

For use at 2:00 PM EST

Wednesday

November 30, 2022

# The Beige Book

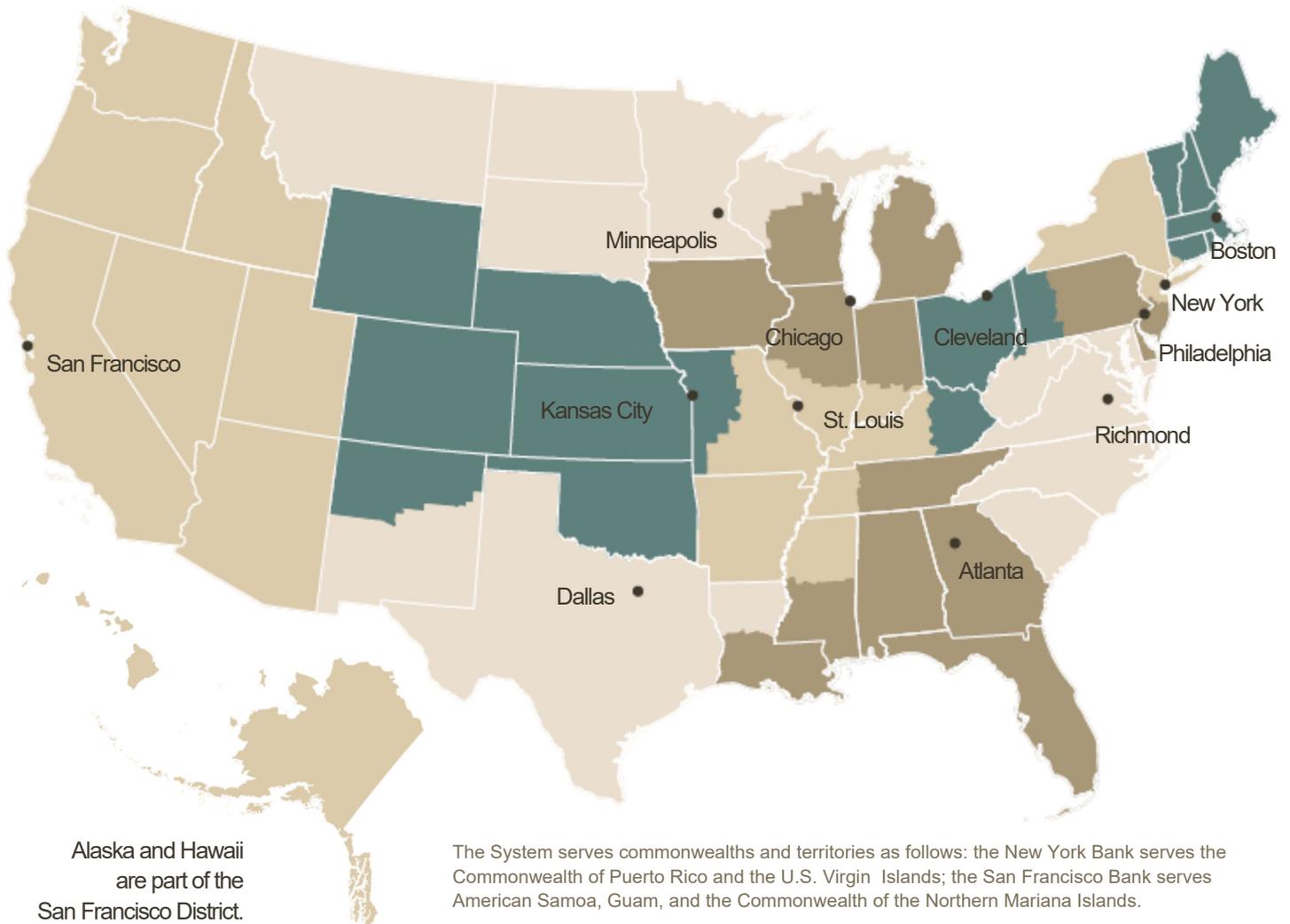
---

Summary of Commentary on Current Economic Conditions

By Federal Reserve District

November 2022

## Federal Reserve Districts



---

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

Federal Reserve Banks collect information for the Beige Book from a variety of business and nonbusiness sources. As of November 30, 2022, seven Banks now include individual community sections with information from nonbusiness sources, while the remaining Banks will continue to include such information within the existing structure of their District reports.

---

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

## What is the Beige Book?

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

## What is the purpose of the Beige Book?

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

## How is the information collected?

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

## How is the information used?

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

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

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



# National Summary

The Beige Book ■ November 2022

## Overall Economic Activity

Economic activity was about flat or up slightly since the previous report, down from the modest average pace of growth in the prior Beige Book period. Five Districts reported slight or modest gains in activity, and the rest experienced either no change or slight-to-modest declines. Interest rates and inflation continued to weigh on activity, and many contacts expressed greater uncertainty or increased pessimism concerning the outlook. Nonauto consumer spending was mixed but, on balance, eked out slight gains. Inflation pushed low-to-moderate income consumers to substitute increasingly to lower-priced goods. Travel and tourism contacts, by contrast, reported moderate gains in activity, as restaurants and high-end hospitality venues enjoyed robust demand. Auto sales declined slightly on average, but sales increased significantly in a few Districts in response to higher inventories. Manufacturing activity was mixed across Districts but up slightly on average. Demand for nonfinancial services was flat overall but softened in some Districts. Higher interest rates further dented home sales, which declined at a moderate pace overall but fell steeply in some Districts; apartment leasing started to slow, as well. Residential construction slid further at a modest pace, while nonresidential construction was mixed but down slightly on average. Commercial leasing weakened slightly, and office vacancies edged up. Bank lending saw modest further declines amid increasingly weak demand and tightening credit standards. Agricultural conditions were flat or up a bit, and energy sector activity increased slightly on balance.

## Labor Markets

Employment grew modestly in most districts, but two Districts reported flat headcounts and labor demand weakened overall. Hiring and retention difficulties eased further, although labor markets were still described as tight. Scattered layoffs were reported in the technology, finance, and real estate sectors. However, some contacts expressed a reluctance to shed workers in light of hiring difficulties, even though their labor needs were diminishing. Wages increased at a moderate pace on average, but a few Districts experienced at least some relaxation of wage pressures. Opinions about the outlook pointed to stable or slowing employment growth and at least modest further wage growth moving forward.

## Prices

Consumer prices rose at a moderate or strong pace in most Districts. Still, the pace of price increases slowed on balance, reflecting a combination of improvements in supply chains and weakening demand. Retail prices faced downward pressure as consumers increasingly sought discounts. Prices fell for some commodities, including lumber and steel, but food prices increased further or remained elevated in some Districts. Housing rent growth started to moderate in some Districts and home prices grew less rapidly or declined outright amid weak demand. Inflation was expected to hold steady or moderate further moving forward.

## Highlights by Federal Reserve District

### Boston

Business activity softened slightly amid mixed results. Employment levels and prices were mostly unchanged. Wage growth was steady at a moderate pace. Restaurant owners enjoyed robust demand. Real estate markets weakened further. Most contacts remained optimistic for their own results but expected some degree of economic downturn in 2023.

### New York

Economic activity declined modestly. While job growth picked up slightly and labor shortages eased somewhat, hiring plans weakened. Wage growth slowed, while the pace of input and selling price increases remained elevated and was little changed. Regional banks reported weakening loan demand, tightening credit, and rising delinquencies. Businesses were increasingly pessimistic about the outlook.

### Philadelphia

Business activity held fast during the current Beige Book period even as it teetered on the edge of decline. Although wage and price inflation continued to subside, their elevated levels and rising interest rates have subdued consumer spending in many sectors. Employment continued to rise slightly, although some firms have begun layoffs. Expectations deteriorated.

### Cleveland

District business activity slowed modestly in recent weeks as previously robust sectors saw some softening while previously weak sectors remained weak. Still, firms continued adding to their payrolls, and stiff competition for workers kept upward pressure on wages. Input cost increases remained widespread, but a smaller share of contacts reported increases in selling prices.

### Richmond

The regional economy grew slightly on balance, as retail spending, travel, and tourism picked up and offset declines in activity in manufacturing, real estate, and nonfinancial services. Employment grew moderately and many firms still looked to fill open positions and were raising wages by more than in recent years. Price growth remained strong in recent weeks.

### Atlanta

Economic activity grew slightly. Labor market tightness eased, but wage pressures continued. Most nonlabor costs moderated. Retailers reported stable consumer demand. Demand for new autos was robust. Leisure travel activity was steady and business travel improved. Housing demand declined. Transportation activity weakened. Deposit growth at financial institutions slowed.

### Chicago

Economic activity was little changed. Employment increased moderately; manufacturing increased slightly; consumer and business spending were unchanged; and construction and real estate decreased modestly. Non-business contacts saw little change in District economic activity. Prices rose rapidly, wages were up moderately, and financial conditions were unchanged on net. Agriculture profit expectations for 2022 were up a bit.

### St. Louis

Economic conditions have remained unchanged since our previous report. Labor shortages remained widespread, but a rising share of firms were able to find and retain workers. Homebuying activity continued to slow, and rental rates fell for the first time this year. Transport demand fell, but the industry continued to struggle with rising input costs and a shortage of drivers.

### Minneapolis

Economic activity in the region expanded modestly in recent weeks. Employment grew slightly and job openings softened but firms generally reported maintaining hiring plans. Price pressures were persistent despite some isolated anecdotes about decelerating inflation. Early reports on holiday spending were cautiously upbeat. Labor market pressures on Indian reservations were more acute than elsewhere.

### Kansas City

Real economic activity in the Tenth District declined slightly. Job growth was subdued as labor demand cooled. Prices continued to rise at a robust pace, but several contacts noted growth in prices of construction materials and other manufacturing inputs slowed. Multi-family housing real estate activity declined abruptly in recent weeks, while energy activity expanded slightly. Farm incomes grew slightly, despite adverse drought conditions.

### Dallas

Modest economic growth continued, though persistent declines were seen in retail spending, home sales, and lending activity. Job growth was solid but there were reports of layoffs and a slowdown in hiring. Input and labor cost increases continued, prompting cost cutting and downsizing for some firms. Outlooks were generally pessimistic, with contacts again citing concerns about inflation, labor challenges, and slowing demand.

### San Francisco

Economic activity expanded modestly. Employment levels grew at a modest pace amid tight labor market conditions. Wages and prices rose at a slower pace relative to the previous reporting period. Demand for retail goods and services trended up. Manufacturing activity strengthened, while conditions in the agriculture sector were stable but weak. Residential real estate activity weakened, and lending activity declined moderately.





## Summary of Economic Activity

Business activity in the First District softened slightly amid mixed results. Employment was stable on balance, but labor demand weakened for some positions. Some pricing pressures eased and others intensified, but most prices were about the same as in the last report. Wage growth was steady at a moderate pace, but competition for specialized workers remained intense in some cases. Restaurant owners in Massachusetts enjoyed robust demand despite having raised their prices in the past year. Office vacancies ticked up slightly amid very weak demand, and rising interest rates deterred new commercial construction and acquisitions. First District home sales declined further, and home prices declined in Massachusetts (but were stable elsewhere). Most contacts remained optimistic for their own results but expected some degree of economic downturn at the regional and national levels in 2023.

### Labor Markets

Employment was roughly steady, and wage growth stabilized at a moderate pace. Although headcounts were steady or up somewhat at most firms, one retailer recently enacted significant layoffs in response to weaker-than-expected results so far in 2022, and some manufacturers demanded fewer hours. At the same time, one manufacturer desired more workers but couldn't find them, and another hoped to raise headcounts significantly in 2023. Staffing firms reported that labor demand continued to exceed supply for many positions, but not across the board. They also reported that wage pressures remained intense for some positions but at least one employer cut its wage offers. Retailers and restaurant owners said that, although turnover had declined somewhat in recent months, hiring to offset attrition remained highly competitive. At least in the near term, contacts did not expect to make significant layoffs. Planned wage increases for 2023 ranged from 2 to 5 percent, slightly lower than 2022 rates. Nonetheless, labor costs were seen by several contacts as a bigger source of inflationary pressure for 2023 than nonlabor costs.

### Prices

Output prices among our contacts were about flat on balance since last report, and input price movements were mixed. Restaurant menu prices were up 8 percent from a year ago but mostly unchanged since last quarter, as contacts noted that food prices levelled off after an

earlier period of steep increases. Restaurants faced a fresh hit to profits from increases in credit card fees. Used car prices fell rather abruptly in response to slumping consumer demand. Some auto dealers were caught short by the change, as they had acquired stock earlier at relatively high prices. An online retailer put renewed emphasis on cost-containment in order to keep prices low and improve profitability. Staffing firms complained of cost increases for recruiting software and database licenses. Most manufacturers held their output prices firm, but two enacted moderate price increases in August. Contacts in both manufacturing and retail reported that materials and other input costs remained high, but that input price growth had moderated recently or had even turned negative. For example, two contacts said that vendors had removed earlier surcharges and that energy and freight costs had declined a bit. Most contacts expected nonlabor input pricing pressures to ease further in 2023.

### Retail and Tourism

Among First District contacts, retail and restaurant sales were mixed in recent weeks. An online retailer experienced a slight reduction in sales volume from last quarter but said that increased promotions remained an effective way of boosting sales. A salvage store enjoyed a slight increase in sales and attributed a portion of the gains to increased cross-border commerce with Canada. A Massachusetts restaurant industry contact said that

sales increased modestly throughout the state, including most of Boston, but that the downtown area continued to underperform relative to other neighborhoods. Demand was surprisingly resilient in response to the 8 percent average menu price increase of the past year, and restaurant meal tax collections in the state surpassed their 2019 levels, even after adjusting for inflation. A contact representing automotive dealers in the District said that higher borrowing costs had not yet impacted demand for new vehicles but that used car sales (and prices) had begun to return to more normal (pre-pandemic) levels after an extended period in which they were historically elevated. Contacts were optimistic on balance, especially those in the restaurant industry, but an online retailer faced near-term pressure to cut costs and automotive dealers faced potentially steep adjustment costs to accommodate increasing numbers of electric vehicles.

### **Manufacturing and Related Services**

Contacts painted a mixed picture of the manufacturing economy in the First District this cycle. The widest variation in experiences occurred in the semiconductor industry, as one contact in that field said that demand was incredibly strong while another perceived that the industry had entered a recession. A furniture manufacturer reported that sales were down substantially both month-over-month and year-over-year. Employment was either stable or up for all our contacts. Although no contacts reported major revisions to their capital expenditure plans, one was considering pulling forward some capital expenditures due to concerns about higher future interest rates. The outlook ranged from extremely optimistic (for one semiconductor manufacturer) to very nervous (the furniture maker)

### **Staffing Services**

First District staffing contacts experienced strong demand for their services, but revenue performance was mixed: two firms reported slight and moderate revenue declines in the third quarter, respectively, and a third enjoyed a moderate surge in revenues. Cases of weak results were attributed to shortages of qualified workers. Contacts also noted that the composition of labor demand shifted somewhat in recent months, as for example software developers were no longer in such high demand, while other specialized roles such as mechanical and electrical engineers remained highly sought after. Flu season has created an increasing number of positions for nurses, and the return of convention activity to Boston has generated more entry-level openings. Staffing firms and their clients competed intensely to hire and retain recruiting talent. In some cases, more flexible work arrangements were used as inducements to lure

recruiters away from other firms. Contacts were neutral to optimistic regarding their own business prospects despite expressing concerns about the macroeconomic outlook. Nonetheless, none perceived a high risk of a severe recession in 2023.

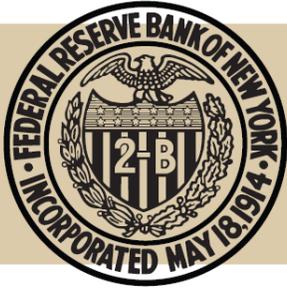
### **Commercial Real Estate**

Commercial real estate activity in the First District slowed slightly in recent weeks. In the office market, leasing was stable at a low level, vacancies edged up as tenants gave back space, and rents were nonetheless flat. In the industrial market, rent growth slowed somewhat, as leasing activity was held back by the lack of available space. The retail market was stable, with flat rents and vacancy rates, although demand for smaller retail spaces (such as restaurants) reportedly outpaced that for larger units. Few investment acquisitions were reported in any market, and large bid-ask spreads were common. Loans for new construction looked increasingly unfavorable and existing loans faced greater stress. The outlook turned slightly more negative on balance, and one contact perceived a recession in 2023 as a near certainty. Contacts were relatively optimistic about the industrial market and still quite pessimistic about the office market, while retail leasing activity was expected to mirror consumer demand.

### **Residential Real Estate**

The First District's residential real estate market continued to weaken in September and October, as sales slowed further and prices fell considerably in some places. Closed sales were down over-the-year in all reporting markets (which exclude Connecticut), representing a moderate deceleration in sales for single-family homes and a substantial deceleration for condos. Contacts continued to cite sharply higher mortgage rates, inflation, and recession fears as the key factors holding back home demand. Massachusetts' home prices (including those in greater Boston specifically) declined by moderate to above-average margins in recent months. Outside of Massachusetts, single-family prices were roughly stable. On a year-over-year basis, condo price appreciation slowed in New Hampshire and Maine and increased in Rhode Island. Inventories fell again on a year-over-year basis in most markets, but selected markets, such as New Hampshire (both single-family and condos) and Boston (condos only) saw increasingly rapid gains in inventories. ■

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



## Summary of Economic Activity

Economic activity in the Second District continued to decline modestly in the latest reporting period. Business contacts have become increasingly pessimistic about the near-term outlook. Both selling prices and input prices have continued to increase at a fairly brisk pace, while wage growth has moderated. Hiring picked up slightly as worker shortages eased somewhat, though fewer businesses plan to add staff in the months ahead, and there have been some announcements of layoffs. Manufacturing activity picked up slightly. Consumer spending was mixed but little changed overall, while tourism has remained strong. The home sales market weakened noticeably, and the rental market also showed signs of softening, amidst growing concerns about housing affordability as evictions and homelessness have reportedly risen. Commercial real estate markets stabilized, and construction activity has remained sluggish. While conditions in the broad finance sector improved slightly, regional banks reported weakening loan demand, tightening credit, and rising delinquency rates.

### Labor Markets

Employment rose moderately as hiring picked up somewhat, and there were scattered signs of further easing in labor shortages. An upstate New York employment agency noted that hiring activity has remained fairly steady, led by strong demand for finance and tech workers, but indicated that the labor market has cooled. A New York City agency reported steady demand for workers and continued brisk hiring activity. Recent layoff announcements in New York City's finance and tech sectors have yet to yield any increase in job candidates.

Wholesale and transportation & warehousing firms reported a brisk pickup in employment, while leisure & hospitality firms reported a pullback in hiring. Information firms continued to report widespread increases in staff, and manufacturers reported moderate job growth. However, firms in almost all industry sectors have scaled back hiring plans somewhat for the months ahead.

Business contacts across a wide range of industries reported some slowing in wage growth, as did employment agencies in both New York City and upstate New York. The steepest wage growth continued to be reported in the education & health and leisure & hospitality sectors. Businesses across all sectors continue to project widespread wage hikes in the months ahead.

### Prices

Business contacts continued to note broad-based escalation in the prices they pay. The steepest increases were reported from the leisure & hospitality sector. Contacts across most industries expect continued widespread escalation in costs in the months ahead.

Selling price increases remained widespread overall but slowed noticeably in the retail and education & health sectors. Retailers also do not plan any significant price hikes in the months ahead, whereas firms in most other sectors anticipate somewhat widespread increases in their selling prices.

### Consumer Spending

Consumer spending has been little changed in recent weeks. Nonauto retailers reported that business has edged down and expressed widespread pessimism about the upcoming holiday season. Auto dealers in upstate New York reported scattered signs of a pickup in sales of new vehicles, as supply disruptions and chip shortages have eased somewhat. However, many dealers continue to face inventory shortages, hampering sales of new vehicles. Inventory levels are expected to increase somewhat in the coming months. Used vehicle sales also remain sluggish. Consumer confidence across New York State edged down in October but remained fairly high.

## Manufacturing and Distribution

For the first time in a number of months, manufacturing activity expanded slightly in recent weeks, and wholesale trade activity edged up. However, contacts in the transportation & warehousing sector reported a slight dip in activity. Looking ahead, manufacturers have become increasingly pessimistic about the near-term outlook, while transportation, warehousing, and wholesale trade firms continued to express mild optimism.

## Services

On balance, activity in the service sector has weakened since the last report. Businesses providing professional & business and education & health services reported modest declines in activity, and contacts in the leisure & hospitality sector indicated more pronounced weakness. Moreover, contacts in these sectors have become somewhat more pessimistic about the near-term outlook, anticipating flat to declining activity in the months ahead.

Tourism activity in New York City remained quite strong in October and early November. Weekend hotel occupancy rates remained high, and midweek occupancies have risen to near typical pre-pandemic levels—reflecting leisure visitors extending weekends with remote work and a gradual rebound in business travelers. Bookings for meetings at the Javits Convention Center and New York City hotels have also risen. International visitations have also continued to increase, especially from Europe, though the strong dollar has reportedly reduced spending per visitor.

## Real Estate and Construction

The home sales market weakened noticeably in recent weeks, and the rental market showed signs of softening. Real estate contacts in upstate New York reported softening demand, reduced sales activity and buyer traffic, fewer multiple offers, and price reductions. Similarly, in and around New York City, sales of both single-family homes and apartments fell, especially at the high end of the market, though prices have held steady. The inventory of available homes remains low across the District: it has drifted up slightly in upstate New York but has remained steady in and around New York City. With homes now taking longer to sell, many sellers have taken their homes off the market.

Residential rental markets have weakened, except at the high end of the market, where many potential buyers are instead opting to rent. Overall, rents across New York

City have declined, and concessions have edged up for the first time in a year. Vacancy rates across New York City, though still quite low, have risen modestly.

Commercial real estate markets have shown further signs of stabilizing. Office vacancy and availability rates continued to edge up in New York City but were little changed elsewhere. Office rents were steady to up slightly across the District. The industrial market has been mixed, with rents resuming an upward trend but vacancy rates continuing to climb.

Contacts in the construction sector continued to report deteriorating business conditions but were somewhat less pessimistic about the near-term outlook than in the last report. New office construction starts remained exceptionally low throughout the District, though there was some pickup in New York City and Long Island. New industrial construction has largely dried up. In New York City, multi-family construction starts, though still quite low, have risen modestly in the latest reporting period, and there is a moderate volume of ongoing construction.

## Banking and Finance

Contacts in the broad finance sector report that conditions, though still poor, have improved slightly. Small to medium-sized banks reported lower loan demand across all segments and a widespread drop in refinancing activity. Credit standards were tighter, especially on business loans and commercial mortgages, while loan spreads remained essentially unchanged overall. Finally, delinquency rates increased for all categories of loans.

## Community Perspectives

Housing affordability and food insecurity remain top concerns among communities across the District. As the post-pandemic evictions moratorium has expired, there has been a rise in evictions and homelessness across the region. Many New Yorkers in market rate housing face growing rent burdens as leases come up for renewal. Some households are forgoing healthier and more expensive food items to buy less costly bulk items, and the use of food pantries continues to increase. SNAP applications have increased due to high food prices, but staff shortages have impeded processing of these applications. ■

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



## Summary of Economic Activity

On balance, business activity in the Third District appears to be teetering on the edge of a decline but managed to hold fast since the prior Beige Book period. Inflation has driven consumers to lower-priced items and lower-priced stores. Rising interest rates have discouraged consumers from buying big-ticket items, including homes and autos. Employment continued to grow slightly, despite the onset of some layoffs. Wage growth and inflation continued to subside but remained at a moderate pace. Overall, firms noted less difficulty in hiring and fewer supply chain disruptions. On balance, expectations for economic growth over the next six months deteriorated for all firms; however, the index for non-manufacturers remained positive, while the index for manufacturers remained negative. Expectations for all firms remained well below their nonrecessionary historical averages. On average, conditions and sentiment appeared more positive in the Greater Philadelphia region than in the outlying areas of the Third District.

### Labor Markets

Employment continued to grow slightly; however, fewer firms reported increases, while more began noting decreases. The share of firms reporting employment increases fell below 20 percent for nonmanufacturing and manufacturing firms; firms reporting decreases rose to nearly 10 percent.

Staffing firms noted that orders are soft across the board and are not keeping pace with the typical year-end hiring surge. Hiring freezes and staff layoffs have begun in the residential real estate sector; layoffs are expected to expand more broadly throughout the home construction sector in the first quarter of the year. Firms from many sectors reported preparations for a potential recession but also remain hesitant to lay off employees, given recent hiring difficulties.

Firms continued to note that wage growth had subsided but remained elevated at a moderate rate. One staffing firm noted that recent year-over-year wage growth was down to 5.75 percent. Wage inflation is also becoming somewhat less widespread. In our monthly surveys, the share of nonmanufacturing firms reporting higher wage and benefit costs per employee fell to nearly 40 percent, while just over half of the firms reported no change and a few reported lower compensation.

On a quarterly basis, firms reported a lower expectation of the one-year-ahead change in compensation cost per worker, with a trimmed mean of 5.1 percent in the fourth quarter of 2022 – down from 5.8 percent in the third quarter and the lowest rate of increase this year. One large retail firm noted plans for 4.0 percent average wage increases next year – a bit higher than its norm. Although the firm’s wage plan is lower than the expectations reported by other firms in the survey, the firm noted that it has managed to keep turnover rates low by maintaining a competitive wage within its sector.

### Prices

On balance, inflation continued at a moderate pace – comparable with the prior period, but an improvement from a third-quarter spike. Manufacturing firms drove the quarterly change; nonmanufacturing firms have noted moderate increases for most of the year.

Contacts reported that increases in prices received for their own goods and services over the past year fell in the fourth quarter of 2022. The trimmed mean for reported price changes in our quarterly survey questions fell to 6.0 percent from 7.2 percent in the third quarter of 2022 for all firms. Price increases ticked up to 4.6 percent from 4.5 percent for nonmanufacturers and fell to 7.9 percent from 10.4 percent among manufacturers. Moreover,

price increases for nonmanufacturing firms were less widespread in recent months – for both inputs and prices received for their own goods.

Looking ahead one year, the increases that firms anticipated in prices for their own goods held steady at a moderate rate – the trimmed mean for all firms remained at 4.3 percent in the fourth quarter of 2022. The expected rate of growth rose to 4.2 percent from 3.5 percent for nonmanufacturers and fell to 4.5 percent from 5.4 percent for manufacturers.

### Manufacturing

Manufacturing activity continued to decline modestly. The index for new orders remained negative for a sixth consecutive month. Nevertheless, the shipments index remained positive at low levels, as firms continued to work through backlogs. Delivery times and inventories also continued to fall.

Manufacturing firms' expectations deteriorated. The indexes for future activity and new orders trended lower and were negative. On net, a small portion of firms continue to expect to increase employment and capital spending over the next six months.

### Consumer Spending

On balance, retailers (nonauto) and restaurateurs continued to report modest declines in sales. Contacts described lower traffic, lower spending per customer, and a need to offer discounts. In particular, low- and middle-income customers are spending less and shifting to lower-priced items.

Auto dealers reported a slight increase in sales as more inventory has reached their lots. However, high prices and rising interest rates have discouraged buyers. As a result, dealers have a few cars left on their lots at the end of each week, and used car prices are falling.

Overall, tourism held steady – following a slight increase last period. Leisure travel remains strong, while business travel remains below 2019 levels. Moreover, the Philadelphia region has further to recover than the nation. Finding workers has become easier, but firms are beginning to take a wait-and-see attitude on open positions.

### Nonfinancial Services

On balance, nonmanufacturing activity appeared to pause after growing slightly in the prior period. Firms were almost evenly divided in reporting increases, decreases, or no change in their sales and new orders.

### Financial Services

The volume of bank lending (excluding credit cards) grew moderately during the period (not seasonally ad-

justed) – comparable to growth in the prior period, but much faster than in the same period one year ago. Growth was pervasive across major loan segments except auto lending. Inflationary effects on home prices and other big-ticket items continue to boost loan volume growth during the current year relative to past years.

District banks reported strong loan volume growth in home mortgages and commercial and industrial lending, moderate growth in commercial real estate, and modest growth in home equity loans and other consumer loans. Auto lending declined modestly. Credit card volumes grew modestly – a pace typical of the season. Credit counselors noted that more low- and middle-income households are putting basic expenses onto credit cards.

### Real Estate and Construction

Homebuilders reported that contract signings for new homes plunged after declining slightly in the prior period. Their current backlog will carry construction through the first quarter with only a modest decline in activity, but not much further.

Existing home sales fell steeply in most markets. Brokers reported that sales prices have begun to ease but remain high. They noted that high prices combined with rising interest rates have reduced housing affordability significantly and have driven potential buyers from the market.

Requests for housing assistance continued to dominate the share of 211 calls; however, the share fell to 31 percent. Of the calls for housing assistance, 42 percent were for rental assistance as landlords continued raising rents. With winter approaching, the share of requests regarding utility bills rose further to 24 percent; assistance with employment or income also rose further, to 9 percent.

Market participants in commercial real estate reported steady current construction activity and a slight decline in leasing activity. Most noted examples of delayed deals and a significant reduction in credit availability – concluding that the current pipeline would carry construction through much of 2023, but activity might slow thereafter. The future demand for office space remained a major uncertainty, while contacts described the future impacts of the infrastructure bill as an opportunity, competition for tight resources, or both. ■

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



## Summary of Economic Activity

Fourth District business activity slowed slightly in recent weeks. For the first time since the end of the downturn in 2020, a plurality of contacts said that demand for their goods and services had weakened over the prior two months. Demand growth slowed in sectors that had exhibited strength recently (such as manufacturing and professional services) while demand in previously weak sectors (such as retail, construction, and freight) remained so. Lenders captured the sentiment of many of their customers when suggesting that higher interest rates, persistent inflation, and increased economic uncertainty were weighing on household and business spending. Contacts expected demand to decrease modestly further in the coming few months, and their plans for capital spending were lower, as well. Labor shortages persisted, even as worker availability increased somewhat and turnover decreased slightly. While wage and nonlabor input cost pressures were largely unchanged, upward pressure on selling prices eased further.

### Labor Markets

Employment growth in the District continued at a slight pace. Demand for labor remained solid, though there were more frequent reports of employers' opting to take down open job postings or declining to fill recently vacated positions. Reports of outright layoffs were rare and mostly concentrated in construction and freight, where demand has been particularly weak. Labor supply constraints appeared to ease somewhat, and there were scattered reports of reduced turnover. Still, nearly half of contacts indicated that finding workers with the right skills was the primary impediment to hiring. Looking forward, firms generally planned to add more workers to their payrolls in coming months, but at a slower pace.

With labor demand still exceeding labor supply, wages continued to rise. Most firms indicated that competition for workers remained intense, forcing them to raise pay in order to attract and retain workers. One homebuilder said, "[even] while cutting staff. . . we will adjust all base compensation up by 5 percent next month. This effectively negates 50 percent of the savings [from recent layoffs]." While wage pressures remained elevated, there were scattered signs that they were easing. For example, the share of contacts reporting pay increases over the prior two months fell below 50 percent for the first time in more than a year and a half.

### Prices

Increases in nonlabor input costs remained stubbornly broad based. Since the second quarter of 2021, the share of contacts reporting recent input cost increases has consistently exceeded 60 percent, while in the year preceding the pandemic, the share reporting higher input costs averaged 32 percent. That said, the magnitudes of cost increases appeared to be easing. Firms often reported that cost decreases on some inputs (such as lumber and steel) were offsetting price increases in others (such as transportation and petroleum-related products). In addition, several contacts noted that while costs were increasing, they were not rising as fast as previously. For example, one manufacturer reported, "[cost] increases have been tapering off and are becoming far less frequent."

Reports of selling-price increases remained common, but noticeably less so than early in the year. In some cases, firms suggested they had paused price hikes following increases in prior periods. In others, reduced demand forced firms to cut prices. A manufacturer said that "expectations [for weaker demand] have purchasers negotiating much lower prices from suppliers," and a homebuilder reported that "incentives are increasing to motivate buyers to move forward" as demand weakened across the housing market.

## Consumer Spending

Retailers reported further softening in demand as consumers faced continued pressure from high food and gasoline prices and increased interest rates. One general merchandiser said sales from mid-October to early-November had declined noticeably from those of the previous year, and he was unsure if activity in his stores would rebound for the holiday shopping season. Reports from restaurateur and tourism contacts were mostly positive, with many citing increased activity brought on by unusually warm weather and the upcoming holiday season. Still, others noted that price increases as a result of higher input costs had begun to slow customer demand. Auto dealers reported a decrease in sales, noting that customers remained wary of higher payments because of increased interest rates and higher vehicle prices.

## Manufacturing

Demand for manufactured goods flattened in recent weeks following a notable increase during the prior reporting period. While some contacts attributed the softening to expected seasonal fluctuations, others cited slowing in end markets and an increase in order cancellations. Still, a plurality of contacts said demand was unchanged. Manufacturers generally expected demand to hold steady in the coming months, outside of typical seasonal slowdowns. Manufacturers suggested that supply chain disruptions continued to ease somewhat, though they remained far from normal.

## Real Estate and Construction

Housing demand continued to decline from levels that were already down significantly from recent peaks. Contacts noted that many potential buyers have found it difficult to qualify for mortgages amid higher interest rates. One homebuilder indicated that his firm's sales in the third quarter were worse than in three of the four quarters of 2008. Contacts did not expect demand would improve soon because interest rates are expected to remain high. One real estate agent stated that "the snowball will continue to roll down the hillside with nothing to stop it."

Nonresidential construction and real estate activity also softened further. Contacts indicated that rapidly rising interest rates and growing economic uncertainty have led many businesses to hold off on new projects. One general contractor indicated that demand has slowed considerably because firms are unsure what business will look like over the next 12 months. The same contractor added that rising interest rates have made it very difficult to secure financing for the speculative construction projects on which the firm heavily relies.

Furthermore, a real estate broker noted that many buyers, particularly real estate investment trusts, have left the market.

## Financial Services

Overall lending declined during the reporting period. Bankers noted that commercial lending recently began to weaken, and they attributed the weakening to higher interest rates. Some lenders observed a decline in commercial real estate lending, a situation which one contact said was related to clients' canceling planned projects because of higher interest rates. On the household side, bankers reported continued weakening in mortgage and auto lending. Lenders indicated that delinquency rates for commercial and consumer loans remained low. Contacts reported that the level of consumer deposits decreased slightly. Bankers anticipated overall loan demand would decline further in the near term.

## Nonfinancial Services

Freight contacts reported that demand slowed further in recent weeks. One freight contact noted that most of his firm's clients expect a soft fourth quarter and peak season. Another said that further declines in freight activity are likely because he expected goods purchases, housing demand, and factory output to fall in coming months. Professional and business services firms were also more downbeat relative to their views in prior periods amid growing economic uncertainty. One law firm noted that while clients have continued to move forward with projects, they have been exhibiting more caution. Additionally, a software company noted that customers had begun to pause spending on technology.

## Community Conditions

Several nonprofit contacts reported that rising development costs increasingly constrained the supply of affordable housing for lower-income households and are likely to continue doing so. Both ongoing and new construction are affected. Contacts suggested that increases in building costs (materials and labor) are less likely to be passed on to lower-income homeowners, resulting in increased need for gap funding for projects. One Ohio contact summarized the situation well, stating that "colleagues in our industry are going to produce fewer units because they are unable to make deals work due to the increases in costs and the unpredictability of costs." ■

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



## Summary of Economic Activity

The Fifth District economy expanded slightly, on balance, since our previous report. Manufacturing activity slowed mildly as new orders and backlogs declined while shipments remained flat. District ports saw overall activity decline as loaded exports decreased while import volumes only picked up slightly. Trucking companies reported a slight decline in volumes and in shipping rates. Retail spending grew modestly overall. New vehicle sales remained low but used vehicle sales picked up as prices eased and inventories improved. Travel and tourism grew modestly; business travel was notably strong for some hotels. Residential real estate activity declined as high home prices and elevated mortgage rates put a damper on demand. Commercial real estate activity also slowed overall, although class A office leasing held strong in some markets. Consumer and commercial lending declined moderately, and deposits increased more slowly as customers looked to earn higher interest elsewhere. Nonfinancial services reported declining demand and rising costs of labor, particularly for non-wage benefits. Overall, employment continued to grow moderately, and many firms still looked to fill open positions but struggled to find qualified workers. A majority of firms reported stronger wage growth compared to previous years. Price growth remained robust in recent weeks.

### Labor Markets

Employment in the Fifth District increased moderately in recent weeks and many firms indicated that they still had positions to fill. The supply of labor remained tight with several contacts noting difficulties finding workers with necessary skills. One company that was looking to hire an experienced worker decided to hire an entry-level worker instead and pay for their training. A staffing service noted a mismatch between candidates' and employers' preferences with many candidates wanting fully remote positions and businesses looking for employees to come to the office. A majority of firms indicated that they were increasing wages for new and existing staff by more than in the past few years.

### Prices

Price growth remained robust in recent weeks. According to our most recent surveys, both manufacturers and service sector firms reported continued strong year-over-year price growth in both prices paid for inputs and prices received from customers. Although the majority of businesses reported flat to increasing input costs, one contact noted that softening demand led to lower prices for their inputs, but the cost savings were not being immediately passed through to customers due to uncertainty about future price increases.

### Manufacturing

Manufacturing activity in the Fifth District contracted slightly in recent weeks. On balance, new orders declined while shipments were unchanged as producers continued to work through their backlogs. A textile manufacturer noted that their overall decline in orders was driven by consumer facing products as demand for their commercial products held up. A medical supply manufacturer said that although they did see an increase in orders recently, the volume was below expected for what is normally a busy time of the year. Supply chain backlogs showed signs of easing as vendor lead times declined.

### Ports and Transportation

Respondents indicated that they were beginning to see a decline in volumes with overall loaded freight down at most Fifth District ports. Import volumes were flat or up slightly this period, but loaded exports continued trending down. Import volumes were led by furniture, sporting goods, and heavy equipment. The volume of empty containers leaving the ports was robust. Dwell time at the ports declined, leading to less congestion and lower storage fees. Spot rates from Asia to East Coast ports decreased 33% from last period but remained above the pre-pandemic rates. Air freight volumes remained soft, with exports volume remaining down significantly.

Trucking firms in the Fifth District pointed to a slight decrease in freight volumes this period that were more than the usual seasonal slow-down. There continued to be solid demand with industrial customers, but retail shipping volumes declined modestly this period. Spot market rates decreased moderately due to expanded truckload capacity. Trucking companies noted that they were not hiring drivers as their current headcount could manage the existing volumes. New truck tractors and trailers were still backordered about one year. In addition, the cost of new 2023 equipment had increased substantially. Higher diesel fuel costs impacted overall transportation costs this period.

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

Retailers in our region reported modest growth in sales and revenue in recent weeks and rising inventory levels. A hardware store said that the number of customers was down considerably from last year, but revenue held up as the value of the average sale had increased. New vehicle sales remained low due to the combination of low inventory levels, rising prices, and higher borrowing costs. Used vehicle sales, on the other hand, increased moderately as more inventory became available and prices have started to come down.

Travel and tourism increased moderately, on balance. A hotel in South Carolina reported a record month in October and a strong start to November due to strong business travel and steady leisure travel. Air travel was unchanged in recent weeks at moderate levels and was expected to pick up soon due to holiday travel. A winter resort in West Virginia was concerned that labor shortages would limit their ability to provide the full range of services for this holiday travel season.

### **Real Estate and Construction**

Demand for housing slowed considerably this period with reduced buyer traffic and listings. Days on market and inventory levels have increased but were still below normal levels. Respondents indicated that there were fewer closed and pending sales due to higher interest rates and low inventory. In most markets in the Fifth District, home prices remained unchanged, but sellers were offering more concessions, such as temporary rate buydowns or paying closing costs, to complete sales. Buyers were not having any difficulty obtaining mortgages and there were no issues with appraisals. New home construction also slowed down this period, and builders were no longer acquiring new lots due to high building costs and economic uncertainty.

Commercial real estate activity slowed this period in some Fifth District markets with reduced leasing and

higher vacancy rates in retail, office, and industrial sectors. Market activity for Class A office space remained robust, especially in suburban markets, as companies were paying to upgrade to nicer workplaces in order to persuade employees to return back to the office. Capital market sales activity was down significantly due to higher interest rates. Rising interest rates and higher construction costs also had a dampening effect on new commercial real estate projects. New construction continued to experience supply chain disruptions as well as a shortage of skill workers.

### **Banking and Finance**

Rising interest rates continued to drive a moderate weakening of demand for both commercial and residential loans. Commercial loan demand was also being impacted by higher input costs as well as higher financing costs. Residential loan demand was mainly being impacted by higher interest rates. Demand for new auto loans also weakened, primarily due to lack of consumer demand. Deposit growth continued to slow as customers search for higher yields in other instruments. Delinquency rates continued modest increases, primarily in the consumer portfolio. Overall, institutions anticipated a moderate decrease in growth due to seasonality and rising rates.

### **Nonfinancial Services**

Nonfinancial service providers continued to report moderate decreases in both growth and demand for their services. Contacts were also noting continued wage increases being necessary to maintain their workforces. An employment firm noted that overall employee compensation costs continued to rise as benefits become a valuable tool in both retaining and attracting employees. Another contact noted that once their current contracted work has been completed, they will start adjusting their hiring, as well as current workforce, to match current, lower demand. Inflation and rising interest rates continued to be a focus of contacts as well. ■

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



## Summary of Economic Activity

The economy of the Sixth District grew at a tepid pace from October through mid-November. Labor market pressures eased modestly, and turnover improved somewhat. While wage pressures remained elevated, some moderation was reported. Most nonlabor cost increases slowed, but food prices rose, and freight costs remained elevated. Pricing power was mixed. Low-to-moderate income households experienced declines in financial well-being as the rising cost of living strained household budgets. Retailers reported stable demand, on balance, and new auto sales were robust. Leisure travel activity was described as healthy as compared with pre-pandemic levels, and business and convention bookings improved. Housing demand weakened and inventory levels rose. Transportation activity weakened. Deposit growth at financial institutions slowed. Damage from Hurricane Ian was widespread across southwest and central Florida with agriculture and tourism being the sectors most impacted.

### Labor Markets

Labor market pressures eased modestly, but attracting and retaining talent remained a top concern for many firms. Most employers played “catch-up” to fill open positions while only a few indicated that they were hiring for growth. Finding qualified candidates was reported as nearly impossible, so firms increased investments in training new hires. Turnover eased somewhat, but employees continued to be drawn away by higher wages, advancement, and greater schedule flexibility. Labor shortages were most acute in skilled construction, childcare, education, and healthcare.

Most employers reported upward wage pressures, although several indicated that pressure had eased in recent months. Looking ahead, expectations for wage growth were mixed; some anticipate wage growth will moderate or level off as demand subsides, while others anticipate inflation, combined with continued labor market tightness, could push wage growth higher than planned. A few contacts mentioned that they will be discontinuing off-cycle increases and going back to an annual cadence.

### Prices

District firms noted most nonlabor cost increases have moderated, and some costs, like lumber and steel, declined. While supply chains were reported as stabilizing, domestic freight costs remained elevated above historical norms, causing some companies to bring materials transport in-house as a way to achieve efficiencies. Food prices continued to rise due to many

factors, including global supply issues resulting from the Russia/Ukraine war. Increasing labor costs were factored into final pricing by some firms. Pricing power was mixed, and many contacts noted reduced margins. The Atlanta Fed’s Business Inflation Expectations survey showed year-over-year unit cost growth remained unchanged at 4.1 percent, on average, in October. Firms’ year-ahead inflation expectations also remained unchanged from September at 3.3 percent, on average.

### Community Perspectives

Community organizations reported signs of declining consumer financial health for low-to-moderate income households in recent months. The rising cost of groceries, fuel, and rent strained household budgets, resulting in increasing demand for food pantries and rental assistance programs. Competition from all-cash buyers and low housing inventories continued to reduce already limited housing options for low-to-moderate income households. Access to affordable childcare and public transportation, particularly in rural areas, has worsened since the pandemic and remains a barrier to labor force participation. Nonprofit service providers noted an uptick in the number of clients relying on side gigs to make ends meet or as pathways to financial self-sufficiency.

### Consumer Spending and Tourism

Retailers reported that aggregate consumer demand had not changed materially, on balance, since the previous report. However, low-to-moderate income consumers continued to trade down for certain goods.

Some contacts noted they were beginning to see some slowing of demand by middle-income consumers. Automobile dealerships reported strong new vehicle sales as inventory levels improved.

Tourism contacts reported solid leisure travel activity as compared with 2019 levels. Business and convention travel has begun to normalize back to pre-pandemic levels. Hurricane Ian damaged hotels along beaches in southwest Florida, and uncertainty exists around when these hotels will reopen due to a lack of available labor and construction supply issues.

### **Construction and Real Estate**

Housing demand continued to deteriorate as mortgage rates rose and affordability further declined. Existing home sales dropped sharply and inventory levels rose in most markets. Although home prices remained above year-ago levels, monthly sales price growth continued to moderate. The new home market decelerated at a faster rate, with a sharp decline in new orders and a rise in cancellations. Builders pulled back on starts but the inventory pipeline remained elevated, with the bulk of units to be delivered through the first quarter of 2023.

Commercial real estate (CRE) contacts reported healthy but slowing market conditions; however, industrial real estate appeared robust. Contacts voiced concerns over a future slowdown that could further erode activity levels. The slowing in activity was consistently associated with lower-tier office, luxury multifamily, and owner-operator retail driven by more restaurant closings. Contacts reported concerns about declining CRE values as the bid-ask spread widened. Contacts cited more instances of slowing/negative rent growth, rising expenses, and slowing/negative net operating income growth.

### **Transportation**

Transportation activity declined since the previous report. Inland waterway freight movements were impeded by low water levels on the Mississippi River. Air cargo contacts noted a dip in revenue year over year, which was attributed to inflation curbing consumer demand for goods. District transportation contacts noted minimal impact to supply chains from Hurricane Ian.

### **Banking and Finance**

Activity slowed at financial institutions, particularly deposit growth. Banks reported increases in other types of funding besides traditional deposits, such as brokered

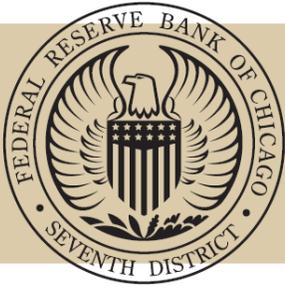
deposits and borrowings from the Federal Home Loan Bank. Unrealized losses in securities prompting some institutions to reclassify securities from available-for-sale to held-to-maturity. Still, except for farmland loans, all major loan portfolios grew. Asset quality metrics were stable, although the level of nonperforming assets increased slightly. Financial institutions increased their provision for credit losses over concerns about a potential economic downturn. Improved earnings were driven by a higher net interest margin offsetting lower noninterest fee income.

### **Energy**

Oil and gas contacts reported strong demand amid ongoing supply constraints. Crude oil production rose, and refiners maintained high utilization rates. Contacts noted that the region faced challenges with low supplies of diesel fuel, as high prices in the Northeast limited pipeline deliveries to the Southeast. Several firms reported growing investments in energy production, as well as increasing renewable energy project backlogs, including investment in hydrogen, carbon capture, renewable natural gas, and wind-energy development projects. Utility providers reported increased power usage across all customers.

### **Agriculture**

Agricultural conditions remained mixed. Cotton growers reported further softening of demand from textile manufacturers. Tariffs imposed on rice from India kept demand for domestic rice strong. Demand for chicken and cattle exceeded supply. In Florida, Hurricane Ian destroyed several herds of livestock and numerous crops, and citrus industry contacts expect damage to trees from the storm will exacerbate already strained production from disease in the coming years. ■



## Summary of Economic Activity

Economic activity in the Seventh District was little changed overall in October and early November. Contacts expected slow growth in the coming months, with many expressing concerns about the potential for a recession in 2023. Employment increased moderately; manufacturing increased slightly; consumer and business spending were unchanged; and construction and real estate decreased modestly. Nonbusiness contacts saw little change in District economic activity. Prices rose rapidly, wages were up moderately, and financial conditions were unchanged on net. Agriculture profit expectations for 2022 were up a bit.

### Labor Markets

Employment increased moderately in October and early November, though contacts expected the pace of growth to slow over the next 12 months. Contacts continued to report difficulty finding workers across all sectors and skill levels, though worker turnover slowed and hiring was somewhat easier. Several contacts noted that despite a slowdown in sales, they were retaining workers because of earlier difficulties in hiring staff. Overall, wage and benefit costs increased moderately, albeit at a slower pace than the prior reporting period. Compensation increases were aimed both at attracting new workers and retaining existing talent.

### Prices

Prices rose rapidly over the reporting period. However, the pace of price increases had moderated from the previous reporting period and contacts expected a further slowdown over the next 12 months. Producer prices increased moderately, with reports of higher energy, shipping, and raw materials costs. Consumer prices generally moved up due to solid demand and passthrough of higher costs. That said, there were signs of easing cost pressures. As an example, a grocer said suppliers continued to seek price increases, but that they were pushing back and winning some concessions.

### Consumer Spending

Consumer spending was little changed on net over the reporting period. Nonauto consumer spending increased slightly, with contacts highlighting greater sales of movie tickets, furniture, appliances, and pet supplies. Spending on apparel decreased, while promotions increased. Retailers expected holiday sales revenues to be up some compared with last year due to higher prices, but unit sales were expected to be lower. New and used light vehicle sales decreased somewhat, with dealers indicating that high vehicle prices and interest rates were suppressing demand.

### Business Spending

Business spending was little changed in October and early November. Retail inventories were elevated overall, and contacts said retailers are planning to pare them down to pre-pandemic levels. New light vehicle inventories improved modestly yet remained well below pre-pandemic levels. In manufacturing, inventories were still elevated, as supply chain issues continued to lead firms to hold “just in case” parts and partially finished products. Capital expenditures remained stable on balance, with contacts purchasing new equipment (some for automating processes) and upgrading software. Demand for commercial, residential, and industrial energy consumption increased slightly.

## Construction and Real Estate

Construction and real estate activity decreased modestly on balance over the reporting period. Residential construction moved down modestly, largely in the single-family segment. Delays and cancellations increased for both single- and multifamily projects. One builder said that the market to purchase land for new development had dried up because builders are waiting for demand to come back. Residential real estate activity decreased moderately. Homebuyers were shocked by how quickly mortgage rates had risen, according to a contact. Home values were down modestly, but rents were up again. Nonresidential construction was little changed. Construction of industrial space and remodeling of office space held steady. That said, some projects were moving very slowly because of increases in building costs and interest rates. Material and labor costs remained elevated. Commercial real estate activity decreased modestly, and prices and rents moved down slightly. Contacts noted that some recent commercial deals were based on the assumption that interest rates would come down from present levels and that the borrower could refinance when they did. Both commercial vacancy rates and the amount of sublease space available increased slightly.

## Manufacturing

Manufacturing demand was up slightly in October and early November. Contacts reported a small decrease in order backlogs. While production edged up, it continued to be held back by labor and supply chain challenges. Steel demand grew modestly and orders and production of fabricated metals were flat, with greater demand from the defense and energy sectors but less demand from construction. Auto production increased slightly, and contacts expected pent-up demand to support output through 2023. Heavy truck production grew modestly, and backlogs remained very large. Demand for heavy machinery was flat.

## Banking and Finance

Financial conditions were little changed on balance over the reporting period. Participants in the equity and bond markets reported net increases in asset values and lower volatility. Business loan volumes were flat overall, and contacts indicated that higher borrowing rates and elevated uncertainty were putting a damper on demand. Business loan quality decreased slightly, with one contact noting declines among clients in the capital goods, retail, and consumer durables sectors. Business loan standards tightened modestly. In consumer markets, loan volumes slowed modestly, with continued declines in mortgage lending in the face of higher rates. Consumer loan quality and standards remained the same.

## Agriculture

Overall, expectations for District agricultural income in 2022 rose a bit, reflecting the strong corn and soybean harvests. Despite pockets of poor yields from drought, District corn and soybean yields were close to the records set in 2021. Barge shipments continued to be constrained due to low water levels on the Mississippi, pushing up shipping costs, limiting exports, and reducing the availability of chemicals and fertilizers. The costs of most inputs remained elevated. Corn prices were lower, while soybean prices moved higher. Dairy and hog prices were generally down, though egg and cattle prices were up.

## Community Conditions

Community development organizations and public administrators saw little change in economic activity in October and early November. State government officials reported healthy growth in tax revenues over the reporting period. Demand for unemployment insurance remained low, though there were reports of layoffs at order fulfillment centers and mortgage lenders. Small businesses and nonprofit organizations continued to face hiring difficulties at the wages they could afford to pay. Nonprofits assisting low- and moderate-income households again noted that inflationary pressures were straining budgets, leading to food insecurity and strong demand for their services. Faced with declining revenues, however, nonprofit leaders were making tough choices on which services to provide and which to cut. ■

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



## Summary of Economic Activity

Economic conditions have remained unchanged since our previous report. Firms reported softening consumer demand, but labor shortages for high-skilled jobs remained a key issue. However, a rising share of firms reported being able to find and retain low-skilled workers. Upward pressure on wages remained strong in industries dealing with labor shortages, and contacts reported plans for continued wage increases in the upcoming year. Input prices for food and raw materials rose, but softening consumer demand led to reports of some durable goods prices leveling out. Homebuying activity continued to decline, and rental rates in major District MSAs decreased for the first time this year. Loan demand softened slightly and delinquencies, while low by historical standards, have continued to rise.

### Labor Markets

Employment remains unchanged, although there were increased reports that labor tightness has been easing and will continue to do so. A St. Louis staffing contact noted that uncertainty over consumer demand has led some companies to cut seasonal workers. A contact in Memphis saw total applications for their restaurant rise in the last quarter, and another contact was able to increase employment by 15 percent. However, many companies are still reporting staffing shortages. An IT contact in St. Louis noted that a shortage of entry-level jobs has made it more difficult to backfill as experienced workers leave.

Wages have grown moderately since our previous report. Contacts reported pay increases were needed to retain employees. A union contact reported that members' wages have increased about 4-5 percent over the last year. A staffing contact reported that they expect firms will limit entry-level wage increases in 2023, but other contacts reported that additional wage increases will be needed to retain high-skilled workers, especially those with nationwide job prospects.

### Prices

Prices have increased moderately since our previous report. Approximately two-thirds of contacts reported modest to moderate increases in prices charged to consumers. Approximately 85 percent of contacts reported higher or slightly higher nonlabor costs.

Multiple contacts stated that higher food costs were driving higher prices for consumers. A contact in the agriculture industry reported that high input costs have pushed prices higher. Some industries, however, have seen prices level out or even decrease. A contact in the used car industry reported a "downward trend" for used car prices. A contact in the catfish industry reported pushback on higher prices, which led the business to decrease prices.

### Consumer Spending

District general retailers, auto dealers, and hospitality contacts reported mixed business activity and a mixed outlook. Retailers in Memphis reported that consumers have shifted to spending mainly on essentials in more affordable price ranges. Higher-income consumers are driving what growth exists in the retail sector. District auto dealers noted there has been mixed business activity for the past couple of months, with one dealership noting that consumers are starting to have a more cautious approach to buying cars.

Restaurants in Little Rock have reported that their customer volumes are up 50 percent from last year and that they are optimistic about the end of 2022 and the beginning of 2023. St. Louis hospitality contacts noted that business activity was up this past month compared with previous months, though the outlook remains uncertain.

### **Manufacturing**

Overall, manufacturing activity has slightly increased since our previous report. Survey-based indices suggest that production, capacity utilization, and new orders have all slightly increased. Supply chain congestion and transportation issues continue to limit the availability of some key inputs for production, but contacts reported improvement in this regard. New orders and general demand are beginning to cool, but firms have maintained production by working through their long backlog of orders. The labor market also appears to be loosening; one construction tools manufacturer in Fayetteville increased its staff by 40 percent and reported having no issues filling positions. On average, firms reported they expect slight increases in production, capacity utilization, and new orders in the coming quarter.

### **Nonfinancial Services**

Activity in the nonfinancial services sector remains unchanged since our previous report. Transportation activity, most notably air traffic and freight, has slightly decreased. Demand for trucking services has decreased since our previous report, which has led to some declines in shipping rates. However, input costs have continued to rise, especially equipment, insurance, wages, and diesel fuel. The trucking industry's driver shortage has been exacerbated by new regulations that require accredited training for drivers in Kentucky.

A shortage of registered nurses persists across the District. Rural healthcare services in Mississippi have continued to shrink and rely on investment from medical institutions in urban areas. In Northwest Arkansas, however, more primary care services are being offered due to the opening of health clinics in elementary schools and investment in benefits personalization firms.

### **Real Estate and Construction**

The residential real estate market has slowed modestly since our previous report. Contacts reported demand has slowed due to 7-percent mortgage rates. Pending home sales have decreased and inventory is up. Louisville contacts reported closings are down about 30 percent in the past few months. The rental market has also seen a slowdown. Rental rates in October decreased across many parts of the District. All commercial real estate contacts reported sales falling short of expectations. High vacancies in the office rental market remain the same since our previous report. Construction contacts reported the pipeline of ongoing projects continued to be strong but demand for new projects has decreased since the previous report.

### **Banking and Finance**

Banking activity in the District has decreased slightly since our previous report. Bankers indicated that overall loan demand has softened compared with last quarter. Due to the past year's interest rate increases, mortgage loan demand continues to decline moderately. Commercial and industrial loan demand saw only a slight decrease. Delinquency and watch-list loans remain manageable, despite a continued uptick in delinquency rates since last quarter. Banking contacts in Louisville expect rising interest rates to pressure banks to start increasing their deposit rates. According to Little Rock banking contacts, both credit and debit card usage at major retailers experienced declines in the last quarter, notably due to increased EBT usage.

### **Agriculture and Natural Resources**

District agriculture conditions have remained unchanged compared with the previous reporting period. Production forecasts for corn and cotton have increased slightly, while forecasts for soybeans remained unchanged and rice declined. On a year-over-year basis, however, production levels for cotton and soybeans are expected to be slightly higher, while corn production is expected to slightly decline and rice production is expected to moderately decline. While production has remained relatively steady, contacts in the District remain concerned over rising input prices, specifically fertilizers and feed.

District coal production declined modestly in October, with seasonally adjusted production decreasing about 9 percent over the previous reporting period. Production has improved modestly over the previous year, increasing 5.4 percent over this time last year. ■



---

## Summary of Economic Activity

The Ninth District economy grew modestly overall since the previous report. Employment grew slightly since the last report, with some moderation in job openings. Wage pressures remained high. Price pressures remained strong amid signs of deceleration. Business survey respondents reported decreased sales in October on balance from a month earlier. Activity increased in consumer spending, tourism, commercial real estate, energy, and manufacturing. Commercial and residential construction decreased, and residential real estate activity continued to decline. District agricultural conditions generally remained strong through harvest season. American Indian-owned business enterprises reported disproportionately acute challenges with labor availability and input costs.

---

### Labor Markets

Employment grew slightly since the last report. Total job openings have softened, but labor demand continued to be healthy overall. Significantly more firms reported plans to hire more workers compared with those cutting staff. Among those holding back on hiring, some pointed to lower sales, but a far greater share said lack of available labor was a bigger factor. Fewer than 20 percent of businesses reported that they would lay off workers in the face of a moderate revenue decline. Half reported that total headcount would remain steady or rise if revenues dropped, and the remainder would reduce headcount by attrition. Construction firms reported that recent and future activity was slowing, yet one-third reported that they have been looking to hire more full-time, year-round employees, and a negligible share had cut workers.

Wage pressures remained high. A majority of businesses across different sectors said they were increasing wages and salaries for most job categories, and increases were larger than in the past. Separate polls of construction and professional services firms found high shares reporting average wage increases of more than 5 percent, though expectations for future increases were modestly lower. A staffing contact said that holiday hiring has pushed seasonal wages notably higher, with entry-level shelf-stocking positions reaching \$25 an hour. “This is craziness.”

### Prices

Price pressures were persistently strong since the previous report amid some signs of deceleration. Most firms responding to a business conditions poll reported raising final prices in October from a month earlier, but there was a slight increase in the share who reported dropping their prices. Two-thirds of respondents said their nonlabor input prices increased in the past month. While lumber prices continued to decrease over the reporting period, construction firms reported that prices for most other building materials remained high in recent months; most contractors identified input costs as one of their top challenges. Manufacturing contacts noted that while certain raw materials prices were decreasing, prices for most electrical components and other parts increased further. Survey respondents and other contacts reported sharp increases in employee health insurance rates for 2023. Home heating costs were forecasted to increase sharply in the region this winter, largely due to a significant spike in natural gas prices over the last year. Retail fuel prices in District states decreased moderately since the last report.

### Worker Experience

Participants in a roundtable discussion shared that American Indian workers and households had seen their budgets tighten, as prices that were already disproportionately higher on reservations continued to climb. Childcare, transportation difficulties, and COVID-

19-related disruptions were reasons why many reservation residents could not find or maintain employment. Some graduates of tribal police training were reportedly taking off-reservation jobs because the pay was much higher. Many workers leaned on their elders and social networks to curb reservation challenges and scarcities. "We take care of each other here; we find a way to get what we need," shared a participant. "We're lucky."

## Consumer Spending

Consumer spending grew slightly since the last report, remaining at high levels. Early reports on holiday spending were cautiously upbeat, with consumer sentiment expected to be solid despite budget pressures from inflation and rising interest rates. Sales in retail and other consumer segments in Minnesota and South Dakota remained robust. Montana lodging and accommodation tax collections in October were strong, and hotel occupancy in most Minnesota markets was at very healthy levels. Vehicle sales were slow, with some signs of falling demand compounded by low inventories. A Minnesota import-auto franchisee noted that "daily traffic of customers has decreased significantly." Recent passenger activity at District airports remained healthy because of strong leisure demand.

## Construction and Real Estate

Commercial construction fell slightly since the last report and showed signs of future slowing. Industry data suggested that construction spending and overall activity held up relatively well, but firms reported that backlogs had shrunk compared with the same period last year. Firms also reported a notable decline in new projects out for bid. Industrial and multifamily segments reported steadier activity and outlooks, and government contract work was also reportedly more active. Labor demand remained healthy overall. Residential construction was widely lower and more pessimistic in its outlook. Single-family permitting levels were notably below year-ago levels in most parts of the District.

Commercial real estate rose slightly overall since the last report, with continued divergence in different segments. Vacancy rates in industrial and multifamily sectors remained low despite significant new construction. Retail vacancy rates have declined in some markets thanks to comparatively little new construction. Office vacancy continued to increase. A Bozeman, Montana, contact said professional employees were not returning to the office, putting downward pressure on demand and increasing subleasing activity. Residential real estate continued to decline. Closed sales in October were widely lower across the District compared with last year,

and often by sizable amounts, including 31 percent across Minnesota. Contacts in Montana reported that banks were laying off several dozen staff related to slowing mortgage activity.

## Manufacturing

District manufacturing activity increased moderately since the last report. A regional index of manufacturing conditions indicated increased activity in Minnesota, North Dakota, and South Dakota in October from a month earlier. Contacts mostly reported solid recent sales and/or strong backlogs, but some noted softening new orders, and a few reported steep recent declines. Printing industry contacts generally reported solid recent demand; one contact noted that the inflationary environment has allowed them to widen their profit margins by increasing their prices more than their input costs. A producer of semiconductor manufacturing equipment noted that overseas sales dropped precipitously following new restrictions on sales of such equipment to China, a major export market.

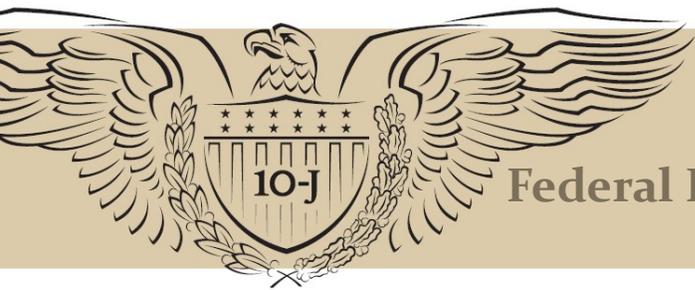
## Agriculture, Energy, and Natural Resources

District agricultural conditions remained strong through harvest season. According to the Minneapolis Fed's October agricultural credit conditions survey, nearly three-quarters of lenders reported farm incomes increased from July through September compared with the same period a year earlier. Farm household spending, capital spending, and loan repayment rates also increased on balance, while demand for loans fell. However, cattle ranchers in Montana reported culling herds due to high feed costs and lack of available hay in the drought-stricken state, and were reportedly reducing their planned capital expenditures for 2023. District oil and gas exploration activity increased slightly since the last report, while output increased moderately.

## Minority- and Women-Owned Business Enterprises

American Indian businesses reported being impacted by widespread hiring and retention challenges but faced disproportionate struggles with offering competitive wages and benefits. A tribal leader shared that despite offering wages above \$30 an hour, casinos were having difficulties attracting blackjack dealers and were paying for the few inexperienced applicants to take classes. The CEO of a food-processing firm on a District reservation shared that the price of essential packaging inputs had increased threefold and shipping costs for them increased fivefold, in the last two years. "It has been a struggle," they commented. "If prices keep going up, I will go out of business." ■

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



## Summary of Economic Activity

Real economic activity in the Tenth District declined slightly in recent months. The pace of job growth slowed due to the combination of lower demand from employers and ongoing labor supply constraints. Though growth in labor demand reportedly cooled, employers still indicated they are using higher compensation and additional training to build their workforce over the next several months. Consumer demand fell slightly in recent weeks, both for lower-priced goods and for personal services. The volume of consumer purchases fell broadly, but higher prices led to modest increases in total consumer expenditures. Activity among services businesses grew slowly, with the exception of advertising activity, which fell sharply over the past month. Manufacturing production declined modestly. Although selling prices continued to rise at a robust pace, several contacts noted growth in the prices of construction materials and other manufacturing inputs slowed. Also, growth in rent prices moderated from recent highs. Commodity prices declined by a small amount. Despite lower crop prices and worse-than-anticipated consequences of drought in the region, farm incomes and ag credit conditions improved modestly.

### Labor Markets

Tenth District contacts reported employment growth was mostly unchanged, as many employers slowed their hiring efforts in recent weeks. Contacts reported the reduction in the pace of hiring is partially due to cooling labor demand coinciding with lower expectations for growth in sales. Businesses also pointed to ongoing difficulties finding employees with requisite skills amid still-elevated labor demand. To fill open positions, most contacts noted they continued to raise compensation levels and increased the level of on-the-job training they offered to underqualified hires. A few contacts alternatively noted they accelerated their planned investments in automation to alleviate labor supply constraints. Despite recent slowing in hiring, most contacts reported expectations for modest employment growth over the next 12 months, citing expectations for growth, overworked staff, and demand for more skilled workers.

Wages rose at a moderate pace, with most contacts noting ongoing efforts to raise starting wages across job categories to attract new hires. Firms also reported they have been adjusting wages and salaries more frequently than in previous years to retain existing employees, as the cost of bringing on new hires is becoming burdensome.

### Prices

Most District contacts reported that selling prices continued to increase at a robust pace. However, input price growth slowed to a moderate pace, primarily due to easing growth in costs of manufacturing inputs. Although expectations that prices will continue to rise over the next six months were prevalent, a larger number of manufacturing businesses expected price pressures to ease somewhat over the medium-term. The cost of housing remained a significant source of inflationary pressure for households in the District. Rent prices continued to increase at a moderate pace, though the pace of rent price growth eased from its historic high over the past few months.

### Consumer Spending

Several contacts indicated that consumer demand declined slightly in recent weeks. For example, hair salons and studios reported giving fewer haircuts, and restaurant owners indicated patronage fell modestly in recent weeks. Demand for consumer goods, particularly lower-to-middle priced items, also fell modestly. Yet, high-end entertainment venues and travel resorts reported ongoing strength. Although the total volume of purchases across goods and services fell, total spending increased slightly due to higher prices.

### **Community Conditions**

Small and micro enterprises reported tighter cash flows resulting from increased costs and slowing demand amid rising economic uncertainty. Small business contacts suggested banks demonstrated more risk aversion in their lending, exacerbating funding challenges for small businesses. When possible, business owners have been funding investments with cash as opposed to acquiring new debt. Also, contacts from community development financial institutions reported more business owners are utilizing non-traditional financing methods such as unsecured lines of credit and online finance firms that require higher interest rates, shorter terms, and more onerous repayment terms. Additionally, lender contacts reported that small business owners are exhibiting caution in their investment decisions, holding off on financing projects through the first half of 2023.

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

Overall activity among service providers rose modestly in recent months. Yet, several District contacts noted that demand for advertising services declined sharply in recent months. The decline was reported broadly across media types and across the types of goods and services being promoted. Though use of data storage and processing remained elevated, several businesses reported additional investments in software to diminish their use of data server services due to rising costs associated with high electricity prices. Manufacturing activity declined modestly in recent months as both revenues and total volumes of shipments fell. Several contacts noted that the availability of transportation services improved recently. Although growth slowed broadly, contacts across services and manufacturing reported favorable expectations for modest growth over the next 6 months.

### **Real Estate and Construction**

Multifamily housing real estate activity declined abruptly in recent weeks. This decline arose despite a backdrop of elevated demand for housing across the District and declining prices for construction materials. The downshift was attributed solely to higher interest rates and the outlook for higher rates over the near term. Debt financing for multifamily projects became less available over the last several months, but brokers and builders indicated that private equity and other sources of capital diminished sharply in recent weeks. Although the number of new multifamily housing deals declined sharply, construction activity was mostly unchanged due to the backlog of projects already underway.

### **Community and Regional Banking**

Loan demand weakened modestly in the past month. Bankers noted rising interest rates reduced demand for credit and pressured residential real estate valuations. Contacts expected further weakness in loan demand during the first quarter of 2023 amidst rising borrowing costs and economic uncertainty. Credit quality remained stable, but bankers cited concerns around performance of consumer loan segments in the coming months. Deposit levels were mostly stable, although rate-sensitive customers sought additional yield for their excess funds. Some contacts noted that deposit relationships are now being factored into loan pricing decisions as banks seek to generate and maintain liquidity. Finally, rising interest rates continued to pressure bond portfolio valuations, resulting in reduced tangible book value and impacting potential merger activity.

### **Energy**

Tenth District energy activity expanded slightly compared to recent months. Although overall activity increased slightly, significantly lower natural gas prices, driven by higher production and export disruptions, resulted in a meaningful reduction in active natural gas rigs within the District. Higher oil prices over the last month provided a boost to oil drilling activity. The number of newly drilled wells rose faster in Colorado, Wyoming, and Oklahoma compared to growth in drilling activity in New Mexico. Well completion activity was up slightly across all major drilling basins within the District, bringing additional supply online. Business contacts continued to report high costs, with oil field services firms indicating a moderate increase in costs over the last month, albeit at a slower pace than earlier this year.

### **Agriculture**

The Tenth District farm economy generally remained strong despite slightly lower commodity prices and intensifying adverse effects of drought in certain areas of the District. Overall, farm income and credit conditions continued to improve modestly. However, contacts in areas most impacted by drought reported that farm income and liquidity were slightly lower than a year ago. As harvest neared completion, crop yields were generally expected to be less than average across all states and were particularly poor in Kansas and Oklahoma. Dry conditions also reduced hay production throughout the region and is likely to push feed expenses higher for many livestock producers. ■

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



## Summary of Economic Activity

Modest growth continued in the Eleventh District economy. Expansion in manufacturing eased slightly while service sector growth ticked up. Retail sales and home sales fell further. Rising interest rates dampened loan demand, with loan volumes declining for the second consecutive reporting period. Activity in the energy sector continued to expand, though growth remained constrained by equipment and labor shortages. Local nonprofits cited higher demand for assistance amid rising household costs. Widespread rains improved drought conditions. While employment expanded at a solid rate and wage growth was generally high, there were reports of a slowdown in hiring and layoffs. Price pressures remained elevated but eased notably in retail. Outlooks were mostly pessimistic except for the energy sector, and uncertainty increased, with contacts voicing concern about inflationary pressures, weakening demand, and labor challenges.

### Labor Markets

While employment growth stayed solid, it eased from the more robust pace seen in the summer. Among business executives responding to a Dallas Fed survey, 56 percent cited hiring or recalling workers in October, down from 62 percent in July. In the same October survey, 31 percent of firms said they were understaffed and looking to hire for new positions and another 20 percent noted being understaffed and looking to hire for replacement only. Labor markets remained tight, with numerous reports of hiring difficulties. A fabricated metal manufacturer noted that the firm was operating by prayer these days. Healthcare workers were in short supply, as were commercial truck drivers, auto technicians, restaurant, and oil field workers. In contrast, some contacts said that weakening demand, economic uncertainty, and rising costs were restraining hiring activity. Mortgage banking firms were under a hiring freeze, builders noted improvement in the availability of labor in certain trades, and there were reports of layoffs in the tech industry.

Wage growth remained high. A few service firms cited downsizing to reduce costs, but many contacts noted struggling to find qualified workers and offering higher pay to attract them. A staffing firm said that candidates were using job offers to negotiate pay increases with their current employers.

### Prices

While input costs continued to climb, the pace of increases eased in the construction, manufacturing, and retail sectors. Growth in selling prices generally remained high, although some firms still commented that inflation was affecting their bottom line, prompting cost cutting. Manufacturers reported higher raw materials prices, and services firms said inflation and higher operating costs were a challenge. A restaurant commented changing their menu offerings due to higher costs and limited passthrough. Home prices fell, while airlines noted elevated ticket prices due to solid demand.

### Manufacturing

Texas factory output increased modestly in October. Growth was led by durable goods manufacturing. However, new orders for manufactured goods continued to weaken due to higher inventories and concerns surrounding a potential recession. A machinery manufacturer said that companies were being more careful about their spending, and a computer electronics manufacturer commented that demand for personal electronics had deteriorated, with weakness spilling over into other markets. Manufacturing tied to the upstream energy sector continued to experience rising demand and extended lead times for components and machinery over the past six weeks. Refineries and petrochemical manufacturers meanwhile reported softening demand, although the

European energy crisis is expected to continue to boost Texas' refined and petrochemical product exports. Chemical manufacturers noted that increased production capacity and slowing demand for construction-related materials have squeezed polymer margins. Overall manufacturing outlooks were generally weak.

### **Retail Sales**

Retail sales declined over the past six weeks. Auto sales weakened, hampered in part by high interest rates. A few building materials suppliers commented that they were surprised by the rapid slowdown in demand. Inventories continued to build, and outlooks worsened, with some concern about inflation, rising interest rates, compressed profit margins, and a weaker business climate.

### **Nonfinancial Services**

Service sector activity expanded modestly during the reporting period, but outlooks were pessimistic. Revenue growth was mostly broad based, though some contacts noted slowing demand due to higher interest rates and inflation, among other factors. Transportation services firms reported mixed activity in sea and air cargo shipments and ridership. Airlines noted unseasonably strong demand for leisure travel and an uptick in business travel. Staffing services firms saw continued strong demand for their services.

### **Construction and Real Estate**

Activity in the housing market weakened further. Sales slipped again and contract cancellations stayed elevated as high mortgage rates priced buyers out of the market. Among the major Texas metros, Austin appeared to be the roughest market and was experiencing larger price declines to generate sales. Buyer incentives increased notably, putting downward pressure on home prices and builders' margins. Outlooks worsened, with contacts expecting further erosion in sales and home starts in the near term. Apartment leasing slowed and rents were flat to down during the reporting period. Office leasing remained soft and ample sublease space a concern, while fundamentals in the industrial market stayed solid. Contacts said that the higher cost of capital was pushing up cap rates and slowing investment sales activity.

### **Financial Services**

Loan volumes declined broadly for a second period in a row due to a steep decline in loan demand. Commercial real estate and commercial and industrial loan volume continued to contract, though at slower rates than over the prior six weeks, while residential real estate and consumer loan volumes declined notably faster. Loan nonperformance rose slightly. Contacts still overwhelmingly reported loan price increases, and credit standards

and terms continued to tighten. Business activity experienced a greater decline over the past six weeks, and expectations for the next six months are for loan demand and business activity to decline further and loan performance to worsen.

### **Energy**

Energy activity expanded slightly during the reporting period. The Eleventh District rig count was fairly flat, while well completions ticked up. Demand for oilfield services was high and the industry remained constrained by equipment and labor shortages. Outlooks were positive, with contacts expecting oil and natural gas prices to remain elevated enough to drive steady increases in energy activity for the foreseeable future, though concern about a slowdown in future economic growth increased.

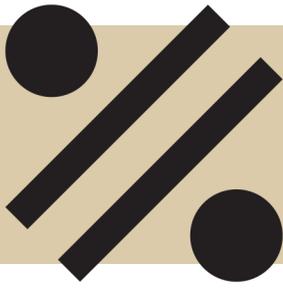
### **Agriculture**

Widespread rainfall somewhat improved pasture and soil moisture conditions, though a majority of the district remains in drought. Agricultural commodity prices remained strong, though contacts said unprecedented volatility in cotton markets as well as a relatively low cotton price compared with grain prices may prompt a significant drop in cotton acreage next year. Beef demand remained strong, and prices were up from six weeks ago but down from a year ago because of increased beef supply due to more animals moving to slaughter amid the drought this year.

### **Community Perspectives**

Nonprofits reported higher demand for their services during the reporting period. Contacts said that low- and moderate-income individuals were struggling to afford basic needs, such as rent and food, and that these struggles have recently worsened. Utilization of housing assistance has increased notably, and a school district executive mentioned that high home prices were a barrier to recruitment and retention of kitchen and custodial staff. Demand for food assistance rose, particularly among students, and food banks in some areas were unable to keep pace with the increased need. Childcare assistance needs rose as more families returned to the workforce due to depleted savings or decreased concerns surrounding COVID-19. Amid high demand for services, some nonprofit leaders noted challenges with soliciting donations and retaining talent. ■

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



## Summary of Economic Activity

Economic activity in the Twelfth District expanded modestly during the October through mid-November reporting period. Labor market conditions remained tight, and employment levels grew at a modest pace. Wages and prices rose at a slower pace relative to the previous reporting period. Demand for retail goods was robust, and activity in the consumer and business services sectors trended up. Demand for manufactured products strengthened on net, while conditions in the agriculture and resource-related sectors were stable but weak. Activity in residential real estate markets weakened moderately, while commercial real estate activity was unchanged overall. Lending activity declined moderately over the reporting period. Communities across the Twelfth District, and lower-income households in particular, were challenged by elevated living costs. Contacts expressed concern over a weaker outlook for the economy and increased overall uncertainty.

### Labor Markets

Employment levels grew at a modest pace during the reporting period. The labor market remained tight despite some signs of easing. Employers generally mentioned ongoing difficulties in filling vacancies despite rising employee head counts. Labor supply was particularly constrained in agriculture, hospitality, health care, retail, food services, transportation, and skilled trades. Hotels and restaurants, in particular, continued to operate below capacity due to labor shortages, causing reduced hours of operation and restricted availability of add-on services. Contacts in Alaska, Hawaii, and Utah highlighted especially tight labor markets across most sectors. Conversely, contacts in other sectors observed some easing in hiring conditions with manufacturing, finance, and professional services reporting lower turnover and voluntary quits, as well as more applications per open position. Hiring freezes and layoffs have spread widely across the technology and entertainment sectors, and some contacts observed similar developments in the real estate sector. Contacts also highlighted a slowdown in hiring activity due to continued investment in automation and growing uncertainty for the economic outlook. A few contacts mentioned increased efforts in employee training.

Wages grew further but at a slower rate, especially for lower-paid positions. Reports indicated that workers continued to ask for higher wages primarily because of elevated costs of living, and employers continued to offer hiring incentives, retention bonuses, and comprehensive benefits packages. Workers' preference for flexible work arrangements remained, but employers observed more room to push back against such requests. A few con-

tacts highlighted upward wage pressures from the increases in minimum wages regionally and ongoing discussions with labor unions.

### Prices

Prices rose at a slower pace relative to the previous reporting period, but overall levels remained elevated. Ongoing rises in the costs of labor, raw materials, and input services led to higher final prices in several sectors, including hospitality, food services, business services, electronics, health care, pet care, insurance, and financial services. Conversely, gradually improving supply chain constraints, cooling overall demand, and high uncertainty for domestic and global economic outlooks have resulted in flat or lower prices for many products, including metals, lumber, wood products, some food (fish, bacon, and potatoes), and apparel.

### Community Conditions

Communities across the District continued to report high inflation, food insecurity, and lack of affordable housing as well as the heavy toll of overall economic uncertainty as key challenges for lower-income households. Non-profit organizations reported a sharp drop in donations from both individuals and corporations in recent weeks and highlighted that these declines in funds have constrained them from meeting the elevated demand for behavioral health and substance use services as well as basic shelter needs. Contacts also noted that elevated operational costs and a limited ability to compete with larger corporations for labor led a number of small businesses and community service providers to close their operations.

### **Retail Trade and Services**

Demand for retail products, although softening somewhat, continued to be robust. Contacts in the Pacific Northwest and Intermountain West reported strong retail sales that were backed by population and employment growth. At the same time, reports in the Mountain West noted inflationary pressures slowing down the demand for food at grocery stores. Labor shortages continued to hinder the retail sector despite higher wages. The outlook by retailers for the holiday season was generally positive, though holiday sales were expected to fall short of those observed last year.

Activity in the consumer and business services sectors trended up. Stronger tourism supported higher demand for food and beverage services, hospitality, and air travel. A pickup in business travel and related events further boosted demand for leisure and hospitality services. Demand for insurance, legal, and banking services remained unchanged. One contact reporting shifting towards more online services partly due to higher costs and labor shortages. Laboratory testing and medical services ran at or near full capacity due to medical worker shortages.

### **Manufacturing**

Demand for manufactured products strengthened on net. Softer residential construction dampened demand for metals and lumber, although the impact was partially offset by home improvement investments by existing homeowners. Operational backlogs in food manufacturing have eased substantially as COVID-19 disruptions have ameliorated, allowing production to move to near capacity. A contact in the capital equipment industry noted continued supply disruptions in high-tech electrical components stemming from pandemic containment measures in Asia. Overall, the demand for capital equipment remained strong, driven by an overall increased push by businesses toward automation.

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

Conditions in the agriculture and resource-related sectors were stable, albeit weak, during the reporting period. Farmers reported solid domestic and international demand for both fresh and processed foods, especially for dairy products and nuts, but noted that global economic uncertainty and a strong dollar continued to weigh down international demand for most domestic agricultural products. Limited rainfall throughout California has reportedly impacted summer crops, such as tomatoes, and is threatening expectations for various winter crops,

especially leafy greens. Contacts reported meaningful relief in supply bottlenecks in recent weeks, although one producer noted persistent disruptions and delays at some ports in Asia stemming from pandemic containment measures. Utilities providers reported challenges meeting demand as labor and materials shortages persisted.

### **Real Estate and Construction**

Activity in residential real estate markets weakened moderately compared to the prior reporting period. Demand for single-family homes fell overall due to elevated prices and rising mortgage rates, while demand for multi-family rental units remained strong. One contact in Southern California noted that potential homebuyers have opted to rent instead, and a Northern California contact reported a change in scope for some single-family construction projects, now built to rent rather than to sell. Selling prices across the District remained high but began to stabilize, with price reductions in some markets. Across the District, inventories remained limited but increased somewhat in recent weeks as homes took longer to sell. Residential construction activity declined notably across the District. Contacts largely attributed the decline to the rising cost of capital due to rising interest rates.

Commercial real estate activity was unchanged overall. Demand for industrial space remained strong, and in some regions demand for retail space strengthened, while office space demand was subdued. One contact in Utah noted particularly weaker demand outside of the premium office space market. A contact in Northern California reported the pace of new commercial space construction continued overall but noted some slowing in warehouse construction.

### **Financial Institutions**

Lending activity declined moderately in recent weeks. Contacts reported that higher interest rates and overall economic uncertainty led to a drop in demand for most commercial and personal loans, with notable softness in residential and commercial real estate lending. Conversely, credit card debt picked up recently. Credit quality remained high, although some contacts observed a slight deterioration. Deposits moderated, and in some cases fell, but liquidity remained elevated overall. Contacts reported tighter lending standards in response to increased economic uncertainty and noted signs of weakness in capital markets, investment banking, and asset management services. ■



