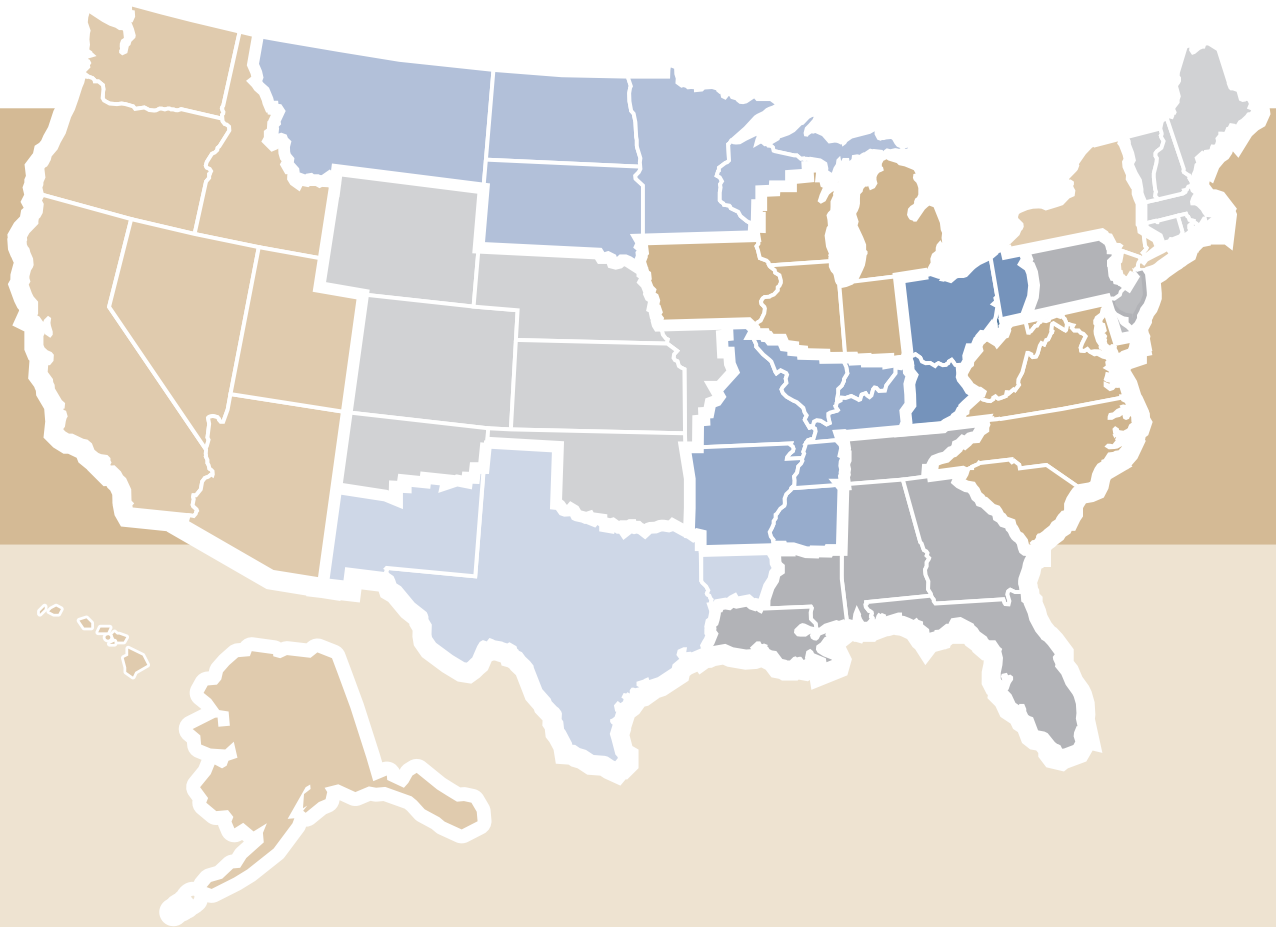




# The Beige Book

Summary of Commentary on  
Current Economic Conditions by  
Federal Reserve District

May 2026



FEDERAL RESERVE SYSTEM

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# 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

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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.

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

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

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

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# National Summary

## Overall Economic Activity

Economic activity increased at a slight to moderate pace for ten of the twelve Federal Reserve Districts, while one District reported a slight decline and one reported no change. Consumer spending remained mixed across Districts and increasingly bifurcated across income groups amid affordability pressures. Higher-income households remained resilient and less sensitive to price increase, while middle-income households were described as “squeezing more life out of every dollar before deciding to spend it,” and low-income consumers showed greater financial strain. Overall, there were reports of increased credit card usage, fewer retail visits, and stronger demand for necessities. Auto dealers reported softer new vehicle demand tied to affordability and fuel costs, alongside substitution toward used and hybrid vehicles. By contrast, manufacturing activity increased at a modest to strong pace for nine of the Districts and only one noted a slight decline from the previous period. Banking conditions were stable across most Districts; however, residential mortgages, consumer, and agricultural loan delinquencies were noted as rising in several of the Districts. Agriculture conditions were unchanged or declined for most of the Districts, with cost pressures intensifying from fuel and fertilizer spikes. Energy activity increased in two of the markets, but Districts reported that the outlook remains highly uncertain leading producers to hold off on materially expanding activity. More broadly, business outlooks for the next six months were reported to have little change in anticipated growth, as elevated uncertainty and signs of weakening consumer spending weighed on sentiment.

## Labor Markets

Employment showed little to no change across eleven Districts, while one District experienced modest growth. Manufacturing hiring was the strongest sector in several Districts, supported by defense-related activity and rising data center demand. Wage growth generally remained modest to moderate and largely in line with inflation. That said, Districts reported more frequent wage adjustments and cost-of-living increases to manage increasing fuel and other household cost pressures. Most Districts described a low-hire, low-fire environment, with workers increasingly reluctant to change jobs because of economic uncertainty. Hiring remained selective and primarily focused on critical roles or attrition replacement. Professional services occupations had mixed demand conditions, partly reflecting shifts in technological and operational changes.

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Note: This report was prepared at the Federal Reserve Bank of Kansas City based on information collected on or before May 27, 2026. 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

Prices increased at a moderate to strong pace overall, with most Districts reporting higher inflation than the previous report. Districts noted that energy-related costs tied to the conflict in the Middle East were the primary driver of inflationary pressures, with spillovers into shipping, packaging, groceries, and fertilizer. Non-labor input costs continued to rise faster than selling prices, contributing to broader concerns about margin compression. The ability to pass on higher costs remained mixed across sectors, particularly among consumer-facing firms. Consumer uncertainty and concerns about fuel prices impacting households were noted by several Districts. Several regions highlighted inflation mitigation strategies of firms that ranged from supply-chain optimization, product adjustments, reduced offerings, and temporarily absorbing higher costs to preserve customer demand.

## Highlights by Federal Reserve District

### **Boston**

Economic activity grew slightly overall. Employment was unchanged, but hiring activity picked up in places, and wages showed slight gains. Cost pressures linked to the Middle East conflict remained elevated, although output prices rose only slightly overall. Consumer spending edged higher, despite the strain on household budgets from elevated gas prices. The outlook was mixed.

### **New York**

Regional economic activity increased slightly after a sustained period of weakness. Manufacturing activity grew strongly, consumer spending increased moderately, and housing activity picked up. Employment edged up, and wage growth eased somewhat but remained modest. Selling price increases rose to the high end of the moderate range, and input prices rose strongly, driven by rising energy costs. Businesses generally expected modest improvement.

### **Philadelphia**

Business activity declined slightly in the current period, down from a slight increase in the last period. Employment declined somewhat, as manufacturers and nonmanufacturers reported declines in jobs overall. Wage inflation held steady at a modest pace, and firm price inflation was moderate. Expectations for future growth rose at a strong pace for manufacturers but remained below the long-run average for nonmanufacturers.

## **Cleveland**

Fourth District business activity increased moderately, with similar growth anticipated in the months ahead. Manufacturing demand rose robustly, while retailers faced dampened demand from higher fuel prices. Home sales continued to improve, and data center buildouts drove commercial construction demand. Employment increased modestly. While wage pressures remained moderate, increases in nonlabor costs and selling prices were robust.

## **Richmond**

The regional economy continued to grow modestly this cycle. Modest growth was reported for consumer spending, financial services, and nonfinancial business services. Manufacturing activity increased moderately amid continued concerns about economic stability. Employment was unchanged, on balance, and wage growth was modest. Price growth remained in a moderate range despite many comments about increased input costs.

## **Atlanta**

Economic activity grew at a modest pace. Employment levels were flat and wages rose slowly. Prices and costs rose at a moderate pace. While retail sales grew modestly, travel activity slowed. Commercial and residential real estate were flat to down. Transportation and manufacturing activity expanded modestly. Energy demand rose moderately.

## **Chicago**

Economic activity in the Seventh District increased slightly over the reporting period. Manufacturing demand rose moderately; consumer spending, employment, and construction and real estate activity increased slightly; business spending was flat on balance; and nonbusiness contacts saw no change in economic activity. Prices rose rapidly, wages were up modestly, and financial conditions tightened slightly. Farm income expectations for 2026 were unchanged.

## **St. Louis**

Economic activity has slightly increased. Employment was unchanged and wage growth remained moderate. Prices have risen at a robust pace due to widespread higher nonlabor and energy costs. The outlook has slightly deteriorated, with contacts citing ongoing uncertainty, supply chain disruptions, and rising fuel costs linked to the conflict in the Middle East.

## **Minneapolis**

The District expanded modestly. Prices increased sharply and input pressures were especially high. Employment grew slightly and wage growth was modest to moderate. Services, manufacturing, and construction activity grew. Oil and gas contacts reported little change in activity or plans despite oil price shocks.

### **Kansas City**

Economic activity in the Tenth District increased slightly, though consumer-facing firms continued to report softer demand and margin compression. Restaurants noted middle-income households have become increasingly cautious with discretionary spending. Firms also reported rising input costs, with non-energy expenses exerting the greatest upward pressure.

### **Dallas**

Economic activity in the Eleventh District rose modestly. Growth resumed in the service sector and picked up pace in manufacturing and banking. Retail sales weakened, energy activity ticked up, and the real estate sector was mixed. Employment was largely flat. Outlooks were tepid amid heightened uncertainty stemming from the Middle East conflict and sharply higher transportation costs.

### **San Francisco**

Economic activity was stable. Employment levels were unchanged on net. Prices rose moderately, and wages grew slightly. Retail sales were roughly flat. Manufacturing activity improved somewhat, while conditions in agriculture and residential real estate weakened slightly. Activity in consumer and business services, commercial real estate, and finance was steady.



# Federal Reserve Bank of Boston

## Summary of Economic Activity

Economic activity expanded slightly, representing an improvement from the previous report. Despite high gas prices, consumer spending excluding autos edged up, and auto sales rose moderately. Manufacturing activity increased slightly, with one firm reporting historically high demand. Nonfinancial services firms reported an uptick in revenues, activity among banks and other financial institutions was unchanged, and real estate activity eased slightly. Employment was roughly flat, and wages showed small gains. Output prices edged higher, and cost pressures remained elevated, mostly related to the Middle East conflict. Perceived uncertainty remained elevated but, on balance, did not increase. The outlook was mixed, as consumer-facing businesses reported decreased confidence, while business-facing firms became more optimistic.

## Labor Markets

Employment was mostly unchanged, as selective layoffs largely offset a pickup in hiring. Wages and benefits rose slightly on average, although many firms reported flat compensation. Job openings increased slightly for firms in the manufacturing, retail, accounting, legal, and staffing services industries. Staffing contacts observed increased demand for skilled professional services workers and weaker demand for entry-level workers, with the latter development possibly driven by AI; the same contacts reported some layoffs at large firms and elimination of vacancies at small firms. A Rhode Island contact reported moderate layoffs of public-sector employees amid local fiscal strain. Turnover remained stable at low rates, and labor supply increased slightly overall. However, stricter immigration rules resulted in a shortage of landscaping workers, boosting their wages. Employers in the manufacturing and nonfinancial services industries expected to see slight increases in head counts in the next six months, while those in retail, tourism, and financial services expected stable employment.

## Prices

Output prices rose slightly on average, although many firms left prices unchanged. Input prices increased modestly overall, but some contacts reported significant cost pressures. Numerous contacts mentioned the conflict in the Middle East as a source of cost pressures and heightened business uncertainty. Higher energy and fertilizer prices contributed to a moderate increase in food prices,

especially for fresh produce. Manufacturers and retailers said increased shipping costs cut into profits, and manufacturers also faced higher raw materials costs. Construction contacts experienced moderate to strong cost pressures not exclusively linked to the conflict, including property taxes and borrowing rates, in addition to energy prices. On average, retailers and manufacturers reported modest output price increases. Auto repair rates rose further, and used-car financing rates remained very high. Bank lending rates were unchanged, as were rates charged for financial and nonfinancial services. Most contacts did not plan to raise their output prices in the near term, even though many were concerned that cost pressures linked to the Middle East conflict could persist for a while.

## **Consumer Spending**

Consumer spending (excluding automobiles) rose slightly in recent months, and auto sales grew moderately. Retailers reported modest gains in revenues, while tourism contacts described activity as flat, noting higher fuel prices had squeezed recreational budgets. A clothing retailer experienced a modest increase in revenues, despite expectations that recent merchandise price increases would crimp sales; the same contact said new fuel surcharges on shipping eroded some of those gains. Following weak auto sales in January and February—even when adjusted for seasonal factors—sales of new automobiles in New Hampshire increased moderately in March and through mid-May. Dealers noted the recent rise in gas prices made hybrid vehicles (but not EVs) easier to sell, even though increased demand was not motivated primarily by a desire to shift to hybrids. New Hampshire's used auto sales also increased some but faced headwinds from high financing and insurance costs; auto service departments in the state experienced reduced activity, owing to the suspension of New Hampshire's vehicle inspection program as well as to rising repair costs. Retail and tourism contacts became somewhat less optimistic on average, pointing to elevated fuel costs and uncertainty; the outlook for new auto sales remained strong among New Hampshire dealers.

## **Manufacturing and Distribution**

Manufacturing activity increased slightly from the last report, with most contacts citing performance that either met or exceeded expectations. One machine parts manufacturer reported unprecedented domestic demand driven by data centers and defense spending, while a different precision manufacturing firm experienced softness in international sales. Capital expenditures rose modestly but remained low; one manufacturer selling capital goods said that interest in expanding capacity was strong, but firms were reluctant to commit to large expenditures because of heightened geopolitical uncertainty. The outlook improved on balance, and uncertainty decreased, although responses were mixed. Two machinery manufacturers experiencing strong demand became more optimistic, whereas consumer-facing firms reported increased pessimism and uncertainty linked to pressure on consumer budgets from higher gas prices. Two other firms maintained a stable, optimistic outlook, despite citing downside risks related to the conflict in the Middle East.

## Nonfinancial Services

Revenues increased slightly in recent months among most nonfinancial services contacts, driven by upticks in demand. A Maine community college reported no change in revenues but noted that student enrollment increased moderately in response to a tuition-free community college program in the state, which recently was made permanent. The outlook improved on balance, as half of contacts became more optimistic and the rest said the outlook was stable and optimistic. Some contacts noted that uncertainty remained high. However, none felt that uncertainty had increased recently, and one commented that businesses had gotten used to uncertainty and were moving forward with decisions anyway.

## Financial Services

On average, business activity among banking and other (non-bank) financial services industry contacts showed no change since the last report. Banking contacts said loan volumes, loan pricing, loan demand, and nonperforming loan shares were stable but expected the latter to rise in the coming months. The same contacts became less optimistic in response to growing signs of financial strain on local businesses and households. In contrast, the outlook improved slightly among non-bank financial services firms, with one citing support from resilient corporate earnings and AI-related capital expenditures. However, financial services institutions said that uncertainty had increased in response to the conflict in the Middle East and the associated rise in energy prices, sparking concerns about households' financial well-being.

## Real Estate and Construction

Real estate sales and leasing activity softened slightly, while construction activity ticked up. In the residential market, closed sales of single-family homes and condominiums fell moderately in April from one year earlier, which contacts attributed to the harsh winter, rising mortgage interest rates, and geopolitical tensions. In March, Rhode Island recorded its lowest level of single-family home sales since 2010, when record-keeping began. Apartment leasing activity edged lower. Home inventory remained scarce, keeping prices elevated. Pending sales and new inventory both increased from a year earlier, generating optimism for the rest of the spring season. In the nonresidential market, leasing activity was flat for industrial and office properties, while retail leasing activity increased slightly, accompanied by modest rent growth and a gradual decline in vacancies. Nonresidential sales stagnated amid expectations that interest rates would stay high for longer. Construction activity and revenues increased slightly overall, even though multifamily construction slowed somewhat. Construction firms experienced diminished profits following recent cost increases. The outlook for nonresidential activity and for construction dimmed on increased uncertainty tied to the Middle East conflict and proposed rent control in Massachusetts.

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



# Federal Reserve Bank of New York

## Summary of Economic Activity

Economic activity in the Second District increased slightly after a sustained period of weakness. Manufacturing and distribution activity rose strongly, while service sector activity declined modestly. Employment edged up slightly, and wage growth eased somewhat but remained modest. The pace of selling price increases picked up to the high end of the moderate range, and input prices rose strongly, driven by a spike in fuel and energy costs. Consumer spending increased moderately boosted by solid retail sales. Housing market activity picked up modestly with the spring selling season. Businesses expected modest improvement in conditions in the months ahead.

## Labor Markets

On balance, employment edged up slightly. Head counts increased among manufacturing, personal services, construction, and wholesale firms, while employment declined modestly in the finance, business services, and information sectors.

Labor demand picked up slightly, though a low-hire, low-fire environment was still the norm. Sales and finance professionals remained in high demand, while hiring of entry-level tech workers was at a low, in part due to employers automating repetitive tasks. An employment agency in upstate New York noted a surplus of entry level workers on the market. A New York City area technical staffing agency reported that hiring processes had become extended, with candidates going through several months and multiple rounds of interviews before being hired. There were a few reports of layoffs across the District.

Wage growth eased somewhat and remained modest. Some contacts noted that New York State's minimum wage was putting upward pressure on labor costs and creating competitive asymmetries between states. Contacts anticipated some easing in the pace of wage growth in the coming months.

## Prices

The pace of selling price increases picked up to the high end of the moderate range, and input prices rose strongly. While tariffs continued to put upward pressure on prices, contacts across

several sectors noted that rising fuel and energy costs had eclipsed tariffs as a driver of price increases, significantly impacting business operations and dampening profitability. Rising energy prices drove transportation and other expenses higher for many firms. A food manufacturer in the Hudson Valley noted that higher energy costs were pushing up the cost of many inputs, including packaging, ingredients, equipment, and parts, while elevated fertilizer costs were pushing up food prices. Apple growers in New York State noted that sharply rising fertilizer costs may limit fertilizer use, and combined with an early heat wave and late frost, this year's harvest may be greatly reduced. A metal product manufacturer noted continued increases in prices for metals, including aluminum and steel. Contacts expected pricing pressures to intensify in the coming months.

## **Consumer Spending**

Consumer spending grew moderately, and retail sales were solid. The operator of a large shopping mall reported that higher-end tenants were seeing particularly strong demand for luxury goods, while mid- to lower-end tenants experienced more subdued sales. Similarly, a department store reported that strong sales were buoyed largely by affluent consumers, with sales of accessories—especially wristwatches—particularly strong. By contrast, auto dealers in upstate New York noted a marked weakening in new vehicle sales, reflecting ongoing affordability issues and high gas prices. Manufacturers have responded by expanding incentive programs to boost demand, including subsidized interest rates. Used car sales picked up modestly, in part reflecting substitution from new cars to more affordable used cars.

## **Manufacturing and Distribution**

Manufacturing activity grew strongly, with a substantial increase in new orders. One contact reported increased demand for automated equipment as customers sought to improve manufacturing efficiency. One firm noted that tariff uncertainty and rising energy costs were causing business customers to rethink their strategies, impacting their demand patterns. Supply availability continued to worsen somewhat, and delivery times lengthened significantly. Wholesale and distribution firms reported a solid increase in business activity. A shipping contact noted robust import volumes across a wide range of goods, even amid rising shipping costs, extended transit times, and less dependable delivery schedules. A water transportation company noted having paused domestic shipping investment due to Jones Act waivers. Manufacturers grew more optimistic about the outlook.

## **Services**

Activity in the service sector contracted modestly, after an extended period of steeper declines. Activity held steady in the health care sector, and declined in the information, professional

business services, and education sectors. Firms in the service sector expected only little improvement in the coming months.

Tourism activity in New York City declined in the spring among both day trippers and overnight visitors, though conditions improved somewhat in recent weeks. Attractions have continued to report soft demand, though hotel rates and occupancy trended upward, driven by a notable jump in luxury bookings. Optimism about the upcoming FIFA World Cup's economic impact has been tempered by weaker-than-anticipated ticket sales and advance hotel bookings.

## **Real Estate and Construction**

Housing market activity picked up modestly with the spring selling season. Although inventory increased slightly across the District, it remained low relative to historical norms and continued to constrain sales. Housing demand strengthened in Upstate New York, with open houses well-attended and sales contracts increasing across all price points, particularly in the upper half of the market. In New York City's suburbs, bidding wars remained prevalent, and half of Long Island sales closed above asking price. With solid demand and persistently limited supply, prices continued to edge upward. A New York City contact noted that rental markets remained exceptionally tight, with record-high rents expected to climb even more steeply through the year, as many potential buyers remained on the sidelines amid higher mortgage rates.

Commercial real estate markets were strong, with leasing volumes in Manhattan's office market near record highs. Demand among AI-related firms was quite strong—though leases for such firms were shorter than typical—and year-to-date leasing volumes for such businesses have already surpassed last year's total. Vacancy rates for class A office space recovered to pre-pandemic levels, and new construction has been spurred by limited remaining supply. By contrast, rents fell amid a soft industrial market, where high ocean and truck shipping costs discouraged demand for warehousing and distribution space. Construction activity picked up to a modest pace, after an extended period of decline.

## **Banking and Finance**

Activity in the broad finance sector grew moderately after a period of sluggishness. Small- to medium-sized regional banks reported a pickup in residential mortgage demand, although demand for consumer loans, business loans, and commercial mortgages was flat or down slightly. A banker from New York noted that high interest rates for commercial customers were suppressing demand. Contacts reported that credit standards continued to tighten slightly for all types of loans. Deposit rates edged slightly lower. While delinquency rates held steady overall, one regional bank contact reported that delinquency rates had risen for residential mortgages.

## Community Perspectives

Contacts across nonprofits report significant workforce challenges marked by tight labor availability, rising costs, and pressure to operate with leaner staff. Difficulty hiring and retaining employees persists, with turnover, wage constraints, and burnout particularly acute in caregiving, social assistance, and emergency services. Several contacts emphasized that salaries have not kept pace with rising living costs, forcing some nonprofit workers to rely on the very services their organizations provide and making it difficult for others to remain in their communities. Nonprofit organizations noted that technology and AI were reshaping staffing decisions, sometimes reducing hiring needs while introducing new skill requirements.

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



# Federal Reserve Bank of Philadelphia

## Summary of Economic Activity

Business activity in the Third District declined slightly on balance, after growing narrowly in the last period. Employment declined slightly as both manufacturing and nonmanufacturing firms reported slight declines in jobs, although nonmanufacturing firms reported growth in part-time jobs. Wage inflation held steady at a modest pace. Firm price inflation rose moderately this period, unchanged from the last period; however, most of our contacts reported reluctance to pass on price increases because of price-sensitive customers and soft demand. Sales of new and existing homes fell modestly, weighed down by affordability issues and low inventory. Expectations for economic growth over the next six months grew modestly but were mixed. For manufacturers, the future growth index increased further in May, above already elevated readings, while expectations for growth were less widespread among nonmanufacturers and fell below their long-run average.

## Labor Markets

Employment continued to decline somewhat. Most firms reported no change in employment. However, on balance, nonmanufacturing firms reported a decrease in full-time employment, and manufacturing firms reported a decrease in overall employment, marking a deterioration for manufacturers but an improvement for nonmanufacturers since the prior period. A slightly larger share of nonmanufacturing firms reported an increase in part-time jobs than reported a decrease, after a modestly larger share reported a decrease in part-time employment last period.

Staffing contacts across a few sectors reported an uptick in hiring as firms looked to fill open positions, although they noted that some employers are holding out for the perfect candidate who meets all their criteria. Contacts in the manufacturing sector continued to report a lack of skilled workers, and auto industry contacts continued to report a lack of technicians available for hire. One staffing contact who places unskilled youth in jobs noted that young adults with experience in AI were able to find jobs more easily, since some firms noted that their existing employees were hesitant to use the new technology. Most contacts continued to report low turnover.

Wage inflation held steady at a modest pace—typical of its long-run average. Contacts reported less upward wage pressures over the period, but a few contacts shared that some staff are requesting wage increases because of higher fuel prices. Generally, firms' expectations for future wage and compensation cost inflation remained steady.

## Prices

Firms continued to report moderate increases in prices received for their own goods and services. However, a dichotomy has emerged. Increases in prices received by consumer-facing firms have held steady at about 2.0 percent for the past six months. In contrast, current annual price increases for manufacturers are now at a two-and-a-half-year high. Reports from manufacturing firms indicate that the increases in their prices received now exceed 4.0 percent—more than double their post-pandemic low of 2.1 percent in the first quarter of 2025.

Most contacts across many sectors reported a reluctance to raise prices, citing consumer price sensitivity and softening demand. In each quarter over the past year, equal shares of our survey respondents have described their core customers as being either more price sensitive or about the same compared with the prior quarter. Fewer than 5 percent of the firms have reported less price sensitivity from their customers. Despite their customers' price sensitivity, many contacts noted that if fuel prices remain high or continue to increase, price increases will be inevitable. One utility provider already passed on a price increase in response to a major competitor increasing prices.

When asked about anticipated changes to their industries' costs over the next six months and how they expect their competitors to respond, just about half of the surveyed firms anticipated increased costs and expected their competitors to increase prices within three months. Nevertheless, firms anticipated raising prices for their own goods and services over the next year at a somewhat lower rate than over the past year, but still within a moderate range.

## Manufacturing

On average, manufacturing activity rose modestly in the current period, following moderate growth in the prior period. However, in the latter half of the current period, the firms reported little to no growth in shipments, new orders, and general activity.

Surveyed firms reported challenges that included increased input costs, lower sales volumes, and some continued headwinds from tariffs.

However, manufacturers remain optimistic. Their expectations for growth over the next six months rose higher from already elevated readings. Over 60 percent of the firms expect increases in new orders and in shipments over the next six months.

## Trade and Services

On balance, firms across a broad spectrum of nonmanufacturing industries reported a modest decrease in activity over April and May, down from a steady pace last period. The sales/revenues index decreased modestly, and the index for new orders improved but remained somewhat negative.

Retailers (nonauto) reported a modest decline in sales over the current period, after sales held steady last period. One retailer reported that although spending per visit is up a bit, the volume and frequency of visits to the stores are down; customers appear to be consolidating trips because of higher fuel prices.

Auto dealers reported a moderate decrease in auto sales this period, down from a slight decrease last period, despite a pickup in demand for hybrid vehicles in response to increased fuel prices. One contact, however, surmises that the conflict in the Middle East and higher fuel prices may be keeping consumers on the sidelines or pushing them to buy used vehicles.

Tourism activity rose moderately, up from a slight increase in the last period, buoyed by continued growth in leisure travel through May. Our tourism contacts expect this growth to be sustained through the summer because of World Cup activity and the nation's 250th celebrations. One contact shared that bookings at the Jersey Shore are up, as people appear to be vacationing closer to home.

Expectations among nonmanufacturers for their own growth over the next six months remained essentially unchanged from the prior period and are well below historical trends.

## Real Estate and Construction

Existing home sales declined modestly in this period, after declining slightly last period. The inventory of for-sale properties ticked up in April, but one contact shared that inventories remained less than ideal as people appear unwilling to buy or sell, possibly due to higher mortgage rates, economic uncertainty, and cost-of-living concerns. This has resulted in some properties still attracting multiple offers and being sold over asking price and driving a continued increase in average sales prices.

New-home builders reported modest declines in sales, following slight declines last period, despite increased incentives on lower-end homes.

Nonresidential construction activity again recorded slight declines this period. Several contacts reported construction activity by some firms in the pharmaceutical and higher education spaces, but at a slower pace, and continued data center construction. Two contacts noted an uptick in

bidding activity, a promising sign for future projects. In nonresidential markets, leasing activity grew slightly as third-party logistics firms acquired more square footage.

## **Credit Conditions**

The overall volume of bank lending (excluding credit cards) was essentially flat during the period (not seasonally adjusted), after a modest rise last period and a small increase one year ago.

District banks reported little change in commercial real estate and home mortgages—the two largest lending segments. Strong growth in home equity lines of credit and other consumer loans, plus a modest increase in auto loans, were offset by a decline in the volume of commercial and industrial lending. Credit card volumes again fell modestly during this period.

Banking contacts reported strong activity, no deterioration in credit quality, and growing deposits. One contact reported increased demand for consumer loans, which is typical for this time of year.

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, contacts reported that business activity in the Fourth District increased moderately in recent weeks, with continued moderate growth expected in the months ahead. Demand for manufactured goods rose at a robust pace, largely driven by data center development. Higher fuel costs continued to dampen demand for retailers, who noted increased price sensitivity among consumers. Home sales continued to pick up, and data center buildouts drove commercial building demand. Overall, contacts said that their employment levels grew modestly and that wage pressures remained moderate. Nonlabor cost pressures remained robust, and selling prices grew robustly.

## Labor Markets

Employment levels increased modestly on net in recent weeks. Construction contacts reported robust growth in staffing, with some adding employees to support new projects or continue data center work. Across industries, many contacts described making measured hiring decisions focused on increased productivity and strategic growth rather than broad expansion. For instance, one manufacturer noted “widespread hesitancy in hiring, even for expansion opportunities.” Several manufacturing and professional and business services contacts reported creating new positions requiring AI expertise, though one accounting firm noted that AI implementation had reduced their hiring needs. Retailers generally maintained flat employment levels, citing ongoing cost-containment efforts. Overall, contacts anticipated modest employment growth in the coming months.

On balance, wage pressures remained moderate. Cost-of-living adjustments and annual merit increases continued to be the primary drivers of wage growth. Several businesses implemented additional wage increases to help employees manage higher living costs. Some financial and professional and business services firms reported that competition for specialized talent continued to push up wages. Meanwhile, across sectors, multiple contacts noted easing wage pressures amid cooling labor demand. One construction contact noted that employees were “nervous and stressed” and believed employees were reluctant to “risk” leaving for higher-paying opportunities.

## Prices

Nonlabor input cost pressures remained robust for the eighth consecutive reporting period, with the highest share of contacts reporting cost increases since the summer of 2022. The primary drivers of increases cited by contacts were rising fuel costs related to the Middle East conflict and spillover effects on material and service costs through increased fuel surcharges. Manufacturing and agriculture contacts reported cost spikes for fertilizer and petroleum-based products, such as resin, due to the Middle East conflict. Retailers highlighted elevated food costs, particularly for beef. Some contacts compared current input cost uncertainty and supply constraints to COVID-19 pandemic-era challenges. Looking ahead, contacts anticipated nonlabor input cost pressures to remain robust.

Overall, contacts reported robust increases in selling prices in recent weeks, ticking up from previously reported moderate increases, reflecting intensifying cost pressures. Many manufacturers continued to raise prices to cover higher metals and tariff-related costs, and one began implementing surcharges, referring to them as the “new normal.” Similarly, some freight contacts added fuel surcharges to cover higher costs and noted that reduced capacity in the sector had increased their pricing power. Still, some retailers reported that strong competition or weak consumer spending led them to make only targeted price increases or prevented them from fully passing on cost increases. One restaurateur increased menu prices by the “absolute minimum” to maintain demand.

## Consumer Spending

Consumer spending declined slightly in recent weeks. Many retailers reported that higher fuel costs and related inflation had further dampened consumer spending, leading to decreased sales across various retail sectors including convenience and grocery stores, auto dealerships, and restaurants. One national retailer noted that consumers have become “extremely price sensitive” and credited unplanned promotions with keeping sales flat. Another contact noted an uptick in credit card use among customers, a situation which they believed to be a sign of financial stress. Consumer spending was expected to increase slightly in the coming months. However, several large retailers reported that the Middle East conflict, inflation, and tariff uncertainty obscured their forecasts.

## Manufacturing

Contacts reported that demand for manufactured goods grew robustly, though this strength was largely driven by data center development. As such, producers of metal and metal products, electrical components, and others selling into energy generation continued to report higher orders. However, several producers noted that strong demand from data center buildouts was masking weakness for other business lines. Three producers attributed higher orders to elevated

uncertainty, with customers buying ahead of price increases or cautiously managing inventory through more frequent orders. Manufacturers generally expected demand to rise at a moderate pace in the coming months.

## **Real Estate and Construction**

Residential construction and real estate activity increased moderately in recent weeks. Single-family affordable housing initiatives bolstered demand for one homebuilder's services, and demand for custom, luxury homes remained solid. More homeowners put their houses on the market after previously delaying moving, somewhat easing supply constraints for existing homes. However, two real estate brokers said that higher mortgage rates continued to dampen activity. Contacts anticipated modest demand growth in the coming months.

Nonresidential construction and real estate contacts reported moderate demand growth in recent weeks. Data centers continued to drive commercial building demand, and some international firms were in the early stages of onshoring operations to the Fourth District. While activity increased overall, contacts commonly mentioned input cost increases putting pressure on project budgets and, in some cases, causing them to be delayed or canceled. On balance, contacts expected strong demand growth over the next two months.

## **Financial Services**

Overall, bankers reported moderate growth in loan demand in recent weeks. One commercial banker noted increased credit utilization for capital expenditures and merger and acquisition activities, while another mentioned some developmental projects stalling because of higher materials costs. On the consumer side, one banker mentioned that credit card applications increased as consumers covered essential purchases like gasoline and groceries. Meanwhile, another banker suggested that auto loan demand had decreased because macroeconomic and geopolitical uncertainty were causing consumers to delay large purchases. Looking ahead, bankers expected a strong increase in loan demand as commercial projects move forward.

## **Nonfinancial Services**

On balance, contacts expected the recent robust demand for nonfinancial services to continue. An increase in cyberattacks drove demand for legal services regarding data privacy and cybersecurity. Meanwhile, several accountants attributed increased demand to a reduction in regional competition. Looking ahead, a law firm expected high fuel prices to increase demand for restructuring, bankruptcy, and commercial lending services. While freight contacts reported increased demand, some questioned whether the demand growth reflected a trend, seasonality, or a decline in

industry capacity as some carriers exited the market because of high fuel prices. In contrast, airport contacts reported declines in passenger and cargo volumes.

## **Community Conditions**

County government and nonprofit contacts shared the impacts of rapidly rising costs on the people they serve and their organizations. One county government contact said that employees were more frequently requesting pay raises to offset the rising cost of living, and in recent union negotiations, some unions requested more than double their typical wage increase. This county's operations and maintenance costs climbed, causing them to consider workforce reductions to balance the budget and minimize any tax increases. A housing contact shared that property tax and insurance increases have prevented low-income renters from transitioning to homeownership, and another reported a noticeable increase in homelessness among seniors.

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

The Fifth District economy continued to grow at a modest rate. Consumer spending on retail, leisure activities, and travel increased modestly this cycle. Manufacturing activity picked up moderately, particularly for firms tied to data centers and defense spending; however, many producers also expressed concerns about input cost pressures coming from the rise in oil and gas prices. Financial and nonfinancial service providers saw modest growth in demand, but also noted that economic uncertainty was leading to more “cautions” behavior. Real estate markets were unchanged this cycle. Employment was also unchanged, on balance. Price growth picked up slightly but remained in a modest year-over-year range.

## Labor Markets

Employment in the Fifth District was unchanged in the recent period. Some firms reported improvement in labor availability. A DC-based services company reported higher quality candidates due to recent federal workforce reductions. However, firms reliant on skilled trades labor continue to report challenges, with an architecture firm noting an inability to complete a construction project due to worker shortages. Several firms reported employees leaving for higher-paying or more stable positions. Multiple contacts reported compensation adjustments to support their employees facing increased costs of living. For example, a manufacturer provided gas bonuses to help offset increased fuel costs, while a commercial construction firm is raising salaries for its workers.

## Prices

Prices growth picked up marginally this cycle but remained within a moderate year-over-year rate. Recent surveys reported that service sector firms’ prices received continued to rise between three and four percent year-over-year. Service sector firms reported a spike in non-labor input costs, which rose to over five and a half percent. Manufacturing firms reported both prices received and prices paid remained relatively the same. Survey participants across all sectors noted increases in oil prices while a few noted specific tariff related increases for items like foam and steel.

## Manufacturing

Manufacturing activity increased moderately in the recent period, although firms expressed significant concerns about current economic conditions. Contacts reporting growth tended to be in industries tied to data centers or defense contracting. Many firms reported increased costs due to the conflict in the Middle East. A wood manufacturer experienced price increases for chemicals while a printer reported multiple suppliers raising prices upwards of 12 percent within a three-week period. An asphalt producer noted higher trucking and material costs. Several firms in other manufacturing sectors reported weakening demand amid consumer caution. An equipment manufacturer for the plastics industry said customers were delaying capital investments due to expected oil shortages. Coffee manufacturers reported softening demand due to customers trading down to lower quality products.

## Ports and Transportation

Loaded cargo volumes were mixed across the Fifth District as some maritime ports saw a slight uptick in both imports and exports while others saw a decrease since the last cycle. Despite the variation in cargo volume, blank sailings (ships skipping ports of call) increased across the board and all ports noted a significant decrease in empty container exports, signaling that carriers do not anticipate a near-term uptick in demand. While cargo volumes at Fifth District ports were not particularly affected by trade disruptions in global conflict zones, port contacts noted that skyrocketing bunker fuel costs will have a downstream effect on consumer prices and the ports themselves received notices about 30 percent price increases on diesel and lubricants used to operate machinery. One contact noted that exporters of heavy, lower-value ag commodities in the Southeast have held back product because fuel surcharges have made the value of the cargo unsustainable to ship. While spot rates increased, fuel costs have kept margins very slim for trucking firms and contacts observed a substitution shift toward short-haul rail to and from ports even though it is typically more costly than trucking.

## Retail, Travel, and Tourism

Consumer spending increased modestly this cycle with an equal number of firms citing steady to increasing demand. Big-ticket sales, however, were down overall. Fifty percent of respondents indicated that they increased their prices in recent weeks, with some contacts explicitly mentioning fuel costs as a major concern for both customers and their input costs. A Fifth District fuel distributor whose price increased 125 percent in the last month warned that “everything gets to the consumer with diesel” and that was going to put upward pressure on prices. One furniture retailer noted that they were receiving fifty percent fuel surcharges on domestic freight along with tariff surcharges, which were extremely hard to pass along via retail prices. Despite rising fuel costs, hotel occupancy in high-density parts of the District saw unexpected improvement this cycle with a resurgence of not only government and business travel but leisure tourism as well.

## Real Estate and Construction

Residential real estate remained the same as last cycle. Listings continued to hit the market while buyer reservations continued amid economic uncertainty and elevated interest rates. Multiple agents noted the homes that were selling were priced correctly and move in ready. A Virginia agent noted that buyers were willing to shop around for better interest rates and lender benefits. Gas prices were impacting brokers as well, with one agent saying that they raised their fees to cover their cost to show homes.

Commercial real estate activity remained unchanged. Class A office space and retail remained strong. The medical office market saw continued growth in new facilities. Manufacturing leasing and sales seemed to pause this cycle amid concerns about tariffs and energy prices. Builders in both sectors noted their concerns with oil prices potentially delaying the start of new projects. A broker in Maryland noted a retail client is pushing off re-paving their parking lot this year due to the increase in the cost for asphalt. A Virginia builder noted concerns that if diesel prices stay elevated, they would have to pass those costs onto customers.

## Banking and Finance

Financial institutions reported a modest increase in overall demand for loans, primarily in their commercial real estate portfolios and pipelines. Although many businesses were being described as “cautious,” they were still moving forward with projects and fulfilling immediate needs. Consumer loan demand remained stable with most activity found within the home equity line of credit portfolio. Institutions reported stable deposit balances with continued rate pressure and competition within markets to gain any increases in deposit levels. Loan delinquency rates continued to remain stable with no changes noted in the credit quality of loan applicants.

## Nonfinancial Services

Nonfinancial service providers reported modest growth in revenue and demand for their services, although many continued to note that economic uncertainty still was a top concern of their customers and themselves. A human resources consulting firm reported that they have observed clients factoring this uncertainty into their businesses and have slowed hiring for new roles and projects as a result. The HR firm also noted that their own employees seemed reluctant to leave “something stable” for new opportunities. An architecture design firm noted fuel prices were starting to impact their subcontractors, and they expected if fuel prices continued to move upwards, those trade partners would pass those increases back to them.

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



# Federal Reserve Bank of Atlanta

## Summary of Economic Activity

The Sixth District economy expanded at a modest pace over the reporting period. Employment levels were flat to down slightly, and modest wage growth was described as broadly in line with pre-pandemic norms. Prices and nonlabor costs rose moderately, on average, which were attributed to both tariffs and the Middle East conflict. Demand for social service providers increased as rising food and utility costs further strained household finances. Retail sales continued to grow at a modest pace, but travel and tourism activity slowed. Residential real estate conditions declined overall despite a slight improvement in sales. Commercial real estate activity was flat on balance. Transportation and manufacturing activity rose modestly. Loan growth was moderate, driven by specialized lending. Energy demand grew moderately.

## Labor Markets

Employment levels in the District were flat to slightly down over the reporting period as most firms continued to keep head counts even or adjust downward through attrition. Reports of layoffs remained limited. Some businesses in industries like health care and data center construction reported hiring for growth or for specialized skills. Several firms noted that the use of AI and automation has improved productivity and shifted job roles but was not expected to lead to significant workforce reductions in the near term.

Most contacts reported modest annual wage increases in the 2 to 3 percent range, though stronger wage pressures continued for in-demand roles.

## Prices

Prices and nonlabor costs rose moderately over the reporting period as escalating oil prices drove up gas prices, airline fares, and shipping surcharges. Many firms expect additional price hikes for petrochemical products over the coming months as impacts from Middle East tensions move through value chains. Electronics suppliers faced higher input costs and longer delivery times due to chip shortages. Construction costs increased, largely attributed to tariffs on machinery, although slower project pipelines drove more competitive bidding. Some contacts adopted cost-containment strategies such as optimizing supply chains and reducing product offerings. Pricing

power remained bifurcated, with many firms adjusting prices upward on an item-by-item basis as higher-income consumers tolerated increases more than value-seeking shoppers.

## Community Perspectives

Contacts at social service, economic development, and workforce organizations noted that rising food prices and elevated utility costs—due in part to a colder than usual winter in several parts of the District—continued to put pressure on low- and moderate-income households. In the early weeks following the outbreak of conflict in the Middle East, some contacts reported concerns that higher gasoline prices could further strain household budgets should the situation persist. Several contacts highlighted growing financial stress among middle-income households, particularly those who do not qualify for public assistance or are unfamiliar with available support resources. Nonetheless, social service providers experienced an uptick in demand for assistance. Nonprofit organizations also reported increased challenges in fundraising, citing “donor fatigue,” which some contacts indicated may threaten the sustainability of current service levels.

## Consumer Spending

Consumer spending grew at a modest pace. Higher-income consumers drove strong demand for premium goods and services, with one contact describing a focus on “unapologetic luxury.” However, retailers and other consumer-facing businesses noted continued financial stress among middle- and lower-income households. Persistent price sensitivity contributed to slower restaurant traffic, increased promotional activity, and constrained demand even for lower-priced discretionary services. New auto sales were below expectations amid elevated MSRPs, interest rates, and gas prices.

District travel and tourism contacts, including cruise lines, indicated that, on balance, demand declined modestly since the previous report, which was attributed to higher travel costs and rising energy prices. Luxury travel remained resilient, while more budget-conscious segments experienced a pullback. Additionally, groups and business travelers shortened their stays to manage costs. However, hospitality contacts remain optimistic about the upcoming summer season, supported in part by World Cup events being hosted in two District cities.

## Construction and Real Estate

Residential real estate conditions declined modestly across the District as economic uncertainty and elevated mortgage rates dampened demand, though high-end sales and certain markets remained somewhat durable. Home prices remained flat or fell modestly, with southwest Florida experiencing the sharpest downward pressure. Home sales improved slightly, primarily driven by aggressive price reductions and incentives, but existing inventory shrank as delistings rose, and

affordability deteriorated in spite of modestly falling prices. Builders reported sharp traffic declines and growing buyer hesitancy, with incentives becoming increasingly ineffective; one builder noted that even at lower price points, they “can’t give a house away.”

Commercial real estate (CRE) conditions were generally flat, but dynamics varied by sector. Office activity showed moderate growth in Class A space, even as widespread repricing forced many owners to sell distressed assets at deep discounts when maturing debt exceeded valuations. Demand for retail space softened, with slight rent declines and minimal new supply. Multifamily conditions stabilized but remained stressed in saturated markets where concessions continued and price sensitivity intensified. Industrial demand was solid, supported by energy, logistics and nearshoring trends, and strong data center construction. Some CRE contacts noted that capital remained on the sidelines as uncertainty around energy costs and global conflicts weighed on sentiment.

## **Transportation**

Demand for transportation firms rose modestly since the previous report. Trucking firms reported gradual increases in demand, boosted somewhat by shipments of heavy machinery involved in data center construction, energy, aerospace, and defense activity. Trucking freight rates improved slightly amid tighter capacity and fuel surcharges; however, margins remained squeezed. Class I railroads continued to experience significant increases in carloads, intermodal freight, and total traffic compared with year-earlier levels. District ports reported solid auto and other roll-on, roll-off equipment shipments. Total container volumes declined year over year, but the decrease reflects comparison to 2025’s pre-tariff inventory buildup.

## **Manufacturing**

Manufacturing activity continued to grow at a modest pace. Producers of tractor parts noted significant declines in orders from customers in the Middle East, but demand in the U.S. was healthy. By contrast, a manufacturer of agriculture machinery reported strong global sales, but depressed domestic sales because of increased competition and weakened demand for agricultural products in the U.S. Defense- and data center-related manufacturers noted solid growth in revenues and robust pipelines for the next 3 to 5 years. A cast-iron cookware manufacturer saw slight growth and expects a strong finish to 2026, dependent on the duration of the Middle East conflict.

## **Banking and Finance**

Loan growth was moderate over the reporting period. Niche and specialized lending showed the strongest gains: this category includes various specialized consumer or business loans along with lending to non-depository financial institutions. Consumer lending declined, driven by credit cards

and other consumer loans, excluding auto, and more District banks reported minor increases in loan delinquencies. Banks' liquidity improved as cash-to-total-asset ratios rose.

## **Energy**

Contacts indicated that global energy demand grew at a moderate pace overall. Commercial consumption of fuel products such as gasoline, diesel, and natural gas was reported as largely unchanged. Refiners operated at high utilization rates with strong margins, while chemical producers noted some softening in activity. Energy sector contacts also continued to highlight that price dynamics and supply chain disruptions stemming from the conflict in the Middle East are likely to have a prolonged and unpredictable impact in the months ahead.

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



# Federal Reserve Bank of Chicago

## Summary of Economic Activity

Economic activity in the Seventh District increased slightly over the reporting period and contacts expected little change in activity in the coming year. Manufacturing demand rose moderately; consumer spending, employment, and construction and real estate activity increased slightly; business spending was flat on balance; and nonbusiness contacts saw no change in economic activity. Prices rose rapidly, wages were up modestly, and financial conditions tightened slightly. Farm income expectations for 2026 were unchanged.

## Labor Markets

Employment rose slightly over the reporting period and contacts expected a similar pace of hiring over the next 12 months. Contacts largely reported stable labor market conditions, continuing to characterize the environment as low-hire, low-fire. That said, there were some areas of growing labor demand, particularly in manufacturing where contacts at temporary employment agencies said hiring had increased recently and some manufacturing contacts noted difficulty in hiring skilled workers. Wages and benefits costs both rose modestly. While overall wage growth was at a similar rate as the prior period, one metals manufacturer said they had to increase the frequency of their wage increases to keep up with market trends.

## Prices

Prices rose rapidly overall in April and early May and contacts expected a moderate pace of growth over the next 12 months. Producer prices increased at a strong pace. Nonlabor input costs rose rapidly overall, led by higher costs for inputs whose supply chains are linked to the conflict in the Middle East. Contacts highlighted increased prices for energy, shipping, and raw materials like steel and chemicals. One manufacturer reported successfully passing on higher material and shipping costs to customers. Consumer prices also rose rapidly, with many contacts citing higher gasoline prices as the main driver. One retail industry analyst said tariff refunds resulting from the recent Supreme Court ruling were unlikely to lead retailers to lower prices.

## Consumer Spending

Consumer spending rose slightly overall during the reporting period. Nonauto retail spending edged up. Sectors with solid growth included apparel and computers. Sales were also robust for some businesses that cater to higher-income consumers such as landscaping and golf simulators. Leisure and hospitality spending increased slightly. Spending at fast food restaurants picked up. Population centers in the District saw demand in the hospitality sector increase slightly. New light vehicle sales ticked up. Dealers noted that higher gas prices were leading consumers to pay more attention to fuel economy in showrooms. Meanwhile, used light vehicle sales increased moderately. Several contacts expressed concern that higher gas prices would cut into discretionary spending.

## Business Spending

Business spending was flat on balance in April and early May. Capital expenditures were unchanged, but contacts expected a slight increase in outlays over the coming year. Several contacts across industries reported that uncertainty over the economic outlook had led their customers to slow or pause capital spending, though they observed that data center investments appeared to be unaffected. Demand for truck transportation decreased slightly. Freight rates rose significantly in line with rapid increases in fuel prices and many contacts reported their suppliers were introducing freight surcharges. Retail inventories outside of autos were comfortable, vehicle stocks were unchanged at a low level, and manufacturing inventories were a little low.

## Construction and Real Estate

Construction and real estate demand increased slightly overall. New residential construction edged down and home renovation activity remained soft. Contacts said that new home buyers were choosing cheaper options for cabinets, countertops, and other home complements. Residential real estate demand increased modestly, helping to make up for a slow early-spring selling season. Contacts thought sales growth was being held back in part by economic uncertainty and potential buyers facing lower real incomes due to tariffs and higher energy prices. Home prices were up overall. Nonresidential construction increased slightly. Most growth continued to come from data center and government infrastructure projects. Otherwise, contacts noted some reluctance to start projects because of higher energy prices and elevated uncertainty. Commercial real estate activity increased slightly, led by stronger sales in the government, medical, and education sectors. Vacancy rates declined some for small retail spaces.

## Manufacturing

Manufacturing demand increased moderately in April and early May. Chemicals, plastics, and rubber production increased slightly. Primary metals wholesalers and manufacturers reported a modest uptick in demand, driven in part by the defense sector and customers supporting data center construction. Fabricated metals production was flat on balance, with contacts reporting stronger orders from the defense industry but a decrease in sales to the agricultural, automotive, and residential construction industries. Machinery sales rose moderately. One contact in heavy machinery reported that data center construction was driving sales, and that equipment fleet rental rates had risen as a result. Auto production was flat on balance, though some contacts saw the potential for supply chain problems, including for semiconductors and petroleum-based products, to curtail production in the future. Heavy truck production rose slightly.

## Banking and Finance

Financial conditions tightened slightly overall in April and early May; while bond values increased a bit, equity values rose significantly, and volatility fell, business and consumer loan rates were up and terms tightened. Contacts gave varying reports on the direction of business loan demand, which was flat overall. Business loan quality edged down and rates rose modestly. One contact reported some concern about the potential for loan quality deterioration in the EV-related auto space. Consumer loan demand decreased modestly, in part due to lower auto loan volumes. Credit card and home loan activity was stable. Consumer loan quality decreased modestly. Several contacts noted elevated uncertainty over the future direction of short run interest rates.

## Agriculture

Expectations for 2026 District farm income were little changed over the reporting period. Although weather conditions and crop planting varied across the District, planting was largely on schedule and most crops were off to a good start. Fertilizer and fuel prices remained elevated. One contact reported buying diesel “hand to mouth” instead of by the truck load due to elevated prices and uncertainty about future prices. A modest number of acres switched from corn to soybeans, as corn requires more fertilizer. Contacts indicated fertilizer costs would be a greater concern in the fall and winter if higher prices persist as that is when prices tend to be locked in for the subsequent growing season. Corn, soybean, and wheat prices rose. Dairy prices generally increased, cattle and hog prices were flat, and egg prices decreased.

## Community Conditions

Community, nonprofit, government and other nonbusiness contacts reported little change in economic activity over the reporting period, though they expressed rising concerns about higher prices related to the conflict in the Middle East. State and municipal contacts worried about a downturn in revenues if consumers curtailed discretionary spending to accommodate higher prices for gas and other necessities. Small business intermediaries reported greater uncertainty on the part of their clients, who were increasingly reluctant to take on debt to start or grow their businesses. Social service organizations said that local funders were adapting to changes and delays in federal funding by encouraging grantees to collaborate to more efficiently with one another to meet community needs, even as contacts also noted an increase in the “newly needy.”

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



# Federal Reserve Bank of St. Louis

## Summary of Economic Activity

Economic activity in the Eighth District has slightly increased since our previous report. Employment was unchanged and wage growth remained moderate. Prices have risen at a robust pace with widespread reports of higher nonlabor costs and cost pressures from elevated energy prices. Consumer spending was stable, and banking conditions were largely unchanged. Manufacturing activity softened slightly, though firms tied to energy and defense reported stronger demand. The outlook has slightly deteriorated since our previous report, with contacts citing ongoing uncertainty, supply chain disruptions, and rising fuel costs linked to the conflict in the Middle East.

## Labor Markets

Employment levels overall have remained unchanged since our previous report. Retail, leisure-related, and services firms showed a slight increase in employment. An auto parts retailer in Memphis reported steady employment levels, with additional hiring taking place at new locations. In Missouri, a hospital noted an increase in hiring compared with last year, and a hotel owner reported that strong convention bookings and seasonal travel increased staffing needs. In contrast, contacts in manufacturing and wholesale sectors experienced modest declines in employment due to lower demand. A food manufacturer in Arkansas saw reduced demand, prompting downsizing and fewer staff. A warehouse operator in Kentucky also reported decreased labor needs as demand softened.

Wage growth has been moderate. An airport in Arkansas reported a 3 percent wage increase overall with higher raises awarded to top performers. A mobility services firm in St. Louis implemented a 3.5 percent wage increase this quarter. A hospital in Little Rock reported significant wage increases over the past year.

## Prices

Prices have risen at a robust pace since our previous report. Nonlabor cost increases were widespread and not solely driven by higher energy prices. For example, a developer in Kentucky noted higher nonlabor operating costs due to supply chain delays and material shortages. A cruise line reported that food and parts expenses had climbed by 3 to 5 percent, leading to increased

operational costs. A manufacturer in Indiana observed rising prices for petroleum-based products, impacting construction input costs. A transportation firm reported liability and health insurance costs have risen 2 to 5 percent and the rise in fuel prices has resulted in contract rates increasing about 5 percent with the potential to rise further. The extent to which firms have passed-on these higher costs to customers has varied, but many anticipate continued pass-through in the coming months. A hospitality business opted to reduce services instead of raising prices, responding to customer price sensitivity. A consumer-focused company has mentioned “responsibly sharing” supply chain cost increases with customers. An airport contact noted that airline fares have increased 3 percent in the past month and 25 percent since the beginning of the year.

## **Consumer Spending**

Consumer spending has remained steady since our previous report. Retailers across the District reported steady to slightly higher sales, though several noted weaker demand for discretionary items. Auto dealerships experienced slow sales due to limited inventory and cautious buyers. Tourism and travel activity was steady or improved slightly. Airport operators reported consistent demand in Bentonville and St. Louis and mixed results in Memphis, where low-cost airlines are struggling. Airline contacts expressed concern that elevated fuel prices could reduce seat capacity and discretionary travel. A hotel operator in St. Louis reported revenue exceeding expectations, thanks to strong convention attendance, sports events, and a robust concert schedule. An entertainment venue in Louisville saw slightly lower demand as households chose single-attraction visits over multi-hour packages due to tighter budgets; alcohol sales also declined year-over-year.

## **Manufacturing**

Manufacturing activity has declined slightly since our previous report, as many contacts noted weaker demand and delayed customer decisions, largely attributed to increased costs and uncertainty from the conflict in the Middle East. A manufacturer in Arkansas reported sales did not meet expectations because private customers and government agencies were reluctant to proceed with quoted projects. Similarly, a manufacturer in Indiana noted slower sales growth, with customers postponing large equipment purchases and citing economic uncertainty. Companies producing consumer goods, such as appliances and food products, also experienced lower sales as customers worked through excess inventories. In contrast, manufacturers in the energy and defense sectors saw stronger demand, resulting in robust growth in new orders and greater pressure on production output.

## **Nonfinancial Services**

Activity in nonfinancial services has increased modestly since our previous report. Professional services firms reported mixed activity, with some contacts noting slower project starts and

reduced client engagement while other contacts indicated stable workloads supported by ongoing contracts. Health services providers reported stable to stronger demand, with several noting increased patient volumes or market-share gains. Transportation and logistics activity was mixed across regions and sectors. A logistics firm in Louisville reported softer demand in automotive and appliance segments, though demand from the health-care sector increased. A logistics firm in Arkansas reported slightly weaker demand and unit sales, tied to a slowdown in manufacturing. A freight firm in Kentucky reported strong demand driven by increased coal shipments.

## **Real Estate and Construction**

Residential real estate activity was mixed. A broker in Arkansas noted sales fell short of expectations, particularly in the median price range as high rates, fuel prices, and geopolitical concerns slowed buyer traffic. An agent in Southern Indiana reported buyers were hesitant amid economic uncertainty, keeping demand steady or slightly lower than earlier in the year. Conversely, a St. Louis broker observed a significantly stronger market than last year, with more buyers than sellers, resulting in rapid sales and homes often selling 7 to 10 percent above listing price. A Louisville agent reported simultaneous increases in both inventory and sales.

Commercial real estate activity was also mixed. Activity was steady but cautious, with dealmaking slowed by rising interest rates, insurance, and operating cost pressures. A developer in Little Rock saw stable demand for industrial and necessity-based retail, while office demand remained varied. In Louisville, a commercial real estate firm reported activity below expectations due to higher costs, uncertainty over fuel prices, and delayed tenant decisions. Construction activity was mixed as well: A St. Louis builder reported modest growth despite sector volatility, while a Missouri supplier noted weaker construction demand because of slower non-residential activity and higher borrowing costs, with no signs of improvement.

## **Banking and Finance**

Banking activity has remained unchanged since our previous report, with loan demand ranging from stable to slightly weaker depending on the market and borrower segment. A banker in Indiana reported consistent loan growth of 3 to 5 percent, similar to recent quarters. A banker in Memphis observed declining loan demand, particularly among small and mid-sized businesses, as sales cycles have lengthened. Credit standards were little changed, but some banks have tightened requirements for agriculture and consumer borrowers due to increasing financial stress. Although delinquencies have mostly remained stable, several contacts reported early signs of deterioration. Looking ahead, many bankers anticipate delinquencies will rise and credit conditions will become more restrictive, especially for rural consumers facing elevated fuel costs and households relying more heavily on credit cards.

## Agriculture and Natural Resources

Agriculture conditions have declined slightly since our previous report. A rice producer in Arkansas noted that sales were below expectations, citing closed shipping lanes and reduced export demand stemming from the ongoing conflict in the Middle East. In the Mississippi Delta, a farm operator reported that planting progress was well ahead of last year; however, farmers' financial positions are no better—and possibly worse—than a year ago. Credit conditions have tightened for some growers, with reports of delays in operating lines and increased reliance on credit. A poultry producer in Arkansas observed that poultry markets have softened considerably year-over-year, as supply growth has outpaced historical norms and pushed prices lower. Cotton contacts indicated improved pricing, though earlier reductions in acreage have limited the industry's production response.

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



# Federal Reserve Bank of Minneapolis

## Summary of Economic Activity

Ninth District economic activity increased modestly since the previous report. Employment grew slightly, and wage growth was modest to moderate. Prices increased sharply, particularly for inputs. Growth was noted in financial and nonfinancial services, construction, and manufacturing. Consumer spending, tourism, and energy were flat. Agricultural conditions remained weak. Activity among minority- and women-owned business enterprises was mixed.

## Labor Markets

Employment rose slightly since the last report. Construction firms reported healthy hiring demand, and a majority were looking for year-round, full-time workers. A large staffing firm with multiple offices reported strong job orders and improved ability to fill positions. Hospitality firms were also hiring, but mainly for turnover and seasonal needs; few were hiring new full-time positions. Human resource contacts noted less availability of foreign-born workers, and some employers were having difficulty using work visa programs to meet labor needs. A contact with a southwest Minnesota manufacturer noted that they have seen fewer immigrants in the local labor force. As a result, they have hired more nonimmigrant workers; since doing so “our turnover has gone up over 10 percent,” and total job applicants have fallen significantly.

Wage growth was modest to moderate, with some signs of softening. Two-thirds of hospitality and professional services firms reported annual wage increases of 3 percent or more. Half of construction firms said wages were increasing by 3 percent or more over the last year, and smaller wage increases were expected over the coming year; both results were softer than previous levels. A District staffing firm reported flat wage pressure for industrial workers despite strong demand.

## Prices

Prices increased sharply since the previous report, especially for inputs. In a monthly survey, more than a third of firms increased prices to customers in April from the month earlier. A majority of firms reported that their average nonlabor input prices had increased by more than 2 percent in the previous two months, with a quarter reporting increases of more than 5 percent. Expectations for May were higher for pricing to customers but somewhat more moderate for input prices.

Contacts continued to report substantial fuel surcharges for freight. Health care contacts noted that higher plastic prices were feeding into medical equipment costs. Manufacturing contacts reported sharply increased primary metals prices. The wholesale prices component of a regional manufacturing index increased sharply in April to its highest level in two years. Retail fuel prices in District states increased robustly since the last report.

## **Worker Experience**

Overall, workers across the District faced a shrinking number of job postings. Individuals with skills in construction, manufacturing, or health care were more likely to be hired. A community college contact noted that older adults were “coming back to get a second credential to better compete for jobs.” A contact in Minnesota said that workers faced limited ability to negotiate for higher pay and were mostly absorbing higher commuting costs. Several contacts noted that workers had an increasing fear of spending. Younger workers with families were reportedly swapping planned vacations for “staycations” in the face of higher fuel prices.

## **Consumer Spending**

Consumer spending was flat since the last report. Retail contacts were evenly mixed, with similar shares reporting increased versus decreased sales compared with the previous month. Some firms seeing sales growth attributed it to normal seasonality. Hospitality and tourism firms have seen fairly slow activity of late and had modest expectations for the coming summer season. In Montana, a clothing manufacturer and retailer reported that the size of orders had fallen, and a convenience and service business said higher fuel prices were likely to cut into store sales and vehicle repair work. An accommodations business in northeast Minnesota said bookings had been slow, and given fuel prices “and the cold shoulder Canadians are giving us, I’m not very optimistic.” A vehicle dealership with multiple District locations saw April sales decline for both new and used models. Hotel occupancy and room rates were mixed, with some District states improving in April, while others declined.

## **Services**

Activity among services firms grew modestly, with financial firms reporting growth and nonfinancial firms seeing somewhat softer activity. A Minneapolis–St. Paul financial firm said loan demand was increasing and delinquency was low. “Business is exceeding our expectations through the first 4 months of the year.” Professional services firms reported growth in a recent survey, but softer activity in a secondary survey. Respondents to both noted some concern over future consumer spending given rising cost-of-living pressures.

## Construction

Construction activity in the District grew moderately since the last report, but contacts revealed some fragility beneath the surface. Cash flows were hurting due to many projects “stopping and starting” as clients became hesitant to proceed. A contact shared that “everything is high, and customers are taking care of today, but unsure about tomorrow.” Firms and workers were shelling out more income to pay for rising fuel costs. Higher oil prices were also affecting the price of PVC and other materials. Data centers, energy projects, and infrastructure work remained relatively solid. Construction permits filed in April increased year over year across major markets in the District, notably in Minneapolis, Minnesota, and Rapid City, South Dakota.

## Manufacturing

Manufacturing activity increased moderately since the last report. More than half of manufacturing survey respondents reported an increase in orders in April compared with a month earlier, while less than a quarter reported a decrease. An index of regional manufacturing conditions indicated that activity increased in Minnesota and North Dakota in April from the previous month, while activity was flat in South Dakota. A contact in the electronics sector reported a strong backlog of orders due to high demand from data center construction and the defense industry. In contrast, an equipment producer said there was “still far too much uncertainty to make major decisions right now.”

## Agriculture Energy and Natural Resources

District agricultural conditions remained weak overall, but planting was going well. According to the most recent Ag Credit Survey, 76 percent of respondents reported that farm incomes decreased in the first quarter from a year earlier, and respondents were concerned about the impact of surges in diesel and other input prices on margins. However, corn, soybean, and spring wheat planting progress in District states as of mid-May was well ahead of average, and high cattle prices remained a source of strength. Oil and gas activity in the District has been little affected by oil price shocks so far. Industry contacts noted firms were reluctant to change plans based on short-term price volatility. An iron mining contact said activity was stable.

## Minority- and Women-Owned Business Enterprises

Activity among minority- and women-owned business enterprises (MWBE) was mixed over the most recent period. In certain instances, upward shifts in activity were attributed to seasonality. A mechanic shared that customers were using their tax refunds for car repairs they had postponed. A large share of contacts reported higher nonlabor costs. Price increases were particularly notable in fuel and petroleum-based products.

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 increased slightly in the Tenth District; however, consumer-facing firms continued to report softer demand and margin compression. Contacts noted that limited labor availability, elevated labor costs, and faster AI adoption among offshore providers increasingly motivated firms to shift back-office professional functions to lower-cost global service markets to improve productivity and offset margin compression. Firms reported higher energy-related expenses, though liability insurance, packaging materials, and other inputs exerted the greatest upward price pressure. Consumer-facing contacts described growing behavioral adjustments among middle-income households, including reduced frequency and lower per-visit spending at sit-down restaurants. One contact noted that “middle-income households are squeezing more life out of every dollar before deciding to spend it.”

### Labor Markets

Labor market conditions have shown little to no change in the Tenth District, with employment remaining stable and wages increasing modestly. Contacts have observed that the lack of labor availability and elevated labor costs have increasingly motivated firms to offshore back-office and professional functions to lower-cost global service markets over the last two months. Several firms also noted that faster AI adoption among offshore providers has improved productivity and service capabilities, increasing their competitiveness relative to some domestic operations in areas like accounting, medical transcription, and database management. Manufacturing contacts reported elevated turnover among workers with certifications departing for larger employers. One contact stated at an aerospace roundtable, “If they come with a wrench in their hand, they can work the next day,” suggesting that some manufactures are shifting toward labor pools with practical mechanical competencies and lower credential intensity as competitive pressure for technically trained labor remain elevated. District firms are expecting little change in employment and modest increases in wages over the next six months.

### Prices

Prices in the Tenth District have increased moderately, with sixty-five percent of survey respondents reporting increased input prices compared to last month. Although firms noted an uptick in energy-related expenses, contacts indicated that non-energy costs like liability insurance,

packaging materials, and other input prices all exerted the greatest upward pressure. Several firms reported efforts to maintain stable pricing on goods targeted toward low-income consumers while increasing the prices of their other products to avoid tighter profit margins. Manufacturing contacts expect a slight increase for finished goods, while services contacts are expecting a moderate increase over the next six months.

## **Consumer Spending**

Consumer spending on discretionary items declined slightly, while non-discretionary spending remained flat during the reporting period. Contacts noted growing behavioral adjustments among middle-income households, including reduced frequency and lower per-visit spending at sit-down restaurants, even within traditionally resilient segments. One firm stated, “middle-income households are squeezing more life out of every dollar before deciding to spend it.” In contrast, higher-income households remained largely insensitive to price pressures, as a restaurateur noted that his restaurants were at full capacity and he wanted to expand. Consumer spending expectations over the next six months shifted lower, to a slight increase.

## **Community Conditions**

Organizations serving low- and moderate-income (LMI) populations reported increased budgetary strain, affecting their ability to meet the growing needs in LMI communities. Contacts reported reduced funding from federal and state governments, as well as from individual and corporate donations. Funding shortages have increased competition for philanthropic funds, and foundations reported that they could not fill the funding gap. To cope with funding shortages, contacts reported that more organizations were cutting programs and staff. Organizations also reported increased discussion of mergers, acquisitions, financial agent agreements, and stronger cooperation among nonprofits. Services have also emerged to help organizations pursue those pathways.

## **Manufacturing and Other Business Activity**

Business activity increased slightly during the reporting period, though consumer-facing firms continued to face softer demand and margin compression. Aerospace activity expanded rapidly across the military, satellite, and drone segments, adding to the already strong growth in general and commercial aviation. Elsewhere, growth in manufacturing activity ranged from slight to moderate, supported by steadier backlog fulfillment. Firms raised their investment expectations and now expect investments to increase slightly over the next six months.

## Real Estate and Construction

Contacts in the housing construction sector noted robust increases in the cost of a variety of building materials and to higher delivery costs associated with higher oil prices. They characterized the increase in materials costs as being “like tariffs all over again, but with price increases coming faster.” Providers of building materials emphasized that the timing of the price shock for fuel and petrochemicals undermined the previously expected pick-up in home building construction, whose growth expectations across much of the District are now reportedly anemic. The inventory of single-family homes for sale rose at a modest pace, somewhat slower than the robust growth over the last two years. Still, the continued increases in the availability of both single-family homes for sale and multi-family units delivered kept rent growth subdued.

## Community and Regional Banking

Loan demand and credit standards were largely unchanged across lending categories. However, several respondents indicated a moderately stronger demand for commercial real estate (CRE) loans. In contrast, demand for commercial and industrial (C&I) loans was mixed, tied to local market conditions or sentiment towards the economy. Although loan quality remains stable overall with little change expected for most respondents, one-third are experiencing some level of credit deterioration, and one-quarter expected further deterioration over the next six months. Current and expected deterioration is concentrated in agricultural and consumer lending due to the combination of energy price volatility, low grain prices, adverse weather/drought conditions, and storm damage. While energy price volatility has not impacted overall willingness to lend, all sectors are being closely monitored for direct and indirect impacts. Bankers noted that deposit levels were relatively stable.

## Energy

Tenth District drilling activity remained mostly unchanged. The number of active oil rigs increased in recent weeks but has not yet exceeded the level before the conflict in the Middle East, even as oil prices were elevated but volatile. The number of gas rigs continued to decline as natural gas prices remained low, in part because of elevated associated gas supply from oil-heavy basins outside the District. Contacts reported that higher diesel prices have raised the cost of drilling new wells, and they are looking for less expensive substitutes for other key inputs as they face broad cost pressures. Many District firms remain cautious about materially increasing drilling activity amid uncertainty about the duration of the supply disruption and the outlook for oil prices.

## Agriculture

Conditions in the Tenth District farm economy remained split across crop and livestock sectors. Corn, soybean, and wheat prices have increased moderately since April, but the spike in fuel and fertilizer costs was expected to keep profit opportunities narrow. Contacts noted that wheat conditions in Kansas, Nebraska, and Oklahoma were particularly poor due to severe drought, raising concerns about reduced revenue for producers. Strong cattle prices continued to support cow/calf producers and boosted incomes for dairy and crop operations with diversification into beef cattle. According to the latest lender survey, ranchland values increased sharply alongside strength in the cattle sector, and cropland values increased modestly despite ongoing challenges for crop farms.

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



# Federal Reserve Bank of Dallas

## Summary of Economic Activity

Economic activity in the Eleventh District rose modestly over the reporting period. Growth resumed in the service sector and picked up pace in manufacturing and banking. Retail sales weakened, and energy activity ticked up. The real estate sector was mixed, with falling home sales but rising commercial activity. Employment was largely flat, and wage growth remained modest. Increased fuel prices spurred price pressures. Outlooks were tepid amid heightened uncertainty stemming from the conflict in the Middle East and sharply higher transportation costs.

## Labor Markets

Employment overall was mostly flat during the reporting period. Increased economic uncertainty resulting from the Middle East conflict prompted some firms to pull back on hiring. A staffing agency noted difficulty finding experienced candidates to meet rising demand for professional services positions, observing that people are reluctant to change jobs in this environment. An engineering firm said 80 percent of their new hires do not have a background in a related industry, a change from five years ago when it was more common than not to find someone from a connected industry. Labor shortages were noted for oilfield technicians. Wage growth remained modest in the service sector but moderate in manufacturing. A services contact noted some relief in terms of pay demands from job candidates. Labor costs for homebuilders remained flat or declined due to reduced work volume in the single-family housing market.

## Prices

Price pressures increased over the reporting period, largely driven by increased fuel and shipping costs. Some manufacturers noted that supply-chain issues related to the closure of the Strait of Hormuz prompted substantial price increases in certain materials, like aluminum. Several companies across an array of industries have raised prices or added fuel surcharges in response to higher costs, while others noted that they plan to do so if higher fuel costs persist.

## Manufacturing

Manufacturing activity picked up pace over the reporting period, surging in April then abating to more moderate growth in May. The recent strength in manufacturing was seen in both durable and nondurable goods, with machinery manufacturing standing out as growth leader. Some factory contacts noted rising demand and building backlogs. A contact in high-tech reported strong semiconductor demand driven by AI infrastructure growth, but more modest technology demand outside of AI-led growth. Petrochemical producers maintained high levels of output to meet strong export demand amid disrupted supply chains due to the Middle East conflict. Manufacturing outlooks stabilized, though the ongoing conflict in the Middle East has created uncertainty.

## Retail Sales

Retail sales weakened over the reporting period. Retailers reported concerns that the Middle East conflict was negatively impacting business activity, as elevated gasoline prices reduced consumers' discretionary spending, particularly for low-income consumers. A grocery chain said reductions in SNAP benefits continued to negatively affect consumer purchases. Auto sales softened further in April and May, with dealerships experiencing a significant slowdown in customer traffic that they partly attributed to high gasoline prices and the resulting pullback in non-essential spending. Uncertainty about the conflict in the Middle East and future business conditions remains a concern.

## Nonfinancial Services

Activity in nonfinancial services picked up in April and May. Growth was led by professional and business services, including accounting and advisory services, where contacts note the complexity of the regulatory and tax environment is driving sustained demand. Contacts in leisure and hospitality report positive momentum in 2026 compared with 2025. Staffing firms noted a pickup in demand, especially in construction, particularly for data centers. Transportation services firms reported increased volumes, though high fuel costs posed a meaningful headwind to the industry. Airlines noted strong demand, with a minor boost from the shutdown of Spirit Airlines. Looking ahead, overall outlooks deteriorated slightly, with the ongoing conflict in the Middle East weighing on sentiment.

## Construction and Real Estate

Home sales fell during the reporting period. Contacts said sales and traffic slowed since April after holding up earlier in the spring. The first-time buyer segment was particularly weak due to affordability constraints, while the move-up segment performed better. Builders faced compressed margins due to high lot prices, and they were offering discounts and rate buydowns to attract buyers.

Outlooks remained cautious as builders navigated sluggish demand, elevated input costs, and weak pricing power.

Commercial real estate activity rose on net. Apartment absorption increased, but rents continued to decline and concessions remained widespread due to elevated supply. A modest recovery is expected in the second half of the year. The office market was stable, with consistent demand. Demand for industrial space remained solid. Office and retail construction was subdued, while data center and industrial construction were robust.

## **Financial Services**

Loan volume and demand growth continued to increase in May. Volume rose across loan types. Credit standards and terms tightened slightly, but loan pricing continued to decline. There was a broad-based deterioration in overall loan performance. Bankers expressed the highest level of concern for consumer and non-depository financial institution loan performance. Contacts expect strong growth in loan demand, but also slightly worsening loan performance. Bankers anticipate moderate growth in business activity over the next six months, while their top outlook concerns include fraud, economic uncertainty, and liquidity.

## **Energy**

Eleventh District drilling and completion activity ticked up slightly over the past six weeks. There continues to be limited appetite to increase activity even amid sharply higher oil prices, as the oil price impact of the Middle East conflict is still viewed as likely to be too short-lived to spur new capital investment. While some firms are accelerating the completion of already drilled or scheduled wells to pull production forward, many contacts note constraints such as the limited availability of drilling rigs, pipeline takeaway capacity for natural gas, and certain oilfield chemicals. These are likely to remain restraining factors to varying degrees well into 2027. Meanwhile, U.S. energy export volume out of the Gulf Coast is hitting record highs with the release of crude oil from the government's Strategic Petroleum Reserve, draws on commercial inventories, and new liquefied natural gas export capacity.

## **Agriculture**

Drought conditions improved notably in much of the District, though they worsened significantly in the Texas Panhandle, which is an important area for livestock and row crops. Input costs are up across the agricultural sector, particularly for fertilizer and fuel. Prices for cotton and grains have risen dramatically over the reporting period, more than compensating for higher input costs, according to contacts. These prices provide strong marketing opportunities for producers, but they are challenged by uncertain production prospects amid drought. Cattle and beef prices remained

high, though not all in the production chain are benefitting. Contacts noted that while ranchers are doing well in this market, there is financial strain among feedlots and meatpackers.

## **Community Perspectives**

Organizations serving lower-income individuals reported persistent high need for assistance. Higher gasoline prices have increased financial strain on low-income households in particular, which is expected to drive further demand for basic-needs assistance, including food. One contact noted that the need for items like diapers was so great that they could no longer fund the program and discontinued it. Community leaders highlighted that immigration enforcement continues to be a concern for the people they serve and has led to some people being afraid of going out in public to seek assistance. Accessing affordable housing also continues to be a critical issue, though some contacts noted affordable housing developments opening or starting to be built, offering hope for future improvement. Higher fuel costs are a key risk among nonprofits, as it increases the cost of delivering assistance and can soften philanthropic giving as donors prioritize meeting needs of their own families in a higher-cost environment.

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 remained largely stable during the April through mid-May reporting period. Employment levels were generally unchanged, with most employers holding head counts flat and hiring selectively. Wages rose slightly. Prices increased moderately, largely driven by higher fuel costs due to the ongoing conflict in the Middle East. Retail sales and demand for consumer and business services were unchanged on net. Manufacturing activity rose somewhat, while conditions in agriculture and resource-related sectors weakened somewhat. Activity in residential real estate continued to cool slightly, and commercial real estate activity was unchanged on net. Conditions in the financial services sector were stable overall. Rising needs and reduced funding continued to strain community organizations' ability to provide support and services. Contacts reported a weak economic outlook, though sentiment was slightly more optimistic than in the prior period.

## Labor Markets

Employment levels remained generally stable over the reporting period. Most employers held head counts flat, hiring primarily in response to attrition. Some businesses in both the retail sector and the leisure and hospitality sector reduced employee hours. Contacts reported some employment declines from layoffs and attrition in the technology, construction, and finance sectors. Meanwhile, some businesses added positions to meet rising customer demand or to fulfill seasonal hiring needs for the upcoming FIFA World Cup events. Overall, job turnover remained low, and most open positions were easy to fill. One contact reported that lower turnover created more opportunities for training and internal advancement for employees. A leisure and hospitality contact noted the eased hiring conditions made it possible to hire seasonal workers rather than rely on more costly overtime to meet labor needs.

Wages continued to rise at a slight pace. Most contacts reported historically typical wage increases. However, wages rose more quickly to attract workers for some positions, including AI-related roles. In contrast, wages were flat for some businesses in the finance, food service, and retail sectors. One contact in Idaho noted increased wage competition in manufacturing due to expansion in the region by a large semiconductor manufacturer.

## Prices

Prices rose at a moderate pace, as in the prior reporting period. Higher fuel prices attributed to the conflict in the Middle East drove up transportation and shipping costs for businesses across most sectors. Contacts continued to report tariff-related input cost increases, particularly for steel. Food service businesses faced higher prices for ingredients such as produce and animal products. Costs for technology services, event staffing services, and insurance also rose. Some contacts successfully pushed back against cost increases from suppliers. Others, such as in transportation, hospitality, retail, and manufacturing, passed increases on to customers in full or in part.

## Community Conditions

Conditions for the community support and services sector weakened somewhat. Contacts reported an increase in demand for basic needs such as food assistance and housing support. A Pacific Northwest contact noted that planned construction of low-income housing declined amid uncertainty about future availability of housing vouchers. Government funding changes led more individuals to drop insurance coverage, which strained hospital resources. For nonprofit organizations, obtaining financial support from businesses became more difficult, and funding from public grants fell.

## Retail Trade and Services

Retail sales were roughly flat over the reporting period. Demand for necessities remained stable across various categories, including nondiscretionary spending for groceries, pet products, and hardware for tradespeople and home repair work. One contact observed that higher tax refunds bolstered consumer demand. In contrast, demand weakened for discretionary items. One retail contact reported an increase in inventories as a result. Input costs continued to rise, driven by tariff-related pressures and higher energy prices and transportation costs.

Demand for consumer and business services was unchanged on net. Restaurant activity was mixed, similar to the previous reporting period. Demand at quick service restaurants rose somewhat because of value-driven promotions, while contacts in the Pacific Northwest reported that demand remained slow at full-service restaurants. Tourism-related demand was solid at the higher end and for specific events such as concerts and corporate gatherings. In contrast, demand declined at value-oriented venues and regional destinations as consumers cut back on driving long distances and taking weekend trips. A Nevada contact observed additional promotions and cuts in accommodation prices to attract travelers. Demand for most business services was stable, though it rose for technology and IT-related services in particular.

## Manufacturing

Manufacturing activity strengthened somewhat over the reporting period. Demand was stable or increased for products such as commercial vehicles and capital equipment, as customers sought to make cost-saving investments and execute previously delayed purchase plans. Manufacturers continued to report cost increases for raw materials, energy, and shipping because of tariffs and higher global energy prices. Several contacts maintained or increased capital spending plans, while others paused plans due to ongoing financial constraints from general cost pressures and overall economic uncertainty.

## Agriculture and Resource-Related Industries

Conditions in agriculture and resource-related sectors weakened somewhat. Costs for inputs, such as fertilizer and fuel, increased across the District. Despite fertilizer being a nondiscretionary input, demand was mixed, with some contacts reporting slight increases in demand, with others observing a reduction. Commodity crop prices remained flat or increased only slightly, which created financial challenges for farmers facing higher production costs. Log harvesting increased to make up for previous smaller harvests and to meet the higher demand for wood products such as lumber. Demand for tree crops was soft. Conditions in livestock markets were solid, similar to the last reporting period.

## Real Estate and Construction

Residential real estate activity continued to cool slightly. Single-family home sales were stable but remained generally low, which increased inventory in some regions. Construction activity was slow, both for new homes and renovations. One contact observed a slight increase in the number of developers seeking to exit the market by selling existing projects. Rental rates were lower for multifamily units, and concessions were more prevalent. Although multifamily construction was generally stable, one contact in Utah reported a decline because of existing excess supply.

Activity in commercial real estate was unchanged on net. Leasing demand remained steady for retail space but soft for office space. Demand for industrial space was up marginally from businesses in manufacturing, defense, and consumer products, with tenants reportedly seeking spaces that better fit their business needs. Although slow otherwise, construction activity remained steady for infrastructure, defense, health care, and data centers. This created more competition for projects among contractors, leading some to absorb cost increases to secure contracts.

## Financial Institutions

Conditions in the financial services sector were stable overall. Demand for business loans increased a bit overall. Construction lending was mixed across sectors and regions. Lender competition put downward pressure on rates in some markets. Mortgage refinancing activity fell slightly in some regions. Lending activity for other consumer loans was flat or down, as some consumers reportedly reduced credit card spending. Credit conditions tightened somewhat, with more loan delinquencies reported across the District. Deposit growth and rates offered were stable.

For more information about District economic conditions visit: <https://www.frbsf.org/research-and-insights/publications/san-francisco-fed-twelfth-district-beige-book/>.



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