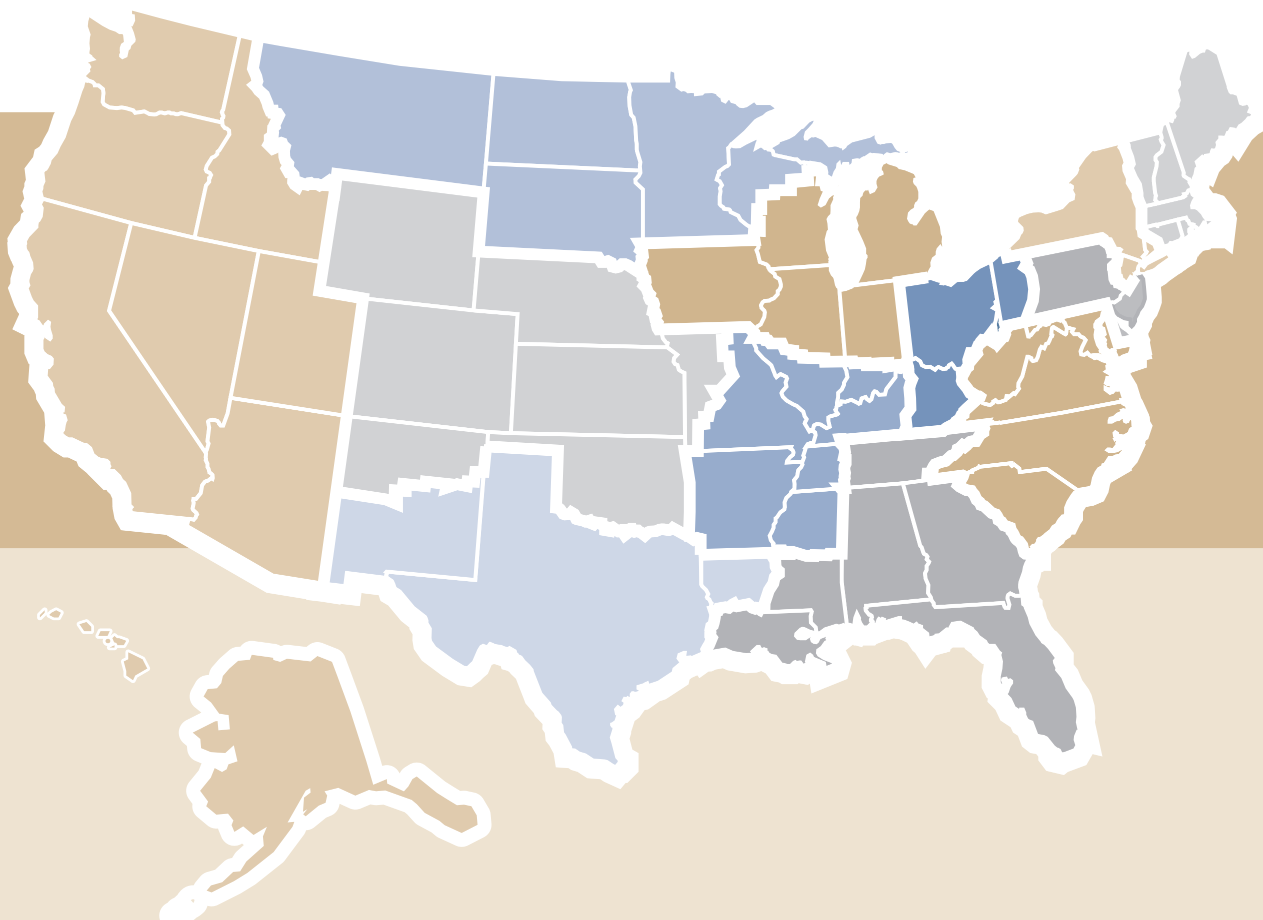
# The Beige Book

## Summary of Commentary on Current Economic Conditions by Federal Reserve District

January 2024



FEDERAL RESERVE SYSTEM

# Contents

# About This Publication

## What is the Beige Book?

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

## What is the purpose of the Beige Book?

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

## How is the information collected?

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

## How is the information used?

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

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

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

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

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

# National Summary

## Overall Economic Activity

A majority of the twelve Federal Reserve Districts reported little or no change in economic activity since the prior Beige Book period. Of the four Districts that differed, three reported modest growth and one reported a moderate decline. Consumers delivered some seasonal relief over the holidays by meeting expectations in most Districts and by exceeding expectations in three Districts, including in New York, which noted strong holiday spending on apparel, toys, and sporting goods. In addition, seasonal demand lifted airfreight volume from ecommerce in Richmond and credit card lending in Philadelphia. Several Districts noted increased leisure travel, and a tourism contact described New York City as bustling. Contacts from nearly all Districts reported decreases in manufacturing activity. Districts continued to note that high interest rates were limiting auto sales and real estate deals; however, the prospect of falling interest rates was cited by numerous contacts in various sectors as a source of optimism. In contrast, concerns about the office market, weakening overall demand, and the 2024 political cycle were often cited as sources of economic uncertainty. Overall, most Districts indicated that expectations of their firms for future growth were positive, had improved, or both.

## Labor Markets

Seven Districts described little or no net change in overall employment levels, while the pace of job growth was described as modest to moderate in four Districts. Two Districts continued to note a tight labor market, and several described hiring challenges for firms seeking specialty skills, such as auto mechanics or experienced engineers in the Boston and San Francisco Districts, respectively. However, nearly all Districts cited one or more signs of a cooling labor market, such as larger applicant pools, lower turnover rates, more selective hiring by firms, and easing wage pressures. The pace of wage growth was characterized as moderate in Boston, Richmond, Chicago, and Dallas; as modest in New York and Philadelphia; and as slight in St. Louis. Firms from many Districts expected wage pressures to ease and wage growth to fall further over the next year.

Note: This report was prepared at the Federal Reserve Bank of Philadelphia based on information collected on or before January 8, 2024. This document summarizes comments received from contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.

## Prices

Six Districts noted that their contacts had reported slight or modest price increases, and two noted moderate increases. Five Districts also noted that overall price increases had subsided to some degree from the prior period, while three others indicated no significant shift in price pressures. Firms in most Districts cited examples of steady or falling input prices, especially in the manufacturing and construction sectors, and more discounting by auto dealers. Districts also noted that increased consumer price sensitivity had forced retailers to narrow their profit margins and to push back in turn on their suppliers' efforts to raise prices. Premium increases for property and casualty insurance and for health insurance continue to impact most firms. Three Districts noted that their firms were expecting price increases to ease further over the next year, while four Districts' firms anticipated little change.

## Highlights by Federal Reserve District

### Boston

Economic activity was down slightly. Employment was stable, and wage growth was moderate. Manufacturers reported mostly weaker sales but remained cautiously optimistic for 2024. The Boston area experienced strong growth in tourism and convention activity. Home sales stayed in the doldrums, but contacts expressed optimism that the market would rebound in 2024 pending a decline in home mortgage rates.

### New York

Regional economic activity declined slightly. Labor market conditions remained solid but continued to cool as the demand for labor softened. Led by a strong holiday season, consumer spending increased moderately. Manufacturing activity contracted sharply. Prices rose modestly. Businesses and households across the District expressed concern about the high cost and reduced availability of credit.

### Philadelphia

Business activity held steady during the current Beige Book period—after falling for most of 2023. Employment grew slightly, and labor availability improved. Wage and price inflation subsided further, with prices rising at a slight pace as consumers pushed back more on higher prices, especially among lower-income households. Sentiment improved, but firms remained cautious and expectations for economic growth remained subdued.

## Cleveland

District business activity edged up. Employment stabilized, and wage increases returned to more typical levels. Cost and price pressures changed little after easing through much of 2023, though upward price pressure persisted in certain industries. Retailers reported strong sales for discounted items, and consumers became more reliant on “buy now, pay later” payment options.

## Richmond

The regional economy grew mildly in recent weeks as consumer spending was flat to increasing modestly. Nonfinancial services demand and commercial real estate activity was little changed. Meanwhile, trade and trucking volumes were down modestly and residential housing sales and mortgage lending softened. Employment and wages rose moderately and inflation moderated but remained elevated.

## Atlanta

Economic activity grew at a slow pace. Labor markets cooled further, and wage pressures eased. Some nonlabor input costs moderated. Retail sales were mixed. Travel activity remained strong, but spending at hotels declined. Home sales slowed, on balance. Banking conditions were mixed. Transportation activity was sluggish. Energy demand was robust.

## Chicago

Economic activity in the Seventh District was up modestly. Employment increased moderately; nonbusiness contacts saw a modest increase in activity; consumer spending was up slightly; construction and real estate and business spending were flat; and manufacturing decreased modestly. Prices and wages rose moderately, while financial conditions loosened modestly. Net farm incomes were above average in 2023.

## St. Louis

Economic activity has remained unchanged since our previous report. Labor markets eased, and the rate of price increases for many firms has slowed over the past few months. Travel and hospitality firms reported strong leisure travel growth during the holiday season and an optimistic outlook for the upcoming year. Rental prices were flat and residential inventory rose slightly.

## Minneapolis

District economic activity was down slightly. Hiring was positive but job postings declined. Wage pressures continued to moderate, approaching pre-pandemic conditions. Price increases were mild, with most firms reporting no change in input or final prices. Holiday sales and traffic were generally strong, but construction and manufacturing activity decreased.

## Kansas City

Economic activity in the Tenth District declined moderately. Consumer spending fell, even at low-cost quick-serve restaurants. Demand for seasonal employment was low, with few workers converting to full-time. Commercial real estate transactions were suppressed, while CRE loan modification activity was inhibited by lenders' concerns about credit performance and borrower liquidity.

## Dallas

Economic activity expanded at a modest pace over the reporting period, with most sectors holding steady or experiencing slight growth. Wage growth moderated and input cost and selling price growth held slightly above average overall. Business outlooks were neutral to pessimistic, with contacts citing weakening demand as the primary concern going forward.

## San Francisco

Economic activity was stable overall. Labor availability improved, and wage and price pressures eased. Retail sales grew modestly, and demand for services was mixed. Demand for manufactured products weakened, while conditions in agriculture were solid. Real estate activity varied by property type. Financial sector conditions changed little.

# Federal Reserve Bank of Boston

## Summary of Economic Activity

Economic activity declined slightly on average, employment was roughly flat, and prices increased at a modest pace since the last reporting period. Retail revenues increased slightly, while tourism activity grew at an above-average pace. Software and IT services firms reported stable revenues, while manufacturers experienced slightly weaker sales. Residential real estate sales held steady at very low levels, although the prospect of lower interest rates in 2024 led to increased optimism for the housing market. Commercial real estate activity weakened further modestly, and the outlook in that sector remained mostly pessimistic, despite expected declines in borrowing rates. In sectors aside from real estate, the outlook for 2024 remained cautiously optimistic.

## Labor Markets

Employment was flat on average, and wage growth remained moderate. Hospitality and retail headcounts increased slightly, while employment was unchanged at software and IT firms. Manufacturing employment was also mostly stable, with the exception that a drug manufacturer carried out further large layoffs based on earlier plans. Hiring became easier on balance, and attrition rates fell to below-average levels. Nonetheless, labor scarcity persisted for auto mechanics and some highly skilled manufacturing workers. A shortage of restaurant help led one Vermont establishment to reduce its hours, but restaurant worker supply rebounded on Cape Cod. Wage growth was generally moderate, but some manufacturers and IT firms enacted above-average wage increases to compensate for price inflation. Contacts were not planning for major changes in employment moving forward, and wage pressures were expected to ease somewhat.

## Prices

Prices increased at a modest pace on average. Among manufacturers, output prices increased at a slight to modest pace. In contrast, their input prices were mostly flat, except that fish commodities and shipping container costs each fell moderately, and localized flooding created a cost shock in one case. An online retailer continued to shift away from heavy promotional activity in favor of more stable pricing strategies; its average output price increased moderately, while its input prices were stable. Hotel room rates in the Greater Boston area edged up further, maintaining an above-average year-over-year growth pace, while room rates on Cape Cod were down slightly. Automobile list prices were steady, although promotional activity picked up following an increase in inventories. Software and IT services firms reported mostly stable output prices. Across sectors, contacts expected prices to hold steady or face only limited upward pressure in 2024.

## Retail and Tourism

First District retail and tourism contacts on balance reported a modest seasonal upswing in sales in late 2023, although reports were quite mixed. On Cape Cod, revenues at retailers and hoteliers were described as “solid” for the fall season. Nonetheless, those revenues, net of typical seasonal fluctuations, were about flat since summer and down modestly relative to the fall of 2022. An online retailer saw modest seasonal growth despite sluggish industrywide performance. New and used automobile sales in New Hampshire were flat on balance despite improvements in inventories. Airline passenger traffic through Boston increased at an above-average pace in recent months, with the result that traffic surpassed its comparable 2019 levels for the first time since the onset of the pandemic. Hotel occupancy in greater Boston also increased at a strong pace, exceeding seasonal norms, fueled in part by robust convention activity. The outlook for tourism and convention activity for Boston in 2024 remained very bullish. In contrast, retailers around the First District were only cautiously optimistic for sales in 2024.

## Manufacturing and Related Services

On average, manufacturing contacts reported slightly weaker sales. In one exception, a manufacturer of consumer goods experienced strong seasonal sales growth that was buoyed by promotions. A semiconductor manufacturer attributed weaker demand for their products to a general slowdown in consumer spending on electronics and autos, while a frozen fish producer attributed flat demand to increasing price sensitivity by consumers. Consistent with previous plans, capital spending was set to slow on balance moving forward, as a few firms recently completed significant capital projects and another cited high borrowing rates as an ongoing deterrent. Despite recent softness in sales, contacts were cautiously optimistic that demand would stabilize or improve in 2024.

## IT and Software Services

First District contacts in the IT and software services industry experienced stable revenue streams in recent months. Sales increased at a robust pace on a year-over-year basis to the fourth quarter, and those positive results were attributed to offering products and services that met their clients’ demands for greater operational efficiency. In response to price increases and cost reductions over the past year, profit margins increased modestly on balance in 2023. Capital and technology spending was flat for most firms but fell slightly at one that cut its reliance on hardware in favor of cloud computing services. Contacts expected demand to remain strong and stable moving into

2024, reflecting increased optimism for their own results and for the economy in general, compared with their forecasts from earlier in the year.

## Commercial Real Estate

Commercial real estate activity in the First District weakened further modestly in recent months. In the already-weak office market, vacancy rates increased moderately on average, and Providence in particular saw the exit of a large downtown tenant. Office rents fell noticeably in the Boston area in recent months but were reportedly stable (if low) elsewhere. Demand for life sciences space in greater Boston dwindled further to very low levels. In the retail market, rents and vacancy rates were mostly steady at moderate levels, although lower-end malls continued to see elevated vacancies. Demand for industrial space slowed further at a modest pace, but rents and occupancy rates were described as mostly stable at healthy levels. Projections for commercial real estate activity in 2024 were mixed but remained pessimistic on balance. Some contacts predicted an increase in investment activity driven by declining interest rates. Others remained concerned that office buildings would face rising foreclosure rates even with some decline in interest rates. The industrial property market faced modest downside risks, and the outlook for Boston's life sciences properties deteriorated in response to weak recent demand.

## Residential Real Estate

Contacts reported weak but mostly stable home sales in November 2023, net of seasonal patterns. However, contacts from the Boston area noted slightly weaker sales in November, adding that the median home price declined modestly in recent months as a result. Considering year-over-year changes, single-family sales fell by double-digit margins in November in all First District states except Connecticut (for which no data are available); condo sales fell by moderate-to-steep margins in all states except Maine, which posted a slight increase. Nonetheless, the rate of decline in home sales moderated on average from earlier in 2023. Median sales prices increased moderately on a year-over-year basis in all reporting states, a development attributed to persistent scarcity of supply and significant pent-up demand. Changes in home inventories were mixed, and despite modest recent increases in supply in some states, inventories remained historically low. Looking ahead, contacts expressed growing optimism for a resurgence in residential sales in 2024 given the prospect of lower mortgage rates.

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

# Federal Reserve Bank of New York

## Summary of Economic Activity

Economic activity in the Second District declined slightly during the latest reporting period, continuing a period of sustained weakness. Labor market conditions continued to cool but remained solid. Employment growth slowed to a slight pace, as demand for labor softened with economic uncertainty inhibiting hiring plans. Inflationary pressures were little changed, with prices rising modestly. Consumer spending increased moderately, with strong holiday spending on apparel, toys, and sporting goods. Manufacturing activity fell sharply, with notable declines in orders and shipments. Tourism activity in New York City approached normal pre-pandemic holiday levels. Housing markets were mostly unchanged since the last report, with low inventory continuing to restrain sales activity in most of the District, but residential rental markets softened. Commercial real estate markets mostly held steady. Activity in the broad finance sector declined modestly, with ongoing weakening loan demand and rising delinquencies. Businesses and households across the District expressed concern about the high cost and reduced availability of credit. The outlook improved but remained subdued.

## Labor Markets

Labor market conditions continued to cool since the last report but remained solid. Employment growth slowed to a slight pace, though businesses in information services, manufacturing, transportation, and construction reported declines in employment in recent weeks. Though the availability of workers has improved, contacts noted that demand for workers softened as economic uncertainty inhibited hiring plans. Indeed, many mid-sized companies have stopped hiring, while smaller companies have become more selective in who they hire. Contacts across a variety of sectors noted that attrition remains exceptionally low.

Wages grew modestly. As conditions have continued to normalize, contacts reported that labor demand and supply have come into better balance, reducing the need for outsized wage adjustments seen through the pandemic. Still, a major payroll and human resources firm reported that bonuses were up in 2023, with more employees receiving bonuses and solid increases in average bonus percentages. Looking ahead, more firms plan on increasing headcounts in the coming months than in the previous period.

## Prices

Inflationary pressures were little changed, with prices rising modestly. On balance, the pace of input price increases continued to moderate. Contacts reported that prices for some goods, such as paper, ink, and construction materials have stabilized, while the cost of freight and insurance continued to rise. The pace of selling price increases rose slightly in the service sector but continued to moderate slightly for manufactured goods. However, construction firm contacts pointed to declining selling prices. Contacts do not anticipate significant shifts in the pace of selling price increases in the coming months.

## Consumer Spending

Led by strong holiday sales, consumer spending was up moderately during the reporting period. Spending on apparel, toys, and sporting goods was particularly strong, while spending at restaurants and bars declined somewhat. Despite the higher cost of credit, auto dealers in upstate New York reported solid sales activity for both new and used cars at the end of 2023. With inventory continuing to improve, more buyers are able to find their vehicles of choice and ongoing declines in used car prices continued to boost sales in that segment of the market.

## Manufacturing and Distribution

Manufacturing activity fell sharply, with orders and shipments declining. Transportation and distribution firms also reported declining activity. Supply availability continued to improve, with several contacts reporting that supply chains have returned to pre-pandemic norms. Moreover, an upstate auto industry contact reported that the shortage of microprocessors that stalled auto production for much of the pandemic period has largely been resolved. Still, slow delivery times remained a challenge for some industries. One local business contact reported a four-year lead time for specialty equipment delivery. Inventories increased slightly, while unfilled orders declined. Looking ahead, while manufacturers expect business conditions to improve modestly, optimism remained subdued.

## Services

On balance, service sector activity declined slightly in the latest reporting period. While businesses providing education and health services reported a modest increase in activity, business services firms indicated activity declined somewhat, and personal services businesses pointed to a sharp contraction. Service firms generally expect conditions to improve somewhat in the months ahead.

A New York City tourism contact reported that the city was bustling over the holiday season, with visitor levels at normal pre-pandemic levels, busy pedestrian corridors, and long queues for entry at museums. Hotel bookings were significantly higher this year compared to the same time last year, with hotel occupancy rates notably higher than other top U.S. tourism markets. However, some inventory of hotel rooms has been set aside for emergency housing for asylum seekers, reducing the stock of available rooms. Despite economic and geopolitical concerns, contacts are optimistic about a return to normal tourism levels in 2024.

## Real Estate and Construction

Housing markets were mostly unchanged since the last report, with low inventory continuing to restrain sales activity in much of the District. Demand remained solid, with buyers who have been waiting on the sidelines for a drop in mortgage rates returning to the market. Inventory remained exceptionally low in the New York City suburbs, while inventory increased slightly in upstate New York. In general, contacts reported that home prices have continued to trend up. New York City was the exception, where prices have leveled off as supply has normalized.

Notably, residential rental markets softened after a sustained period of strength. Rents fell across the District, but particularly in New York City, where new lease activity continued to decline and rents dropped below last year's level. A contact in upstate New York noted that some investors who purchased and converted homes for rental income have started to sell their properties, reducing options for renters but increasing the supply of homes for sale.

Commercial real estate markets were unchanged for most markets. New York City office vacancy rates were steady near historic highs and rents declined slightly. Upstate New York office markets saw continued increases in vacancy rates, but rents were unchanged. In the industrial market, small improvements were seen in downstate New York while conditions in upstate New York deteriorated.

Construction contacts reported that activity declined modestly since the last report. Office construction dropped, but industrial construction grew with high volumes under construction and significant deliveries set for 2024 in downstate New York and northern New Jersey.

## Banking and Finance

Activity in the broad finance sector declined modestly during the latest reporting period. Contacts from a variety of sectors expressed concerns about the high cost and reduced availability of credit. Small to medium-sized banks in the region reported declining loan demand across all loan segments, including refinancing. While banking contacts reported that credit standards were unchanged for consumer loans and residential mortgages, standards continued to tighten for business loans and commercial mortgages. On balance, deposit rates were higher, loan spreads narrowed, and delinquency rates continued to rise.

## Community Perspectives

Households in the District have experienced greater difficulty meeting financial obligations. Though credit has become harder to get, many families have accumulated high debt burdens. To help ease these burdens and protect households, state and city governments have responded with new policies. Notably, New York State has enacted legislation prohibiting medical providers from reporting medical debt to credit bureaus, preventing the cascading effects of adverse credit reporting on household finances. Other policies have distributed funds directly to individuals, including one providing funds to cover back rent to residents of public housing managed by the New York City Housing Authority.

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

# Federal Reserve Bank of Philadelphia

## Summary of Economic Activity

On balance, business activity in the Third District held steady during the holiday season after declining steadily for most of 2023. Employment grew slightly overall, although manufacturers reported fewer workers and shorter hours. Wage and price inflation appeared to subside further—to a still-modest pace for wages, but to a slight pace for prices. Contacts noted increased consumer resistance to higher prices. Consumer spending held steady across most segments, although contacts noted an increasing divergence as low-income households spent less yet paid more on credit, while affluent households continued to spend freely. Ongoing concerns centered mainly on global issues and the 2024 election, while sentiment improved with the prospect of falling interest rates. On balance, expectations for economic growth over the next six months remained mostly positive but were below historical averages.

## Labor Markets

Employment slowed to a slight pace of growth—following a modest pace in the prior period. In our monthly surveys, nonmanufacturing firms reported modest increases in full-time jobs but no change in part-time employment nor in the average employee workweek. Having fulfilled most of their backlogs, manufacturing firms reported a slight decrease in employment and a modest decline in the average employee workweek.

Several contacts noted increased layoffs of midcareer professionals from finance, tech, and highly leveraged firms in other sectors but observed that most secured new jobs within months. Several contacts, including staffing firms, noted that businesses were becoming more selective when hiring. One staffing firm observed that many businesses overhired during the pandemic, then held steady in 2023—they expect job levels to increase slowly as companies begin to hire again.

One firm that had raised wages competitively in recent years noted good talent among its staff and a lower turnover rate than in 2019. In 2024 it will add nonwage benefits, including mental health coverage and an employee stock ownership plan. Nonprofits reported that significant wage increases in 2022 had steadied hiring and retention rates—now wage pressures have lessened, and hiring is easier.

Overall, wage inflation appeared to continue subsiding but remained at a modest pace. Among nonmanufacturers, the distribution of firms reporting higher (39 percent) and lower (4 percent) wage and benefit costs per employee was typical of the mid-2010s, when modest wage growth prevailed. Most reported no change.

## Prices

On balance, price increases appeared to subside to a slight pace of growth after modest growth last period. Our monthly prices paid and prices received indexes declined for nonmanufacturers. Moreover, the prices paid index neared its nonrecession average, and the prices received index fell below average for the fifth time in the past seven months. Several small businesses observed that customers' resistance to higher prices increased further. For some firms, profit margins narrowed as food commodity costs remained volatile.

Most manufacturing firms noted that their input costs steadied; some fell. The manufacturers' prices paid index rebounded to its average, while the prices received index remained near its average for a fifth consecutive month; over two-thirds of the firms indicated no change.

Moreover, manufacturers' price expectations have fallen. The future prices received index fell to near its long-run average; the future prices paid index fell to half its average. Both indexes were positive, with over 35 percent of the firms expecting increases in the next six months.

## Manufacturing

Overall, manufacturing activity declined moderately during the period following a slight decline in the prior period. The index for new orders fell sharply, and the shipments index declined for a second month.

Expectations among manufacturers for growth in the next six months strengthened but remained below historical averages. More than 40 percent of the firms expected increases in new orders and in shipments.

## Consumer Spending

On balance, retailers (nonauto) reported little change in real sales through the holiday period—an improvement from the prior period's modest decline. However, online sales appear to have been stronger than in Third District brick-and-mortar retailers. Contacts noted continued pullback in spending from lower-income consumers.

Auto dealers reported steady sales of new cars following a slight decline in the prior period. Contacts noted that dealers maintained sound profitability but that margins have begun to erode because supply constraints have eased and inventories have risen. One contact reported that dealers were lowering margins to move product off their lots. Another observed that the higher overall price of new cars—especially given the rising mix of electric vehicles—is further bifurcating the new and used car market, with lower-income households unable to afford new cars.

Tourism continued to edge down from still strong levels. Contacts reported slower bookings and less spending by tourists, so some hotels have started to lower rates. However, contacts further observed that as hotel rates are cut, spending at local restaurants and stores has risen. Several contacts noted that warm weather and excessive rain diminished the early ski season.

## Nonfinancial Services

On balance, nonmanufacturing activity appeared to grow slightly—for the first time since our February 2023 report. The index for new orders was close to zero, while the sales/revenues index increased to a modest pace. One large firm reported robust growth in the entertainment/destination sector.

Moreover, firms signaled more positive sentiment. The index of general activity for the region returned to positive territory just as the index of general activity at the firm level did in the prior month. Nevertheless, expectations among nonmanufacturers for growth in the next six months remained about the same—well below historical averages.

## Financial Services

The volume of bank lending (excluding credit cards) grew moderately during the period (not seasonally adjusted)—faster than the slight pace observed last period but similar to the same period last year.

During the period, District banks reported moderate growth in home mortgages, auto loans, and other consumer loans. The volume of commercial real estate loans, home equity lines, and commercial and industrial loans grew modestly. Credit card volumes surged following no growth during the prior period—typical for the year-end holiday season.

Banking contacts continued to note generally sound credit quality even as delinquency rates ticked up from very low levels. Banks and business clients agreed that access to credit had tightened. Some small businesses reported higher usage of credit cards by customers, and that their customers noted a greater need to rely on credit cards.

## Real Estate and Construction

Brokers reported that existing-home sales remained mired at historically low levels through November. Contacts are waiting until after the seasonal lull to see if consumers respond to lower mortgage rates, but overall sentiment improved. Meanwhile, the inventory of for-sale properties remained low, and prices remained high.

One new-home builder reported increased traffic during the holidays, another noted an uptick in contract signings in December, and all expressed increased optimism that 2024 would be a stronger construction year, with more closings and more new signed contracts.

In nonresidential markets, leasing activity and transaction volumes continued to decline slightly—more so in the office market in which existing tenants continued to downsize their space and upgrade their quality as their leases expired.

In contrast, current construction activity held steady, although many contacts expect that the project pipeline will shrink before the end of 2024. New projects are slowly emerging in heavy industry and infrastructure.

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

# Federal Reserve Bank of Cleveland

## Summary of Economic Activity

On balance, reports from contacts suggested that business activity in the Fourth District had increased slightly in recent weeks. Contacts generally expected business activity to increase slightly in the months ahead. Consumer spending increased slightly. General merchandisers said sales were strong for discounted items, and customers increased usage of “buy now, pay later” payment options. Manufacturers reported a recent increase in demand, and backlogs for 2024 were solid. Residential construction and real estate contacts said that activity was soft, while nonresidential construction activity had reportedly rebounded since the prior period. On balance, staffing levels were stable, and many firms returned to offering “more typical” annual wage increases. After easing throughout 2023, nonlabor cost and price pressures changed little in recent weeks; however, there was some indication of upward price pressure in certain industries.

## Labor Markets

On balance, contacts reported that employment was flat to slightly down during the recent reporting period. Many firms across industries said they were maintaining headcount or hiring only to replace departing workers or underperforming staff. Some firms reduced staff to “right size” in the face of lower demand, while others restructured by replacing select roles with automation or rotating staff among multiple locations. Contacts generally expected little change in employment in the coming months.

Wage pressures were largely unchanged in recent weeks and many firms returned to offering more typical annual increases than in the past few years. For example, one manufacturer said employees would receive an average three percent adjustment this year compared to four percent to six percent increases in the previous year. Some retail firms opted not to increase wages but offered year-end bonuses or increased paid time off. While broad wage pressures eased over the past year, they remained elevated for select workers with specialized skills such as lawyers, accountants, and auto repair technicians.

## Prices

Nonlabor cost pressures were relatively unchanged in recent weeks after easing through much of 2023. Some restauranteurs reported that food costs had flattened out, and many manufacturing and construction contacts suggested that input costs were "leveling off." One construction contact noted that "Final pricing for several projects came in about 10 percent less than budget." However, several manufacturers said that a recent uptick in steel prices was likely to raise costs for some inputs as contracts renew at the start of the year. Still, many firms across industries reported continued cost increases for health and property and casualty insurance.

Price pressures changed little from those of the prior period after easing through the second half of 2023; however, there were some signs of upward price pressures in certain industries. Many retailers reported holding prices steady. Several auto dealers noted offering "significant discounts" after a long period of not doing so when inventories were severely constrained. Most manufacturers reported no change to their selling prices, though some were increasing prices to cover higher costs. Some business services firms said they will be raising rates in 2024 after a period of holding back, with one saying, "[We] held rates at 2019 levels through 2023."

## Consumer Spending

Consumer spending increased slightly following a decrease during the prior reporting period. Multiple general merchandisers and one apparel retailer cited strong sales centered on discounted items, while restauranteurs and food retailers reported mostly steady sales through the holiday season. By contrast, auto dealers continued to report slow sales because of high interest rates and high vehicle prices. One large general merchandiser said that lower-income households had become more reliant on credit cards and "buy now, pay later" payment options in recent months and was skeptical that these customers could sustain their current level of spending once seasonal promotions ended. On balance, contacts expected consumer spending to soften somewhat in the coming months.

## Manufacturing

Demand for manufactured goods increased from that of the prior reporting period, supported by the end of the UAW strike and ongoing federally funded projects. Contacts generally reported healthy order backlogs, and one manufacturer of machined parts said that their firm's 2024 backlog had increased by 30 percent since early November, leading to the highest single-year backlog in the firm's history. Reports from steel manufacturers were mostly positive, and one primary steel producer outlined growing confidence about general economic conditions among their firm's customers. On balance, manufacturers expected demand and orders to increase modestly in the near term.

## Real Estate and Construction

Residential construction and real estate contacts reported that activity remained soft in recent weeks. However, one homebuilder reported an increase in inquiries as mortgage rates declined. Existing-home inventories remained low and below prepandemic levels, a circumstance which continued to constrain sales. Looking ahead, contacts anticipated activity would increase because they expected mortgage rates to fall further. One real estate agent expected “buyers who left the market [when rates peaked] to reenter the market.”

Nonresidential construction rebounded in recent weeks. One commercial builder noted that declining interest rates and greater optimism about the economic outlook had boosted demand. Moreover, multiple general contractors reported that customers had elected to move forward with previously delayed projects. Commercial real estate and construction contacts expected demand to remain mostly stable in the near term.

## Financial Services

Reports from bankers were mixed but were generally less downbeat than during recent reporting periods. While most lenders reported that consumer and commercial loan demand declined in recent weeks because of still-high interest rates, a few noted that loan activity had stabilized or even increased. Looking ahead, bankers anticipated that loan demand would stabilize if interest rates remained steady or declined. One banker said, “we’re [not] building pipelines like we were before. Doesn’t seem that strong, [but] doesn’t seem that weak.” Core deposits were flat, and a few bankers noted that clients continued to move funds into interest-bearing accounts. On balance, bankers reported that delinquency rates remained low.

## Nonfinancial Services

Overall, freight activity declined again in recent weeks. However, one transportation contact indicated that year-over-year comparables had recently turned positive, and multiple haulers anticipated freight activity would stabilize in the coming months. Professional and business services contacts reported steady demand as economic activity remained resilient. One contact mentioned that an expected “pullback in discretionary marketing expenses for 2024” had not yet materialized. Another added that “interest rate stability and hopes for a soft landing” bolstered demand for the firm’s services. Looking ahead, professional and business services contacts expected activity to increase in the coming months.

## Community Conditions

Nonprofit childcare providers reported that funding had decreased even as demand for childcare services had increased during the past six months. Pandemic-era funding, such as that from the Child Care Stabilization Grant program that ended in September 2023, had primarily been used to pay staff salaries or bonuses. With the loss of government funding, one Cleveland-area provider said, “We are forced to increase costs for private-pay families as the funds available are not sufficient to provide a living wage to our staff. It has also put a lot of pressure on us to privately fundraise to fill the gap.”

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

# Federal Reserve Bank of Richmond

## Summary of Economic Activity

Economic activity in the Fifth District expanded mildly in recent weeks. Consumer spending on retail goods, travel, and tourism was steady to growing modestly. Spending on other nonfinancial services was reported to have been steady. Residential housing market activity and mortgage lending continued to soften despite some increase in housing inventory. Commercial real estate was unchanged, overall. Manufacturing activity, trade volumes, and trucking volumes were slightly to modestly lower this period. Employment and wages rose moderately amid a tight supply of labor. Price growth continued to moderate but inflation remained somewhat elevated compared to historical rates.

## Labor Markets

Employment in the Fifth District grew at a moderate pace in the most recent reporting period. The tight labor market led to continued wage pressure, resulting in several contacts making operational changes. A company that manages parking garages reported likely increases in prices and reductions in services due to all-time high wages. A specialized-software company's spending on salaries increased by 15 percent of total revenue, thus, significantly decreasing margins. As a result of increased wages, this firm expects to cut investment plans in 2024 since they need to continue hiring workers at higher wages to meet customer demand. Other contacts reported expanding their talent pools to find workers. For example, an engineering firm hired engineers with no work experience and spent time training them.

## Prices

Price growth continued to slow slightly in recent weeks, but year-over-year inflation remained somewhat elevated. According to our most recent surveys, growth in prices received by service providers fell by about half a percentage point to 3.8 percent. Growth in prices received by manufacturers ticked up slightly but remained moderate, overall, at a rate of 2.8 percent. Looking ahead six months, both manufacturing and non-manufacturing firms expect growth in prices received to continue to moderate.

## Manufacturing

Fifth District manufacturing activity slowed somewhat in the most recent reporting period. An HVAC manufacturer reported an unexpected decline in new orders, resulting in the company curtailing expense spending to protect earnings. Contacts in some industries tied to discretionary consumer spending cited declines. A wine producer reported a 30 percent drop in sales as consumer demand dried-up. A dental laboratory reported a 10 percent drop in new orders as remaining yearly funds in FSA accounts were not used for dental work. However, some contacts reported unexpected increases in demand. An automotive fabric manufacturer, whose customers historically pull back on spending in December, experienced an uptick in new orders. Lastly, a paving equipment manufacturer saw a steady increase in demand due to a resilient housing market in their area.

## Ports and Transportation

Trade volumes were down at Fifth District ports this period; imports were modestly lower year-over-year as wholesalers continued to work down high inventory levels. Loaded exports, however, were up this period. Spot shipping rates to the East Coast increased as carriers were dealing with issues at both the Panama Canal and the Red Sea. Empties were lagging but turn times were normal. Dwell times were fluid and stack occupancy remained low. Demand for airfreight was up slightly this period mostly due to ecommerce for the holiday season. Air cargo rates fell below 2019 levels due to higher capacity.

Trucking firms reported that freight volumes were slightly lower this period without the usual seasonal uptick. In the truckload segment, the greatest demand for shipping were with food, medical, automotive, and retail. In the less-than-truckload segment, firms noted some weakness in the industrial segment. Freight rates declined due to overcapacity in the system. Respondents stated that drivers were more readily available but there was still some upward wage pressure. Trucking companies stated that there were no significant backlogs on orders of new equipment but occasional issues receiving certain parts. With firms exiting the trucking sector, used equipment was more readily available.

## Retail, Travel, and Tourism

Retailers reported steady to slightly increasing demand and revenues in recent weeks. One small, local retailer attributed some of their increased sales volume to customers saying that they preferred to support local businesses rather than shopping online. A few retailers said that they were looking to expand their business by opening new locations, but due to high interest rates, they were delaying construction of those sites. Food service and entertainment venues reported no change in demand but declines in revenues and higher costs were not being passed through to customers. Travel and tourism contacts reported steady to increasing sales, hotel occupancy rates, and passenger air travel.

## Real Estate and Construction

In the Fifth District, residential real estate activity declined modestly this period due to the usual seasonal slowdown. However, buyer traffic increased this period as prospective purchasers were gearing up for a good spring market amid rising home inventory levels and declining mortgage rates. Home prices increased moderately and there were still multiple offers on desirable homes. Days on market increased slightly but remained below historic averages. Builders indicated that construction costs had moderated but there continued to be a shortage of some building materials and specialty sub-contractor labor. Appraisals were holding up and buyers were not having any difficulty obtaining mortgages.

Overall market activity in commercial real estate was flat this period. Retail remained strong, especially with fast casual restaurant chains. In the office sector, Class A office space was tightening with more leasing activity related to firms upgrading their space and moving away from central business districts. A lack of available financing continued to constrain new development and refinancing within the broader CRE sector. Construction projects were mainly limited to the industrial and multifamily segments. Contractors noted that due to the high cost of construction there were few new CRE projects and, as such, their backlog of work was shrinking.

## Banking and Finance

Loan demand continued to modestly soften across all loan types, with residential mortgage lending seeing the biggest slowdown in demand. Respondents were generally in agreement that the higher rate environment and continued economic uncertainty were the primary drivers in this continued downward trend. One institution noted customers were "sitting on the sidelines" waiting for more clarity regarding rates and the economy. Deposit balances remained flat with still a great deal of competition for any available funds being shopped amongst institutions. Loan delinquency rates and credit quality metrics remained stable with no movement up or down.

## Nonfinancial Services

Nonfinancial service providers continued to report that demand for their services and overall revenues remained stable. One firm noted they saw more of their clients comparing prices when shopping for their services and were entertaining more offers from competitors. This level of competition put pressure on pricing and maintaining current clients. Wages and workforce availability continued to be a challenge with low unemployment rates and employees continuing to ask for wage increases. Uncertainty was still a theme with both the firms surveyed and their clients, which made the industry as whole quite cautious going into the new year.

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

# Federal Reserve Bank of Atlanta

## Summary of Economic Activity

The economy of the Sixth District grew slowly from mid-November through December. Labor availability and employee retention continued to improve, but hiring slowed for some firms, and wage pressures eased further. Nonlabor costs moderated for the most part, and pricing power slipped. Holiday retail sales were mixed; auto sales were strong. Travel activity was healthy, but spending at hotels continued to slow. Despite declines in mortgage interest rates, the housing market remained encumbered by the lack of affordability. Commercial real estate activity was sluggish. Transportation activity remained weak. Lending grew for certain types of loans, but consumer lending declined. Activity in the energy sector was robust. Agriculture conditions were mixed.

## Labor Markets

Labor markets continued to cool, and some employers slowed hiring. Most contacts continued to report that labor markets had softened from earlier in the year amid more available labor and stronger retention rates. Many indicated that staffing levels had improved from a year ago; however, hiring in the leisure and hospitality sector remained challenging. Additionally, the lack of affordable housing was cited as an impediment to attracting workers to some areas. Weaker demand for products and services caused some employers to reduce hours or slow hiring which they expected to continue through the first half of 2024. One firm said that they were choosing to hold positions open and were “slow walking” new hires, as they sought to supplement productivity with Generative A.I. across all business lines and functions.

Most firms indicated that wage pressures continued to ease, and more modest wage growth is expected in the coming year.

## Prices

Nonlabor input cost increases moderated over this reporting period. Firms cited improvements in supply chain predictability, contributing to lower freight and shipping costs. Construction costs were mixed; lumber costs decreased while concrete increased. Food product costs declined. The easing of some input costs was offset by persistent growth in labor and insurance costs, and most firms held consumer prices steady even amid diminishing pricing power. The Atlanta Fed’s

Business Inflation Expectations survey showed year-over-year unit cost growth decreased significantly in December to 2.9 percent, on average, from 3.2 percent in November; firms' year-ahead inflation expectations for unit cost growth remained relatively unchanged in December at 2.4 percent, on average.

## Consumer Spending and Tourism

Consumer spending generally continued the trend of normalization from the pandemic's strong pace of growth. Holiday sales were mixed. In line with pre-pandemic trends, contacts reported managing inventories more closely and many offered customary promotions and discounts. Auto sales remained strong, On average, retailers' outlook remains positive for the first half of 2024.

Holiday travel activity was characterized as healthy, on balance, by tourism and hospitality contacts. Spending on merchandise, food, and services in hotels, however, decreased compared with the same time last year. Contacts are cautiously optimistic about travel demand in the first quarter, but characterize the environment as normalizing back to pre-pandemic levels.

## Construction and Real Estate

Although mortgage rates retreated during the fourth quarter of 2023, home sales in the District were slow to respond, as most markets remained unaffordable for median income earners. Homeowners also faced challenges with other rising costs, such as property insurance. Florida, with strong demand generated from out-of-state buyers, is the only Sixth District state reporting increases in existing home sales compared with a year ago. Inventories of homes for sale, though still tight, were boosted by new construction. Sales strategies varied by homebuilder; smaller builders focused on reducing home sizes, while larger builders reported buying down interest rates to generate demand.

The Sixth District's office market continued to encounter negative absorption rates and diminishing occupancies. Leasing activity at the end of 2023 dropped to 2020 levels, creating a "tenant's market," where landlords were forced to offer incentives. Market conditions are expected to remain challenged in 2024 as new construction is delivered. Other property segments experienced weakening conditions as well; contacts in industrial markets reported that the amount of square feet in the pipeline is running well ahead of absorption, resulting in higher vacancy levels. Contacts expressed concerns over rising commercial real estate loan maturities in 2024.

## Transportation

Transportation activity remained muted over the reporting period. Railroads reported declines in year-to-date total traffic; intermodal shipments were down significantly. Trucking firms cited continued softness in freight volumes, which is expected to continue well into 2024. Some carriers anticipate that additional trucking capacity will be taken offline in the next year as small owner-operators fold, and large carriers reduce capacity amid deteriorating demand. A few logistics contacts hinted at re-emerging supply chain constraints resulting from drought conditions in the Panama Canal, as shippers are forced to deploy to the Suez Canal, extending lead times for products from China and southeast Asia.

## Manufacturing

Manufacturing activity slowed slightly. Some contacts reported declines in new orders and backlogs of work, along with rising finished goods inventories and faster supplier delivery times. The Manufacturing Sector Report of the Atlanta Fed's Business Inflation Expectations Survey showed that for the majority of respondents, demand had decreased or was on par with year-earlier levels. The outlook is cautiously optimistic but concerns such as inflation, interest rates, and geopolitical uncertainty were mentioned.

## Banking and Finance

Lending at Sixth District financial institutions increased since the previous report, especially for multifamily and home equity loans. Consumer lending contracted overall, alongside a rise in delinquencies in credit cards, auto loans and unsecured personal loans. Demand and large time deposit balances continued to increase as banks paid higher interest rates on deposits. However, these higher funding costs have led to earnings concerns. Hence, some banks restructured securities portfolios and reinvested proceeds into higher-yielding securities to protect margins.

## Energy

Energy contacts reported historically high levels of crude oil production and record amounts of gas flow to liquefied natural gas export plants. Contacts also continued to report planning and development of industrial decarbonization and renewable energy projects; however, a few contacts noted that some of these projects are being delayed by federal approval processes. Utility contacts reported growing electricity demand, especially in the industrial and commercial segments, attributed to clean energy transitions at production facilities and hospital and healthcare projects, respectively.

## Agriculture

Low cattle supply led to higher cattle prices, but consumers substituting less expensive proteins prevented full pass-through of prices. Domestic demand for chicken rose, but demand was down overall as cases of avian flu led to additional export restrictions and lower egg supply. Milk prices rose amid growing domestic demand for dairy, but low export levels continued to depress the market. There was little change in demand or supply for row crops, but demand for cotton remained weak.

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

# Federal Reserve Bank of Chicago

## Summary of Economic Activity

Economic activity in the Seventh District was up modestly overall in late November and December. Contacts generally expected a small decline in demand over the next year. Employment increased moderately; nonbusiness contacts saw a modest increase in activity; consumer spending was up slightly; construction and real estate and business spending were flat; and manufacturing decreased modestly. Prices and wages rose moderately, while financial conditions loosened modestly. Net farm incomes were above average in 2023.

## Labor Markets

Employment rose moderately over the reporting period and contacts expected a similar rate of increase over the next 12 months. While several contacts continued to report difficulty finding workers—especially in manufacturing—there also were further signs that the labor market was cooling. Some contacts noted that applicant pools had grown, and contacts in construction, real estate, and finance reported staffing reductions. Wages rose moderately, and contacts indicated that wage pressures had eased considerably compared with 6 months ago. Benefits costs increased as new insurance rates took effect in the new year.

## Prices

Prices rose moderately overall in late November and December and contacts expected a similar rate of increase over the next 12 months. Producer prices moved up moderately. Nonlabor input costs continued to rise, with contacts reporting increases in raw materials, energy, and shipping costs. One contact in heavy machinery manufacturing noted greater pushback on price increases from customers. Consumer prices also increased moderately overall, though several retail contacts noted more modest price growth.

## Consumer Spending

Consumer spending increased slightly on balance over the reporting period. Nonauto retail sales were up slightly. Contacts reported that holiday sales met expectations, which had been for a small improvement over last year's level. Apparel and grocery sales were relatively strong, while consumer durable goods sales were soft. Leisure and hospitality spending rose modestly, with contacts highlighting increased sales at restaurants. Light vehicle sales rose slightly. Dealers said solid overall demand continued to keep prices high, but that many consumers were substituting toward smaller, more affordable models.

## Business Spending

Business spending was flat overall in late November and December. Capital expenditures were up slightly, with several contacts reporting investments in computers, software, and new vehicles. However, demand for truck transportation services declined slightly. Inventories were comfortable for most retailers; auto dealers' inventories were around desired levels following an extended period with lower than desired inventory. In manufacturing, many contacts again stated they were no longer experiencing input shortages, and some even noted that their inventories were a little high.

## Construction and Real Estate

Construction and real estate activity was little changed on balance over the reporting period. Residential construction activity was flat. Contacts said that high labor and materials costs, elevated interest rates, and slower rent growth were all slowing the pace of new multifamily construction. Residential real estate activity decreased slightly, with contacts highlighting a decline in multifamily leasing. High mortgage rates continued to put a damper on home sales, though one contact noted that the recent decline in rates had supported some new activity. Home prices were up slightly. Rents rose overall, though one contact noted that the percentage of multifamily units offering concessions had increased. Nonresidential construction activity increased slightly, while prices were unchanged. One auto dealership group said that the expectation interest rates would begin falling soon was a factor in their proceeding with a project to increase service-center capacity. Commercial real estate activity was unchanged. Demand for industrial properties remained at elevated levels. While prices fell slightly, rents, vacancy rates and the availability of sublease space were all unchanged.

## Manufacturing

Manufacturing demand decreased modestly overall in late November and December. Steel orders were down modestly, with one contact reporting a decline in sales to the auto sector. Fabricated metals orders ticked down, led by lower demand from residential construction. Machinery sales decreased slightly. Auto production returned to levels seen before the UAW strike, according to contacts. Heavy truck demand remained low amidst weak freight markets and the bankruptcy of a major carrier.

## Banking and Finance

Financial conditions loosened modestly on balance. Bond and equity values increased moderately while volatility fell modestly. Business loan rates were steady, terms tightened slightly, and loan quality decreased slightly. Business loan demand was flat. One banking contact noted that their clients in the auto industry weathered the UAW strike well. Consumer loan rates were little changed overall and terms tightened slightly. Loan demand fell some as did loan quality, with one contact reporting "normalized levels of past dues" for consumer loans after an extended period of below average past dues.

## Agriculture

District net farm income was above average for 2023 according to contacts, helped by stronger than expected crop yields. However, expectations for 2024 farm income were lower, as prices started the year below break-even levels for many commodities. Corn and soybean prices edged down during the reporting period while wheat prices were up a bit. Cost changes for crop production inputs were mixed. Dairy, hog, and cattle prices decreased. Egg prices were slightly higher and rising avian influenza cases led to concerns about a repeat of last winter's large outbreak. Contacts felt District farms generally ended 2023 in strong enough financial positions to weather whatever 2024 brings.

## Community Conditions

Community and nonprofit contacts saw a modest increase in economic activity over the reporting period. Workforce development agencies said that continued tight labor market conditions were making it easier than usual for individuals facing barriers to employment to find work, and economic development agency contacts reported the approval of several new projects in their areas. In contrast, a state government official saw some decline in tax revenues. Contacts at small business development organizations said that high interest rates combined with other rising costs, such as for insurance, were deterring clients from expanding. While the slowing rate of inflation was welcome, social service organizations noted that low income consumers were still facing the challenges of rising housing costs, additional expenses for clothing and heating during the winter months, and the end of COVID-era government financial support.

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

# Federal Reserve Bank of St. Louis

## Summary of Economic Activity

Economic activity has remained unchanged since our previous report. Labor markets remained tight, but contacts reported reduced urgency to hire new workers and stable wage pressures. Prices increased, but the rate of price increases for many firms has slowed over the past few months. Travel and hospitality firms reported strong leisure travel growth during the holiday season and an optimistic outlook for the upcoming year. Rental prices were flat and residential inventory rose slightly. Banking contacts reported slowing loan demand. Agriculture contacts were negatively affected by drought conditions.

## Labor Markets

Employment levels have remained unchanged since our previous report. Though labor markets remain tight, reports of easing increased. An Arkansas contact reported weakening of employment conditions across the state, and noted that, while the urgency to hire has slowed, more firms are using internships and apprenticeship programs to upskill workers. Construction sources in St. Louis reported an increase in jobs due to an influx of new projects.

Wages have continued to grow slightly since our previous report. A daycare contact in Northwest Arkansas reported rising wages in competing sectors have led to challenges retaining workers. A logistics contact in Louisville reported wages were up about four percent year-over-year, while a restaurant contact in Little Rock reported wages rising five to seven percent across the industry.

## Prices

Prices have continued to increase modestly since our previous report. Multiple contacts noted that costs have been rising at a slower rate than they were a year ago, and contacts' ability to pass costs to consumers varied. A daycare contact reported a 10 percent increase in weekly prices charged due to increases in the cost of supplies and utility rates. Some businesses are choosing not to raise prices even though labor and nonlabor input costs continue to increase. A hotel contact reported tighter profit margins due to increased operating costs. Contacts report that prices of some items, like used cars and event ticket prices, decreased.

## Consumer Spending

District general retail, restaurant, automotive, and hospitality contacts generally reported mixed business activity. To take advantage of the growing popularity of resale and thrifting, a St. Louis retail contact has promoted special seasonal items, participated in pop-up events, and increased marketing efforts to help spur more consumer spending. An Arkansas brewery stated that while the volume of beer sold rose over the previous year, their profits fell. A District auto contact stated that they've seen losses over the fourth quarter due to slower consumer spending. A Little Rock hospitality contact noted that while travel numbers are improving, group business travel does not seem to be making a post-COVID return. A St. Louis airport contact reported strong leisure travel demand during the holiday season and projected a return to 2019 passenger numbers in early 2024.

## Manufacturing

Manufacturing activity has slightly decreased since our previous report. Firms in both Arkansas and Missouri reported modest decreases in new orders and inventories. There were slight increases in production and delivery lead times in both states. Finding and retaining workers remains an ongoing issue for manufacturing contacts. On average, firms reported they expect slight increases in production and delivery lead times in the coming quarter.

## Nonfinancial Services

Activity in the nonfinancial services sector has improved slightly since our previous report. Freight traffic increased slightly, and signals in the transportation sector were generally positive. An Arkansas airport contact reported strong enplanement numbers, exceeding the previous 2019 heights. St. Louis public transportation reported high demand, and nearby St. Clair County (Illinois) began construction on connecting two regional commercial airports by light rail. Several industries experienced labor issues. Memphis air traffic mechanics took steps to unionize, citing "eroding" pay and pensions, while St. Louis nurses went on strike, demanding better pay and safety.

## Real Estate and Construction

Residential real estate rental rates have remained unchanged or dropped slightly in the four major District metro areas since our previous report. Inventory for residential real estate in the Memphis, Louisville, and Little Rock metro area was up nine percent on average since the previous year. Year-over-year total homes sold and median sale prices declined in the Memphis and Little Rock metros. In the Louisville metro area, year-over-year total homes sold have increased one percent, and the median sale price has increased six percent. Commercial real estate rental markets continue to be stagnant in the office sector for downtown areas. Contacts reported continued commercial real estate sales in Northwest Arkansas, including two large multi-family units and a couple of retail sales. A large multi-family community is expected to start construction in Northwest Arkansas in early 2024.

## Banking and Finance

Loan growth has slowed to a modest pace since our previous report, but banking conditions and lending activity have remained healthy. However, commercial and industrial loan growth decreased slightly despite the increase in overall loan volume, and demand for loans continues to be lower than a year prior. There has been an ongoing modest decline in real estate loan growth. Mortgage banker contacts had an optimistic outlook and expected an increase in activity from buyers who have been waiting for interest rates to fall. Total deposit growth increased modestly in the District and was faster than the national rate.

## Agriculture and Natural Resources

Agriculture conditions have worsened slightly since our previous report, as ongoing droughts continue to effect crop and livestock conditions. Of the District states reporting data through the end of December, the percent of winter wheat rated as fair or better was down only two percent relative to last year. Total wheat acreage in 2023 expanded significantly compared with 2022, returning to 2021 levels.

Conditions in Tennessee, where drought is the most extreme, declined more dramatically; the percent of Tennessee winter wheat rated fair or better fell 22 percentage points during the reporting period, ending at just 76 percent. While drought conditions improved slightly in Tennessee over the reporting period, the extent of moderate to severe drought increased throughout the northern areas of the District at the same time. Cotton and cattle farmers reported feeling the effects; some reported that they had to ship their cattle to other states as a result. In Arkansas, an energy firm announced plans to mine and produce lithium for electric vehicle battery production.

# Federal Reserve Bank of Minneapolis

## Summary of Economic Activity

The Ninth District economy contracted slightly since the previous report. Respondents to a December survey of business conditions reported declining demand and profits from the previous month. Employment grew modestly, but job openings were flat or lower for most contacts. Wage pressures continued to moderate, while price increases were mild. Consumer spending increased and holiday sales traffic was generally strong, while commercial real estate activity, agricultural conditions, and energy were flat. Construction and manufacturing activity fell, and residential real estate remained subdued. Minority- and women-owned businesses reported decreased activity.

## Labor Markets

Employment grew modestly since the last report. Overall hiring was still positive, but job openings were either flat or lower for most contacts. In Montana, the number of brand-new job postings fell notably in December compared with the previous month and year. District staffing contacts also reported that December job openings were generally flat or lower. Bank surveys showed that recent hiring demand slowed but future demand was expected to rise. Indexes of hiring sentiment in Minnesota and the Dakotas were mostly stable; one was modestly expansionary, and the other slightly contractionary. Contacts widely reported that labor supply had improved somewhat; more firms reported being closer to fully staffed and being more selective in hiring. A Montana staffing contact added, “We are seeing more clients settling in with who they have and not hiring unless the candidate is perfect.” A Wisconsin staffing contact said that businesses were “getting more selective on who they hire . . . [and] contacting us to do confidential recruiting to replace underperforming employees.”

Wage pressures continued to moderate, nearing pre-pandemic conditions. Staffing contacts in Montana, North Dakota, and Wisconsin said wage pressures were flattening and one-time wage enhancements were falling. A mid-sized Minnesota health care provider gave a wage increase of three percent, its lowest since before the pandemic: “Wage growth is finally slowing.”

## Prices

Price increases were mild since the last report. A substantial majority of firms responding to a monthly survey indicated no change to the prices they charged to customers in December from a month earlier, though most of the remainder indicated that they increased prices. Input price pressures were slightly greater, but most respondents also reported no change over the month. A regional manufacturing index indicated modest input price increases in December. Retail fuel prices in District states fell to their lowest levels in more than two years. Home heating costs were expected to be significantly lower this winter than last.

## Worker Experience

Unemployed workers in Montana shared they were mainly focused on pay, benefits, and upward mobility as they searched for jobs. The difficulties they faced gaining employment were mostly due to skills gaps, but they also cited other factors, such as low pay and child care affordability. Employed workers who were looking for different jobs also faced a range of challenges. A single mother working in the nonprofit sector who has been trying to switch jobs for almost a year said that balancing her children's schedules, her own job, and household chores left her with little time to search and apply. A labor contact in the Upper Peninsula of Michigan shared that the exodus of public sector workers to the private sector had slowed. They said that high food prices in the area, particularly for meat, continued to stretch workers' budgets. "I am hearing our union members talk more about starting to raise chickens and ducks . . . I am seeing more self-serve egg stands along the road," they added.

## Consumer Spending

Consumer spending rose moderately since the last report. Contacts reported that traffic and spending during the holidays was generally higher. A retail industry contact in Minnesota said this year's holiday season exceeded expectations for many and "felt very much like a pre-pandemic holiday season." A Minnesota mall contact said December traffic was about 15 percent higher than last year, with some days exceeding pre-pandemic levels. Sales at movie theatres, restaurants, and other food retailers were reportedly strong. A South Dakota retail contact noted that traffic was down in many places there, but overall spending was flat or slightly higher. Unseasonably warm weather helped get shoppers out to many stores, but sales of winter gear and equipment were negatively affected. Montana's lodging sector continued to see strong activity, but occupancy and revenue at Minnesota hotels were down slightly. New car and truck sales were higher in December at a District dealer with multiple locations.

## Construction and Real Estate

Construction activity was lower overall since the last report. Among roughly two dozen construction contacts, recent sales were lower and profits have been particularly hard hit. Recent hiring demand has fallen somewhat, but sentiment was modestly more positive for the early part of 2024. Among sectors, firms in infrastructure continued to fare better thanks to federal spending. November and December commercial permitting was generally flat or lower in the District's larger markets compared with a year earlier. Residential building was constrained in many markets, but single-family permitting in Minneapolis-St. Paul saw sustained increases for several months, including December.

Commercial real estate was flat overall. Vacancy rates for industrial space have ticked higher thanks to significant speculative building in the last year. Office markets remained soft, and reports of tenant concessions were rising. Retail vacancy has improved modestly thanks to stronger foot-traffic trends and lower levels of new construction. Residential real estate remained subdued, with year-over-year sales continuing to decline in November and December.

## Manufacturing

District manufacturing activity decreased moderately since the last report. Preliminary results from a manufacturing survey found a substantial decrease in orders, production, and profits in 2023 from the prior year, though capital investment increased. Expectations for 2024 were mildly optimistic. Manufacturing sector respondents to a monthly survey reported sharply decreased sales in December from a month earlier. In contrast, a regional manufacturing index increased to levels indicating an expansion in activity in Minnesota, North Dakota, and South Dakota in December from a month earlier, though new orders decreased.

## Agriculture, Energy, and Natural Resources

District agricultural conditions were unchanged since the last report. Contacts across the region gave differing reports about farm incomes. Contacts generally agreed incomes were down substantially from a year ago, though some indicated they were stronger than expected. District oil and gas drilling activity was stable since the previous report, and industry contacts reported that production increased modestly. District iron ore mines continued to operate at capacity.

## Minority- and Women-Owned Business Enterprises

Activity among minority- and women-owned business enterprises (MWBE) was lower on balance. Most businesses reported lower sales activity in the recent four-week period. A Minnesota retailer believed that diminished discretionary income among consumers was the main reason behind lower sales. Labor and nonlabor costs as well as final selling prices were slightly higher on balance. Some expected price pressures to extend into next month. “It is extremely hard to keep up with wage and benefit pressures and competition for good, qualified and experienced therapists in this market,” commented a health care contact. Profits continued to edge lower among half of MWBEs; a slightly lower share expected profits to remain low over the following weeks.

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

# Federal Reserve Bank of Kansas City

## Summary of Economic Activity

Economic activity in the Tenth District declined moderately in recent weeks. Consumer spending fell across several categories. Contacts noted sales volumes at low-cost quick-serve restaurants, which had been robust despite pullbacks elsewhere, declined moderately in recent weeks. Community organizations providing food assistance indicated the number of persons seeking aid rose significantly, particularly among working families and seniors. Job gains were modest in the private sector, but several reports suggested other measures of labor demand weakened. For example, the use of seasonal employees was subdued at the end of last year, and businesses were reportedly much less likely to convert seasonal worker to full-time staff than in years past. Expected wage growth was reportedly much lower for the coming year. Despite the recent softening in activity, most contacts expressed a favorable outlook for the next six months. Prices grew slightly on average, but food retail contacts indicated they had no more ability to pass higher prices to customers. Contacts in commercial real estate (CRE) reported very low transaction volumes as potential buyers were waiting for, or pricing to, a bottom, creating large spreads between bids and asks that made price discovery difficult. CRE lenders reported minimal loan modification activity, citing concerns about future credit performance and lack of borrower liquidity.

## Labor Markets

Labor market conditions in the Tenth District were mostly unchanged on balance due to increased hiring in manufacturing being offset by slight declines in services employment. Despite little change in hiring, contacts reported a notable reduction in labor utilization, reflected in declines in hours worked and reduced hiring of temporary and seasonal employees. Additionally, some retail and delivery businesses reported a shift in their approach to seasonal employment during the holiday season. While some businesses averted hiring of seasonal employees altogether, others noted that their conversion of seasonal employees to permanent employees was down relative to previous years. Business contacts across industries overwhelmingly reported expectations for a substantial deceleration of wage growth in the coming year.

## Prices

Prices grew slightly over the last month on average, with reports mixed across industries. While manufacturing contacts reported moderate increases prices for finished products, service contacts reported a slight decline in prices, which they attributed to limits on their ability to pass still rising input and labor costs onto their customers. Food retailers were reportedly much less willing to accept higher input prices from distributors. In particular, grocers pushed back on their suppliers, citing concerns about their ability to pass cost increases onto customers.

## Consumer Spending

Consumer spending fell moderately over the past month across several categories. Contacts at restaurants and other food service companies continued to report a decline in the number of customers served. Furthermore, they emphasized declines in sales volumes extended to quick-serve restaurants recently, which had previously seen strong demand even as spending at more expensive dining options was falling in recent months. Both new and used auto sales fell modestly. Spending on other large ticket items like home appliances and retail furniture also fell.

## Community Conditions

Food insecurity reportedly worsened across most of the Tenth District as food assistance organizations reported substantial increases in the number of persons served compared to the same time last year. Most organizations said they were serving more working families and seniors. While high food prices continued to be an issue, organizations noted that the burdens of other cost-of-living increases significantly contributed to growing food insecurity. Nearly all organizations reported declining donations leading some to cut back their services, such as offering families assistance once every sixty days rather than every thirty days.

## Manufacturing and Other Business Activity

Business activity within the District declined modestly over the last month. Manufacturing activity contracted slightly, driven by weak orders and slowing production. However, sales at service companies declined more severely. Sales of durable goods declined robustly, due to high financing costs and an unwillingness for consumers to spend on bigger ticket items. Consumer discretionary businesses also saw substantial declines, as consumers were reportedly less willing to spend on non-essentials like leisure, travel, and eating at restaurants. Despite the recent softening in activity, the majority of contacts within both manufacturing and services sectors expressed a favorable outlook, with expected demand to be as high, or greater, over the next six months as compared to the past year.

## Real Estate and Construction

Contacts indicated transaction activity for commercial properties was suppressed in recent weeks. Potential buyers of many office properties, and some multifamily properties, were reportedly waiting for a bottom as loans are set to be repriced over the medium term. Those buyers not waiting on the sidelines were reportedly pricing to a bottom among distressed sellers, resulting in large spreads between bid prices and ask prices that made price discovery difficult in most markets. Some contacts suggested that transaction activity may pick up slightly in coming months as appetites for restructuring loans may increase after year end. Yet, falling rents and rising insurance costs adversely affecting net operating incomes remained widely cited concerns inhibiting loan restructuring when desired.

## Community and Regional Banking

Loan demand weakened modestly across a range of loan types amid the backdrop of elevated interest rates and continued economic uncertainty. CRE demand was particularly weak due to rising borrowing costs and cash flow pressures. Coupled with this reduced demand for credit, contacts noted that loan quality worsened compared to this same period a year ago, driven largely by various consumer loan segments and commercial real estate deals. Bankers stated their credit standards remained unchanged and noted minimal modification activity for existing CRE borrowers. Concerns around future credit performance and lack of borrower liquidity were perceived as key barriers for future modifications in CRE deals over the near term. Deposit levels remained stable despite seasonal balance fluctuations and continued migration from noninterest-bearing accounts to higher-yielding products.

## Energy

After declining significantly in recent months, rig counts rebounded somewhat over the past month alongside a recent rise in oil and gas prices. District firms' drilling activity and profits fell, and are expected to increase only slightly in the next six months as near-term price expectations are below the price needed for a substantial increase in drilling activity. Despite this, employment levels rose somewhat, and firms expect either steady or slightly increasing employment in 2024. Capital expenditures remain steady with mixed expectations heading into the new year, even as most firms expect steady or increasing input prices and reduced access to credit.

## Agriculture

Agricultural economic conditions in the Tenth District were steady through December, but softening farm income and credit conditions remained a concern. Crop prices were stable over the past month, ending 2023 considerably lower than a year ago. Profits narrowed the past year alongside the moderation in prices, particularly in areas where yields were impacted by drought. Corn and soybean yields increased slightly from last year in Nebraska and parts of Kansas but remained below the five-year average in all District states. Despite some recent volatility, cattle prices were strong alongside low inventories and supported profitability for cow/calf producers. Many District contacts cited ongoing pressure from elevated production costs and higher interest rates as major factors for the outlook of the farm economy in 2024.

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

# Federal Reserve Bank of Dallas

## Summary of Economic Activity

The Eleventh District economy expanded at a modest pace over the reporting period, with most sectors holding steady or experiencing slight growth. Job growth picked up in the service sector. Wage growth moderated but high labor costs remained a key concern for many businesses. Overall input cost and selling price growth held slightly above average. Demand for nonprofit services remained elevated, and housing affordability and daycare access continued as key issues. Business outlooks were neutral to pessimistic, with contacts citing weakening demand as the primary concern going forward. Heading into an election year, U.S. political uncertainty was also noted by many firms.

## Labor Markets

Employment expanded modestly over the past six weeks, with services job growth picking up while manufacturing job growth abated. In a Dallas Fed survey of 365 business executives, around half reported still being understaffed. While labor availability has improved, many firms noted a mismatch between the skills and experience they desire and those of the job candidates. Some firms noted they were overstaffed, particularly in financial services and manufacturing, though very few were laying off workers. One contact said he considered layoffs but held off because he expects a rebound in business, and rehiring is difficult.

Wage growth was moderate across most sectors but remained slightly elevated in energy. Higher labor costs remained a top outlook concern for many businesses, particularly in education and health services and the leisure and hospitality industry. An urgent care center said wages and salaries were at a dangerously elevated level that is not sustainable in the long term. A December Dallas Fed survey showed that Texas businesses expect wage growth in 2024 to be 4.3 percent, on average, down from 5.6 percent in 2023.

## Prices

Input cost growth remained slightly elevated overall, though energy firms continued to note strong rises in exploration and production costs while manufacturing raw materials price growth remained subdued. Selling price growth picked up a bit in the service sector but prices remained fairly flat for manufactured goods. District firms reported declining margins on net, with a manufacturer noting that maintaining a reasonable profit margin was elusive in 2023, with costs rising faster than they were able to raise prices. This sentiment was echoed by retail and services firms as well. Overall, contacts said they raised prices by 3.9 percent last year, on average, and expect to push through price increases this year on the order of 3.5 percent amid increased consumer price sensitivity.

## Manufacturing

Texas manufacturing activity was flat in December after contracting in November. Year-end weakness came largely from durables, particularly metals manufacturing. Manufacturers generally reported continued declines in demand, though chemical producers noted a stabilization as the unprecedented year-long global destocking cycle may have finally run its course. New orders for oil and gas machinery and equipment continued at a modest pace. Overall, manufacturing outlooks worsened slightly. More than a third of contacts cited uncertainty heading into an election year as a primary outlook concern, second only to weakening demand.

## Retail Sales

Retail sales largely stabilized in December after a few months of declines. Auto dealers noted stronger sales and increased inventories, though they expressed concern over high interest rates. High interest rates also remained a top concern for wholesalers and construction-related retailers. Retail outlooks worsened overall, and uncertainty increased notably.

## Nonfinancial Services

Service sector activity increased modestly in December after contracting slightly in November. Year-end strength was led by revenue growth in health care and leisure and hospitality. Professional and business services exhibited weakness, with some contacts saying new business is down and backlogs have shrunk. Revenue declines continued in transportation services, and contacts said air cargo volumes over the reporting period fell short of expectations. Passenger air travel was a bright spot, however, with record traffic and revenues over the Thanksgiving holiday and expectations for a strong finish to the fourth quarter. Overall, outlooks in the service sector were stable heading into 2024. Weakening demand remained the top concern, followed by higher labor costs and elevated inflation. Numerous contacts also cited U.S. political uncertainty, with one saying it “weighs heavily on business leaders’ minds right now.”

## Construction and Real Estate

Housing demand improved slightly, as the recent decline in mortgage rates buoyed home sales. Buyer incentives remained prevalent, however, and outlooks stayed cautious with contacts citing economic uncertainty, diminished affordability, and tighter credit standards for construction and development loans as headwinds.

Activity in commercial real estate was little changed. Apartment leasing picked up slightly though rents remained flat. Office leasing remained weak; vacancy rates were elevated, and concessions remained widespread. Industrial vacancy rates rose as new supply continued to outpace demand. Macroeconomic uncertainty, high capital costs, and reduced appetite to lend continued to deter investment sales and construction starts across property types.

## Financial Services

Loan volumes stabilized over the past six weeks after declines, and the pace of credit tightening decelerated. Loan demand continued to decline, though at the slowest pace since the end of 2022. Loan nonperformance rose again, still largely driven by consumer loans. Loan pricing continued to increase but at a slower rate. Bankers reported that core deposit volumes increased over the reporting period, following several months of decreases. Although bankers remain pessimistic and expect future business activity and loan demand to decline, the slowdown is anticipated to be milder than prior expectations.

## Energy

Oil and gas activity was essentially flat over the past six weeks. Exploration and production firms continued to report increases in oil and natural gas production, while support services firms continued to report declines in business activity and equipment utilization. The increase in mergers and acquisitions seen in 2023 continued put a lid on growth in oilfield activity and is expected to extend into 2024. Production growth this year is expected to be driven by higher productivity more so than from drilling more wells. Several firms noted elevated uncertainty, citing mounting downside risks to the global demand outlook.

## Agriculture

Drought conditions continued to recede, and contacts noted generally good soil moisture and an expectation for better crop production prospects this year with El Niño conditions forecasted through the spring. Agricultural prices were down across the board over the past six weeks. While cattle prices remained higher than a year ago, some grain prices have pulled back to two or three-year lows. Contacts noted that farmers will need strong crop yields this year to make the budget work with high production costs and relatively low grain and cotton prices.

## Community Perspectives

Demand for nonprofit services remained elevated. Housing affordability continued to be a top concern, with higher rent outpacing income among many renters, and higher mortgage rates making home ownership less attainable. Nonprofits noted that families are also struggling with the costs of healthcare, food, utilities, and transportation. Access to affordable childcare remained a key barrier to parents' participation in education and the workforce although some contacts noted that more work schedule flexibility has been helpful. Contacts said that childcare subsidies, while helpful, are not immediately available and come with limitations. An executive at a workforce development board said she has never seen so much interest in solving childcare issues, particularly among employers.

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

# Federal Reserve Bank of San Francisco

## Summary of Economic Activity

Economic activity in the Twelfth District was stable overall during the reporting period from mid-November through December 2023. Labor availability improved, and employment levels rose slightly. Price pressures eased, and wage growth moderated notably. Retail sales grew modestly, while activity in services sectors was mixed. Conditions in the agriculture and resource-related sectors were solid, but demand for manufactured products weakened. Residential real estate activity softened further, while demand for commercial real estate varied by property type. Conditions in the financial sector were largely unchanged. Communities across the Twelfth District continued to report housing affordability issues and elevated demand for support services. Looking ahead, contacts expressed optimism regarding the economic outlook, and most respondents expected a pickup in economic activity in 2024.

## Labor Markets

Labor availability improved and employment levels rose slightly during the reporting period. Contacts reported a notable uptick in job applications and a drop in employee turnover in recent weeks. Employers generally found it easier to attract and retain workers in retail, financial services, legal services, skilled trades, and professional services. Hiring challenges persisted, however, in health care, aviation, and logistics, and employers still found it difficult to attract experienced engineers, information technology professionals, and mid-level managers. A workforce development agency in Southern California highlighted a recent increase in the level of educational attainment and vocational training among its recruits.

Wage growth moderated notably in recent weeks. Annual pay increases returned to historical averages across sectors and geographies, and several contacts noted that recent pay adjustments were primarily limited to positions affected by changes to local and state minimum wage levels. Starting pay reportedly fell for a wide range of positions in the technology and financial services sectors due to softer overall activity in these sectors. Wage pressures persisted in leisure and hospitality.

## Prices

Overall price pressures eased in recent weeks, although price levels remained generally elevated. Fewer goods and services saw price increases relative to previous reporting periods, and prices reportedly fell for energy products, construction materials such as wood and cement, manufacturing repair parts, fabricated metal, and plastic resin, as well as for hotel rooms. Still, costs of utilities and several insurance categories, particularly health and property insurance, continued to rise. Prices of grocery products were generally stable, and several contacts expected these prices to drop slightly in coming weeks, in anticipation of input costs moderating.

## Community Conditions

Communities across the District continued to confront widespread shortages in affordable housing and associated increases in homelessness and housing insecurity. Demand for mental health services and food assistance programs remained elevated. Community service organizations continued to face challenges recruiting and retaining skilled workers. Funding availability was mixed, as some nonprofit organizations struggled to raise money while others benefited from an uptick in financial support from local governments. One contact observed that some nonprofit organizations opted to maintain hybrid or fully remote work arrangements to reduce or eliminate office rental costs.

## Retail Trade and Services

Retail sales grew modestly over the reporting period. Retailers reported a solid holiday shopping season, which exceeded expectations in some cases. Home centers saw an uptick in demand for wood products, as customers favored home improvement projects over house purchases in a high interest rate environment. Retail businesses in Hawaii continued to report difficulties retaining labor in the aftermath of last summer’s wildfire season, when many workers were displaced from their homes.

Activity in consumer and business services was mixed. Business travel edged up as the number of conferences and group events continued to recover. Demand for restaurant and bar services was steady, while activity in other leisure and hospitality sectors, such as lodging, moderated over the past few weeks. Demand for health-care services grew, and providers reported approaching capacity. Conditions in the legal services sector were mixed according to type of practice, as demand softened for mergers and acquisitions and increased for commercial litigation and loan contract renegotiations.

## Manufacturing

Manufacturing activity weakened over the reporting period. New orders were down for fabricated metals, manufactured wood products, and heavy equipment. Several manufacturers in the Pacific Northwest noted that lower construction activity reduced demand for their products, with one contact lowering production accordingly. Supply bottlenecks improved further, although some manufacturers reported recent delivery delays of critical production components, such as electrical equipment, auto parts, and textiles.

## Agriculture and Resource-Related Industries

Conditions in the agriculture and resource-related sectors were solid. Contacts reported robust yields and inventories of various products, including seafood and some permanent crops such as tree fruits. The resulting ample supply continued to hold down prices, buoying domestic demand for agricultural food products overall. International demand was strong, and exports for some crops rose. One contact in the Pacific Northwest noted that, while overall demand for logs fell due to slower construction activity, demand for forested land with timber resources continued to grow. Availability of product transportation services and raw materials used in agricultural production improved further, and supply bottlenecks eased. Still, producers mentioned elevated production costs, such as for packaging and labor.

## Real Estate and Construction

Activity in the residential real estate market continued to soften. Demand for single-family homes was sluggish due to limited inventory, high mortgage rates, and greater interest in rental homes. Construction of single-family homes was solid in some areas, such as Arizona, but reportedly slowed in others, such as Oregon. The supply of multifamily rental units ticked up as more construction projects were completed recently, raising vacancy rates and causing rents to grow more slowly or even fall in some regions. In contrast, recent multifamily starts fell due to elevated construction costs and borrowing constraints.

Conditions in the commercial real estate market were mixed. While demand for retail and industrial space was solid, office leasing activity remained weak. Transaction volumes of commercial property sales were down as sellers' asking prices exceeded what buyers were willing to pay. Construction activity reportedly slowed for private-sector commercial projects due to financing constraints, while construction of government public and infrastructure projects expanded. Challenges obtaining some materials, particularly electrical equipment, persisted.

## Financial Institutions

Conditions in the financial services sector changed little over the reporting period. Demand for business loans, particularly commercial real estate loans, was subdued. Residential lending activity remained weak. Demand for auto loans and other consumer credit products remained steady. A few contacts noted an uptick in consumer loan delinquencies, but overall credit quality remained high. Demand for deposits remained elevated, and deposit flows were stable. One contact observed some clients moving funds away from liquid accounts into term deposits to lock in higher interest rates for extended periods.

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