking ahead and citing expectations of weaker demand, firms expressed more caution about future hiring. A staffing contact reported that orders were down year over year for the firm as well as for most of its peers, although an uptick had narrowed the decline recently.

In a broad annual survey of all of our contacts, 40 percent expected employment to increase over the year, 45 percent expected no change, and 16 percent expected a decrease. The net 24 percent of firms that hope to hire is the lowest share we've recorded dating back to 2011.

Firms reported that wage inflation continued to subside and is approaching pre-pandemic levels but remains at a modest pace overall. On a quarterly basis, firms' expectations of the one-year-ahead change in compensation cost per worker edged down to a trimmed mean of 4.1

percent in the fourth quarter of 2023, from 4.3 percent in the third quarter (and from a peak of 5.8 percent in the third quarter of 2022). Expectations averaged 3.2 percent prior to the pandemic. Expected compensation growth fell to 4.1 percent for manufacturers and to 4.2 percent for nonmanufacturers.

### Prices

On balance, firms reported that price increases subsided significantly but remained modest – somewhat higher than the typical increases in the 1.5 to 2.0 percent range that were observed before the pandemic.

Firms reported that increases in prices received for their own goods and services over the past year fell significantly in the fourth quarter of 2023 compared with the third quarter. The trimmed mean for reported price changes, as indicated by responses to our quarterly survey questions, fell to 3.6 percent from 4.5 percent for all firms. Price increases fell to 3.0 percent among nonmanufacturers and to 4.2 percent for manufacturers.

Contacts noted that while inflation has subsided, many prices remain at new high levels – straining household budgets and business profitability. Some food pantries recently reported that 25 percent of the families served are new; other pantries exist to serve university students. Meanwhile, food banks are struggling to secure food.

Looking ahead one year, the increases that firms anticipated in the prices for their own goods fell significantly. The trimmed mean for all firms fell to 2.7 percent in the fourth quarter of 2023, from 3.7 percent in the third quarter. After reaching a peak of 5.9 percent in the fourth quarter of 2021, expectations are now only slightly above the quarterly average of 2.3 percent for 2016 through 2019. The expected rate of growth fell to 2.3 percent for nonmanufacturers and to 3.1 percent for manufacturers.

## Manufacturing

Overall, manufacturing activity declined slightly during the period following a modest decline in the prior period. The index for new orders edged up slightly; however, shipments sank deep into negative territory after oscillating over the past four months.

Expectations among manufacturers for growth in the next six months remained mostly positive but weakened considerably compared with historical averages.

## Consumer Spending

On balance, retailers (nonauto) continued to report a modest decline in real sales. Some contacts noted that nominal sales were flat or slightly increased. Most said that lower-income consumers were shopping for discounts and spending less; one observed that middle-income consumers were buying fewer items per trip.

Auto dealers reported a slight decline in unit sales after holding steady in the prior period. Contacts noted that supply constraints have mostly ended, but pent-up demand persists – sustaining high prices. Contacts observed that electric vehicles were accumulating on dealer lots as high prices, high interest rates, and consumer hesitancy curbed demand.

Tourism activity continued to decline slightly. Contacts noted that demand is weakening and pricing is softening, especially for budget-oriented properties. One contact noted that business travel has eased – adding that it had not yet fully recovered.

## Nonfinancial Services

On balance, nonmanufacturing activity resumed a slight decline following a modest decline in the prior period. The index for new orders remained negative, while the shipments index turned positive by the end of the period.

Expectations among nonmanufacturers for growth in the next six months improved somewhat but remained well below historical averages.

## Financial Services

The volume of bank lending (excluding credit cards) grew slightly during the period (not seasonally adjusted)

– significantly slower than the moderate pace observed last period and during the same period last year.

During the period, District banks reported moderate growth in home mortgages, modest growth in commercial and industrial loans, and slight growth in home equity lines and other consumer loans. Commercial real estate loans were flat, while auto loans fell modestly.

Credit card volumes were flat following strong growth last period. The pace of growth had been modest during the comparable period last year; however, little or no growth was typical for the comparable time period in most pre-pandemic years following the Great Recession.

Banking contacts noted that delinquencies and bankruptcies are rising but remain at low levels – overall credit quality remains sound. However, nonprofit agencies continued to report higher cash flow problems among small and minority businesses as banks tighten credit standards.

## Real Estate and Construction

Brokers reported that existing-home sales were mired at historically low levels – still buffeted by high prices, high interest rates, and low inventories. New-home builders reported a slight decline in home sales but noted that demand remains strong. People with means continue to buy new or existing homes, while affordability has forced many potential buyers to remain in the rental market.

According to contacts, high interest rates continue to have a dampening effect on commercial real estate market transactions and on new construction. Leasing activity declined slightly accompanied by growth of concessions. The construction pipeline is not yet full for 2024. Activity fell slightly; however, infrastructure projects are keeping some firms very busy. ■

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



## Summary of Economic Activity

Overall, reports from contacts suggest that business activity in the Fourth District declined slightly in recent weeks, ending a period of stable activity that began in late spring this year. Contacts generally expected similar business conditions to persist in the coming months. Consumer spending was down, and general merchandisers reported discretionary goods spending declined, a trend they were hopeful would reverse with the holiday shopping season. Manufacturers that produce intermediate goods used in auto production noted that orders slowed, a situation which one contact attributed to the UAW strike. Higher interest rates continued to dampen loan demand, and several bankers reported that delinquencies edged up for specific loan categories but remained low on balance. Employment levels were flat as many firms restructured staffing for efficiency and as wage pressures continued to ease. According to contacts, nonlabor cost pressures changed little in recent weeks, while the proportion of firms reporting price increases was the lowest since 2020.

### Labor Markets

On balance, contact reports suggested little employment growth in the recent reporting period. Several financial services firms restructured staffing to gain efficiencies, including limiting hiring to revenue-generating roles and reducing staff in underperforming product or market areas. Some manufacturing firms reported lowering head counts through attrition and layoffs because of softening demand for their goods.

Wage pressures eased further in recent weeks. Many firms across industries reported returning to annual wage adjustments and not offering unscheduled raises like they had over the past few years. For example, one commercial real estate contact said, “after 18–24 months of increases, wage growth has seemingly leveled off.” And a hospitality contact noted that his firm was at a “good wage level.” Nevertheless, some firms said they increased wages for workers in high demand. For instance, one freight hauler gave raises to drivers, but not to other employees. Some bankers and manufacturers also continued to increase pay to attract and retain skilled workers.

### Prices

Nonlabor cost pressures changed little in recent weeks according to contacts, though they’ve generally trended down since the start of the year. Many manufacturing and construction contacts said input costs, in particular for steel and lumber, were flat to down. One contact

added that some construction subcontractors were now reaching out to offer reduced fees to fill their project pipelines. Still, other firms continued to report cost increases for health insurance, software licenses, and technical support services, while some restauranteurs and wholesalers noted a recent uptick in the cost of beef, chicken, and dairy products.

Nearly two-thirds of contacts reported leaving their prices unchanged. Many contacts in manufacturing and freight said they were holding prices steady or, alternatively, reducing them to stay competitive, even in cases in which costs were increasing. Meanwhile, a homebuilder and an auto dealer sought to alleviate consumers’ affordability concerns through incentives and interest-rate buydowns by the former and increased discounting by the latter. Another homebuilder noted cutting the size of homes and amenities to keep average unit prices from rising. Nevertheless, two restauranteurs who had not increased prices recently reported that they planned to do so at the start of next year. Contacts who were raising prices generally did so selectively to make up for increased costs.

### Consumer Spending

Consumer spending softened in recent weeks. Multiple general merchandisers reported declines in discretionary goods sales. Likewise, reports from restauranteurs and wholesalers tied to the restaurant industry suggested slower spending on discretionary services. Auto dealers



continued to report sluggish sales that they attributed to higher financing costs and vehicle prices; one dealer also noted that customers were holding off on purchases because of unusually low trade-in offers for used vehicles. Contacts across retail segments generally expected demand to remain soft in the near term, though some were hopeful that the coming holiday shopping season would boost sales.

### **Manufacturing**

Overall demand for manufactured goods was flat. Orders slowed for producers of intermediate goods used in auto production, including paints, coatings, and suspension systems, likely as a result of the UAW strike. Firms tied to commercial construction also experienced declines in orders, with one HVAC parts producer reporting considerable order declines. Reports from primary and intermediate metals producers were mixed. One steel producer reported increased orders as his firm's customers worked to boost their inventories. By contrast, orders for other metals producers were flat to down, and one producer said demand for his firm's products had reached its lowest level in 25 years. Manufacturers generally expected little change in demand in the coming weeks.

### **Real Estate and Construction**

Overall, residential construction and real estate contacts indicated that activity slowed this reporting period. Higher interest rates and increasing construction costs dampened demand for new homes. On the existing homes side, the market continued to suffer from a lack of inventory. Looking ahead, contacts expected demand to weaken further as interest rates remained elevated.

Nonresidential construction slowed in recent weeks. Multiple general contractors reported that their clients had delayed or reconsidered projects because of higher financing costs or economic and political uncertainty. Demand for commercial real estate was soft, in particular for older office space. In addition, one commercial realtor noted that demand for industrial, retail, and apartment space had begun to weaken. Nevertheless, many contacts expected conditions to improve in the coming months.

### **Financial Services**

Loan demand declined in recent weeks as higher interest rates discouraged both households and businesses from borrowing. Bankers expected loan demand to weaken further in the coming weeks because of elevated interest rates and economic uncertainty. Several bankers reported that delinquencies increased slightly for certain loan categories such as credit cards. One banker attributed the uptick in credit card delinquencies to a rise in

utilization by low- to middle-income consumers who had spent down excess savings. Core deposit growth continued to be soft amid persistent rate competition.

### **Non-financial Services**

Demand for professional and business services was solid, while demand for freight services was mixed. Professional and business services firms reported increased demand for their technology-related and engineering services. One contact noted that consumers' continuing shift to online buying had increased demand for his firm's services. These contacts generally anticipated that demand would remain steady going forward. Freight contacts reported an increase in certain markets such as grain and chemical transport. However, demand decreased for freight related to retail products and construction materials, for which the decrease for the latter was linked to customers' pausing projects. Freight firms typically expected demand to be flat in the coming months.

### **Community Conditions**

Nonprofit contacts noted that while demand for skilled tradespersons remained elevated, barriers to entry persisted for many lower-wage jobseekers. To meet the need for skilled labor and mitigate some of these barriers, one workforce-development contact described a construction apprenticeship program that recently opened an onsite childcare center and provided transportation to the job site. Demand for affordable housing remained high, and availability of affordable units was tight. Several contacts said homelessness had spiked recently and cited multiple reasons, including elevated rents, fewer landlords accepting housing choice vouchers, and more competition for affordable-housing units. One nonprofit indicated that construction costs were too high to build affordable housing because of current tight credit conditions and higher interest rates. ■

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

The Fifth District economy grew slightly in recent weeks, mainly due to continued strength in consumer spending. There were some reports of reduced spending on durable goods like furniture and appliances, but spending on nondurable goods and on travel was strong and growing. Nonfinancial service activity remained stable, however real estate activity and bank lending softened amid higher interest rates. The labor market remained tight, overall, but employment rose, and some firms reported finding workers a little easier. Price growth moderated slightly in recent weeks but remained elevated on a year-over-year basis.

### Labor Markets

Employment in the Fifth District picked-up moderately in the most recent reporting period. Although the labor market remained tight, several contacts reported some easing. A motorcoach company reported that they were still understaffed but that finding workers “is better than it was.” This was the first time they indicated hiring optimism in several years. A construction company reported that a slowing industry made finding workers a little easier. Retaining workers, especially high performers, was mentioned by several contacts. For example, a general contractor reported wage increases as large as 15% to retain their highest performers.

### Prices

Year-over-year price growth moderated slightly in recent weeks but remained elevated. According to our most recent surveys, prices received by service providers increased by a little more than four percent compared to last year, this was down from the peak of about seven percent, but still elevated compared to historical averages. Meanwhile, prices received by manufacturers increased by just over two percent compared to the same time last year. A few contacts noted that higher interest rates were making the cost of operations more expensive.

### Manufacturing

Fifth District manufacturing activity remained mixed. A textile manufacturer reported an increase in demand because their clients have worked through the excess inventories that they built up during COVID and were now needing to place new orders. Conversely, a furniture manufacturer reported that the home furnishings industry had been in an 18-month recession and did not expect demand to increase soon. To counteract labor shortages and declining purchasing power from businesses and households, several contacts invested in automation to increase productivity and manage costs. A contact that produces equipment for businesses invested in automating several of their back-office functions to reduce the need for labor. A coffee manufacturer incorporated a suite of customer-service software products that will change the type of skills needed as well as the amount of labor.

### Ports and Transportation

Volumes were sluggish at Fifth District ports this period as trade volumes were down; imports were flat year-over-year but up slightly month-over-month. The higher import volumes were mainly due to more consumer goods coming into the ports. Exports were mostly down this period. Spot shipping rates continued to decline on transatlantic cargo but were slightly up on freight from

Asia. The ports were not having any issues with container congestion and railroads were no longer metering freight. Carriers were doing more blank sailings to streamline services in order to cut costs and have greater vessel utilization. Demand for airfreight improved this period, especially for exports. Air cargo rates were back to 2019 levels.

Trucking firms reported that underlying demand was low, particularly on the industrial side as freight volumes for construction materials were down. Due to decrease capacity in the less-than-truckload segment, spot prices remained stagnant. However, freight rates in the truckload segment were down slightly this period. Trucking firms noted that drivers were more readily available but that it remained very difficult to hire skilled mechanics. Trucking companies stated that they were not having any issues maintaining their fleet of trucks and trailers and that there were no significant backlogs on orders of new equipment.

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

Consumer spending increased modestly, on balance, in recent weeks. Reports from retailers, however, were mixed. Clothing and grocery stores reported steady to increasing sales and demand while furniture and appliance stores reported declines in purchases. A jewelry store owner said that foot traffic was steady, but sales were down, and they felt that some customers were browsing now but waiting until closer to the holidays to make any purchases. Meanwhile, travel and tourism contacts generally reported steady to increasing activity. A hotel chain manager said that after experiencing a lull in the summer, fall bookings were up and better than expected. Airline bookings remained solid and passenger traffic was up compared to last year.

### **Real Estate and Construction**

Residential real estate respondents indicated that sales volumes and buyer traffic decreased this period as buyers pulled back amid low inventory and higher mortgage rates. The number of new listings were down as well. Days on market increased slightly but remained below historic averages. Sellers were often providing concessions and/or dropping sale prices for homes that have been on the market for over 30 days. However, there remained upward pressure on home prices, especially in more desirable neighborhoods. Builders indicated that it was more difficult to build new homes at a fair price due to the high cost of materials, labor, trades, and financing.

In the Fifth District, overall market activity in commercial real estate (CRE) was slow this period. Industrial and

retail were both fairly stable with low vacancy levels and rising rental rates. In the office sector, owners were having to offer generous concessions, incentives, or tenant improvement allowances to secure new leases—so effective rental rates were much lower. In multifamily, rents were flat or down due in part to the amount of new construction coming to market. Banks were being very selective on financing any type of CRE investment. The lack of available financing dampened a broad range of activities within the CRE sector, including new development and refinancing. Contractors noted a slowdown in new work.

### **Banking and Finance**

Loan demand continued to slow down with several respondents describing demand as “softening.” This was observed in all loan portfolios, but especially in the commercial and consumer real estate segments. Higher interest rates as well as global and domestic political concerns were noted as factors driving this softening demand. Many institutions renewed their focus on deposit retention and growth by continuing to increase rates with a focus on money market accounts and certificates of deposit. Overall loan delinquencies and credit quality remain stable with institutions continuing to monitor their portfolios closely and making underwriting adjustments as needed.

### **Nonfinancial Services**

Nonfinancial service providers continued to report that demand for their services as well as revenues remained stable. One firm observed from their clients that available capital is still sitting on the sidelines due to increased borrowing costs, which, in turn, has constrained the clients’ growth opportunities. Wage and expense pressures still existed but have started to moderate. A staffing firm noted there was still demand for high skilled workers and a slight increase in the candidate pool. One firm expressed concern that demand was going to soften due to the restarting of student loan repayments and decreased discretionary income available to consumers.

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

The economy in the Sixth District grew at a tepid pace from October through mid-November. Labor availability and employee retention improved, and wage pressures continued to ease. Some construction input costs fell, but fuel prices and insurance costs rose; pricing power dwindled. Retail sales moderated; new auto sales were strong, although demand for used cars declined. Domestic leisure and group travel was healthy, but spending at hotels slowed. Home sales remained constrained as house prices and mortgage interest rates rose. Commercial real estate activity decelerated. Demand for transportation services remained soft. Loan growth was flat. Energy demand increased.

### Labor Markets

Most business contacts reported that labor markets softened further but continued to describe conditions as tight. Labor availability, retention, and candidate quality improved. Firms that required in-office attendance experienced higher turnover in professional roles than companies with more flexible work arrangements. The pace of hiring slowed for most, and many employers noted being more selective as they backfilled roles while letting low performers go. Fewer firms reported hiring to expand headcount. Reports of worker shortages varied considerably by occupation across the region but were more widespread among South Florida contacts.

Most firms indicated that wage pressures continued to ease, and further moderation is expected next year. Several contacts noted that rising healthcare costs would be passed along to employees in 2024.

### Prices

Health and property insurance costs continued to rise. However, the cost of other nonlabor inputs like freight, steel, and lumber declined. Several contacts, most notably homebuilders, said construction input cost decreases were slow to translate into realized savings. Fuel costs rose, though shipping costs, while still elevated, fell somewhat. Food prices increased. Pricing power diminished amid pushback from customers. The Atlanta Fed's Business Inflation Expectations survey showed year-over-year unit cost growth increased slightly to 3.2 percent, on average, in October, from 3.1 percent in September; firms' year-ahead inflation expectations for unit cost growth declined slightly in October to 2.4 percent, on average, from 2.5 percent in September.

### Community Perspectives

Jobseekers and workers in lower-wage positions expressed ongoing confidence in the labor market, both in available opportunities and in the potential to secure better pay. Still, many reported ongoing difficulties to cover basic household expenses. Business contacts affirmed that high prices continued to squeeze consumer finances, with rental delinquencies rising slightly and financially constrained households relying to a greater extent on credit card debt to get by. Some civic leaders shared concerns that worker shortages in construction could delay anticipated infrastructure investments. Workforce development contacts indicated that employers are finding labor more readily available when offering on-the-job training.

### Consumer Spending and Tourism

Similar to the previous report, retailers noted a softening in consumer spending, which was again described as a normalization from the pandemic's strong pace of growth. Demand for services and luxury goods remained robust; however, lower income consumers continued to trade down. Automobile dealerships reported that manufacturers were offering incentives for new vehicle purchases, resulting in strong sales, but that the demand for used vehicles ticked down. Most retailers do not expect significant declines in sales over the coming months.

Tourism and hospitality contacts characterized leisure and group travel to the District as healthy. However, some noted mounting levels of uncertainty among travelers as indicated by shorter booking windows. Spending on merchandise, food, and services in hotels decreased compared with year-earlier levels. On balance, contacts described the environment as continuing to normalize

and remain cautiously optimistic into the first quarter of next year.

### Construction and Real Estate

Home sales throughout the District remained constrained amid higher prices and volatile interest rates. Home purchases by repeat buyers contracted the most, as many who were locked in at low interest rate mortgages remained disincentivized to re-enter the market. Though moderating, house prices in most markets were at or near peak levels. Price growth was strongest in South Florida. Rising homeowners' insurance premiums have become a major expense, especially for homeowners with lower and/or fixed incomes. Home builder sentiment deteriorated amid declining affordability. Builders experienced more challenges qualifying buyers. Incentive offers, such as rate buy downs, remained prevalent.

Commercial real estate (CRE) contacts reported diminishing conditions across the sector. In addition to the office segment, high-end multifamily and industrial real estate were noted as areas of distress. Contacts reported concerns regarding financing, as most lenders increased underwriting standards and reduced funding commitments. A growing wave of CRE loan maturities and declining asset values are significant downside risks to the CRE outlook.

### Transportation

Transportation activity remained weak. Freight forwarders noted double-digit declines in year-over-year average daily volumes, citing downturns in exports and lower consumer spending. Railroads reported increases in the total number of carloads, but softness in intermodal freight. Some ports noted an increase of cars shipped in containers due to capacity constraints on roll-on, roll-off vessels; overall cargo volumes declined. Inland waterway activity was characterized as back to pre-pandemic levels. Trucking contacts reported a drop in consumer-driven freight and characterized the 2023 peak season as "non-existent" for parcel carriers. Insurance and regulation costs, along with the current geopolitical environment, were cited as significant longer-term risks.

### Banking and Finance

Conditions at District financial institutions remained sound. Loan growth was flat for most portfolios. Asset quality was stable with low levels of nonperforming loans as a percentage of total loans, despite an uptick in credit card and auto delinquencies. Institutions relied on noncore funding sources, such as large time deposits, while reducing borrowings. Net interest margins remained compressed given high funding costs, and some financial institutions sought cost savings to improve earnings. Securities portfolio losses remained a drag on

capital.

### Energy

Demand for fuel picked up over the reporting period compared with a year ago, as more employees returned to the office and business travel improved. Mid-level fuel demand increased, with contacts speculating that drivers of luxury vehicles were trading down from premium grade gasoline. Fossil fuel companies continued to invest heavily in charging stations in preparation for increased electric vehicle (EV) usage. Demand for electricity shifted from residential to commercial with more employees in office, and industrial electricity demand began to move from chemical, paper, and housing-related industries to data centers and battery and EV manufacturing. Demand for chemical intermediate products remained sluggish.

### Agriculture

Demand for agriculture rose slightly in recent weeks. Recent cattle herd liquidation constrained the supply of beef, driving prices up. Meanwhile, the supply of dairy was down as high beef prices led to an increase in dairy cows being slaughtered, resulting in higher dairy prices. Poultry farmers expressed growing optimism as stronger demand allowed some to turn a profit again after losing money amid low prices. Most row crops produced strong yields, but demand for cotton remained low. ■

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



# Federal Reserve Bank of Chicago

The Beige Book ■ November 2023

## Summary of Economic Activity

Economic activity in the Seventh District was up slightly overall in October and early November. Contacts generally expected a small decline in demand over the next year and many continued to express concerns about the potential for a recession. Employment increased moderately; business spending was up slightly; nonbusiness contacts saw little change in activity; consumer spending and construction and real estate activity decreased slightly; and manufacturing was down modestly. Prices and wages rose moderately, while financial conditions tightened slightly. Expectations for farm incomes in 2023 were little changed.

### Labor Markets

Employment rose moderately over the reporting period and contacts expected a similar rate of increase over the next 12 months. Some manufacturers continued to have difficulty finding workers, particularly higher skilled ones. However, there were also signs that the labor market was cooling. Some contacts said their applicant pools had grown and that turnover had declined. And some contacts in construction, real estate, and finance reported taking down job postings, while others in those sectors were planning for layoffs. Wage and benefit costs rose moderately, but several contacts said wage pressures had cooled.

### Prices

Prices rose moderately in October and early November and contacts expected a similar rate of increase over the next 12 months. Nonlabor costs were up moderately, in part because of increases in energy and shipping costs. Some contacts noted that while they had fewer supply chain issues, raw materials remained expensive. A few producers said that they were getting more pushback on price increases. Consumer prices moved up moderately due to solid demand and the passthrough of higher costs.

### Consumer Spending

Consumer spending decreased slightly on balance over the reporting period. Nonauto retail spending was up slightly. Contacts highlighted higher spending on luxury items, new product lines, lower-priced items at outlet stores, and at e-commerce websites. However, a processor of product returns reported that returns of clothing and electronics were down, which is an indicator of lower sales of those items. In the leisure and hospitality sector, spending fell on air travel and hotels. Light vehicle sales decreased modestly overall. New vehicle sales were down but held up better than expected in light of the UAW strike, with several dealers commenting they saw little effect from the strike. Used vehicle sales fell. Contacts noted that lower-end used vehicles were selling faster than higher-end models.

### Business Spending

Business spending increased slightly in October and early November. Capital expenditures moved up slightly, with several contacts reporting purchases of new software. That said, a number of contacts said higher interest rates and tighter lending standards were leading them to hold off on investments until credit conditions loosen. Demand for heavy truck transportation services declined moderately. Residential and commercial electricity usage decreased modestly, but industrial electricity



consumption was up some, with one contact noting an increase after the end of the UAW strike. Inventories for most retailers were near desired levels. According to contacts, the UAW strike had little effect on overall auto inventories. In manufacturing, inventories were generally a little high. Most contacts noted fewer input shortages overall, though some remained, including for specialty electrical and polymer components.

### **Construction and Real Estate**

Construction and real estate activity decreased slightly on net over the reporting period. Residential construction was down slightly with demand for major remodeling projects falling substantially. According to a survey, homebuilders were more pessimistic about activity in the coming months than they had been earlier in the year. Residential real estate sales decreased slightly, while continued low home inventories supported a slight increase in prices and rents. Nonresidential construction activity was unchanged as were prices of new construction. Contacts again reported that high interest rates were forcing previously financially viable projects to be delayed indefinitely. Commercial real estate activity declined slightly, though vacancy rates and the availability of sublease space also fell. Prices and rents edged down. One contact reported that while leasing activity had held up, sales activity had fallen off.

### **Manufacturing**

Manufacturing demand decreased modestly overall. Steel and fabricated metals orders ticked down, with contacts highlighting lower sales to the construction, automotive, and medical sectors. Machinery sales were down modestly, in part because of fewer sales to the automotive sector. Auto production declined on average over the reporting period, largely because of the UAW strike. Heavy truck demand decreased modestly.

### **Banking and Finance**

Financial conditions tightened slightly on balance in October and early November. Bond and equity values were up some, while volatility fell. Business loan demand decreased modestly, and loan quality was also down, with contacts highlighting struggles in the commercial real estate sector. One contact noted loan quality improvements in hospitality. Business loan rates increased modestly, and standards tightened slightly. Consumer loan demand fell modestly across most segments. Some contacts noted that home equity lending was up because consumers were avoiding mortgage refinancing. Consumer loan quality decreased slightly, notably in credit card lending. Consumer loan rates increased modestly, and standards tightened slightly.

### **Agriculture**

Projected farm income in the District was little changed over the reporting period as both expenses and expected revenues moved lower. Despite widespread drought, there were reports of record yields across multiple states and crop types, including corn, soybeans, tomatoes, and wheat. One contact mentioned that early and dry spring planting contributed to better-than-expected crop yields. Corn and soybean prices dropped to their lowest levels in over two years, while wheat prices were flat. Costs were lower for key crop inputs, including fuel and fertilizer. Egg prices edged up, milk prices were flat, and butter prices were down. Cattle and hog prices both declined.

### **Community Conditions**

Community, nonprofit, and small business contacts reported little change in economic activity from a robust level. State government officials saw some decline in tax revenues but continued low demand for unemployment insurance. Small business owners reported that high labor and capital costs were eroding profit margins. Nonprofit contacts were experiencing ongoing high demand for services, especially at food pantries, and expressed concern about lower levels of private funding, delayed receipt of public funding, and the end of COVID-era government support. Heading into the winter months, low- and moderate-income consumers were “piecing it together” to meet their needs for winter clothing in anticipation of higher housing, food, and heating costs. ■

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





## Summary of Economic Activity

Economic activity has slowed slightly since our previous report. Labor markets remained tight, but reports of easing continued. An increased share of contacts reported holding wages flat. Prices rose moderately, though businesses continued to report consumer price sensitivity. Retailers and freight transport contacts reported slowing demand, particularly for high-end goods, but hospitality and travel contacts saw steady growth. Construction activity slowed, especially for multifamily projects, many of which have been delayed or cancelled due to higher interest rates. Loan demand fell, and delinquencies ticked up above pre-pandemic rates. The general outlook for the regional economy weakened slightly due to concerns about future demand.

### Labor Markets

Employment has remained unchanged since our previous report. Labor mismatches and struggles replacing departing employees have contributed to a tight labor market, but reports of easing have continued. Some contacts reported that availability of skilled workers remains a top issue, while others reported a more stable labor force for the first time in a few years. Staffing contacts reported clients are staying at jobs and less prone to leave than they were last year.

Wages have continued to grow slightly since our previous report, with an increased share of contacts reporting that wages remain level. A manufacturing contact in Evansville noted that hourly wages have risen only slightly, but an increase in overtime pay due to labor shortages has driven up labor costs. Several hiring contacts in St. Louis reported wage growth has slowed or reverted to pre-pandemic trends and fewer prospective employees have successfully negotiated for higher wages.

### Prices

Prices have increased modestly since our previous report. Although approximately three-quarters of contacts reported higher labor and nonlabor input costs, many businesses are choosing to maintain or only slight-

ly increase prices. Among respondents who do not plan to fully pass on costs to consumers, two main reasons stood out: First, some previous price increases were enough to cover more-recent cost increases. In an effort to raise prices less frequently, some businesses hedged by implementing larger increases earlier in the year. For example, an Arkansas brewer reported that they incorporated potential future volatility in input costs in past price increases. Second, increased consumer sensitivity to price increases has lessened businesses' ability to raise prices. Some items, such as luxury handbags and watches, have seen price decreases of about 15%.

### Consumer Spending

District general retailers, restaurant, and hospitality contacts reported mixed business activity since our previous report. In general, auto dealers reported a decline in business activity. Louisville auto contacts reported that higher interest rates have slowed consumer demand for new car purchases. October real sales tax collections increased in Kentucky, Missouri, and Western Tennessee relative to September and decreased in Arkansas. A Little Rock pawn shop noted that, while sales over the past 18 months have been at high volumes historically, sales have slowed in recent months. A Memphis hospitality contact noted that hotel occupancy rates have been consistent compared with the same 6-

month period last year.

### **Manufacturing**

Manufacturing activity growth has declined slightly since our previous report. In Arkansas and Missouri, firms reported slight decreases in production and employment and slight increases in delivery lead times and new orders. Missouri reported a slight decrease in inventories, while Arkansas saw a very slight increase. Higher interest rates and the auto worker strikes impacted deliveries of some products for local automotive markets. On average, firms reported they expect slight decreases in production, capacity utilization, and new orders in the coming quarter.

### **Nonfinancial Services**

Activity in the nonfinancial services sector has cooled since our previous report. Overall, sales and sales expectations were the same or slightly lower, and the general outlook was slightly worse. A Louisville tourism contact reported postponing capital expenditures because of flagging demand but also reported local growth in the hospitality industry. A St. Louis tourism contact reported continued investment and expressed hope that the local economy would be somewhat insulated from economic challenges faced by more expensive areas. A Memphis freight contact echoed the sentiment of low demand, which, coupled with overbuying during the COVID pandemic, has contributed to slow reduction of inventory. A St. Louis transportation contact reported stable demand from ongoing customers, but less new client acquisition. A Little Rock healthcare provider reported lower sales expectations and a worsening outlook.

### **Real Estate and Construction**

Residential rental prices across the District have remained unchanged since our previous report. In the Louisville, Memphis, and Little Rock MSAs, pending sales and houses off the market in two weeks have fallen since our previous report, while inventory and months of supply for residential real estate have increased. Contacts reported high mortgage rates continuing to constrain demand for buying homes. In commercial real estate, strong demand for office space continues to be focused on Class A buildings, while vacancies remain high for Class B and C office space.

Commercial construction has slowed sharply since our previous report, particularly for new starts in the warehouse and industrial sectors. Residential construction has also seen slowing activity, with some projects sidelined or cancelled, especially for multifamily. One Memphis commercial real estate contact reported that new

construction has all but stopped for developments aside from single-family housing. While the number of ongoing projects remains high, contacts with a strong existing project pipeline have reported slowing demand for future projects.

### **Banking and Finance**

Activity in the banking sector has slowed modestly since our previous report. A survey of contacts found that, overall, credit card and commercial and industrial loans all show signs of modest decreases in demand. Mortgage loan demand moderately declined due to high mortgage rates and low housing inventory, making housing affordability beyond the reach of many buyers. Contacts across the District reported that profit margins are tightening due to higher interest expenses. Consumer delinquencies continue to rise and are being closely monitored by banking contacts, who report they are returning to and in some cases exceeding pre-pandemic levels. Overall, banks continue to report stable conditions due to low credit risk and high asset quality.

### **Agriculture and Natural Resources**

Agriculture conditions have improved slightly since our previous report. Yields for the District's primary commodity crops were at or moderately below 2022 levels. Despite this slight decline, total corn production in the District rose relative to last year. Rice production also rose, reaching levels over 33% higher than in 2022, while soybean production dipped slightly below 2021-22 levels and cotton production returned to 2021 levels. Commodity crop prices fell but remained at or above typical levels for the 2015-2020 period and stayed relatively stable throughout the reporting period. District contacts reported a mixed outlook but were generally less pessimistic than in previous reports. A Louisville contact attributed the moderate improvement in outlook to higher-than-expected yields and prices for crops such as corn and soybeans. ■



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## Summary of Economic Activity

Economic activity in the Ninth District was flat to down slightly since the previous report. Employment grew modestly, but job openings declined. Wage pressures were unchanged but ongoing wage growth remained above average, while price pressures were modest. Growth was noted in some areas of construction, but residential construction was slow, and manufacturing also fell slightly. Consumer spending was flat. Agriculture weakened as farm incomes softened, and energy exploration was unchanged. Minority- and women-owned businesses reported steady activity.

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### Labor Markets

Employment grew modestly since the last report. But there was variation among sectors, some of which had increased layoffs. Labor demand was positive overall but somewhat lower than earlier in the year. Some contacts reported that they were not replacing workers who had left, or were eliminating open positions. Strong labor demand was reported by health care and finance firms, while hiring sentiment was softer in other sectors, including manufacturing. More than half of construction contacts were hiring, though many were attempting to fill turnover; the share that was not hiring grew, and one in seven was cutting workers. Expected labor demand for the coming months was moderately positive overall. Among those planning to hire, a notable share cited overworked staff as an important factor for doing so.

Wage pressures were unchanged since the last report, but ongoing wage growth remained above average. A general survey of District firms found that about 30 percent were raising wages by more than usual, while a similar share reported raising wages by less than usual or not at all. A survey of construction firms found that about 70 percent had increased wages by at least 3 percent over the last year despite some evidence of recent sectoral slowing. Expectations of future wage increases were similar to the sentiment six months ago.

### Prices

Price pressures increased modestly since the last report. Slightly fewer than a quarter of firms responding to an October business conditions survey indicated that their prices charged to customers increased from the month prior, while 15 percent said they reduced their prices. A larger share reported that their nonlabor input prices increased. Administrative contacts reported an increase in the price of office supplies. A regional food producer said that milk and cheese prices declined recently. Retail fuel prices in District states decreased briskly since the previous report.

### Worker Experience

In a recent survey, half of employed respondents expressed satisfaction with their current job, wages, and company culture. The other half of respondents were looking for new opportunities and hoping to increase their earnings, but they categorized potential opportunities as average at best. Job seeking respondents cited bad job options, lack of response from potential employers, and unreasonable skill or experience expectations as the top three factors preventing them from reaching their objectives. A worker highlighted that starting pay was "far too low" despite his experience in a variety of trades. Another worker expressed frustration with college education

requirements, saying that "most companies are not willing to compensate for years of service without a degree."

### **Consumer Spending**

Consumer spending was flat since the last report. Recent sales tax receipts in Minnesota were flat month over month and year over year. Contacts reported that consumers have become more price sensitive for everyday goods, with growing purchases at low-cost retailers compared with premium ones. At the same time, sales of some big-ticket items remained healthy. A vehicle dealer with locations in multiple District states saw October sales rise by 10 percent over last year. A northern Wisconsin banker noted the disparate tendencies. "People are mad about eggs costing more, but they'll still buy a car." Other banking contacts noted increased use of credit card and home equity lines of credit to maintain spending levels. Tourism traffic in Michigan's Upper Peninsula remained robust this fall. Hotel occupancy rates in Minnesota were notably higher than a year ago, and lodging and accommodation fees in Montana remained on par with last year's record pace.

### **Construction and Real Estate**

Construction activity was flat overall since the last report, with considerable variation among subsectors and some concern for near-term activity. Firms involved with larger industrial and infrastructure projects reported moderately increased activity compared with last year, while firms in the commercial and especially residential sectors saw lower revenues over the same period. Contacts across the sector noted that project backlogs had shrunk, particularly for residential and commercial projects; new projects out for bid had also fallen. As a result, activity across the sector was expected to be lower over the coming months compared with last year. However, public sector projects remained healthy, and single-family permitting also increased in recent months in some markets. In Minneapolis-St. Paul, October permitted units doubled over the last year.

Commercial real estate fell modestly. Office space remained challenging, with high vacancy rates because large tenants continued to seek smaller footprints. Multifamily vacancy rates have risen in many regions as new units come to market; however, new developments in this sector have slowed. Speculative development has also slowed for industrial space as vacancy rates ticked slightly higher, but from low levels. Residential real estate remained subdued, with year-over-year sales continuing to decline.

### **Manufacturing**

District manufacturing activity decreased slightly since the previous report. Manufacturing respondents to an October business conditions survey reported decreased orders on balance relative to a month earlier, with expectations for a further decrease in the month ahead. A regional manufacturing index indicated increased activity in North Dakota and South Dakota in October from a month earlier, while activity decreased slightly in Minnesota. A custom manufacturer said recent sales "dropped like a rock." One contact reported that because of the undersupply of workers to the sector, "thousands of unfilled jobs would need to be eliminated before anyone gets to layoffs."

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

District agricultural conditions deteriorated slightly since the last report. Despite better-than-expected crop production, lenders responding to the Minneapolis Fed's third-quarter survey of agricultural credit conditions, conducted in October, reported lower farm incomes and capital spending over the period relative to a year earlier. Contacts expressed concern over the impact of rising interest costs as borrowing increases. District oil and gas drilling activity was unchanged since the previous report.

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

Activity among minority- and women-owned business enterprises (MWBE) was balanced overall, according to respondents to a monthly survey. Roughly even shares of respondents reported higher, unchanged, or lower sales in recent weeks. Profit margins were lower for more than half of respondents while capital expenditures edged higher on balance. Hiring demand and staffing levels were largely flat. Only a quarter of respondents reported having increased their final selling prices, but 35 percent expected to increase them within the next month. A Minnesota contact expected MWBE construction companies to be disproportionately affected as federal funding and high interest rates shift activity from multifamily housing developments to infrastructure projects. "The capital required for infrastructure projects is greater than for vertical building. Lack of access to banking capital continues to leave MWBE companies at a disadvantage," they highlighted. ■

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



## Summary of Economic Activity

Economic activity in the Tenth District declined slightly in recent weeks. Consumers were increasingly likely to “share a roof and share meals” to manage household budget challenges. Demand for rental housing reportedly shifted away from single-bedroom units toward multi-bedroom housing where rent expenses could be shared with a roommate. Similarly, restaurateurs noted that revenues fell as more customers split dishes and eschewed expensive items. Manufacturing businesses reported little change in activity, though some contacts noted a decline in their expectations of demand over the medium term. Reports of planned capital expenditures were mixed depending on how directly businesses were supported by fiscal spending and municipal projects. Renewable energy activity in the Tenth District continued to expand at a moderate pace, driven by modest growth in wind generation and robust growth in solar installations. The outlook for renewable energy remained positive, but contacts noted skilled labor shortages and limitations on interregional electricity transmission as challenges. The agricultural economy and farm credit conditions in the District softened moderately.

### Labor Markets

Labor conditions in the Tenth District remained mostly unchanged over the past month. Hiring activity in the service sector was mixed across segments. Transportation contacts reported robust employment growth while most hotel contacts reported contractions in employment. Most contacts expected to increase hiring or maintain the size their workforce over the next year, citing expected sales growth, overworked staff, and an ongoing need for workers with specific skills. Few businesses laid off workers, but many contacts reported reducing their workforce through natural attrition.

To build a skilled workforce, contacts noted raising wages for new hires, upskilling less-qualified workers, and making increased efforts to retain existing employees. Wages continued to grow at a moderate pace. Contacts highlighted raising wages as central to their retention of existing employees and attracting new hires over the past few years. However, some contacts noted an increased number of potential hires have refused the compensation packages offered, indicative of ongoing tightness in the labor market.

### Prices

Prices grew at a moderate pace. While manufacturing contacts witnessed a moderation in price pressures, service firms are still facing higher prices due to tight labor market conditions. Most firms reported plans to raise prices in coming months. Contacts reported concerns about risks of higher commodity and energy prices. While higher interest rates are raising financing costs for some companies, most District firms reported a majority of their funding coming from cash financing, insulating many District firms from the higher rate environment.

### Consumer Spending

Consumer spending declined slightly in recent weeks. Contacts suggested consumers were increasingly likely to “share a roof and share meals” to manage household budget challenges. Specifically, contacts in multifamily housing reported demand for single-bedroom units softened, shifting toward demand for multiple bedrooms as more renters sought to share rent expenses with roommates. Restaurant owners similarly reported that, while patronage was steady, revenues fell as more customers shared plates and avoided higher cost items. Leisure travelers accounted for a smaller share of hotel stays.



## Community Conditions

Organizations serving low- and moderate-income (LMI) populations reported LMI households have largely spent down any savings and are increasingly turning toward credit cards to make ends meet. More households were skipping car payments, rationing medication, and moving in with other families to cut back on expenses. Organizations noted that while most industries have increased wages recently, the growth in earnings at LMI households was insufficient to offset recent and ongoing inflation. As a result, non-profits were experiencing substantially higher demand for assistance. They reported struggling to meet that demand due to decreasing donations.

## Manufacturing and Other Business Activity

Overall business activity declined slightly last month. Contacts in retail and tourism reported moderate declines in sales and revenues. Hoteliers reported occupancy levels remained steady but noted an increase in stays related to business travel. This shift in traveler type raised some concerns regarding future demand, as business travelers are reportedly more sensitive to price and business cycle fluctuations. Contacts in healthcare reported a somewhat lower outlook for use of services through the end of year. With greater enrollment in high-deductible health insurance plans in 2023, more households have yet to meet their deductible despite being late in the year and may forgo care requiring out-of-pocket payment. Manufacturing businesses reported little change in activity, though some contacts noted a decline in their expectations of demand over the medium term. Planned capital spending was mixed across segments with manufacturers reporting softening investment activity. Contacts noted the emergence of a firm-specific dichotomy whereby businesses that obtained government or defense contracts are fueling the majority of capital expenditure activity.

## Real Estate and Construction

Several developers and construction managers reported raw materials costs stabilized recently. They also noted greater ability to push against escalating costs from subcontractors. Public sector funding for municipal projects sustained demand for building materials, somewhat supporting materials prices. Contacts indicated that subcontractors were becoming more available for work, with holes in their backlog schedules for the first time in several years. Though construction labor was somewhat more available, growth in labor costs remain elevated.

## Community and Regional Banking

Loan demand remained tepid at banks across the District as lenders continued to focus on maintaining sound credit quality, while higher rates exerted pressure on customer demand for credit. Though standards across loan types remained unchanged, several contacts expected further deterioration in credit quality over the next six months, particularly in the consumer and commercial real estate segments of their portfolios. Bankers cited higher debt service costs and declining borrower cash flow as key risks facing their CRE books, particularly for loans maturing in the near term. Rising funding costs persisted as deposit balances continued to shift to higher-yielding accounts, with contacts reporting strength in time deposit products.

## Energy

Renewable energy activity in the Tenth District continued to grow at a moderate pace, driven by modest growth in wind generation and robust growth in solar installations. Expectations were for a continued moderate pace of growth going into next year, driven mostly by wind generation. While growth in renewable energy in the District is expected to be slightly behind the U.S., Kansas and New Mexico are slated to outpace the U.S. average in coming months. Contacts in the renewable energy sector highlighted acute skilled labor shortages and limitations on interregional electricity transmission as key challenges. While higher interest rates are adding to the renewable development costs, most of those higher costs are being passed onto consumers in the form of higher electricity rates. Contacts highlighted the significant boost to renewable development activity expected in the coming years from fiscal stimulus spending, equating that spending to “throwing gasoline on an already raging fire.”

## Agriculture

The agricultural economy and farm credit conditions in the District softened last month alongside a moderate decrease in agricultural commodity prices. Agricultural bankers reported borrower liquidity deteriorated slightly from strong levels, and loan repayment rates were slightly lower than a year ago. Farm income declined faster in areas with more intense drought and more corn and wheat production. Agricultural real estate values remained firm. Cattle prices remained strong, supporting credit conditions in other portions of the District. Contacts cited elevated production expenses and high financing costs as ongoing concerns. ■

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

The Eleventh District economy expanded at slower pace than in the previous reporting period. Manufacturing output rose, while growth in services stalled out and retail sales fell. Loan volumes declined at a faster rate than the previous reporting period as credit conditions remained tight and the cost of credit high. Home sales decreased, and activity in the energy sector was flat to up. Recent rains somewhat improved district agricultural conditions. Local nonprofits continued to cite broad based increases in demand for assistance. Employment was little changed, and wage growth continued to normalize. Input cost and selling price growth were above average in the service sector but modest to slight in manufacturing, construction, and energy. Outlooks remained negative with geopolitical instability, heightened macroeconomic uncertainty, and the high cost of credit cited as key headwinds.

### Labor Markets

Employment expanded slightly over the past six weeks. The pace of hiring decelerated broadly, and some freight carriers, high-tech, and manufacturing companies reported layoffs. A few service firms said they were keeping staff on payrolls despite a notable drop in sales, though one respondent said they plan to cut salaries in early 2024 to avoid layoffs. Labor availability improved and reports of labor shortages were less prevalent. One staffing firm said they were more comfortable letting unproductive workers go since they felt more confident about replacing them. However, shortages of engineers, restaurant workers, and specialty construction labor persisted.

Wage growth continued to normalize, though it was still slightly elevated. Homebuilders noted some reprieve in labor costs, and energy companies said wage growth was slowing with pressures limited to select job categories. However, a fabricated metal manufacturer reported paying workers for 40 hours/week though the firm did not have enough work to keep them busy. Most staffing firms saw continued upward wage pressures, though one contact anticipates some easing in the first half of 2024 as hiring is expected to slow.

### Prices

Input cost and selling price growth was mixed, still slightly elevated in the service sector but generally modest in

construction, manufacturing, and energy. Growth in airfares eased amid increased capacity, and fuel costs ticked up. Construction materials, home, and land prices were mostly unchanged but elevated. Freight shipping rates fell, and a transportation firm reported that companies were signing longer-term freight contracts due to low rates. Numerous firms cited higher borrowing costs as an impediment to business growth.

### Manufacturing

Texas manufacturing activity expanded modestly in October. In durables, production increases were led by fabricated metals and machinery manufacturing. However, output in transportation equipment manufacturing declined, and a contact noted that the UAW strike somewhat hurt sales. Output rose in nondurable manufacturing. Chemical production was mixed, and refinery activity decreased. Overall, manufacturing outlooks worsened, and uncertainty remained elevated with several contacts citing geopolitical instability and high interest rates as headwinds.

### Retail Sales

Retail sales declined during the reporting period. Some retailers attributed the weakness in spending to elevated economic uncertainty and high interest rates. Reduced affordability resulting from higher car prices and interest rates also depressed auto sales over the past six weeks. Overall, retail inventories dipped for the first time since

mid-2022, and outlooks remained negative.

### **Nonfinancial Services**

Service sector activity held steady during the reporting period. Overall, revenues were flat on net, with numerous firms pointing to heightened macroeconomic and geopolitical uncertainty and high interest rates as factors impacting demand. Revenues were flat to down in several industries, including transportation and warehousing and professional and business services but rose in healthcare. Leisure and hospitality firms said revenues continued to soften partly due to slower consumer spending and high economic uncertainty, and one contact said their expansion plans were on hold until year-end 2024. Staffing firms cited a slowdown in demand for their services, as demand for high-skilled workers weakened while placements for support staff and low-skilled workers remained stable. Airlines saw strong activity. Domestic leisure travel activity cooled, but international leisure travel stayed strong. Business travel was stable but trailed pre-pandemic levels.

### **Construction and Real Estate**

Housing demand weakened during the reporting period. Home sales and buyer traffic fell while cancellations rose, and contacts pointed to higher mortgage rates as the key factor impacting activity. Buyer incentives including rate buydowns and discounting remained widespread, and there were reports of additional incentives being offered to discourage buyers from cancelling contracts. Outlooks were weak and contacts noted reduced affordability, high mortgage rates, and tighter lending for construction and development loans as headwinds.

Activity in commercial real estate softened. Apartment leasing slowed and rents were flat to down. Office leasing remained minimal; vacancy rates were high, and concessions remained generous. With new supply outpacing demand, industrial vacancy rates ticked up and rent growth cooled. Heightened macroeconomic uncertainty, high capital costs, and diminished appetite to lend continued to deter investment across property types.

### **Financial Services**

Overall loan volume declined at a faster pace over the past six weeks, led by a sharp decline in residential real estate lending. Loan demand has been falling for over a year, though the pace of decline has eased. Credit standards continued to tighten, and loan pricing continued to rise at an above-average pace this period. Driven by a marked increase in consumer loan delinquency, overall loan nonperformance rose at its highest rate since 2020. Bankers remained pessimistic, with expectations of further increases in loan nonperformance, declin-

ing loan demand, and worsening business activity over the next six months.

### **Energy**

Oil field activity was flat to up over the past six weeks. The recent spate of mergers and acquisitions continued to put slight downward pressure on activity levels. Orders for oilfield services equipment were stable as customers limited spending to maintaining current capacity. In 2024, capital expenditure growth in oil and gas production is anticipated to be concentrated in international offshore drilling, with only modest increases expected in U.S. production-related work.

### **Agriculture**

Recent rainfall improved soil moisture over the past six weeks, though much of the District remained in drought. Crop production was substantially higher this year across the board—wheat, cotton, corn, sorghum, and soybeans—largely due to drought conditions being less severe than last year, particularly in the Texas panhandle. Cattle prices declined over the reporting period but remained elevated, and contacts noted a continued tight supply of cattle and resilient demand for beef amid high prices.

### **Community Perspectives**

Demand for nonprofit services rose broadly, and contacts expected further increases in requests for assistance with the holiday season approaching. Affordable housing continued to be a pressing concern not just for low-income households but for some seniors too, and one nonprofit said that even with housing vouchers they were facing difficulty finding units for their clients. Moreover, finding developers to build subsidized housing was difficult. Sunsetting of various COVID relief funds has posed several challenges, particularly for childcare centers. Contacts noted that multiple daycare centers had closed. Demand for food assistance has accelerated since spring 2023. Nonprofits noted challenges in meeting their fundraising goals, which some attributed to donor fatigue. ■

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



## Summary of Economic Activity

Twelfth District economic activity softened slightly during the October to mid-November reporting period. Labor market tightness eased moderately, and employment levels remained generally steady. Wages and prices rose at a slower pace relative to the previous reporting period. Retail sales were flat, and activity in the services sectors picked up slightly. Demand for manufactured products remained largely unchanged, while conditions in agriculture and resource-related sectors were mixed. Residential real estate activity softened, while activity in commercial real estate was varied. Conditions in the financial sector weakened further, and lending standards remained tight. Communities across the Twelfth District saw continued high demand for support services that was harder to meet due to declining charitable donations. Contacts expressed concern over a weaker economic outlook and increased overall uncertainty.

### Labor Markets

Labor market tightness continued to ease over the reporting period. Many employers reported improved availability and retention of workers in recent weeks as well as an uptick in job applications. Some employers, citing an uncertainty over the economic outlook, held staffing levels steady and only filled positions that opened up due to turnover. Employers in industries, such as legal services and aerospace, expanded their workforce in recent weeks, while some in manufacturing and financial services reported reductions in staffing. Nevertheless, employee turnover was reportedly elevated in hospitality and manufacturing. Several contacts expected the recent tentative agreement surrounding strike actions in the entertainment industry will bring back a significant number of workers in coming months.

Wage growth moderated across sectors as imbalances in labor market conditions for supply and demand continued to improve. Contacts reported budgeting annual pay raises in line with pre-pandemic rates. Recent layoffs in the financial services sector reportedly put downward pressure on wages within the sector. Wage pressures remained high for employers in legal services and some high-skilled trades across sectors. Some contacts highlighted upward wage pressures from the increases in minimum wages happening locally and ongoing labor

union negotiations.

### Prices

Prices remained elevated but rose at a slower pace relative to the previous reporting period. The recent drop in energy prices and signs of potential tapering overall demand growth helped alleviate some price pressures in recent weeks. Several contacts reportedly reduced fees for professional services in response to lower demand. Still, material and insurance costs continued to rise. In some instances, these costs were passed on to consumers, although one contact observed some pushback from customers to higher menu prices. Real estate firms noted that higher input, building, and loan costs adversely impacted new construction projects.

### Community Conditions

Community and support organizations continued to report strained resources and elevated demand for services. Higher numbers of individuals across the District sought support for housing, health, and mental health services. Demand at food banks also increased. Charitable donations by corporations and households declined further, though assistance from government funding aided some nonprofit organizations. At the same time, support organizations reported higher expenses, including for insurance and business software. Small business-

es in urban areas were challenged by high borrowing costs along with weaker consumer demand while widespread remote or hybrid work arrangements continued.

### **Retail Trade and Services**

Retail sales were flat overall in recent weeks. Reports suggested some pullback in consumer spending on big-ticket items, such as motor vehicles. Demand was stronger for some product categories, such as groceries, fresh produce, and seafood. Retailers expected a solid holiday shopping season but noted that more discounts and offers than last year will be needed to entice consumers. Contacts in Alaska and Hawaii mentioned that despite a recent push to support local and small businesses, consumers still prefer online shopping during the holiday season.

Activity in consumer and business services picked up slightly. Demand for leisure travel increased in recent weeks and was expected to rise further for the holiday season. Businesses across southern Nevada, particularly in leisure and hospitality, experienced unusual growth in the weeks leading up to the Formula One Grand Prix event in Las Vegas. Business demand for information technology, custodial, and security services increased, while demand for consulting services was down. Several contacts expected the end of strike actions in the entertainment industry to spur growth in the Southern California economy, although some feared that many local businesses and services providers would be unable to recover losses for an extended period.

### **Manufacturing**

Manufacturing activity was unchanged at robust levels in recent weeks. Manufacturers reported continued general strength in the sector and solid demand for heavy machinery, capital equipment, and fabricated metal products. The aerospace industry reportedly saw an uptick in orders in recent weeks. Food manufacturing and packaging continued to operate at or near capacity. Reports indicated continued improvements in raw materials availability and supply chains, although some manufacturers mentioned lingering delivery delays.

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

Conditions in the agriculture and resource-related sectors were mixed. Across the District, crop yields were generally at or above historical averages, particularly for apples. Domestic demand from the food services and

retail sectors was solid but showed some signs of easing in recent weeks, and exports for some products such as nuts rose. Producers commanded lower prices for products such as fish and nuts and expected apple prices to fall due to the strong harvest. Costs for fuel, packaging, labor, and equipment rose, while irrigation and international shipping costs declined. One contact in Utah cited notable reductions in the cost of feeding livestock as ample growth of grasses on grazing lands lowered demand and prices for hay.

### **Real Estate and Construction**

Conditions in the residential real estate sector softened further over the reporting period. Asking and selling prices for single-family homes declined as buyers were deterred by high mortgage rates, and demand from first-time homebuyers was particularly weak. Inventories remained low, and properties took longer to sell. Contacts reported slight softening in the multifamily sector with lower occupancy rates in some downtown high-rise buildings and slower rent growth. In contrast, a Southern California contact noted continued strong demand for affordable multifamily units. New residential construction was stable, while renovation construction rose as homeowners sought to modify existing homes rather than buy new ones.

Commercial real estate activity was varied in recent weeks. Office leasing activity was muted, and occupancy rates remained low. In contrast, demand for space in sectors less conducive to remote work, such as defense and lab-based sciences, was robust and occupancy rates were high. Elevated financing costs and economic uncertainty slowed commercial construction projects. A contact in Utah reported that construction continued as planned on existing industrial projects, but that rent growth in this sector began to ease.

### **Financial Institutions**

Lending activity weakened further in recent weeks. High financing costs pushed more firms to delay or cancel projects and planned investments. Demand for mortgages remained muted as higher rates and limited supply continued to constrain the housing market. In contrast, consumer lending was solid, and reports indicated an uptick in demand for new credit cards and lines of credit despite the increase in rates and fees. Competition for deposits remained brisk, lending standards remained tight, and credit quality was strong. ■



