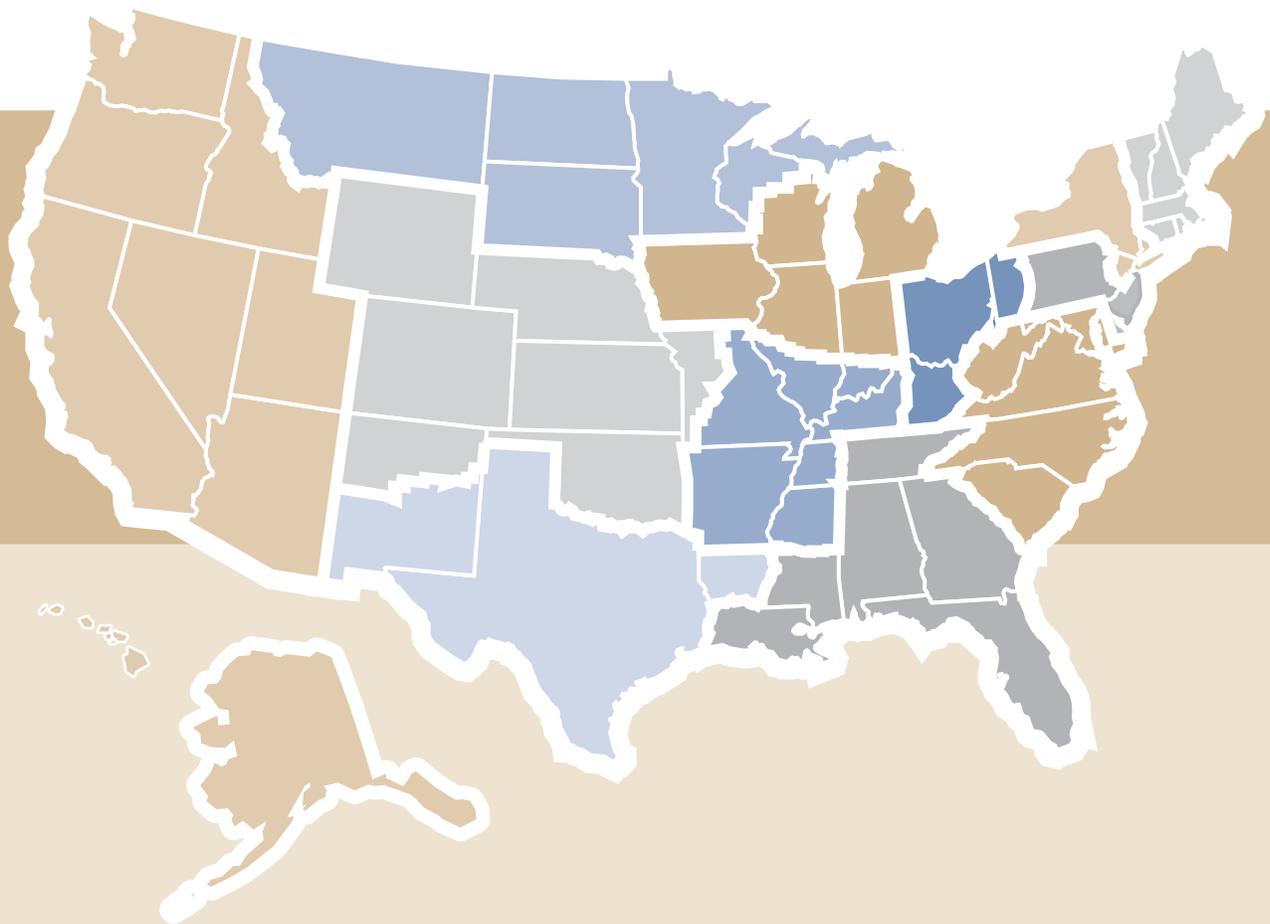




The Beige Book

Summary of Commentary on
Current Economic Conditions by
Federal Reserve District

February 2024



FEDERAL RESERVE SYSTEM

Contents

About This Publication	ii
National Summary	1
Federal Reserve Bank of Boston	5
Federal Reserve Bank of New York	8
Federal Reserve Bank of Philadelphia	12
Federal Reserve Bank of Cleveland	16
Federal Reserve Bank of Richmond	20
Federal Reserve Bank of Atlanta	24
Federal Reserve Bank of Chicago	28
Federal Reserve Bank of St. Louis	31
Federal Reserve Bank of Minneapolis	35
Federal Reserve Bank of Kansas City	39
Federal Reserve Bank of Dallas	43
Federal Reserve Bank of San Francisco	47

About This Publication

What is the Beige Book?

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

What is the purpose of the Beige Book?

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

How is the information collected?

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

How is the information used?

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

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

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

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

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

National Summary

Overall Economic Activity

Economic activity increased slightly, on balance, since early January, with eight Districts reporting slight to modest growth in activity, three others reporting no change, and one District noting a slight softening. Consumer spending, particularly on retail goods, inched down in recent weeks. Several reports cited heightened price sensitivity by consumers and noted that households continued to trade down and to shift spending away from discretionary goods. Activity in the leisure and hospitality sector varied by District and segment; while air travel was robust overall, demand for restaurants, hotels, and other establishments softened due to elevated prices, as well as to unusual weather conditions in certain regions. Manufacturing activity was largely unchanged, and supply bottlenecks normalized further. Nevertheless, delivery delays for electrical components continued. Ongoing shipping disruptions in the Red Sea and Panama Canal did not generally have a notable impact on businesses during the reporting period, although some contacts reported rising pressures on international shipping costs. Several reports highlighted a pickup in demand for residential real estate in recent weeks, largely owing to some moderation in mortgage rates, but noted that limited inventories hindered actual home sales. Commercial real estate activity was weak, particularly for office space, although there were reports of robust demand for new data centers, industrial and manufacturing spaces, and large infrastructure projects. Loan demand was stable to down, and credit quality was generally healthy despite a few reports of rising delinquencies. The outlook for future economic growth remained generally positive, with contacts noting expectations for stronger demand and less restrictive financial conditions over the next 6 to 12 months.

Labor Markets

Employment rose at a slight to modest pace in most Districts. Overall, labor market tightness eased further, with nearly all Districts highlighting some improvement in labor availability and employee retention. Businesses generally found it easier to fill open positions and to find qualified applicants, although difficulties persisted attracting workers for highly skilled positions, including health-care professionals, engineers, and skilled trades specialists such as welders and mechanics. Wages grew further across Districts, although several reports indicated a slower pace of increase. Employee expectations of pay adjustments were reportedly more in line with historical averages.

Note: This report was prepared at the Federal Reserve Bank of San Francisco based on information collected on or before February 26, 2024. This document summarizes comments received from contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.

Prices

Price pressures persisted during the reporting period, but several Districts reported some degree of moderation in inflation. Contacts highlighted increases in freight costs and several insurance categories, including employer-sponsored health insurance. Nevertheless, businesses found it harder to pass through higher costs to their customers, who became increasingly sensitive to price changes. The cost of many manufacturing and construction inputs, such as steel, cement, paper, and fuel, reportedly fell in recent weeks.

Highlights by Federal Reserve District

Boston

Economic activity increased at a slow pace, and employment gains were modest. Output prices increased slightly, and wage growth held steady at a moderate pace. Residential realtors expressed growing optimism as both property listings and pending home sales increased. Uncertainty persisted concerning the fate of maturing office property loans, but the outlook for the sector did not worsen.

New York

Regional economic activity flattened after a period of sustained weakness. Labor market conditions remained solid as employment grew slightly and wage growth picked up to a moderate pace. Labor demand and labor supply continued to come into better balance. Consumer spending declined modestly. The pace of selling price increases remained modest.

Philadelphia

Business activity resumed a slight decline during the current Beige Book period—as it had for most of 2023. Employment grew slightly, and labor availability improved. Wage and price inflation subsided further, but housing affordability continues to squeeze consumers, especially those in lower-income households. Generally, sentiment improved, but firms remained cautious with subdued expectations for future growth.

Cleveland

District business activity increased slightly. Some firms noted increased labor availability, reduced turnover, and easing wage pressures. Cost and price pressures changed little. Some manufacturers raised prices to cover higher costs, while some restaurateurs planned to absorb them. Business services firms continued to raise rates based on market conditions.

Richmond

The regional economy saw little growth, overall. Consumer spending softened slightly as poor weather conditions over the last several weeks led to reduced sales. Imports and shipments of consumer goods picked up as retailers replenished inventories. Domestic manufacturing softened, however. Real estate market activity improved slightly. Nonfinancial service demand was unchanged. Employment rose and price growth was unchanged, keeping inflation moderately elevated.

Atlanta

Economic activity was little changed. Labor markets and wage pressures eased. Nonlabor costs moderated, on balance. Consumers remained cost conscious, and higher prices squeezed household budgets. Travel and tourism remained strong. Home sales declined. Commercial real estate conditions slowed. Transportation activity was mixed. Manufacturing slowed somewhat. Overall loan demand declined.

Chicago

Economic activity increased modestly. Employment increased modestly; nonbusiness contacts saw a modest increase in activity; business spending increased slightly; manufacturing activity was flat; and construction and real estate and consumer spending declined slightly. Prices and wages rose moderately, while financial conditions tightened modestly. Prospects for 2024 farm income deteriorated some.

St. Louis

Economic activity has increased slightly since our previous report. Contacts reported that consumer demand slowed beyond seasonal norms. While labor markets remain tight overall, an increasing number of firms reported being fully staffed or overstaffed relative to consumer demand. Price growth has slowed in recent months. Contacts reported a mixed outlook for the coming year, although the outlook has improved since mid-December.

Minneapolis

District economic activity was up slightly. Employment grew some, but labor demand softened. Wage pressures continued to moderate, and prices rose modestly. Consumer spending declined slightly, thanks to slow winter tourism. Commercial construction remained slow, but some markets saw single-family activity improve. Manufacturing, mining, and energy activity increased.

Kansas City

Economic activity in the Tenth District was stable. Job gains were modest, and wage growth, while elevated, was tied closer to worker performance. Price sensitivity rose among consumers, even as prices rose moderately. Commercial real estate contacts indicated skepticism around recent appraisals of property valuation, not wanting to be in a position of trying to “catch a falling knife.”

Dallas

Economic activity expanded modestly, with most sectors holding steady or experiencing slight to modest growth. Wage growth was moderate, and input cost and selling price growth was generally at or below average. Texas firms were more bullish on demand expectations than late last year, with more than half of the firms’ expecting increases over the next six months. Outlooks overall were less pessimistic.

San Francisco

Economic activity grew slightly, employment levels rose slightly, and price and wage growth eased. Retail sales were stable, and demand for services grew modestly. Demand for manufactured products changed little, and conditions in agriculture were stable. Real estate activity rose slightly overall. Financial sector conditions were little changed.



Federal Reserve Bank of Boston

Summary of Economic Activity

Economic activity increased at a slight pace amid modest employment growth and only minor price increases. Retail sales were about flat on balance, while restaurants had a slower-than-usual January, and hotels reported stable activity. Manufacturers and staffing firms alike reported modest revenue growth. Residential real estate showed signs of positive momentum, as pending home sales increased modestly of late and by significant margins relative to one year earlier. Commercial real estate activity was flat on average. On balance, the outlook was cautiously optimistic, with many contacts expecting activity to increase in the second half of 2024. The exception was the outlook for commercial real estate, which remained relatively weak—especially for the office sector—though it did not worsen any further.

Labor Markets

Employment increased modestly amid mixed hiring activity, and wage growth was moderate on balance. Restaurant employment increased moderately in response to an easier hiring environment and an increased willingness of existing workers to expand their hours. Retail headcounts were stable, except for the shedding of temporary seasonal hires. Manufacturing employment increased slightly overall, as one firm added staff at a modest pace, and others kept headcounts fixed. Wages increased at a moderate (but stable) pace for restaurant and retail workers. Manufacturing wages increased at a somewhat elevated pace, and one firm sought to offset wage pressures with efficiency gains. Wages in the health-care sector were about flat recently. Hiring frictions eased for most contacts in most sectors, but one manufacturer struggled to fill open positions. Staffing industry contacts saw ongoing declines in sign-on and retention bonuses, as well as a trend away from remote work arrangements—all of which pointed to an increase in employer bargaining power. A workforce development contact said that transportation and childcare costs continued to present barriers to employment among candidates for entry-level positions. Looking ahead, hiring plans for the rest of 2024 called for only modest increases in employment, and wage increases were expected to be moderate.

Prices

Prices were up slightly on average according to First District contacts. Retailers held sticker prices steady. Restaurant prices were on average flat in early 2024, following a series of above-average

menu price increases in 2023. Average daily room rates at Boston area hotels were up three percent on a year-over-year basis, a pace that was down considerably from the first half of 2023. Among manufacturers, more than half held output prices fixed, and others enacted moderate price increases. Most manufacturers reported no changes in their input prices, although some experienced modest declines in the prices of freight and gasoline, and one noted moderate input price increases. The outlook across sectors called for only small output price increases on average as most firms expected pricing pressures to be minimal. One firm nonetheless expected to face further moderate pricing pressure based on ongoing increases in labor costs.

Retail and Tourism

Retail and tourism sales were slightly weaker on balance in January, even net of seasonal factors, although results were mixed. A clothing retailer experienced a weaker-than-expected holiday season, posting a moderate decline in sales from one year earlier, with the slowdown attributed in part to the firm's earlier price increases. A discount retailer saw further modest improvements in sales led by increased purchases of basic home supplies. A Massachusetts restaurant industry contact reported an exceptionally weak January—attributed to the growing popularity of “Dry January” and other New Year's resolutions—but also noted there was a marked rebound in February to date. Hotel occupancy rates in Greater Boston were stable net of seasonal patterns and maintained a stable year-over-year growth pace of four percent. Restaurants were optimistic for the rest of 2024, and retailers were at least cautiously optimistic. However, contacts in both types of business emphasized that demand would continue to be marked by a high degree of price-consciousness.

Manufacturing and Related Services

Revenues increased modestly on average among First District manufacturers contacted this round, although demand conditions varied. A consumer-goods maker experienced a stronger-than-expected increase in sales for the holiday season, while a furniture maker had a modest seasonal uptick that nonetheless left sales below their year-earlier levels. One high-technology manufacturer faced declining sales of COVID-related products but maintained steady and modest revenue growth from other sources, while another experienced slightly softer sales because of unexpected weakness in automotive-related demand. Capital expenditures were mixed, increasing slightly on balance. According to contacts, plans for 2024 called for either similar or somewhat higher spending relative to 2023. The outlook was mixed but optimistic on balance, and only one firm expected sales to decline in 2024. A few firms expected the second half of the year to bring stronger demand compared with the first half.

Staffing Services

First District staffing firms reported modest revenue growth on average. Nonetheless, revenues and profit margins fell slightly for a firm that specializes in staffing to the health-care industry. Temporary and temp-to-hire roles became more common at the expense of direct hires, reversing a pandemic-era trend. Contacts anticipated modest revenue growth on average for the coming quarter.

Commercial Real Estate

Commercial real estate activity in the First District was stable in recent weeks. Industrial leasing held steady at a decent pace, and vacancies remained low. In the office market, leasing activity posted a slight uptick in Providence and moved sideways at a slow pace elsewhere, while vacancy rates were unchanged. Retail leasing and vacancy rates were stable, but contacts noted that deals were taking longer to accomplish. Rental rates were mostly flat across property types, excepting a slight decline for Boston-area industrial spaces. No major new construction was reported aside from projects already underway. The outlook was mixed across sectors. Retail activity was expected to hold firm in the near term and possibly improve later in 2024, while industrial activity was seen as softening further. Office market prospects remained weak, as leasing demand was expected to stay tepid, and credit to stay tight, amid ongoing uncertainty over the fate of office loans maturing in 2024. Nonetheless, the office outlook did not worsen since the previous report.

Residential Real Estate

First District home sales appeared to turn a corner in recent data, as pending sales picked up modestly in January from late 2023 and increased by moderate margins from one year earlier on average. Even though closed sales (for both single-family homes and condos) declined again on a year-over-year basis to January in most New England states, New Hampshire reported moderate increases in closed single-family sales and above-average increases in closed condominium sales from a year earlier. Contacts cited modest declines in mortgage rates since last fall as a likely reason for buyers' increased willingness to enter the market. Although inventory levels remained low, listings increased by modest to significant margins around the First District in recent months, lending increased optimism for sales moving forward. Still, contacts emphasized that the number of units for sale stayed far short of what they considered a balanced market, and that a dearth of inventories had contributed to faster house price growth in 2023 from 2022.

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



Federal Reserve Bank of New York

Summary of Economic Activity

After a period of sustained weakness, economic activity in the Second District flattened this reporting period. Labor market conditions remained solid as employment grew slightly and wage growth picked up to a moderate pace. The pace of selling price increases remained modest for most services but picked up for manufactured goods. Following a sharp contraction in January, manufacturing activity continued to edge slightly lower. Consumer spending declined modestly after a strong end to last year. Still, tourism activity in New York City was solid and continued to move towards pre-pandemic levels. Housing markets picked up as buyers who were waiting for a reprieve in mortgage rates started to return. Commercial real estate markets mostly held steady despite increasing financial strain among property owners. The finance sector remained sluggish, with ongoing declines in loan demand and rising delinquencies. The outlook improved somewhat.

Labor Markets

Labor market conditions remained solid in early 2024. Employment continued to grow slightly as gains in the personal services and leisure and hospitality sectors were partially offset by losses in the business services, information, retail, and finance sectors. Labor demand and labor supply continued to come into better balance, with a range of contacts reporting that while demand has remained solid, it has become less difficult to find qualified workers. Many businesses noted ongoing challenges getting workers to come into the office, though a New York City employment agency indicated that candidates were approaching the negotiating table with more reasonable expectations for in-person days. Though layoffs remained limited, announcements of forthcoming reductions in the region's banking and finance sectors reflected some signs of weakening on the horizon. Still, businesses in most sectors planned to increase headcounts in the coming months.

Wage growth picked up to a moderate pace. While most contacts reported steady wage growth in the new year, the recent increase in New York State's minimum wage has caused some businesses to raise pay more substantially for some employees. Wage growth is expected to moderate over the course of this year as conditions continue to normalize.

Prices

The pace of input price increases picked up to a moderate pace. Contacts noted outsized increases in the prices of raw materials such as cocoa, copper, plastic, and textiles, amid ongoing sharp increases in insurance and freight costs. Pricing pressures have eased for steel, paper, and grains—inputs that saw steep price increases in recent years. The pace of selling price increases remained modest for most services but picked up for manufactured goods. Construction firms continued to report modest selling price declines. Inflationary pressures are expected to moderate in the year ahead.

Consumer Spending

Consumer spending declined modestly for both goods and services in early 2024 after a strong end to last year. Retail contacts reported declining sales since the last report. While spending on travel remained strong, contacts noted some retraction in discretionary spending among less affluent customers. Auto dealers in upstate New York indicated sales of new cars slowed noticeably, partially due to unseasonably harsh winter weather, while used car sales remained steady. Inventory has continued to improve, and consumers have increasingly been able to find the vehicles that they want.

Manufacturing and Distribution

Following a sharp contraction in January, manufacturing activity edged slightly lower. Though shipments increased slightly, new orders remained weak and unfilled orders continued to decline. Transportation and distribution firms also reported modestly declining activity. While supply availability continued to improve and delivery times shortened, some contacts reported ongoing difficulty obtaining raw materials. Manufacturers expect economic conditions to improve though optimism remained subdued.

Services

On balance, service sector activity was little changed. While activity increased noticeably in the information sector and edged up in the education and health and leisure and hospitality sectors, activity in the business services sector declined. Service firms have become more optimistic about the outlook.

A New York City tourism contact reported that activity has been fairly level since the holiday season, with hotel occupancy at typical winter levels. Attendance at Broadway shows has begun to pick up as showtimes have been adjusted to account for shifting preferences, and the spring season has a promising slate of new shows. Business travel has picked up, and trade shows are

drawing larger crowds with a renewed interest in conducting business in person. The selection of New York City as a host city for the 2026 FIFA World Cup has boosted optimism in the region's tourism industry.

Real Estate and Construction

Housing markets strengthened as the spring selling season got underway a bit earlier than normal. While inventory generally remained exceptionally low, inventory in New York City has begun to normalize. Many buyers who were waiting for a reprieve in mortgage rates have started to return with the intention of refinancing later. Though mortgage rate lock-in continues to limit new listings, particularly in the New York City suburbs, listings have increased in upstate New York as people have continued to leave the area for warmer climates. Still, with such limited inventory, home prices have continued to press higher. Bidding wars were prevalent in the New York City suburbs but have been more limited in upstate New York.

Residential rental markets firmed after softening in the fall. Though rents held steady during the latest reporting period, bidding wars on rentals have become more frequent, and new leasing activity was strong in New York City. In upstate New York, rents edged down but remained high.

Commercial real estate markets mostly held steady. New York City office vacancy rates were little changed near historic highs, and rents were flat. A commercial real estate contact noted that proximity to public transportation was a significant attraction to office tenants within Manhattan. Though generally businesses are looking to reduce their floor plans, legal firms have been active in seeking new space. Still, financial strain among property owners in New York City continued to build, with upcoming loan maturities foreshadowing further increases in defaults in the coming year. Office markets outside New York City, where supply is more limited, remained more resilient. Industrial markets edged down as some tenants looked to shed space, though rents remained elevated. Multifamily markets held steady even as operating expenses increased sharply with growing labor and insurance costs.

Construction contacts reported that overall activity declined noticeably. Office construction remained subdued. Industrial construction was strong in Northern New Jersey but declined in upstate New York.

Banking and Finance

Activity in the region's finance sector remained sluggish. Small- to medium-sized banks in the region reported ongoing declines in loan demand and weaker refinancing activity. Banking contacts also indicated that credit standards tightened, particularly for business loans and commercial

mortgages. While deposit rates held steady, loan spreads narrowed, and delinquencies continued to rise.

Community Perspectives

Community leaders expressed concern about crime and public safety. Although violent crime rates have continued to decline over the past year, a rise in hate crimes and ongoing high rates of retail theft have reduced the sense of security in public spaces, such as on public transit and in stores. Retail theft has taken a particular toll on small business owners, who faced increased costs due to loss prevention measures. Legislators have worked to respond to this problem, with proposals including a tax rebate for shop owners to ease the costs of additional security and loss prevention measures.

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



Federal Reserve Bank of Philadelphia

Summary of Economic Activity

On balance, business activity in the Third District resumed a slight decline—as with most of 2023—following a holiday season uptick. Employment grew slightly overall, with moderate job growth in the broad economy offsetting a modest decline in manufacturing jobs. Wage and price inflation appeared to subside further—to a still-modest pace for wages but to a slight pace for prices. Despite some shipping challenges, supply chain issues were no longer a concern. Labor supply was much improved but still a concern. Contacts continued to note lower consumer spending and rising payment problems among low-income households. Housing costs appear to be a key issue for all households, as higher interest rates have choked off the inventory of for-sale homes. Expectations for economic growth over the next six months remained positive but also remained below historical averages.

Labor Markets

Employment continued to grow at a slight pace, based on our January and February surveys. Since December, nonmanufacturing firms have reported moderate increases in full-time jobs and slight increases in part-time jobs and in the average employee workweek. Manufacturing firms reported a modest decline in employment and little change in the average workweek.

Many contacts continued to note an increase in job applicants, although often of poor quality. Staffing firms also noted rising order activity, which had been soft for much of last year. A community agency that trains young people in computer skills for entry-level jobs at wages above \$17 an hour described the job market as robust.

Firms reported that wages continued to grow modestly, yet the rate of growth subsided and was just above pre-pandemic levels. On a quarterly basis, firms' expectations of the one-year-ahead change in compensation cost per worker fell to a trimmed mean of 3.9 percent in the first quarter of 2024, from 4.1 percent in the fourth quarter (and from a peak of 5.8 percent in the third quarter of 2022). Expectations averaged 3.2 percent before the pandemic.

Prices

On balance, firms reported that price increases subsided significantly—still at a pace in the modest range, but now more typical of the lower end of the range observed before the pandemic.

Firms reported that increases in prices received for their own goods and services over the past year fell significantly in the first quarter of 2024 compared with the fourth quarter of 2023. The trimmed mean for reported price changes, as indicated by responses to our quarterly survey questions, fell to 2.0 percent from 3.6 percent for all firms. Price increases fell to 1.3 percent among nonmanufacturers and to 2.9 percent for manufacturers.

Contacts—large and small—were nearly unanimous in claiming an end to supply chain shortages. However, one large manufacturer noted that shipping disruptions in the Red Sea and the Panama Canal would likely add to costs.

Looking ahead one year, the increases that firms anticipated in the prices for their own goods fell further. The trimmed mean for all firms fell to 2.5 percent in the first quarter of 2024, from 2.7 percent in the fourth quarter of 2023. After reaching a peak of 5.9 percent in the fourth quarter of 2021, expectations are now only slightly above the 2.3 percent quarterly average for 2016 through 2019. The expected rate of growth fell to 1.7 percent for nonmanufacturers and rose to 3.5 percent for manufacturers.

Manufacturing

Overall, manufacturing activity declined slightly during the period following a moderate decline in the prior period. The index for new orders fell modestly, but the shipments index rose slightly on net.

Expectations among manufacturers for growth in the next six months waned somewhat in January but returned to a modest level in February—still below historical averages. More than 40 percent of the firms expected increases in new orders and in shipments.

Consumer Spending

On balance, retailers (nonauto) reported a slight decline in real sales after holding steady through the holiday period. These contacts tend to serve lower- and middle-income consumers. While they have noted further belt-tightening and coupon counting, they have not seen higher-income consumers trading down yet.

Auto dealers reported slightly lower sales of new cars after adjusting somewhat for seasonal trends. Contacts noted that fully electric vehicles are selling slowly and piling up on dealer lots. Other models are selling well. Affordability remains a problem with high prices and high borrowing costs. A law firm's clients have reported increased repossessions as more customers struggle to keep up with payments.

Overall, tourism continued to slow slightly as various segments normalize following the pandemic. Leisure travel continued to fall from high levels and was further hurt by poor skiing conditions. Business and group travel continued to slowly improve, especially in urban markets.

Nonfinancial Services

On balance, nonmanufacturing activity continued to grow slightly. The sales/revenues index continued to suggest a modest pace, while the index for new orders (slightly negative on net) edged closer to zero. A publishing firm noted a widespread decline in advertising dollars. A household moving company noted that weak home sales had driven firms out of business—claiming that conditions “are the worst they have ever been in my career, which dates back to 1968.”

Current sentiment of firms appeared to deteriorate again. The index of general activity for the region returned to negative territory, where it has been for 16 of the past 17 months. The index of general activity at the firm level fell to near zero. Nevertheless, expectations among nonmanufacturers for growth in the next six months improved slightly but remained well below historical averages.

Financial Services

The volume of bank lending (excluding credit cards) grew slightly during the period (not seasonally adjusted)—slower than the moderate pace observed last period and the modest pace one year ago.

During the period, District banks reported modest growth in home mortgages, auto loans, and commercial real estate lending. The volume of home equity lines and commercial and industrial loans were essentially flat. Credit card volumes fell significantly as consumers paid down balances that surged during the year-end holiday season. However, other consumer loans rose moderately.

Banking contacts continued to note generally sound credit quality. Banks and business clients agreed that higher interest rates had lowered demand for loans, while tighter access to credit had lowered the potential supply. Contacts from accounting, banking, law firms, service firms, and community service agencies reported higher delinquencies, defaults, nonpayment by consumers, and use of credit to buy necessities.

Real Estate and Construction

Brokers reported that existing-home sales edged lower from levels that were already extremely low. The inventory of for-sale properties remained extremely low as it has since the pandemic began. However, brokers noted that higher interest rates have severely limited new listings over the past year and were responsible for the significantly lower level of closings. Stories have re-emerged of multiple offers, cash sales, and buyers paying well above the asking price.

New-home builders continued to report steady sales at relatively strong levels, in part because of the lack of existing for-sale homes. Most expect their pipeline of contracts to keep construction busy through the year.

In nonresidential markets, leasing activity and transaction volumes continued to decline slightly. Contacts noted some strength in retail and in warehousing but continued concern for the office market as leases expire and loans come due. One contact from a large law firm noted that its distressed real estate practice is “back full throttle.”

Current construction activity appears to have slowed slightly, according to contractors and the firms that supply them. The pipeline for most commercial real estate continues to shrink, while projects hold steady for institutions and expand for preliminary land development and for public infrastructure.

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



Federal Reserve Bank of Cleveland

Summary of Economic Activity

On balance, business activity in the Fourth District increased slightly in recent weeks, and contacts generally expected it to increase modestly in the months ahead. Demand for manufactured goods edged up, but some contacts noted that seasonal patterns and customer demand were less predictable than before the pandemic. Residential construction contacts said that demand increased after mortgage rates fell, while nonresidential construction contacts reported that activity was boosted by demand for manufacturing projects. Retailers reported softer spending in discretionary categories. Overall, firms held staffing levels flat, and some noted increased labor availability, reduced turnover, and easing wage pressures. Nonlabor cost and price pressures remained stable in recent weeks, but they were down from those a year earlier.

Labor Markets

Overall, contact reports suggested that employment was flat during the recent reporting period, with the majority of firms indicating that their overall staffing levels had not changed. Several contacts noted that reduced turnover and increased worker availability had allowed them to hire more selectively or replace underperforming workers. For instance, some bankers reported that turnover of frontline staff declined, and they were hiring only for strategic positions. In contrast, several commercial construction firms reported increasing staffing levels to ramp up for new capital projects, and a business services contact noted that their client was “hiring at a fast pace given the growing interest and demand in AI/data solutions.” Contacts generally expected slight growth in employment in the coming months.

Wage pressures were largely unchanged in recent weeks and have been relatively stable over the past year. Many firms reported that wage pressures had normalized. Notably, many manufacturing and business services firms returned to offering standard annual cost-of-living adjustments, with several noting that increases were lower than in previous years. Similarly, firms across industries reported holding wages steady as labor availability increased and retention improved. One hospitality contact stated, “we seem to be retaining our workforce with our current pay level.” Still, a few firms seeking to attract and retain workers with specialized training continue to report offering larger wage increases than before or adjusting wages more frequently.

Prices

Nonlabor input cost pressures changed little over the past several reporting periods. Many contacts across sectors continued to report that their costs had stabilized and, in some cases, had softened. Some manufacturers noted that an increased availability of alternate suppliers helped contain costs. One contact said that after two years of suppliers' not accepting new customers, the contact was able to find alternate vendors with more favorable costs relative to the contact's existing suppliers. Yet firms across industries continued to report cost increases, albeit at a slower pace, and some restaurateurs noted a recent uptick in the cost of chicken, beef, and produce.

Price pressures were generally unchanged from those of the prior period, though pressures varied by industry. On the one hand, retailers reported being selective about raising prices, and two restaurateurs said they were holding menu prices steady and absorbing any cost increases. On the other hand, many business services firms reported raising their rates based on the market conditions, with one contact stating, "we've come to understand we can increase fees and remain competitive." Some manufacturing and construction contacts raised prices to cover increased materials costs, while others noted decreasing prices when costs fell.

Consumer Spending

Consumer spending moderated following a slight increase during the holiday shopping season. Contacts across retail segments reported softer spending in discretionary categories, and one retailer of consumer products noted a "marked decline in consumer spending." Auto dealers continued to report slow sales because of high interest rates and high vehicle prices, though one contact indicated that the supply of new vehicles had improved compared to recent reporting periods. While some contacts hoped that the arrival of spring would boost sales, the balance of retailers expected demand to change little in the coming months.

Manufacturing

Demand for manufactured goods increased slightly in recent weeks. However, some contacts noted that recent demand and orders had not returned to normal levels after expected end-of-year slowdowns. Some contacts indicated that seasonal patterns and customer demand were less predictable than those prior to the pandemic, and one manufacturer explained that "erratic [customer] demand" was "part of the post-Covid landscape." In general, manufacturers expected customer demand to improve slightly in the near term.

Real Estate and Construction

Residential construction contacts reported that demand increased as mortgage rates declined. However, real estate agents indicated existing homes sales changed little because inventory remained low. Looking ahead, home builders and real estate contacts anticipated that demand would increase should mortgage rates fall, encouraging some “customers [who had been] waiting on the sideline” to move forward with home purchases.

Nonresidential construction activity continued its recent rebound, bolstered in part by strong demand for manufacturing space. Still, one builder expected that “many large capital projects” that remained sidelined would move forward if interest rates were to come down. On balance, contacts expected nonresidential construction and real estate activity to be flat in the months ahead.

Financial Services

Reports suggested that loan demand stabilized after declining notably throughout 2023. Bankers attributed improved conditions in both commercial and consumer lending to a more stable interest rate environment and strong economic conditions. Two commercial bankers noted that the uptick in activity was a function of increased demand for their clients' goods and services. Looking ahead, bankers expected loan demand to increase because they anticipate interest rate reductions. Indeed, one commercial banker reported that clients' expectations for rate cuts in 2024 led their clients to move forward with capital spending plans. Core deposits remained flat, and two bankers indicated that they were no longer willing to compete with banks on overly aggressive deposit pricing. Bankers reported that delinquency rates were flat for both commercial and consumer loans.

Nonfinancial Services

Professional and business services contacts reported that demand increased. An engineer reported that demand for services increased as funds from federal infrastructure programs became available. Looking ahead, contacts anticipated that demand would continue to grow as clients are encouraged by “continued positive economic data.” Overall, freight and transportation activity increased slightly since the last reporting period, and haulers expected activity to increase in the coming months.

Community Conditions

Several workforce development contacts reported increased demand for their services over the past few months, with some noting that their client composition included more immigrants and non-English speakers. Most individuals sought training for occupations in health care or to obtain

commercial driver's licenses. However, one contact noted that younger workers were gravitating to gig work or other self-employment, even after completing training for other jobs. Contacts noted that federal infrastructure initiatives in Ohio increased employers' demand for training geared toward broadband infrastructure, robotics, cybersecurity, and skilled trades. Several contacts said that access to transportation and quality childcare continued to be barriers for job seekers in obtaining and retaining employment.

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



Federal Reserve Bank of Richmond

Summary of Economic Activity

Economic activity in the Fifth District was little changed in recent weeks. Port activity and trucking volumes remained solid, particularly for shipments of consumer goods as retailers looked to replenish inventories. Consumer spending on retail goods softened slightly, however, but contacts believed that adverse weather was the primary reason for the decline in sales and foot traffic. Residential and commercial real estate markets improved somewhat, but financial institutions reported less loan demand this period. Nonfinancial services demand, on the other hand, was unchanged. Employment grew moderately with some employers finding it easier to hire. Price growth was unchanged in recent weeks.

Labor Markets

Employment in the Fifth District grew at a moderate pace in recent weeks. Contacts diverged on labor availability depending on the type of worker needed, with skills and trades-workers more difficult to find. For example, an outdoor goods retailer commented they still struggled to find workers—which they mentioned isn't unusual in retail—but the market was better than in 2021–2022. An advertising firm reported a complete one-eighty from last year, and candidates are finding them now and not the other way around. Conversely, an engraver told us that after a very long search, they finally found good help, which felt like finding a needle in the haystack. An aluminum welder reported that due to a lack of skilled workers, they extended lead times and increased prices to cover overtime labor costs.

Prices

Price growth was little changed since our previous report, keeping year-over-year price growth moderately elevated. According to our most recent surveys, growth in prices received by nonmanufacturers remained around four percent while growth in prices received by manufacturers held steady at a rate around 2.5 percent. A few service providers said that labor and input costs continued to rise but they are unable to push further price increases to customers, so margins were being compressed. Firms in both sectors expected price growth to moderate over the next six months.

Manufacturing

Fifth District manufacturing activity softened in the most recent period amid uncertainty about business conditions. An asphalt producer reported that several highway jobs ended in early 2024 with no new jobs to replace them, which will lead to a 10 percent decline in volume. A coffee manufacturer reported challenges getting freight through the Red Sea, impacting production times and future costs. Several contacts reported difficulty getting financing, including a laundry equipment manufacturer that was forced to rely on alternative financing companies with higher interest rates than banks. The lack of qualified labor remains a major issue for most contacts. A lumber company reported a possible reduction in investment in their region due to a lack of suitably skilled workers.

Ports and Transportation

At Fifth District ports, underlying demand was good this period despite disruptions in the Panama and Suez canals impacting schedules. Carriers were doing fewer blank sailings in order to account for issues with the key transit routes. The volume of loaded imports was slightly lower this period, but respondents noted an increase in imports of consumer goods. Loaded export volumes were unchanged. Spot rates increased sharply as carriers were trying to offset higher costs associated with the longer transit times. Empties were flowing well and there was no stack congestion at the ports. Demand for airfreight was flat this period and rates were down due to excess capacity.

Underlying trucking demand was good this cycle, but some freight volumes were impacted by winter weather. In the truckload segment, there continued to be excess capacity. In the less-than-truckload segment, firms noted increased demand in the consumer segment as retailers were replenishing their inventories. In the truckload segment, rates were down as customers were pushing to decrease their shipping costs. Transactional rates remained unchanged in the less-than-truckload segment and those trucking companies were able to negotiate modest increases in their contract rates. Respondents stated that drivers were more readily available, but mechanic and some office positions were still difficult to fill this period.

Retail, Travel, and Tourism

Retailers reported a slight decline in sales and customer foot traffic in recent weeks. Several contacts mentioned adverse weather conditions kept shoppers from coming out to stores. A few retailers in the home improvement and building supply segment attributed some of their decreased sales to a slow real estate market and higher costs of borrowing to finance home improvement projects. New vehicle sales declined modestly. Hotel and restaurant contacts noted a slight slowdown in activity in recent weeks. One hotel chain manager said that leisure travel was steady but down from its peak, and business travel was still a fraction of what it was compared to

pre-pandemic levels. In the Northern Virginia market, where travel had been slow to return, hotel revenues were reportedly up as those hotels were now able to increase room rates amid steady occupancy rates.

Real Estate and Construction

In the Fifth District, residential real estate activity improved slightly this period as there remained pent up demand in the housing sector. Respondents noted an increase in listings and buyer activity. However, the elevated mortgage rate made buyers more tentative on making home purchase decisions. Sales prices have flattened, but there were still multiple offers on many homes. Days on market increased slightly but remained below historic averages. The home construction market was constrained as it was difficult to find land and to receive permitting for new developments. Residential construction costs started to moderate this period.

Overall market activity in commercial real estate improved slightly this period. In the office sector, there was more leasing activity related to firms upgrading their space and moving away from central business districts. Landlords were offering concessions or incentives to potential office tenants in lieu of higher rents. Retail space in the suburbs remained limited with low vacancy rates and increased rental rates. The rapid rise in interest rates in recent years has resulted in declining commercial real estate values and a dearth of investment sales. The lack of available financing and rising building costs continued to constrain new construction, especially for office and multi-family projects.

Banking and Finance

Financial institutions continued to report a modest softening of demand across all loan types. Higher interest rates and continued uncertainty with the overall economy continued to be the reasons noted for this softening. Deposit levels were beginning to show modest declines, with rates remaining flat and competition for deposits remaining high. Loan delinquency rates have begun showing modest increases, primarily in the unsecured personal and auto portfolios. Credit quality of new borrowers, however, remained stable with no institutions mentioning a change to their underwriting standards based on the current conditions.

Nonfinancial Services

Nonfinancial service providers continued to report that demand for their services as well as revenues remained stable. A design firm stated that election years often have negative impacts on the demand for their services because larger companies become more conservative with their budgets until the election is decided. A law firm also reported that the demand for their services was down, but they are observing more clients gaining optimism and entertaining merger and

acquisition offers as well as real estate development opportunities. Wages and workforce were becoming less of a challenge with both showing modest stabilization.

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



Federal Reserve Bank of Atlanta

Summary of Economic Activity

The Sixth District economy grew modestly in recent weeks. Labor markets and wage pressures eased further amid less turnover and a rising pool of applicants. Nonlabor costs continued to moderate overall, but some costs, such as technology and insurance, rose. Low- and moderate-income consumers traded down to less expensive items, taking advantage of extended payment options. Auto sales were mixed. District tourism was strong. Home sales fell to below pre-pandemic levels. Commercial real estate conditions declined. Transportation activity was mixed. Manufacturing slowed somewhat. Overall loan demand weakened. Energy production fell as maintenance and inclement weather cut refining capacity.

Labor Markets

Hiring was described as steady over the reporting period. Most contacts indicated that labor turnover had eased, and the pool of applicants had increased; however, many indicated that finding workers remained challenging. Several employers noted being more strategic in their hiring, focusing on candidate quality and work experience. Some firms partnered with local educational institutions to customize programs to upskill and prepare workers to fill roles. Firms concentrated on efficiencies and keeping costs in check by automating tasks, leveraging generative AI, and outsourcing professional services. Construction firms remained constrained by worker shortages and invested in labor-saving equipment and process improvements. Some manufacturing firms adjusted staffing down due to lower demand, and others planned to downsize both professional and hourly roles.

Most firms indicated that overall wage pressure eased somewhat, and wage growth rates were close to or just slightly higher than pre-pandemic.

Prices

While the pace of most nonlabor input cost increases continued to slow, cost levels remained elevated. Technology, labor, and especially insurance cost increases were the most frequently cited inflationary concerns. Consumers pushed back or traded down from higher-priced items, limiting firms' pricing power and eroding margins. The Atlanta Fed's Business Inflation Expectations survey

showed year-over-year unit cost growth decreased in January to 2.7 percent, on average, from 2.9 percent in December; firms' year-ahead inflation expectations for unit cost growth decreased in January to 2.2 percent, on average, from 2.4 percent in December.

Community Perspectives

The discontinuation of pandemic-era programs, such as enhanced SNAP and child tax credit programs, emergency rental assistance, and extended Medicaid coverage—compounded by rising prices—continued to weigh heavily on many households. Housing expenses remained an acute burden for both consumers and providers of affordable housing. Consumer-facing business contacts noted that low- and moderate-income consumers shifted spending to less expensive items and sought extended payment options. Social service organizations reported heightened demand for food and housing assistance; most reported sufficient funding to help meet the increased demand for services. Local government and nonprofit representatives reported strong demand for skilled labor, while citing insufficient training as an obstacle for local jobseekers looking for employment in higher-wage occupations.

Consumer Spending and Tourism

In line with previous reports, retailers described consumers as price conscious. Contacts experiencing this trend see it as an ongoing normalization of consumer behaviors. Auto sector contacts reported some softening in demand in the commercial and vehicle rental markets, while new car sales for personal use remain healthy. Overall, contacts are expecting flat to positive growth for 2024.

District travel and tourism remained resilient on balance. South Florida cruise lines continued to report strong demand. Festivals, sporting events, business conferences, and conventions were well attended, particularly in New Orleans, where contacts reported a solid lineup of events for the second quarter. Looking ahead, contacts are optimistic for the remainder of the year.

Construction and Real Estate

As mortgage rates retreated from cyclical highs, home ownership affordability improved throughout the District. However, home sales in most major markets ended the year well below seasonal norms and remained significantly behind pre-pandemic levels. Potential buyers locked-in to historically low mortgage rates remained reluctant to move, and migration into the District moderated through 2023, resulting in diminished housing demand. Existing home inventory levels were also suppressed by the “lock-in effect,” resulting in flat to moderate price growth in many markets. Demand for newly constructed homes was boosted by the lack of existing homes, and builders

saw improved traffic as mortgage rates declined. Contacts indicated higher lot costs as a significant impediment moving forward.

Commercial real estate (CRE) market conditions slowed. Office markets led the decline amid falling rents, increasing concessions, and weakening occupancies. Most market segments are expected to remain challenging as sizeable amounts of new construction are delivered, especially in the multifamily and industrial segments. Insurance costs continued to rise at atypically elevated rates, especially in coastal markets. Like the nation, Sixth District markets will contend with rising CRE loan maturities in 2024.

Transportation

Transportation activity was mixed overall. Ports continued to see strong activity, though down from pandemic highs; trucking firms struggled with significantly reduced volumes; and railroads experienced some stabilization in certain freight markets, including chemicals and forest products, following a significant slowdown in 2023. Current demand for distribution space was characterized as below 2019 levels, with significant softening expected to continue through 2024. Air cargo freight volumes strengthened for the first time since 2022. Inland barge companies reported strong and stable demand. The outlook by transportation contacts is generally favorable even amid geopolitical uncertainty.

Manufacturing

Manufacturing activity slowed slightly in recent weeks but remained healthy overall. Some firms, particularly producers of consumer goods, reported declines in new orders and increased inventory levels. However, those producing goods for the tech industry or government projects saw strong demand. Manufacturers reported that supply chains were healthy in general, although a minority of firms saw some shipping delays of inputs. The Manufacturing Sector Report of the Atlanta Fed's Business Inflation Expectations Survey showed that for the majority of respondents, demand remained at or below "normal" levels.

Banking and Finance

Lending at Sixth District financial institutions flattened since the previous report, given tighter underwriting standards and weaker demand for loans, including commercial real estate, commercial and industrial, and consumer loans. Multifamily is the only portfolio segment that experienced any notable uptick in growth. As noted in the previous report, the high interest rate environment has contributed to earnings concerns. Demand for large time deposits, those in excess of \$100,000, was considerable and continued to outpace loan growth, driving margin compression. Reliance on borrowings experienced a recent uptick after a sustained decline over the past year.

Additional earnings pressure has resulted from lower fee income in anticipation of credit deterioration.

Energy

Energy contacts reported that short-term headwinds from heavy refinery maintenance and weather-induced outages, which have cut refining capacity, resulted in crude inventory builds, and are expected to put upward pressure on pricing until refineries come back online. Contacts also noted declining domestic crude oil production in the wake of severe winter storms. More broadly though, ongoing optimism was expressed about growing cleaner energy investment stemming from substantial tax credits offered by the Inflation Reduction Act. Utility contacts reported strong electricity demand across segments over the reporting period.

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



Federal Reserve Bank of Chicago

Summary of Economic Activity

Economic activity in the Seventh District increased modestly overall in January and early February, and contacts generally expected a small increase in demand over the next year. Employment increased modestly; nonbusiness contacts saw a modest increase in activity; business spending increased slightly; manufacturing activity was flat; and construction and real estate and consumer spending declined slightly. Prices and wages rose moderately, while financial conditions tightened modestly. Prospects for 2024 farm income deteriorated some.

Labor Markets

Employment rose modestly over the reporting period, and contacts expected a similar rate of increase over the next 12 months. Many contacts noted cooling labor market conditions. There were reports of increased job applications per posting, improved applicant quality, job posting removals, and layoffs. A contact that hires spring and summer seasonal workers said hiring for the coming season was easier than last year. Wages rose moderately, with many contacts citing this as the outcome of their annual wage reviews. Benefits costs increased as new insurance rates took effect in the new year. Overall, contacts reported that insurance rates increased at about the same pace as a year ago.

Prices

Prices rose moderately overall in January and early February, and contacts expect growth to continue at that pace over the next 12 months. Producer prices moved up moderately. Nonlabor input costs continued to rise, with contacts highlighting increases in raw materials and shipping costs. Several contacts noted that shipping disruptions in the Red Sea had contributed to higher transportation costs. Consumer prices continued to rise moderately, though retail contacts noted that price growth was noticeably slower than six months ago.

Consumer Spending

Consumer spending decreased slightly on balance over the reporting period. Contacts noted that sales fell due to unseasonably cold weather in January and that a rebound in early February was not enough to offset the earlier decline. Nonauto sales decreased slightly. Contacts remained cau-

tiously optimistic, though, with several commenting that the underlying positive trend in spending hadn't changed. Some also expected a slight pickup in the number of retail store openings this year compared with 2023. Light vehicle sales were little changed overall, with the mix of sales shifting toward more affordable models. Leisure and hospitality spending was softer. While spending on restaurants and cruises was higher, it was not enough to make up for weaker spending on air travel and hotels.

Business Spending

Business spending increased slightly in January and early February. Capital expenditures were up a bit, with contacts noting renovations or expansions of existing structures. Several contacts said they were holding off on investments because of high interest rates, slower sales growth, or both. Demand for truck transportation services decreased slightly. Inventories were comfortable for most retailers, including auto dealers, where inventories had been below desired levels for an extended period of time. Manufacturing inventories were slightly elevated, and several contacts reported that input shortages were limited or had disappeared entirely.

Construction and Real Estate

Construction and real estate activity decreased slightly over the reporting period. Residential real estate activity was down moderately, though prices were steady overall. High interest rates and a low supply of existing homes for sale continued to hold back activity. Residential construction was unchanged. A majority of respondents to a homebuilder's survey indicated that January demand met expectations. Cancellation rates for new home construction trended lower. Home renovation contractors reported some decline in backlogs, though overall they remained at a high level. Commercial real estate activity decreased slightly, as demand for large office and multifamily properties declined further. Contacts continued to point to high interest rates as the most important reason holding back potential deals. Nonresidential construction increased slightly. An Indiana contact indicated that the pipeline was still strong for data centers, industrial, and pharmaceutical projects. However, several contacts said it remained difficult to start new projects because of high building costs and tight credit conditions.

Manufacturing

Manufacturing demand was flat on balance in January and early February. Auto production increased slightly, while heavy truck demand decreased modestly. Machinery sales were up modestly overall, partly due to heightened demand from the aerospace sector. That said, a contact in heavy machinery noted a drop in orders, albeit from historically high levels. Demand for steel increased slightly, in part because of a rebound in auto production following the UAW strike. Steel orders for industrial buildings remained strong. Activity in fabricated metals declined slightly, with

contacts reporting mixed results across sectors. Chemicals production declined slightly, with lower demand from the construction, mining, and agriculture sectors more than offsetting higher demand from pharmaceuticals.

Banking and Finance

Financial conditions tightened modestly in January and early February. Bond market values were down slightly, while equity markets were up a bit. Volatility was little changed on balance. Business loan demand decreased slightly, with contacts highlighting declines in commercial real estate lending. Business loan rates were stable and terms tightened a little, while loan quality was flat. Consumer loan demand was unchanged overall, though several contacts reported declines in lending for boats and RVs. Consumer loan rates rose slightly, and terms tightened slightly. Consumer loan quality deteriorated some. One contact noted that delinquency rates for auto loans were above pre-pandemic levels, but repossessions were still low.

Agriculture

Income prospects for 2024 continued to deteriorate for Seventh District crop producers, while the outlook for livestock producers improved. Corn prices edged down once again, as low demand and a large 2023 harvest boosted stocks. Soybean and wheat prices were also down some. Fertilizer costs for crop production were down from the fall and well below those of a year ago. Hog, cattle, egg, and dairy prices increased from the previous reporting period. Margins for dairy farmers remained tight as labor costs rose, though lower feed costs helped some.

Community Conditions

Community and nonprofit contacts saw a modest increase in economic activity over the reporting period. State government officials continued to see healthy growth in tax revenues and low demand for unemployment insurance. However, there were signs of a deterioration in prospects for small businesses. Small business development organizations noted that requests for support had shifted away from start-ups and toward existing businesses as some businesses launched during the pandemic struggled with sustainability. Community Development Financial Institutions reported increased demand for working capital loans from businesses finding it difficult to obtain financing from banks. Nonprofits supporting households noted clients were increasingly relying on credit cards and that the financial position some prospective homebuyers had worsened because of the recent resumption of student loan repayments. Social service organizations indicated that despite lower inflation, high price levels for many household items were still an important concern for low-income consumers.

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



Federal Reserve Bank of St. Louis

Summary of Economic Activity

Economic activity across the Eighth District has increased slightly since our previous report. Contacts reported that consumer demand slowed beyond seasonal norms and cited consumer price sensitivity and lower levels of disposable income as primary reasons why. While labor markets remain tight overall, an increasing number of firms reported being fully staffed or even overstaffed relative to consumer demand. Price growth has slowed in recent months. Residential real estate activity remained slow relative to seasonal averages. Contacts across a range of industries reported a mixed outlook moving forward, although the outlook has considerably improved since mid-December.

Labor Markets

Employment has remained unchanged since our previous report. The labor market continues to be tight, but reports of adequate supply relative to demand have increased. A retail contact in St. Louis reported some difficulty in finding applicants for open positions, while a banking contact in Memphis had to reduce staff due to overhiring. In Louisville, local business contacts have reported an easing of demand for labor in the manufacturing, retail, and health-care sectors, while noting there are still more openings than workers available.

Contacts reported that growth in hourly compensation in 2023 was about 4.5 percent, which was faster than they anticipated one year ago (3.5 percent); however, they expect growth to moderate to an average of about 3 percent in 2024. An insurance contact in Bowling Green reported wages have risen, which has made it tougher to match qualified candidates to new salaries. A restaurant contact in Little Rock reported that rising costs in wages and labor benefits have slowed growth expectations.

Prices

Prices have increased slightly since our previous report. Survey respondents across the District reported that prices increased by an average 2.5 percent during 2023 and expect continued moderation in price increases in 2024. On net, a majority of contacts reported that their ability to increase prices charged to consumers had deteriorated. A manufacturer reported facing increased

costs and pushback on price increases. A theater contact similarly reported increasing costs and difficulty in determining if and how to pass those increases on to patrons. A contact in spirits and beverages reported that the firm is still able to pass price changes on to consumers. A car dealer reported that prices were being cut to offset higher interest rates for consumers.

Consumer Spending

District general retail, restaurant, and hospitality contacts reported mixed activity, while automotive contacts reported slower activity. January real sales tax collections increased in Arkansas, Western Tennessee, Missouri, and Kentucky relative to December. Missouri saw particularly strong increases in real sales tax collections. Downtown Louisville retail contacts have seen decreases in sales due to continued sluggish foot traffic. An auto dealer in Louisville stated that they've had to scale down their attempt to push electric vehicles onto the market due to low consumer demand. Restaurant contacts in St. Louis and Louisville reported consumer demand weakening beyond expectations, which they attributed to continued price increases. A Northern Mississippi hospitality contact reported that their year-over-year revenue growth fell from 13 percent in the first half of 2023 to 3 percent in the second half, and January saw continued slower growth.

Manufacturing

Manufacturing activity has decreased slightly since our previous report. Firms in Missouri reported a slight increase in inventories and delivery lead times and a moderate decrease in employment. Firms in Arkansas reported moderate decreases in inventories, sales, and employment. A third-party logistics provider across several District states reported full staffing at all seven of its distribution and manufacturing centers for the first time in months. However, other contacts continued to report that finding quality and committed workers remained an ongoing issue. On average, firms reported they expect slight decreases in employment and inventory in the coming quarter.

Nonfinancial Services

Activity in the nonfinancial services sector has been mixed and has varied across regions and industries. Within transportation, a Little Rock contact reported extremely strong demand for travel, and a St. Louis contact spoke of a slightly improved outlook despite supply chain uncertainty and capacity issues. In contrast, a Memphis contact reported excess inventory and excess shipping capacity.

A Louisville tourism contact expressed cautious optimism stemming from a strong 2023, and a Little Rock health-care contact expected continued growth based on high rates of migration into the region. Other services firms reported a seasonal January slowdown that was greater than expectations. Overall, sales and sales expectations were split roughly evenly between slightly

higher and lower, and the general outlook was similarly mixed between slightly better and slightly worse.

Real Estate and Construction

Residential real estate sales have slowed since our previous report. Contacts in Arkansas and Tennessee reported that the low end of the market continues to be strong, while contacts in Missouri and Southern Indiana reported higher-end homes selling better. Rental rates for residential real estate have remained unchanged since our previous report. Multiple contacts reported that demand for office space in downtown areas continues to be sluggish. In Louisville, two large tenants announced plans to vacate their downtown offices. A Memphis contact reported that demand for retail space remains strong.

Contacts across real estate and construction reported that recent increases in insurance costs have led to higher prices and affordability challenges. Two construction contacts reported that lending has slowed and new projects are being shelved. Other construction firms reported a lack of skilled labor reducing their ability to obtain new projects. However, a Northwest Arkansas commercial real estate construction firm reported being booked out through 2025.

Banking and Finance

Activity in the financial sector has remained stable since our previous report. A survey of contacts found that, while the demand for loans continues to be lower than a year prior, growth for overall, credit card, and commercial and industrial loans has risen. Mortgage originations remain below seasonal norms due to low housing inventories and high mortgage rates. Competition for deposits persists. Banking contacts reported concerns about loan quality due to economic uncertainty, changes in borrower behavior, and an evolving regulatory landscape. However, contacts have not seen a significant rise in delinquent loans.

Agriculture and Natural Resources

District agriculture conditions have remained stable since our previous report. Total winter wheat acreage planted was down about five percent relative to the total planted the year before. Reports indicate the decline was expected and consistent with national planting patterns. A decline in fertilizer costs was offset by increasing fuel and interest costs.

District contacts were mixed on the impact global commodity markets are having on their operations. While some reported benefitting from tightened export markets due to international shipping disruptions and high demand—particularly for cotton—others reported that declining commodity prices and competition from major exporters such as Brazil had depressed their outlook.

Contacts indicated the ban in early February on specific pesticides commonly used for major District crops and subsequent regulatory changes were sources of uncertainty for future planting and growing decisions. Most District contacts described their outlook as unchanged or worsening.



Federal Reserve Bank of Minneapolis

Summary of Economic Activity

The Ninth District economy grew slightly since the previous report. Respondents to a January survey reported a slight increase in sales and orders over the previous month. Employment grew slightly, but overall labor demand softened somewhat. Wage pressures were moderate but continued to ease, and prices rose modestly. Consumer spending and agricultural conditions declined, while commercial real estate activity was flat. Construction, manufacturing, and residential real estate activity increased slightly. Activity among minority- and women-owned businesses declined slightly.

Labor Markets

Employment grew slightly since the last report. Hiring demand remained positive overall but softened somewhat. Demand for full-time, year-round employees fell modestly, particularly among leisure and hospitality firms affected by unseasonal winter conditions. Softer labor conditions were also reported in construction, manufacturing, wholesale, and transportation sectors. More firms cut workers, though this number was still a small fraction compared with those looking for workers. Contacts reported modestly improved labor availability. A Minnesota finance company said, “It depends on the position. Higher-level positions are hard to find qualified candidates. Lower-level positions are starting to have more applications.” A large manufacturer in South Dakota reported that slowing demand over the last year cooled its labor needs, but “finding workers to replace turnover is still moderately difficult.” Firms were a bit less optimistic about future hiring needs than they were previously, but still positive overall.

Wage pressures were moderate overall but have been easing compared with previous levels. A survey of almost 700 firms found that roughly half reported wage increases of 3 percent or more, with 18 percent seeing increases of more than 5 percent; both measures were moderately lower than those of earlier surveys. Some firms reported wage pressure was easing due to better labor availability, reduced business, an inability to pass higher costs on to customers, and declining reimbursement rates from government health care programs.

Prices

Prices increased modestly since the last report. A quarter of respondents to a District business survey reported increasing customer prices in January from a month earlier, while 63 percent reported no change in pricing. Input price pressures remained greater than final prices; 41 percent reported increases in January. Retail fuel prices in District states increased slightly since the last report. Prices received by farmers increased in December from a year earlier for chickpeas, dry edible beans, lentils, chickens, and cattle; prices decreased for corn, wheat, soybeans, hay, sugar beets, potatoes, canola, milk, hogs, turkeys, and eggs.

Worker Experience

Workers highlighted opportunities for career development, income improvement, and schedule flexibility as their top three priorities when looking for a job. The majority were confident that they would find a job in the next three months. Contacts who switched jobs or recently became employed after a period of unemployment said the most challenging part of their job search was finding a job that pays what they need. Most of them got jobs in health care, followed by education and manufacturing. The majority had applied for up to five jobs before being hired. Contacts reported higher prices across most items in recent weeks, mainly in food. “I wish my twenty-dollar [sandwich] lunch went back to [costing] ten,” said a Minnesota worker. “It instead keeps going up.”

Consumer Spending

Consumer spending was down since the last report. Unseasonably warm weather hurt businesses catering to winter activity; firms in retail, accommodation, and entertainment saw lower revenues across the District. Ski hills in Montana and Michigan’s Upper Peninsula (U.P.) closed due to lack of snow. January hotel occupancy fell in most District states, including by 12 percent in Montana. An accommodations firm in the U.P. said bookings were 20 percent higher to start the year, but “most guests cancel due to lack of snow. We are now showing a 25 percent decline. This is having a devastating effect on all local businesses.” However, contacts reported healthy underlying demand; weather was a confounding factor, but expectations for spring tourism were positive. Consumer spending remained active in some other areas; new-vehicle sales rose 18 percent in January at one large dealership, and sales of powersport vehicles also rose across the District. Contacts noted that some consumers continued to adjust purchasing habits due to high prices. A grocer in southern Minnesota said that customer counts remained strong, but “customers are starting to pull back on their purchases.”

Construction and Real Estate

Construction declined overall since the last report. Firms reported that both active and future projects out for bid were lower. Commercial permitting for new projects in January was widely lower. Single-family development remained soft, with modest but spotty increases in some District markets compared with a year earlier. Multifamily permitting has slowed significantly. Home remodeling activity has also slowed for some firms. A Minnesota contact said that “consumers quite abruptly stopped spending discretionary income on larger home improvements.”

Commercial real estate was flat. Office space continued to see negative absorption due in part to soft employment in office-using sectors. Industrial vacancy rates rose slightly, but slowing speculative development allowed rental rates to rise. Retail vacancy rates were comparatively low, thanks to very slow development of new space and new leasing activity. Residential real estate grew modestly from low levels, with a modest majority of larger markets seeing year-over-year sales growth in January.

Manufacturing

Manufacturing activity increased slightly since the previous report. A regional index of manufacturing conditions indicated expansion in activity in Minnesota, North Dakota, and South Dakota in January relative to a month earlier. However, demand continued to slide. Two-thirds of manufacturing sector respondents to a District business survey reported that January sales fell from a month earlier. A large custom fabricator reported that demand from large customers had slowed, but they were “not sure if they are reducing inventories to free up cash, or if demand is softer.” In contrast, several producers of construction materials and electronics reported an uptick in demand.

Agriculture, Energy, and Natural Resources

District agricultural conditions declined. Ninth District farm income declined in the last quarter of 2023 relative to a year earlier, according to most lenders responding to an agricultural conditions survey. Capital spending also decreased on balance, while farm household spending continued to increase. Sector contacts reported that current prices for some commodities were below breakeven levels for many producers; however, input costs have moderated somewhat. Oil and gas exploration activity increased slightly since the previous report. District iron ore mines, already near capacity, increased production since the last report.

Minority- and Women-Owned Business Enterprises

Activity among minority- and women-owned business enterprises (MWBE) declined for slightly more contacts than not over the most recent four-week period. Expectations for future activity over the next four weeks edged slightly more positive. Wages among these contacts were mostly unchanged; only one-third said they had recently increased wages. Some reported that benefit costs were still climbing. “Health insurance jumped yet again for 2024,” shared a Minnesota contact. Staffing levels and worker demand were mostly flat, and only a slight majority expected labor demand to increase over the coming weeks. Profits were lower on balance, with little change expected in the coming weeks.

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



Federal Reserve Bank of Kansas City

Summary of Economic Activity

Economic activity in the Tenth District was stable over the past month. Job growth was modest. Though wage gains for new hires remained elevated, contacts indicated wage increases were targeted at workers who expanded their scope of responsibilities. Consumer spending stabilized, but contacts noted rising price sensitivity among consumers. Still, consumer prices rose moderately. Reports from commercial real estate (CRE) contacts indicated skepticism around any recent appraisals of property valuation, as they did not want to be in a position of trying to “catch a falling knife” early in a CRE downturn. Loan performance was generally stable for CRE deals, but banks’ internal stress testing pointed to potential deterioration as CRE loans mature in a higher-rate environment. Despite climbing oil prices, the number of active oil rigs fell to levels observed several months ago, reverting from a recent spike before year-end. Agricultural credit conditions remained sound despite some softening in farm conditions.

Labor Markets

Hiring activity picked up slightly across the District. Most contacts continued to report tight labor markets, but they also indicated the quality of applicants and recent hires improved recently. As staffing levels improved, businesses in both manufacturing and services sectors continued to modestly reduce average weekly hours and their use of part-time work. Many employers indicated they increased efforts to retrain and promote existing workers. Though wage growth for new hires remained elevated, many contacts continued to indicate wage increases were focused primarily on workers who expanded their capabilities, responsibilities, and productivity.

Prices

Prices for industrial goods and business services declined slightly over the last month, but several consumer-oriented contacts reported moderate increases in prices. In particular, prices for core goods, food away from home, and hotels all rose moderately. Business contacts reported higher input costs broadly. Services businesses continued to note rising labor costs, with professional business services indicating more difficulty passing higher costs onto customers.

Consumer Spending

After declining recently from elevated levels, consumer spending stabilized over the past month. Several contacts noted a recent shift in sales across spending categories due to heightened price sensitivity among consumers. Hotels noted bookings by leisure and small-group “SMERF” customers fell, even though business and large event bookings grew robustly.¹ Retail contacts reported pockets of strength in auto part sales and grocery consumption, with spending shifting away from clothing and home electronics. Auto dealers noted sharp declines in EV sales, while demand for other vehicles was steady. Amid the rising price sensitivity of consumers, several contacts indicated their emphasis on protecting price margins over coming months.

Community Conditions

More contacts reported difficulties among low-to-moderate income (LMI) households in obtaining and maintaining affordable credit. Contacts noted increased utilization of, and defaults on, credit cards, payday loans, and pay-as-you-go purchasing among LMI households. Defaults on debts for medical services also reportedly rose. The increase in default rates among LMI households has led to a moderate increase in challenges among renters in qualifying for housing leases. Contacts also reported more denials of financing for car purchases among LMI households and a slight increase in vehicle repossession due to delinquency on existing loans.

Manufacturing and Other Business Activity

Business activity across the District grew slightly over the last month, while profitability declined slightly. Service firm activity rebounded moderately from declines earlier in the year. Manufacturing firms reported further declines in production over the last month. However, several manufacturing contacts noted the current weakness is partially driven by customers working through excess inventories, and that longer-term demand for machinery and manufactured products remained stable. Contacts in the logistics, transportation, and packaging sector reported softening demand for shipping, suggesting potential slowing in consumer goods sectors over coming months. Businesses broadly reported resolutions to supply chain issues domestically, with microchips still being an exception. However, many contacts raised concerns over international shipping due to both rising geopolitical tensions and physical disruptions to trade routes through Central America. Manufacturing and services contacts reported declining margins and lower profitability in recent months. Professional service firms reported more pronounced margin compression than manufacturing contacts, consistent with higher labor costs and an inability to pass costs onto customers. Contacts implemented a series of cost-saving strategies to maintain profit margins, including

¹ “SMERF” is a hotel industry acronym referring to Social, Military, Educational, Religious and Fraternal group bookings.

changing suppliers and reducing overtime work. Overall, contacts are more optimistic about margins and profitability, anticipating flat or slight margin expansion over the coming year.

Real Estate and Construction

Contacts in commercial real estate noted appraisers were facing difficulty assessing property values amid very few property transactions over the past several months. Buyers expressed skepticism around any recent appraisals, not wanting to be in a position of trying to “catch a falling knife” early in a CRE downturn. Developers indicated new private development activity has all but ceased, especially for multifamily housing. In some District states, substantial municipal project construction activity offset headwinds to private development, which, combined with projects already under development, supported demand for construction labor.

Community and Regional Banking

Demand for credit remained stable at District banks across most loan types. However, contacts noted demand for CRE loans weakened amid higher interest rates. While lending standards remained unchanged, bankers were reviewing their CRE portfolios for potential weaknesses as loans come up for renewal, including stress-testing cash flow performance in a higher-rate environment. Loan performance was generally stable for non-criticized CRE deals, yet banks’ internal stress testing and portfolio analysis pointed to potential deterioration within these deals as CRE loans mature in a higher-rate environment. Despite expectations for further weakness in CRE, contacts expected overall loan quality for most other loan types to remain unchanged over the next six months. Deposit levels also remained stable as mix migration into higher-yielding accounts persisted.

Energy

Total oil and gas production declined slightly across the District. Despite climbing oil prices, the number of active oil rigs fell to levels observed three to six months ago, reverting from a recent spike before year-end. Gas rig counts stayed steady as drilling for gas remained unprofitable. The number of drilled and completed wells decreased in Colorado and Wyoming’s Niobrara Basin, while they stayed mostly steady in Oklahoma’s Anadarko Basin. Accordingly, the number of drilled but uncompleted wells was constant in the Anadarko but fell in the Niobrara, portending a potential for decreased production in coming months. Coal production in Wyoming rebounded somewhat from lower production levels earlier in the year, and coal prices remain slightly higher than pre-pandemic levels.

Agriculture

Conditions in the Tenth District farm economy softened in February, but agricultural credit conditions remained sound. Crop prices declined moderately over the past month alongside reports of stronger yields and production in the 2023 growing season than was previously estimated. Grain stocks were higher coming into 2024 than a year ago in most Districts states. Although strong yields could support revenues, producers with large shares of the harvested grain currently in storage appeared likely to sell at unfavorable prices. In the livestock sector, cattle prices remained strong alongside reports of additional declines in cattle herds. Farm financial conditions have moderated over the past year, but credit stress and farm loan delinquencies remained low. Looking ahead, contacts continued to cite ongoing risks associated with high expenses, commodity market developments, and high interest costs.

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



Federal Reserve Bank of Dallas

Summary of Economic Activity

The Eleventh District economy expanded modestly, with activity in most sectors holding steady or experiencing slight to modest growth. Employment rose modestly, and wages grew at an average pace. Input costs grew moderately. Selling prices rose at an average rate in the service sector but were flat in manufacturing. Demand for nonprofit services remained solid. Overall, Texas firms were more bullish on demand expectations than last quarter, with more than half expecting demand to increase over the next six months, up from 38 percent in November 2023. Overall outlooks were less pessimistic, although geopolitical instability and heightened domestic policy uncertainty were cited as key headwinds.

Labor Markets

Employment expanded modestly over the past six weeks. Labor availability improved, though contacts continued to cite difficulty in filling certain positions, particularly truck drivers, mechanics, engineers, health care professionals, and machinists. One contact said they were holding on to some workers with suboptimal performance due to a tight labor market.

Wage growth was moderate across most sectors. Staffing firms cited some reprieve in wage pressures. One food manufacturer noted paying above-average wages and offering more flex time to retain staff, while a professional and business services firm said they have been able to retain employees without giving raises by offering them the ability to work remotely.

Prices

Input costs rose moderately. Selling prices rose at an average pace in the service sector but prices were flat for manufactured goods. Airfares rose in response to higher costs, and unplanned refinery outages in the Midwest and on the Gulf Coast placed modest upward pressure on fuel prices. Home prices were flat to up. Auto dealers reported lower prices for vehicles, and many energy contacts expect the level of oilfield services prices to ease slightly this year.

Manufacturing

Texas manufacturing activity stabilized in February after contracting sharply in January. New orders rose after 20 months of decline. Weakness was concentrated in durables, particularly metals manufacturing in part due to competition from imports. Demand for and output of nondurables rose, led by growth in food manufacturing. New orders for basic chemicals and plastics ticked up slightly in January, while petrochemical manufacturers noted sluggish industrial demand, stemming from weakness in demand for construction-related products and aluminum. Utilization rates dipped as refineries along the Gulf Coast experienced unexpected outages during the reporting period. Overall, manufacturing outlooks remained negative, though pessimism waned.

Retail Sales

Retail sales somewhat stabilized in February after having weakened notably in January. Durable goods wholesalers and construction-related retailers saw a pickup in demand, while nonstore retailers and auto dealers noted declining sales and higher inventories. Retail outlooks remained pessimistic, though uncertainty in outlooks subsided somewhat.

Nonfinancial Services

Service sector activity rose modestly in February following slight declines in January. Revenue growth was led by transportation and warehousing and health care. Airline travel remained robust, with a continuation of strong leisure demand and a slow return of business travel. There were reports of Panama Canal capacity constraints impacting container volumes at Gulf Coast ports. Professional and business services activity was relatively flat, with weakness ascribed in part to slowing activity in the real estate sector. Staffing firms reported slower-than-expected demand; however, demand for workers in health care, defense and legal services remained solid. Leisure and hospitality exhibited weakness, with one contact saying that their corporate event business was down due to the prevalence of hybrid work. Overall, outlooks in the service sector improved; nonetheless, concerns about geopolitical risks and the upcoming elections remained widespread.

Construction and Real Estate

Home sales rose during the reporting period, and contacts noted that the spring selling season was generally off to a good start. Cancellation rates were down, buyer incentives were less prevalent, and builders said they were raising prices slightly in some markets. Outlooks were positive, although contacts cited economic and political uncertainty, diminished affordability, and tight lending for loans as headwinds.

Activity in commercial real estate held steady during the reporting period. Apartment leasing was solid, but rents were flat to down as new supply continued to outpace demand. Office leasing remained weak; vacancy rates were elevated, and concessions remained widespread. A few contacts noted that tenants were screening the landlord's credit before leasing up space. Industrial demand was solid and in line with pre-pandemic averages. Outlooks were mixed, with economic uncertainty, high capital costs, and tight credit standards cited as deterrents to launching new projects or attracting investors.

Financial Services

Loan volumes remained stable, with near equal shares of bankers reporting an increase over the past six weeks as a decrease. After six months of declines, residential real estate loan volumes stabilized in the latest period. The pace of credit tightening continued to slow, particularly for commercial real estate and commercial and industrial loans. Loan demand continued to decline. Loan nonperformance and loan pricing rose but at a more moderate pace. Looking ahead, bankers' outlooks are mixed; they expect stronger loan demand six months from now and more tempered declines in loan performance but further deterioration in overall business activity.

Energy

Oilfield activity held steady during the reporting period. Oil and gas production ticked up, but only modest increases in production were expected over the next few quarters as firms seek opportunities to consolidate. Overall, contacts expect U.S. oil production growth to slow notably this year.

Agriculture

Drought conditions receded further in Texas but remained prevalent in southern New Mexico. Recent rainfall improved pasture conditions, refilled ponds, and boosted crop prospects. Tighter supplies of cattle continued to push up prices, while crop prices moved down over the past six weeks amid increased production expectations. Farmers cited high input costs and weak crop prices as a concern and noted that above-average yields will be needed this year to break even. An increase in cotton acreage could be seen as farmers may favor cotton over grain crops due to a relatively more favorable price.

Community Perspectives

Nonprofits reported continued elevated demand for services, as lower-income households faced increased difficulty in making ends meet. There were also reports of an uptick in white-collar professionals seeking financial assistance. Housing affordability remained a widespread concern, and contacts said in some instances multiple generations were living together in order to pay for

housing costs. Contacts said that along the Texas-Mexico border, there was a need for migrant housing beyond the temporary assistance provided by FEMA. Mental health was cited as a growing need among youth.

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



Federal Reserve Bank of San Francisco

Summary of Economic Activity

Economic activity in the Twelfth District was up slightly during the January to mid-February reporting period. Employment levels rose slightly, and labor was more available. Prices and wages both increased overall but at slower rates. Retail sales were stable, while activity in the services sectors grew modestly. Demand for manufactured products and conditions in the agriculture and resource-related sectors remained unchanged on net. Residential real estate activity rose somewhat, while that for commercial real estate was largely unchanged. Financial sector conditions were little changed. For communities across the District, demand for care and shelter support services remained high. Looking ahead, contacts expect weaker economic conditions overall relative to late 2023, though they expressed a little more optimism than in the previous reporting period.

Labor Markets

Employment levels grew slightly over the reporting period. Contacts in sectors such as real estate and leisure and hospitality reported expanding headcounts in recent weeks. Finance, technology, and business services held employee counts flat or let levels decline with attrition or layoffs. Several employers in health and agriculture reported utilizing automation tools and emerging technology solutions to boost productivity and improve efficiency. Employers generally filled positions with greater ease, though hiring skilled workers across sectors remained difficult. Reports indicated that applicant pools expanded and contained more qualified candidates. Still, some contacts in California noted stiff competition for labor from bigger companies and employers for government projects.

Wages increased slightly over the reporting period. Employers offered wage increases in line with inflation and provided additional benefits to attract and retain workers. Contacts reported that some employers fully absorbed recent increases in health insurance premiums and continued to offer hybrid or fully remote work. One contact in Nevada noted that employees preferred remote work because it allowed them to more easily take a second job.

Prices

Prices increased slightly in recent weeks. Nonlabor cost pressures moderated across sectors. For energy, steel, and replacement machinery parts, prices rose at a similar or slower pace relative to the previous reporting period. For other inputs such as wallboard, cement, and food services supplies, price levels were unchanged or slightly lower. Prices for consumer goods and services increased modestly or remained flat overall. However, prices for some grocery items, including staples and produce, fell recently. Limited abilities to pass through elevated costs to customers constrained price increases by those firms in business services and retail sectors.

Community Conditions

Demand for community support and services remained high. Households and other community members sought support for childcare, rental assistance, affordable housing, food assistance, and mental health services. Nonprofit organizations reported a drop in charitable donations, which further constrained meeting the community's elevated demand for basic needs. Reports highlighted difficulties by small businesses across the District, particularly in rural areas, to access credit. A few contacts in Hawaii mentioned ongoing challenges, such as housing instability, and the long-term impacts facing the communities displaced by last year's wildfires in Maui.

Retail Trade and Services

Consumer spending on retail goods was stable at solid levels. Demand for groceries and other basic necessities was strong, but consumers continued to cut down on discretionary spending in response to elevated prices. E-commerce retailers noted muted demand for full price products while promotional offerings boosted online sales. Home centers reported lower sales of wood products. Contacts across the District reported above-average inventories following the holiday season. However, one contact noted that retailers that had previously decided to limit inventory levels to cut costs experienced product shortages and offered fewer new products recently.

Activity in the consumer and business services sectors grew modestly in recent weeks. Demand for logistics, legal, and consulting services was unchanged. Contacts reported that several consulting firms increased staffing capacity to take on new projects in recent weeks. Demand for health-care services grew further, and the industry remained near capacity. Demand for leisure and hospitality services in most of the District moderated somewhat due to expected seasonal fluctuations. In contrast, Nevada contacts reported that the economic impact of February's NFL Super Bowl LVIII held in Las Vegas exceeded expectations, and that the boost to the local economy was in line with that of the Formula 1 race held in the city last November.

Manufacturing

Demand for manufactured products was unchanged on net. Demand for capital equipment strengthened as firms in the food and beverages, personal care, and medical industries boosted investments in productivity-enhancing products. Soft construction activity and poor weather dampened demand for wood products. Reports indicated that ongoing shipping disruptions in the Red Sea have not had a notable impact on production and businesses across the Twelfth District. In contrast, a contact in the ocean freight industry reported that severe drought conditions in the Panama Canal boosted traffic at ports across the West Coast. Many container ships heading from Asia opted to dock on the West Coast and use rail to transport cargoes to their destinations across the country instead of using the canal to reach East Coast ports.

Agriculture and Resource-Related Industries

Conditions in agriculture and resource-related industries were largely comparable to the previous reporting period. Domestic demand for fresh produce was solid, while that for logs remained soft. Demand for forested land with timber resources continued to grow. Despite a strong dollar, international demand for fruits, vegetables, and seafood increased over the reporting period. However, weaker economic activity in China and Japan led to lower exports of logs. Major seafood stocks remained stable. Record crop yields of apples and tree nuts in California and the Pacific Northwest had a dampening effect on wholesale prices.

Real Estate and Construction

Activity in the residential real estate market rose somewhat. Residential construction strengthened. Demand for single-family homes picked up slightly, as mortgage rates, though still elevated, moderated a bit in recent weeks. To attract reluctant homebuyers, some home builders began offering variable-rate mortgages at below-market interest rates, which revert to market pricing after a year, at which point buyers are reportedly expecting rates to be lower. The supply of multifamily rental units increased further as more construction projects were recently completed, thereby raising vacancy rates and putting downward pressure on rents. A contact from Hawaii noted that recent construction activity in the state has focused on affordable housing units.

Commercial real estate activity was largely unchanged from the previous reporting period. Demand for industrial and retail space was strong, but weak office leasing activity continued. Public infrastructure spending continued to boost overall construction activity across the District. Some private-sector commercial projects slowed on account of elevated costs and limited availability of skilled trades subcontractors, such as plumbers and electricians. Challenges persisted in obtaining some materials, particularly electrical equipment.

Financial Institutions

Lending activity changed little over the reporting period. Demand for most business and consumer loans was muted, particularly those for commercial real estate. Liquidity in the financial sector was stable overall, and deposit levels normalized in recent weeks. Reports indicated that competition for deposits eased of late as the financial industry observed less “rate-chasing” behavior from clients. Credit and asset quality were reportedly high despite some uptick in consumer loan delinquencies.



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0324