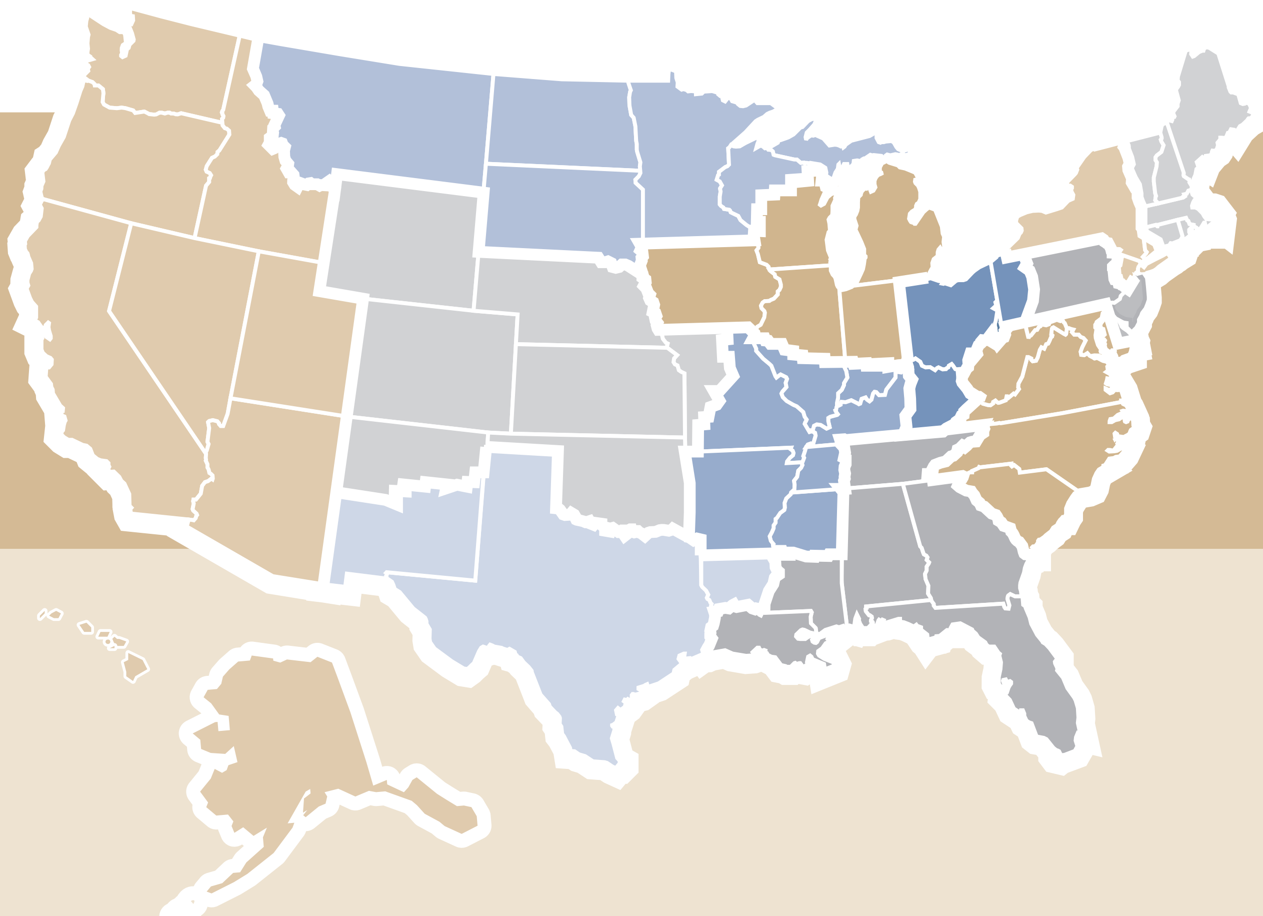
The Beige Book

Summary of Commentary on Current Economic Conditions by Federal Reserve District

July 2026



FEDERAL RESERVE SYSTEM

Contents

About This Publication

What is the Beige Book?

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

What is the purpose of the Beige Book?

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

How is the information collected?

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

How is the information used?

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

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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.

National Summary

Overall Economic Activity

Economic activity increased at a slight to moderate pace in eleven of twelve Federal Reserve Districts in late May and June, while one District reported no change. The pace of growth was quite close to that of last period, when activity expanded in ten Districts, was flat in one, and down in one. Consumer spending edged up as higher prices, particularly for fuel, dampened sales in other categories. Several Districts noted declines in spending on discretionary items or trading down to more affordable varieties. Tourism was up, with some Districts receiving a boost from World Cup visitors. Auto dealers reported little change in sales, but spending on repairs grew as consumers held onto vehicles for longer. Agricultural conditions deteriorated due to lower commodity prices, higher input costs, and tighter credit. In the energy sector, oil and gas drilling increased. Manufacturing production grew modestly to moderately in most Districts, led by stronger orders from the data center, machinery, and defense sectors. Manufacturers in several Districts said supply chain issues were more common. Construction and real estate activity increased slightly overall, with several Districts noting growth in data center building. Financial conditions were stable on net, and commercial and consumer loan volumes were both up modestly. Commercial loan quality was stable, but consumer loan quality ticked down. Transportation activity increased modestly amidst ongoing supply chain changes related to higher tariffs and the conflict in the Middle East. Overall, activity in other service industries also was up modestly, with Districts highlighting growth in health care and professional services. Social service providers were adjusting to funding declines while demand for basic supports—housing, food, health care—remained high. Contacts generally expected the economy to continue to expand in the coming months, but several Districts noted elevated uncertainty in the outlook for fuel costs.

Labor Markets

Employment rose on balance, with five Districts showing modest, moderate, or solid gains in employment, and with seven Districts experiencing little to no change. In the previous report, only one District had modest, moderate, or solid employment gains. Employment rose in a variety of industries, including manufacturing, construction, and retail. Skilled workers were difficult to find in a range of fields, notably technicians and tradespeople. Though there were reports of lower employment in a couple of Districts, the declines were small. Wage growth was modest to

Note: This report was prepared at the Federal Reserve Bank of Chicago based on information collected on or before July 6, 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.

moderate in most Districts, though two saw only slight wage increases. Some wage increases were attributed to increased competition for skilled workers. A few Districts noted that firms had increased their usage of AI, either in the hiring and screening of potential employees or to boost worker productivity.

Prices

Prices increased moderately overall, with nine Districts reporting moderate growth, two robust growth, and one slight growth; compared with the last reporting period, price growth was the same or slower in all Districts. Non-labor input costs increased for a variety of industries—including services, construction, and manufacturing—and reflected in part higher costs for energy, transportation, and raw materials. Some contacts tied these cost increases to the conflict in the Middle East; others mentioned tariffs. Consumer prices continued to rise, and a few Districts said contacts saw greater price sensitivity among their customers. A couple of Districts reported that selling prices grew less than input costs over the period, crimping margins. Expectations for price growth over the coming months varied across Districts, with contacts in some expecting inflation to continue at its current pace, while contacts in others expected inflation to slow, in part due to falling fuel prices.

Highlights by Federal Reserve District

Boston

Economic activity expanded slightly. Employment was flat, with some isolated layoffs, and wages rose at a slight pace. Cost pressures remained elevated, but output prices increased only slightly. Consumer spending rose modestly overall, buoyed by the World Cup, but discretionary spending softened among low- and moderate-income households. The outlook improved on balance.

New York

Economic activity increased modestly, as service sector activity picked up after a long period of weakness. Employment increased modestly, with larger firms starting to hire for growth. Input prices rose strongly under pressure from tariffs and energy costs, though selling price increases remained moderate. Businesses became more optimistic.

Philadelphia

Economic activity rose slightly in the current period, up from a slight decrease in the last period. Nonmanufacturing activity picked up, while manufacturing activity again rose modestly. Employment again declined somewhat. Wage inflation held steady at a modest pace, and prices continued to grow moderately. Manufacturers have more widespread expectations for future growth than nonmanufacturers.

Cleveland

Fourth District business activity increased modestly, with faster growth anticipated in the coming months. Manufacturing demand rose moderately, while retailers continued to face soft demand due to higher fuel prices. Higher fuel costs filtered through to both selling prices and wage pressures. Selling prices rose at a robust pace.

Richmond

The regional economy expanded moderately this cycle as consumer spending continued to grow despite some shifts in consumer behavior, even among higher income consumers. Business activity was generally reported as modestly growing, and employment grew modestly as well. Manufacturing output also increased modestly while producer prices were little changed despite rising input costs. Overall price growth remained moderate.

Atlanta

Economic activity grew modestly. Employment levels remained largely flat. Wages rose moderately, and prices increased at a moderate pace. Consumer spending expanded modestly. Residential and commercial real estate were little changed. Transportation and manufacturing rose modestly. Energy activity was stable, but agricultural conditions worsened. Lending increased at a modest pace.

Chicago

Economic activity in the Seventh District increased modestly over the reporting period. Manufacturing demand rose moderately; employment rose modestly; consumer spending, business spending, and construction and real estate activity increased slightly; and nonbusiness contacts saw a small increase in economic activity. Prices rose moderately, wages were up modestly, and financial conditions tightened slightly. Farm income expectations for 2026 edged down.

St. Louis

Economic activity has slightly increased. Employment was unchanged, and wage growth was moderate. Prices rose at a robust pace, and increases were widespread. The outlook remains unchanged, with contacts noting that persistent uncertainty and elevated fuel costs continue to weigh on overall conditions.

Minneapolis

The District economy expanded slightly. Employment grew modestly, and contacts reported that labor availability increased. Wage growth was modest to moderate. Prices increased moderately, but input price pressure remained elevated. Retail contacts reported greater discretion among consumers. Services, construction, commercial real estate, and manufacturing activity increased. Agricultural conditions deteriorated.

Kansas City

Economic activity expanded slightly within the Tenth District, which was supported by increased manufacturing activity. Inflationary pressures continued to compress profit margins, prompting firms to make pricing and investment adjustments. Contacts expect slight growth over the next six months.

Dallas

Economic activity in the Eleventh District rose moderately. Growth picked up in the banking, energy, and service sectors but moderated in manufacturing. Retail sales improved, and the real estate sector was mixed. Employment strengthened, and wage pressures rose. Outlooks were stable to positive, though inflation, the level of demand, and geopolitical and domestic policy uncertainty remained sources of concern.

San Francisco

Economic activity was stable but somewhat muted. Employers held head counts steady and invested further in AI. Prices increased moderately, while wages rose slightly. Retail sales and demand for services edged down. Manufacturing activity rose modestly, while agriculture activity was unchanged but weak. Conditions were steady in real estate and financial services.

Federal Reserve Bank of Boston

Summary of Economic Activity

Economic activity continued to expand at a slight pace. Consumer spending rose modestly, supported by the World Cup soccer tournament, but many consumers showed heightened price sensitivity. Manufacturing activity grew slightly, with strong demand from defense and automation. Bank loan volume ticked up, as did nonfinancial services activity. Real estate activity was mixed, with stable nonresidential leasing, softer construction activity, and moderate declines in home sales. Nonprofits faced difficulties meeting growing client needs. Employment was unchanged, as labor demand remained healthy despite isolated layoffs. Wages rose slightly, but manufacturers reported increased wage competition. Output prices rose slightly, and cost pressures remained widespread. The outlook improved marginally, and perceived uncertainty decreased.

Labor Markets

Employment was roughly unchanged overall. Manufacturers reported slight increases in payrolls, and retail and hospitality contacts said seasonal hires exceeded last summer's levels. Services employment was mostly stable, although one firm reported modest layoffs of white-collar staff because of AI-related efficiency gains. In construction, apprentices experienced layoffs, while more experienced workers held their jobs. Wages rose slightly on average, with increases noted for manufacturing, retail, and hospitality workers; wages were flat otherwise. Job openings inched up, but employers reportedly remained cautious, with hiring proceeding at a very slow pace. Grocery and tourism contacts reported easier hiring compared with last summer but noted the market remained tight in spots. Manufacturers experienced a small increase in applications but, in some cases, struggled to hire and retain workers because of increased wage competition. Most contacts did not expect major changes in headcounts going forward, although one hospitality contact planned to increase hiring moderately.

Prices

Output prices increased slightly on average. Construction prices rose modestly, driven by further increases in input costs. Manufacturers likewise cited mounting cost pressures as the source of modest price increases. A large financial services firm left prices unchanged despite facing moderate cost increases, and nonfinancial services prices were mostly unchanged. Lodging prices rose slightly year-over-year at high-end resorts; meanwhile, more budget-friendly accommodations reported increased price sensitivity among consumers and kept room rates flat despite increased costs. A grocery operator reported modest price increases and observed heightened price sensitivity. Energy costs remained elevated, although one contact mentioned a modest decline in diesel prices, partly alleviating cost pressures. Pricing plans for the near term varied across firms. While multiple firms anticipated holding prices steady, hospital prices were expected to rise slightly, as was tuition for at least one public university.

Consumer Spending

Consumer spending increased modestly overall in recent months, as tourism spending posted modest gains and retail spending grew slightly. However, several contacts mentioned discretionary spending was down for households with modest means owing to high necessities prices. Boston hotel contacts said World Cup bookings were initially below expectations but rose to meet them after room rates were reduced to seasonally typical levels. Bars in Greater Boston also saw a marked uptick in beer sales, which they attributed to the World Cup. The volume of Canadian travelers increased slightly from last summer, but remained well below historical levels, disproportionately affecting some towns in coastal Maine and northern Vermont. Other contacts from Maine and Vermont noted continued strength in luxury travel and softer demand for budget-friendly travel. A grocery chain operator reported overall sales that were softer than anticipated but said higher beef prices had led to record sales of chicken and pork as customers traded down to those lower-priced items. Relative to the spring, when uncertainty spiked because of the conflict in the Middle East, optimism increased on average among retail and tourism contacts, while uncertainty decreased but remained elevated.

Manufacturing and Distribution

On average, manufacturing activity expanded slightly in recent months. However, a few contacts indicated slight or moderate declines in activity, a few noted large increases, and several each reported no change or a slight increase. Changes in capital expenditures, profits, and inventories also varied considerably, with small gains in each on average. The factors driving positive results included mergers-and-acquisitions activity (by a pharmaceuticals firm) and increased demand for precision manufacturing coming from the defense and automation industries. Sources of strain included rising freight and materials costs, as well as labor scarcity. The outlook improved slightly on balance, as two-thirds of contacts reported either increased optimism or no change in expectations, and uncertainty diminished on average.

Nonfinancial Services

Nonfinancial services activity increased slightly overall. Legal and accounting firms reported modest revenue gains, while revenues were flat or up a bit among staffing firms. A contact from one of the region's public universities said the school experienced a moderate increase in student enrollment and slight increases in tuition revenues but also received less state funding. Hospitals in Maine saw stable patient volumes and noted an uptick in capital expenditure that was expected to persist for the second half of the year. The outlook was unchanged for most contacts, but several reported increased optimism, and one felt that the economy in general was gaining momentum.

Financial Services

Bank loan volume and loan demand increased slightly, while credit standards were unchanged. Loan pricing was stable on average, but some banks reported slight decreases and others slight increases in loan rates. Nonperforming loans were unchanged at most banking contacts but rose slightly in one case, and some contacts said they were monitoring delinquencies in light of the strain of elevated inflation on household balance sheets. Despite those concerns, the banking outlook was stable or slightly more optimistic in some cases. A large financial services firm reported flat revenues and profits and expected no major changes in activity going forward.

Real Estate and Construction

Nonresidential leasing activity was about flat on balance, with stable retail leasing, diminished industrial leasing, and a slight increase in office leasing. Some contacts noted small declines in office vacancies and increased office property sales. A Boston contact described renewed interest in retail properties and senior housing among institutional investors. Closed sales of residential properties decreased moderately in May from one year earlier. Nonetheless, home sales increased sharply in New Hampshire during the same period. Excluding New Hampshire, where the median single-family sale price rose moderately, single-family prices were flat on average, while condo prices (including New Hampshire) were down slightly on average. Multifamily leasing was stable, with rent increases in greater Boston still matching inflation. Both residential and nonresidential construction activity eased a bit, with contacts citing high construction costs as a deterrent. The outlook was mostly stable, but contacts cited the prospect of higher interest rates as a downside risk and, by contrast, expected multifamily sales and construction in Massachusetts to get a boost following the disqualification of a proposed rent control measure.

Community Perspectives

Contacts serving low- and moderate-income households reported increased demand for assistance along several dimensions, as families struggled with persistently high prices of food, housing, and transportation. Reliance on food pantries increased further, transportation assistance expanded, and nonprofit organizations received more requests for help with housing payments and health-care supplies. Lower-income consumers reportedly added credit card debt to pay for essential goods. However, some nonprofits reported greater financial stability in 2026 after a turbulent 2025. Nonetheless, many struggled with tight budgets in the face of rising costs and reduced funding, making it difficult to meet the growing needs of communities they serve.

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 modestly, with service sector activity picking up after a long period of weakness and manufacturing activity continuing apace. Employment increased modestly with larger firms starting to hire for growth, and wage growth remained modest. Selling price increases held at the high end of the moderate range, while input prices continued to rise strongly, with ongoing sharp increases in the cost of fuel, freight, and some electronic components. Consumer spending increased moderately, with continued strength in the luxury sector. Housing market activity picked up slightly, constrained by low inventory. Businesses became more optimistic about the outlook.

Labor Markets

Employment increased modestly this period. Head counts rose in most sectors, with particularly strong gains in manufacturing, transportation, health, retail, personal services, and construction, though employment declined in the education sector.

Labor demand continued to pick up. A payroll services firm reported that larger firms started to hire for growth for the first time in a while—a notable shift given ongoing business uncertainty. Demand for executive leadership grew somewhat. An upstate New York employment agency noted that, promisingly, there was some new demand for workers in manufacturing and technology companies. Still, small businesses generally remained in a low-hire, low-fire stance. Contacts across several industries noted that it remained difficult to find workers, with one health-care contact in New Jersey reporting such difficulties as particularly acute. Attrition remained exceptionally low. No significant layoffs were reported.

Wage growth remained modest. However, several contacts noted that labor costs were a top concern, particularly in industries where tight labor markets continued to put upward pressure on wages. A Hudson Valley restaurant owner cited severe labor shortages and high labor costs, while an upstate New York manufacturer reported that scarce workers continued to drive wages higher to attract and retain skilled staff. Looking ahead, contacts anticipated steady wage growth.

Prices

The pace of selling price increases remained at the high end of the moderate range, while input prices continued to rise strongly. Rising fuel prices continued to drive widespread increases in the costs of freight and other inputs more generally. Tariffs also continued to exert upward cost pressures. One upstate New York manufacturer reported ongoing increases in steel and aluminum costs due to tariffs, while another expected some relief from high tariffs when temporary tariffs expired and tariff refunds were received. Another upstate New York manufacturer said they had implemented large price increases and were adding additional time for delivery for anything not in stock. Separately, an upstate New York-based technical consulting firm reported sharp price increases for memory and storage components driven by elevated demand from data center buildouts. Many businesses were continuing to pass along cost increases to customers, though some firms were concerned about consumer pushback. Contacts anticipated some slowing in the pace of input price increases in the coming months.

Consumer Spending

Consumer spending grew moderately with contacts reporting solid sales. A large department store noted particular strength in the luxury sector, while a seller of consumer cooking products reported record high sales. Still, some contacts reported consumer tentativeness and a pullback in spending. A coffee shop operator in New Jersey indicated that the average sales ticket had declined, while a dental practice in New York City noted that appointment cancellations were increasing, suggesting that some customers were cutting back on health-care spending.

Auto dealers in upstate New York reported that car sales leveled off after a period of weakness. New car sales were flat, reflecting ongoing affordability issues, while used car sales declined slightly. High gas prices have taken a larger toll in upstate New York where SUVs and pickup trucks represent a large share of sales.

Manufacturing and Distribution

Manufacturing activity grew modestly. New orders and shipments continued to expand at a solid clip. However, supply availability worsened and delivery times continued to lengthen. A tech manufacturer noted decreased availability of electronic components and printed circuit boards, while a machinery manufacturer noted increased difficulties procuring key materials from China. Manufacturing contacts supplying the defense and commercial aerospace industries reported strong demand and expected further strength ahead. Wholesale and distribution firms reported solid growth. A shipping contact noted continued robust import volumes across a wide range of goods, even amid steep rises in freight rates and persistent uncertainty around tariff policy and economic conditions. Manufacturers remained fairly optimistic about the outlook.

Services

Activity in the service sector increased modestly. Activity in the information, personal services, and health-care sectors picked up, while business services remained weak. A consumer transportation services company in the Hudson Valley reported a strong pickup in activity following a period of sluggishness. An automotive service company said that spending remained surprisingly strong. However, several business services contacts noted that ongoing uncertainty continued to restrain client spending and planning.

Tourism activity in New York City was strong, boosted by FIFA World Cup visitors, driving an increase in hotel occupancy and rates, with some restaurants and bars reporting strong sales amid watching events. International arrivals to airports picked up somewhat after lagging over the spring. However, sales were lackluster at mid-tier attractions in New York City, and some restaurants reported reduced international visitors, particularly from Canada. A department store reported increased foot traffic from World Cup visitors but no corresponding increase in sales.

Real Estate and Construction

Housing market activity picked up slightly though low inventory constrained sales in much of the District. In upstate New York, demand continued to strengthen, with solid buyer interest across price points. In New York City, the spring market showed modest improvement from last year but was somewhat underwhelming; inventory crept up but remained low, as mortgage lock-in continued to limit seller activity. Cash deals remained common. Prices continued to edge upward, and in upstate New York most transactions sold above ask.

Rental markets continued to strengthen. Rents in New York City edged higher amid steady demand and limited supply, particularly as higher mortgage rates kept potential buyers on the sidelines.

Commercial real estate markets remained strong, especially in Manhattan's office market. Demand was robust among AI-related firms seeking space. Multi-family investment lagged, with contacts citing potential risks of more stringent rent regulations in the New York City market. Industrial market conditions were largely steady. Construction activity grew briskly.

Banking and Finance

Activity in the broad finance sector continued to grow modestly. Small- to medium-sized regional banks reported that loan demand was unchanged for business loans and residential mortgages, but lower for consumer loans and commercial mortgages, as well as for refinancing. Credit standards were unchanged for consumer loans and residential mortgages but tightened slightly for business loans and commercial mortgages. While loan performance generally held steady, one senior loan officer reported an uptick in delinquencies on residential mortgages.

Community Perspectives

Community contacts reported that affordable housing supply remained critically below demand, with multiyear waitlists and stalled projects resulting from funding gaps, regulatory barriers, and limited tax credit access—particularly in rural areas. These challenges have created a housing ecosystem where families are increasingly rent burdened, doubling up, or living in hotels, while rising construction and labor costs make new development increasingly difficult. Affordable housing developers and community planners have identified a critical mismatch between household incomes and available units, which particularly affects households earning slightly above income thresholds—who earn too much to qualify for assistance yet cannot afford rising housing costs.

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

Federal Reserve Bank of Philadelphia

Summary of Economic Activity

Economic activity in the Third District rose slightly after declining slightly last period. Manufacturing activity continued to rise modestly, and nonmanufacturing activity picked up after falling last period. Retailers, both auto and nonauto, reported mostly steady sales. Tourism, which was boosted by mega events in the region, rose moderately. Employment levels continued to decline slightly during the period, while wage growth remained near its modest pre-pandemic rate. Prices continued to rise moderately. Firms continued to report increased cost pressures and raising prices to offset these higher costs. Expectations for growth over the next six months varied by firm type. Manufacturers' growth expectations remained widespread and above their historical average, but nonmanufacturers' expectations were limited and less widespread than in the prior period.

Labor Markets

Employment continued to decline slightly. On balance, nonmanufacturing firms again reported a decrease in full-time employment and little change in part-time employment. Meanwhile, manufacturing firms reported an increase in overall employment, an improvement since the prior period. Most firms continued to report no change in employment overall.

Staffing contacts reported an uptick in hiring activity for the second consecutive period. One staffing contact said they believe the industry has passed the bottom and is entering an upward cycle, but multiple contacts noted that demand for labor remains low by historical standards. Most contacts reported little trouble with labor supply. However, a couple of contacts highlighted that the lack of skilled labor has constrained manufacturing activity, an issue that has worsened in recent months with competition for skilled labor picking up and the existing workforce continuing to age into retirement. A staffing contact shared that a client would like to increase capacity and hire more assembly line workers, but they have been unable to find skilled machinists and operators to run the production. Another contact reported that a shortage of electricians has delayed data center projects in the region.

Wage inflation appeared to hold steady at a modest pace. Contacts reported little upward wage pressure, with wage increases in line with or slightly below their average pre-pandemic rate.

Prices

Firms' prices continued to rise moderately this period. Our monthly surveys continued to suggest overall increases in prices: The prices paid and prices received indexes for manufacturers and prices received index for nonmanufacturers all remained above their historical averages in June. The prices paid index for nonmanufacturers declined and was roughly in line with its historical average.

Most contacts across sectors reported higher input costs this period. Contacts reported that fuel surcharges became more widespread in the last six weeks and noted that the costs of plastic- or fertilizer-dependent products were elevated owing to the ongoing conflict in the Middle East. The willingness and ability to pass on these higher costs varied from firm to firm, and according to one contact, from customer to customer within a firm. One retailer reported their prices were up 3 percent from a year ago, less than those of their competitors, as they tried to sustain demand.

Looking ahead, most contacts don't expect significant easing in the pace of price increases over the coming months. While contacts expect fuel surcharges to ease if the conflict in the Middle East is resolved, many believe other elevated material costs will be stickier. The indexes for future prices paid and future prices received for manufacturers remained well above their historical averages in June.

Manufacturing

Manufacturing activity rose modestly in the current period, a continuation of the average trend last period—however, month-to-month volatility appears elevated. The index for new orders rose to a moderately positive level, while the shipments index remained modestly positive.

Nearly three-quarters of surveyed firms indicated that uncertainty acted as a constraint on capacity utilization in the most recent quarter. However, contacts reported continued strength in activities related to data centers, AI, and defense-related manufacturing. This strength led one contact to say that they believe it is now a capital expenditure-driven economy rather than a consumer-driven one.

Looking ahead, manufacturers' optimism about growth over the next six months remained widespread. The indexes for future new orders and shipments stayed elevated above their historical averages. The share of firms expecting an increase in capital expenditures over the next six months was also elevated.

Trade and Services

On balance, firms across a broad spectrum of nonmanufacturing industries reported a slight increase in activity after a modest drop last period. The sales/revenues index improved to a modestly positive level, while the new orders index suggested little change.

Retailers (nonauto) reported little change in sales over the current period, after sales declined modestly in the last period. One retailer explained that any reported increase in sales was due to higher prices, noting that the volume and frequency of customer visits remained down, similar to last period, but customers spent slightly more each visit. Meanwhile, another contact highlighted that they continue to be surprised by the amount people are willing to spend.

Auto dealers reported mostly steady auto sales this period, up from a moderate decrease last period. Affordability concerns continue to keep many consumers holding on to older cars rather than buying new vehicles, according to contacts.

Tourism activity continued to rise moderately, in line with contacts' prior expectations that were boosted by the World Cup and America 250 events around the Philadelphia area. Tourism contacts reported strong domestic leisure travel, which has been bolstered by many travelers opting to vacation closer to home instead of traveling internationally.

Expectations among nonmanufacturers for their own growth over the next six months were less widespread than in the prior period, with surveyed firms split equally between an increase and a decrease in their expectations for future activity.

Real Estate and Construction

Existing home sales declined slightly this period, after declining modestly last period. Contacts reported that limited supply continued to push already-elevated home prices even higher. One contact succinctly summarized the environment as "a long-term stagnant housing market."

New-home builders reported little change in sales, following a modest decline last period, but described an overall low level of activity by historical standards.

Nonresidential construction activity appeared little changed after recording slight declines in the prior two periods. Contacts reported continued construction activity by firms in the data center and related manufacturing spaces but little new activity elsewhere. One retailer reported accelerating new-store construction and capital expenditure plans for the rest of this year and next, citing favorable labor and material availability and better-than-expected cash flow. In nonresidential markets, leasing activity was little changed.

Credit Conditions

The overall volume of bank lending (excluding credit cards) rose modestly during the period (not seasonally adjusted), compared with little change last period and a slight decline one year ago.

District banks reported moderate increases in commercial and industrial lending and home mortgages. Home equity lines of credit and commercial real estate lending rose modestly, while auto lending declined slightly. Credit card volumes rose moderately, which is typical for the season.

Banking contacts reported mostly steady loan demand, noting some clients remained hesitant to start new projects because of economic uncertainty, while others are feeling a little better and starting to move off the sidelines. Multiple bankers reported increased competition for loans, leading to some changes in loan pricing and structure. Overall, contacts reported no deterioration in credit quality.

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, Fourth District contacts reported that business activity increased modestly in recent weeks, and contacts generally anticipated moderate growth in the coming months. Demand for manufactured goods continued to rise, though at a slower pace than in the prior reporting period. Higher fuel costs continued to weigh on retail sales, and, in some cases, filtered through to ad hoc increases in selling prices and employee compensation. Overall, contacts said that their employment levels rose slightly and that wage pressures remained moderate for most roles. Non-labor costs and selling prices both grew at a robust pace.

Labor Markets

Employment levels rose slightly on balance in recent weeks, though reports varied by sector. Non-financial services and construction contacts reported modest and moderate employment growth, respectively. Contacts in most other sectors reported flat staffing levels, while freight contacts reported a modest decline. Contacts who reported hiring generally said they did so to meet higher demand, while those who reported flat or declining staffing levels cited softer demand, a need to protect operating margins, or uncertainty about overall economic conditions. Several contacts were using or planning to use AI or other forms of automation to reduce the need for workers or improve the productivity of existing workers. Overall, contacts anticipated modest employment growth in the coming months.

Wage pressures remained moderate on balance as cost-of-living adjustments and merit increases remained the primary drivers of growth. Still, some contacts continued to report additional pay increases intended to help employees manage higher costs. One manufacturer attributed these wage pressures to higher prices resulting from the conflict in the Middle East, and a realtor offered bonuses and telework to help employees manage higher fuel prices. Several service providers and one manufacturer raised wages to attract or retain specialized professionals and tradespeople amid high competition for specific skill sets.

Prices

Nonlabor input cost growth remained robust in recent weeks. Contacts across industries continued to cite higher fuel costs as the primary driver of input cost pressures. Firms reported direct impacts as costs rose for transportation and petroleum-based products and indirect impacts as higher fuel costs filtered through to items sensitive to shipping costs, including metals and construction materials. Costs continued to rise for electricity, insurance, software, and food, albeit at a slower pace than in recent reporting periods. On balance, contacts expected nonlabor input cost growth to remain robust, with some anticipating relief from falling fuel prices and others expecting the “ripples” of the conflict in the Middle East to remain.

Contacts reported a robust increase in selling prices in recent weeks, a circumstance which several attributed to passing along rising fuel prices and higher costs related to tariffs. However, the extent to which these price increases made up for rising costs varied: Some contacts reported passing along all the cost increases to their customers, some passed on only part of the increases, and some did not pass along any of the increases for fear of losing customers. Other firms attempted to offset higher nonlabor costs through improvements in productivity or reductions in labor costs.

Consumer Spending

Consumer spending declined modestly after a slight decrease in the prior reporting period. Retailers across industry segments attributed the declines to the ongoing impact of high fuel prices. One nonauto retailer said spending by low-income households fell while that of high-income households was unchanged, and another noted that price increases pushed revenue higher even as unit sales fell. Auto dealers generally reported flat or softer sales due to high vehicle prices and interest rates, and one dealer added that demand for service and parts rose as consumers held onto vehicles longer. On balance, retailers expected demand to increase modestly in the coming months.

Manufacturing

On balance, contacts reported that demand for manufactured goods rose moderately after a robust increase in the prior reporting period. Data center development continued to drive demand for metal products and electrical components. In addition, several metal producers reported stronger orders as customers depleted their imported inventories and shifted to domestic sources to avoid tariffs. A small number of contacts reported flat or softer orders because of low consumer spending, while a candy producer reported higher orders as consumers traded down from higher-priced options. Manufacturers generally expected demand to increase moderately in the coming months.

Real Estate and Construction

Residential construction and real estate activity increased at a robust pace in recent weeks. Homebuilders reported higher demand for affordable homes and still-strong demand for luxury homes. However, one contact expressed concern that the overall housing market had softened because of high construction costs and interest rates, leading some homeowners to add on to or remodel their current homes instead of moving. Contacts anticipated strong demand growth in the coming months.

In nonresidential construction and real estate, contacts reported modest demand growth in recent weeks. Demand for industrial space picked up, and one contact noted that mergers and acquisitions were driving sales and leasing activity. By contrast, contacts reported stable or softer demand for commercial real estate. Looking ahead, contacts expected strong demand growth in the coming months. Builders anticipated more bidding opportunities in the near term, an expectation which one contact attributed to decreased uncertainty pending a resolution of the conflict in the Middle East.

Financial Services

Overall, bankers reported that loan demand grew modestly in recent weeks. Commercial bankers noted increases in mergers, acquisitions, and capital expenditures since the last reporting period. One banker mentioned that firms were moving ahead with projects that they could no longer delay. On the consumer side, one banker said that demand for personal loans and credit card utilization increased as clients planned home renovations and travel. Looking ahead, bankers expected loan demand to increase moderately, driven by continued spending by households and businesses and easing cost pressures if the conflict in the Middle East is resolved.

Nonfinancial Services

Demand for nonfinancial services grew moderately after multiple periods of robust growth, though contacts expected a return to robust growth in the coming months. Some contacts reported higher overall demand as clients moved forward with real estate transactions and capital projects, while others gained market share as clients sought lower prices and better service. Freight contacts generally reported robust demand growth, driven by higher manufacturing and construction activity, though one contact cautioned that this increase could reflect a redistribution of market share as select haulers gained customers from shuttered competitors. Freight contacts generally expected a similar pace of growth in the coming months.

Community Conditions

Most community college contacts expected enrollments to grow in fall 2026 compared to fall 2025. Some contacts reported strong demand from both employers and students for short-term credentials, skilled trades, and apprenticeships in IT, health care, and advanced manufacturing, though one noted lower demand for computer science programs. To meet this increased demand, contacts planned to add more short-term training programs, align coursework with employers' needs, and develop pathways between noncredit programs and traditional degrees. Most contacts said that declines in funding impacted their ability to expand programs, support students, and hire instructors. Regarding staffing, one contact shared that "a lack of qualified instructors for workforce training is a major challenge."

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 experienced moderate growth in recent weeks. Consumer spending grew moderately, on balance, however there were reports across all consumer income levels of trade downs and tradeoffs needing to be made. Manufacturing activity grew modestly but varied by location and industry. Producers reported rising input costs, but many held selling prices steady and absorbed the additional cost increases. Financial and nonfinancial service providers continued to report modest growth in revenue and demand. Residential real estate markets picked up recently after a delayed start to the typical peak season. Port activity picked back up to a moderate rate after experiencing a slowdown in trade activity in the previous couple of cycles. Employment grew modestly, on balance, and wages grew moderately. Price growth remained at a moderate year-over-year rate.

Labor Markets

Employment in the Fifth District increased modestly this period. Multiple firms reported being unable to operate at full capacity due to understaffing. For example, a construction company could not take on additional work due to a lack of available employees, while a recruiting firm reported increased demand from clients struggling to find and hire skilled talent. Wages increased moderately in this period, particularly among firms that needed to attract and retain workers. For example, a financial services firm raised wages and expected further increases to retain talent and a lighting manufacturer increased wages by 4 percent to keep pace with inflation. Firms expect employment and wages to continue expanding over the next few months.

Prices

Price growth remained within a moderate year-over-year rate. According to our most recent surveys, service sector firms' price growth dipped below three and a half percent year-over-year. Service sector firms reported non-labor input costs remained the same at above five and a half percent. Meanwhile, manufacturing firms reported a spike in non-labor costs pushing input price growth to just below 7 percent. Prices received by manufacturers, however, remained relatively the same. Across all sectors, survey participants continued to note the increases in oil prices and input costs, with some saying that they were looking for ways to pass those prices on but they were not sure if customers would accept them.

Manufacturing

Manufacturing activity improved modestly in the recent period. New orders growth varied by industry and location. An aerospace plating supplier and a defense contractor reported strong demand, while a commercial cabinet manufacturer in a growing North Carolina market saw stronger-than-expected new orders. Contacts reported that managing supply chains became more difficult, with longer lead times, higher costs, and reduced availability. A printing company cited diminishing paper availability, a bag manufacturer experienced sharp cost increases, and a syrup producer reported greater difficulty sourcing materials. Transportation costs increased due to higher fuel prices and trucking shortages. Multiple contacts reported absorbing cost increases rather than raising prices. Skilled-labor availability continued to be a challenge, leading some firms to increase wages to attract talent.

Ports and Transportation

Cargo volumes at Fifth District ports saw a moderate increase this cycle driven by imports from Asia and realignment of shipping routes following the volatility and capacity reduction from tariffs last year. Contacts attributed the increase to a pull forward in demand to get ahead of bottlenecks and future price increases caused by the conflict in the Middle East. Ag commodities coming by rail to the ports also increased modestly as exports to China resumed. Ocean freight rates continued to rise in response to increased demand and capacity constraints. Carriers have responded by increasing the number of vessels available for shorter distance trade routes like from Asia to the East Coast. Trucking firms noted that while cargo volume has remained the same, regulatory enforcement has created consolidation in the industry and nudged demand toward licensed and insured carriers. Those firms have gained some pricing power and, for the first time in industry history, trucking break-even numbers have surpassed spot rates.

Retail, Travel, and Tourism

Overall consumer spending showed moderate improvement this period with a majority of firms seeing increased demand. Still, there was notable variation across market segments that suggests consumers at all income levels are making tradeoffs. For instance, a luxury salon in Northern Virginia shared that customers are spending more on cosmetic injectables but waiting longer between hair appointments and getting fewer add-on services. Higher-end restaurants reported some growth but alcohol sales were down. A regional poultry supplier saw increased sales of premium lean proteins which they attributed to the rise in GLP1 use that necessitates a higher protein diet. But the supplier also noted an increase in sales of fresh, human-grade dog food, indicating that consumers were prioritizing spending on health-conscious choices for themselves and for their pets.

Real Estate and Construction

Residential real estate picked up moderately this cycle after experiencing delays in the start to the typical spring market stemming from bad weather and elevated borrowing rates. Although this has created a shorter peak season, listings continued to come online while days on market decreased. Multiple brokers noted, if the home was in good condition, was in an ideal location, and priced correctly to start, it would sell quickly.

Commercial real estate activity overall remained unchanged. Retail remained strong in all markets with some contacts noting reconfigurations of big box stores and malls. Class A office in most of the district was strong with multiple contacts noting downsizing footprints for better quality space. A few brokers did note they were seeing impacts of debt maturity and receivership issues in the lower-level office space. Industrial leasing and sales had a continued pause with energy price and tariff concerns. Multi-family continued to be developed in Virginia and the Carolinas with a few concerns that overbuilding was occurring in certain markets. Brokers in both residential and commercial real estate mentioned their integration of new AI programs and the cost compared to legacy software.

Banking and Finance

Financial institutions continued to report a modest increase in overall demand for loans within their commercial real estate portfolios and pipelines. Institutions were continuing to observe businesses exercising caution when it comes to new credit extensions. Consumer loan demand remained stable, with home equity lines of credit showing a modest increase in demand as homeowners tap existing equity. Deposit balances remained stable but many institutions noted an increase in competition for balances in the market. Some respondents also noted a modest increase in loan delinquencies within their consumer mortgage portfolios, with no changes noted in the credit quality of loan applicants.

Nonfinancial Services

Nonfinancial service providers continued to report modest growth in revenue and demand for their services, with many continuing to note that economic uncertainty was still a top concern of their customers and themselves. A law firm noted that the current business environment, including rising inflation and higher interest rates, had negatively impacted the demand for their services. An engineering firm also noted that scarce engineering talent and the difficulty of firms to access capital were making projects harder to “pencil” and was causing some of their clients to postpone projects.

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

Federal Reserve Bank of Atlanta

Summary of Economic Activity

The economy of the Sixth District continued to expand at a modest pace. Employment levels remained flat to slightly down, and wages grew by low single digits. Prices and input costs rose moderately. Consumer spending, along with travel and tourism, increased modestly. Residential and commercial real estate conditions were little changed, on balance. Demand for transportation and manufacturing sectors continued to pick up. Loan growth was driven by consumer and specialized lending. Energy demand was steady, but agricultural conditions deteriorated.

Labor Markets

Employment levels were flat to slightly down over the reporting period as most firms continued to keep head counts even or adjust downward through attrition and minimal backfilling of roles. Reports of layoffs remained limited. Some businesses in industries like health care and data center construction reported hiring for growth or for specialized skills. Utilization of AI broadened, with more contacts describing deployments of AI tools and automation to boost employee productivity and efficiency. However, most do not expect these efforts to lead to significant workforce reductions in the near term.

Most contacts reported moderate annual wage increases in the 2–3 percent range, though stronger wage pressures continued for in-demand or technical roles.

Prices

Prices and nonlabor costs rose moderately. Contacts continued to report elevated fuel and transportation costs, and several firms noted large price increases in petrochemical derivatives like resins and adhesives as the Middle East conflict persisted. Fertilizer costs continued to rise sharply, agricultural equipment prices have tripled in some cases, and insurance costs have increased substantially, placing additional pressure on farmers' margins. In commercial construction, the accelerated build-out of the infrastructure for emerging AI technologies contributed to supply constraints and higher prices for steel, transformers, and other machinery. Despite these conditions, some firms mitigated cost pressures by adding contract escalators or by leveraging supply chain relationships developed during the pandemic and previous tariff cycles.

Restauranteurs and retailers reported persistent price sensitivity among households that limited pricing power, allowing for only highly selective increases.

Consumer Spending

Consumer spending expanded at a modest pace. Retailers indicated that higher-income households generally maintained steady spending levels, though a few noted emerging signs of softening within this group. Lower- and middle-income consumers continued to display signs of increasing financial stress, including trading down, buying less but shopping more frequently, and pulling back on discretionary items. Restaurants reported shifts toward value among higher-end customers, with some diners opting to bring their own wine and pay a corkage fee rather than purchasing wine with their meal. New auto sales softened slightly amid affordability challenges and higher interest rates.

Tourism activity in the District grew modestly, in part due to World Cup activities in Miami and Atlanta, which bolstered both hotel and short-term rental performance across those markets. Many leisure travelers remained highly budget conscious, contributing to steadier demand in markets and properties that emphasize affordability and perceived value. Luxury and upscale travel were consistent with the prolonged trend of strong growth in these segments. Cruise activity was solid, though several contacts noted that year-over-year onboard spending was flat to slightly down. Overall, travel held firm, particularly on weekends, but contacts reported greater price sensitivity and shorter booking windows.

Construction and Real Estate

Home sales improved modestly throughout most of the District as inventory growth moderated amid rising delistings, of which Atlanta recorded the highest rate among major U.S. metropolitan areas. Home prices remained relatively flat, and fewer markets saw homes selling above asking price relative to other parts of the country. While aggressive incentives from home builders led to an uptick in new home sales, economic uncertainty and rising mortgage rates resulted in builders adjusting revenue and sales expectations downward, streamlining operations, and reducing excess labor costs.

Commercial real estate conditions were flat in aggregate with sector-specific variation. The flight to quality in office space persisted, and vacancy rates in Class A space fell into single digits for the first time since 2020. Contacts noted a shift toward reducing office footprints in favor of upgraded amenities. The retail sector was stable, with the supply of retail space keeping pace with demand. Multifamily contacts continued to report elevated vacancy rates and concessions. In the industrial sector, new supply slightly outpaced demand, and traditional warehousing experienced softer demand compared to tech-driven logistics space.

Transportation

Transportation demand rose modestly. Trucking brokerages reported stable to improving conditions as pandemic-era excess capacity unwound, with volumes exceeding year-earlier levels for the first time since 2021. Freight growth was concentrated in data center construction, machinery, aerospace, and defense, while housing-related shipments remained soft. The tighter trucking market and elevated energy prices created tailwinds for railroads as shippers converted to rail. Freight forwarders saw renewed growth following tariff disruptions, though some shifted shipping strategies toward higher-margin business-to-business and health-care segments. Contacts shared cautious optimism stemming from emerging manufacturing activity; however, trade policy uncertainty, along with elevated interest rates and insurance costs, pose risks to the outlook.

Manufacturing

On balance, manufacturing activity grew at a modest pace. A producer of information solutions equipment and software reported strong, broad-based growth, with revenue being driven by digitization and AI adoption. Some food manufacturers reported gains in market share despite implementing substantial price increases. Steel fabricators experienced strong growth driven by the active LNG market; however, steel production tied to real estate construction softened because of rising cost pressures and uncertainty.

Banking and Finance

Overall modest loan growth was supported primarily by consumer lending, even as auto and credit card lending ticked down. Niche and specialized lending were also strong. An increase in short-term personal loans or “buy now, pay later” financing pointed to ongoing household financial strain. Commercial and industrial lending declined, and contacts noted many businesses deferred investment as economic and geopolitical uncertainty continued. Cash-to-assets ratios fell moderately, implying a reallocation of liquidity into investments or dividends.

Energy

Energy sector conditions remained stable despite the conflict in the Middle East. Firms continued to report rising input costs affecting both oil production and oilfield services, adding pressure to operating margins. Several contacts noted that softening global demand contributed to recent crude price declines, although most emphasized that ongoing uncertainty surrounding the Strait of Hormuz disrupted shipments and kept inventories tight. Industrial energy demand remained strong, largely because of accelerating investments in AI-related infrastructure across the Southeast. On balance, expectations point to steady activity, though cost pressures will continue to shape planning and near-term outlooks.

Agriculture

Agricultural conditions across the region were highly stressed amid mixed demand, with multiple contacts reporting weak commodity prices, escalating input costs, and tightening credit. Row-crop farmers faced severe financial strain as fuel costs remained elevated, tariffs and international market shifts resulted in depressed soybean prices, and yields continued to fall short of covering operating debt, leading many producers to roll over losses for another year. Citrus producers reported declining demand due to concerns about sugar and sharply rising orange-juice prices, though demand for fresh fruit was strong.

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 modestly in late May and June, and contacts expected a slight increase in activity in the coming year. Manufacturing demand rose moderately; employment rose modestly; consumer spending, business spending, and construction and real estate activity increased slightly; and nonbusiness contacts saw a small increase in economic activity. Prices rose moderately, wages were up modestly, and financial conditions tightened slightly. Farm income expectations for 2026 edged down.

Labor Markets

Employment rose modestly over the reporting period, and contacts expected a similar pace of hiring over the next 12 months. Overall, contacts characterized the labor market as stable. Across industries, including manufacturing, several contacts reported that they were planning to hire at rates similar to prior reporting periods. Some noted continued difficulty finding skilled workers, including a contact in banking who saw fewer applicants for open positions than a year ago. In contrast, there were a few contacts who reported cooler labor market conditions: A heavy machinery manufacturer said they were not having trouble hiring in part due to layoffs at other nearby firms, and a chemicals manufacturer indicated that they were downsizing. Wages grew modestly and benefits costs were up moderately.

Prices

Prices rose moderately overall in late May and June, and contacts expected prices to continue to rise moderately over the next 12 months. Producer prices rose moderately. Nonlabor input costs increased moderately on balance, and contacts tied many of these increases to the conflict in the Middle East, including for energy, shipping, and raw materials like chemicals and plastics. Consumer prices were up moderately. One retail industry analyst expected price growth pressures to ease over the rest of the year if energy prices and tariffs remain at or below current levels.

Consumer Spending

Consumer spending increased slightly during the reporting period. Several contacts noted that high energy prices were affecting buying decisions, with one contact seeing lower saving rates. Nonauto retail sales edged up. Contacts indicated that more generous retail promotions were boosting activity, in part due to the scheduling of Amazon Prime Days and competing discounts in June instead of July. Sales of consumer electronics rose, while spending on furniture decreased. Leisure and hospitality spending increased slightly. Dining at restaurants remained strong, but hotel stays declined. A contact at a large convention center reported decreased demand for social events. Light vehicle sales increased, nearly matching last year's level. Demand for hybrids was particularly strong across the District. Contacts reported rising prices for used vehicles due to increased demand and low inventories. Service and parts activity was strong, though some dealers said that customers were putting off some routine maintenance, like oil changes.

Business Spending

Business spending rose slightly on balance in late May and June. Capital expenditures ticked up, and expectations for spending over the coming year also increased. Contacts reported spending on new buildings, equipment, and software. Contacts that sell capital goods indicated that some clients were hesitant to move forward with orders due to uncertainty attributed to the conflict in the Middle East. Demand for truck transportation increased slightly and rates increased amidst elevated fuel prices. A consultant for the trucking industry anticipated tight supply in the sector due to increasingly strict driver qualifications. Retail inventories were comfortable, stocks of new and used vehicles were low, and manufacturing inventories were a little high. Some contacts reported shortages of inputs, notably for electrical components.

Construction and Real Estate

Construction and real estate demand increased slightly overall over the reporting period. Residential construction activity edged down. Surveys of contractors and homebuilders indicated that quoting activity worsened, backlogs were weaker than normal, and May activity was slower than expected. Contacts reported that a growing share of renovation projects were for necessary repairs rather than additions. Residential real estate activity rose moderately, though one contact said that the increase was largely just making up for slower-than-usual activity earlier this year. Prices and rents were up slightly. Nonresidential construction activity was unchanged. Activity remained robust in the data center and electricity generation segments, while new construction in other segments was idiosyncratic. Commercial real estate activity was unchanged overall. Prices were up slightly while rents were unchanged.

Manufacturing

Manufacturing demand increased moderately in late May and June. Chemicals, plastics, and rubber production increased slightly. Primary metals wholesalers and manufacturers reported a slight increase in demand, driven by sales to the defense sector and data center builders. Auto industry demand was flat on balance, with one contact noting that supply problems for aluminum and certain components had held back production some. Heavy truck production increased slightly. The defense sector spurred a modest increase in fabricated metals production, enough to offset decreased demand from the auto industry. Machinery sales increased strongly across a variety of sectors, including to defense and data center builders.

Banking and Finance

Financial conditions tightened slightly over the reporting period. Bond values increased a bit, and both equity values and volatility remained flat overall. Business loan demand rose modestly over the reporting period, with a few contacts noting greater volumes for small businesses. In contrast, several contacts saw slower demand for multifamily development loans. Business loan quality was flat, rates increased slightly, and terms were unchanged overall. In the consumer sector, loan demand and quality were flat on net. Rates rose slightly, and terms were flat.

Agriculture

Expectations for 2026 District farm income deteriorated some in late May and June as crop prices faltered and most livestock prices were flat. Corn, soybean and wheat prices all declined. Egg and hog prices were flat overall, while cattle prices decreased some from elevated levels. Dairy prices were down on balance. Contacts noted that cheese production increased, in part because of rising demand for whey protein, a cheese biproduct. Corn and soybean crops were progressing well across most of the District. Production of new farm equipment slowed, spurring sales of used equipment and helping to reduce elevated used inventories. Contacts reported that farm equipment repair activity was much higher this year as a consequence of aging equipment fleets. Prices for fertilizer and fuel purchases dropped as transportation blockages eased in the Middle East, although it is not a major season for farm purchases of these items.

Community Conditions

Community, nonprofit, government, and other nonbusiness contacts reported slightly improving labor demand reflecting a small increase in economic activity. Furthermore, contacts in state government saw growth in revenue from income tax withholding. However, persistent uncertainty continued to be a drag on low- and moderate-income consumers and the organizations that serve them. Small business intermediary contacts reported that increased shipping costs were affecting the stability of very small businesses, even those that have been in business for several years. Social service providers said they had decreased their reliance on the federal government as funding levels and rules have changed. Instead, they have continued to turn to other strategies to meet community needs. Community contacts noted that low wage workers, many of whom cannot work from home, have been adversely affected by higher gas prices, making commuting more costly.

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 rose at a robust pace, and increases were widespread. Reports on consumer spending and banking indicated conditions were largely unchanged. Manufacturing activity was mixed. The outlook is unchanged from our previous report, as contacts continue to highlight that uncertainty and elevated fuel costs—driven by the conflict in the Middle East—continue to weigh on overall sentiment.

Labor Markets

Employment levels have remained largely unchanged since our previous report. A health-care provider reported continued difficulty filling licensed positions, leading to higher job openings. A regional bank reported stable staffing but anticipates slight declines ahead due to efficiency efforts. A local development authority in Southern Indiana continued operating with a lean staff, relying heavily on contracted labor. A consulting firm observed increased use of fractional staffing services as organizations limit full-time hiring to control costs. A regional grocer reported reducing part-time hours in response to weaker sales forecasts.

Wage growth has been moderate. Some employers in Memphis reported that they have not increased wages over the past three months despite rising employee requests for raises. Other contacts in Indiana noted that wage pressures have eased in recent months.

Prices

Prices have risen at a robust pace since our previous report. An electricity provider noted that supply-chain shortages have sharply increased the cost of energy-infrastructure materials, with some component prices rising significantly in recent months. A nonprofit leader in Arkansas reported ongoing increases in insurance, transportation, and labor costs that have heightened budget pressures. Contacts generally expect continued pass-through of higher costs in the coming months. For example, a Memphis-area firm observed that vendors are increasingly adding inflation-indexed price adjustments to their service contracts, a practice that was previously uncommon. A large retailer reported broad non-labor cost increases and indicated that it plans to raise prices for customers soon. An agribusiness contact noted that fertilizer-driven cost pressures are expected to persist through 2027 as current inventories work their way through the supply chain.

Consumer Spending

Consumer spending has remained unchanged since our previous report. A large retailer noted that sales fell short of expectations due to weaker discretionary spending and that customers were making more frequent trips but purchasing less per visit. Tourism and hospitality activity was flat overall. A hotel owner reported that, although revenue was down relative to a year ago, bookings exceeded expectations as customers made more last-minute decisions. In Northwest Arkansas, a contact described restaurant activity as stable but cautious, with new establishments continuing to open. A restaurant owner in Central Arkansas observed slower lunchtime traffic but expected improvement if fuel prices continued to ease. Hospitality contacts reported that customers were highly price sensitive, prompting some businesses to roll back earlier price increases. A social service nonprofit in St. Louis reported that meal demand rose about 30 percent over the past two months, reflecting declining consumer purchasing power and reductions in SNAP benefits.

Manufacturing

Manufacturing activity was mixed. A food-processing manufacturer reported plans to shut down its local plant, citing technology-related factors. A Memphis manufacturer noted slower production in recent months. Another contact in the industry indicated that hiring plans for some Missouri manufacturers are on hold, given that rising operational costs and tariffs have reduced profit margins and limited expansion. In contrast, a uniform manufacturer reported strong demand in the apparel segment, though customers are shifting toward lower-cost products—resulting in stable sales volumes but a changing product mix. An economic development official in Southern Indiana noted that several previously delayed manufacturing projects have recently restarted and that some are now scaling up beyond their initially announced scope.

Nonfinancial Services

Activity in the nonfinancial services sector has increased modestly since our previous report. A workforce training organization noted rising demand for customized training workshops in recent months. A human resources provider reported steady service demand, explaining that existing clients have continued purchasing services once budgets are approved. However, decision cycles have lengthened as clients monitor spending more closely. In contrast, a consulting firm serving nonprofits observed a slowdown in discretionary consulting work as organizations face tighter budgets and the loss of grants or contracts. A community action agency in Kentucky reported a surge in calls as households seek support for transportation-related needs. Transportation and logistics activity was mixed. One logistics firm indicated that customers have been expediting their orders in anticipation of new tariffs. Another firm reported that tariff announcements have disrupted supplier arrangements, leading some customers to cancel shipments.

Real Estate and Construction

Residential real estate activity was mixed. In St. Louis, a real estate agent described the housing market as very active, with buyers making cash offers and waiving inspections. In Indiana, a contact reported that the supply of listings remained tight and demand for higher-end homes had softened. A regional banker reported that new residential-loan demand remained weak due to low housing inventory and poor sentiment in several markets.

Commercial real estate activity was also mixed. A developer in Northwest Arkansas reported healthy conditions, highlighted by ongoing developments and new office spaces. Another developer, however, noted a slowdown in the number of new projects entering the pipeline. Construction activity was also mixed. A contact in Southern Indiana reported continued strength in warehouse construction, supported by robust regional industrial growth. An Arkansas chamber of commerce representative said housing construction remained strong, while a Memphis construction firm observed that many local projects remained on hold due to uncertainty, financing challenges, and a mismatch between lender underwriting standards and developer expectations.

Banking and Finance

Banking activity has remained largely unchanged since our previous report, with loan demand ranging from stable to slightly weaker across markets and borrower segments. One banker noted modest loan demand but emphasized that they were not easing standards to boost volume. Another reported that the commercial loan pipeline has been steady in recent months but has not grown. Credit standards were mostly unchanged, though some banks have tightened requirements. One banker described loan quality indicators as mixed: Commercial loans showed some improvement, while loans to households with weaker credit continued to deteriorate, reflecting growing stress among borrowers without strong balance sheets. Delinquencies overall remained stable, but several contacts observed early signs of distress. A bank in Central Arkansas reported that commercial credit quality remained steady, with no meaningful uptick in delinquencies. In contrast, another bank noted rising delinquencies among lower-income consumers and small businesses, though levels remained manageable. A community bank in Mississippi reported an increase in small-dollar loan activity to highly cash-constrained customers, indicating greater reliance on these products in recent months.

Agriculture and Natural Resources

Agriculture conditions remain largely unchanged from our previous report. A banker reported that farm operations are holding steady, with no significant uptick in loan delinquencies. In contrast, a rural lender in Northwest Arkansas noted that drought and reductions in federal funding have sharply reduced farm productivity and revenue. A lumber producer described favorable weather and said they have expanded work hours to meet their supply commitments. Meanwhile, an agri-business contact expressed pessimism about the outlook for row-crop farming—particularly rice—observing that several farmers are uncertain whether they will be able to continue operating. Credit conditions remain tight for some growers, as certain financial institutions have become more hesitant to partner or share risk on farm loans.

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

Federal Reserve Bank of Minneapolis

Summary of Economic Activity

Economic activity increased slightly in the Ninth District since the previous report. Employment grew moderately, while wage growth was modest to moderate. Prices increased moderately, and input price pressures remained elevated. Growth was noted in services, construction, commercial real estate, and manufacturing. Consumer spending, residential real estate, and energy activity were flat. Agricultural conditions worsened slightly.

Labor Markets

Employment rose moderately since the last report, with Minnesota and Wisconsin employers reporting stronger labor demand than western District states. Surveys showed that hiring demand remained positive and employers were also reporting improved labor availability. A staffing company with offices in multiple District states reported that job orders remained healthy, and fill rates have been creeping steadily higher. A Wisconsin contact reported that Main Street retailers were "in the best staffing shape they have seen in years." Among manufacturers, "business activity isn't uniformly booming . . . but the widespread [labor] desperation that characterized previous summers has largely dissipated." However, employers still noted shortages of skilled workers and those interested in weekend and night shifts. Multiple sources reported growing presence of artificial intelligence in the hiring process. As one source put it, "AI is actively reshaping the hiring landscape rather than causing mass displacement."

Wage growth was modest to moderate, with continued signs of softening. Surveys found that wage pressure remained steady and relatively moderate. But numerous sources noted easing wage pressure. "Widespread upward wage pressure and runaway starting incentives have largely flattened," said one contact, and employers were using the opportunity to "reset expectations." A mall contact reported that wage growth was flattening for tenants. "We find ourselves no longer in a bidding war for talent."

Prices

Prices increased moderately, a reduction in the pace of increase since the previous report, but input price pressures remained elevated. In a monthly survey, only about a quarter of firms reported increased prices to customers in June from the month earlier, but nearly half reported increases in their nonlabor input prices for the month. Expectations for July were higher for prices charged, but more moderate for input prices. Manufacturing contacts continued to report elevated raw materials prices, especially for metals and polymers, but increases appeared to have slowed in recent weeks and contacts were having an easier time passing them on to customers. Wholesale price pressures remained very strong in June, according to a regional manufacturing index. Construction contacts reported input prices increased notably over the last few weeks; they expected further increases in the upcoming weeks, particularly for steel, copper, and plastic inputs. Retail fuel prices in District states decreased since the last report, returning to mid-April levels. Prices received by farmers increased in May from a year earlier for soybeans, wheat, sugar beets, canola, hay, cattle, hogs, and turkeys; prices decreased from a year earlier for corn, barley, pulse crops, potatoes, chicken, eggs, and milk.

Worker Experience

Job seekers faced a shrinking number of open positions across a wide range of occupations. Those looking for employment as stockers, nursing assistants, heavy machinery operators, or customer service representatives had relatively better odds of finding a job. Many workers, particularly those with lower incomes, were actively job hunting to improve their financial situation. Elevated gasoline prices were hurting many workers' budgets. "It is more expensive to get to and from work," shared a northeast Minnesota contact, adding that commuting distances are particularly long in rural areas.

Consumer Spending

Consumer spending was flat since the last report. Retail survey respondents reported soft sales of late. "We continue to see hints of more spending discretion" among shoppers, said a mall contact. A South Dakota retail contact reported that tourism-based activity was "not amazing, but better than many expected," adding that wealthy individuals continued to spend while middle- and lower-income shoppers "are watching their spending." Sales of big-ticket items were mixed. Two vehicle dealerships saw improved recent sales and were optimistic about summer sales. However, sales of home furniture and related goods were reportedly down. Several sources cited the negative impact of higher gas prices on overall spending; they also noted a transactional shift from cash and debit to credit, where credit card fees cut further into profitability, especially for small firms. A convenience store chain reported that basket size remained steady, year over year, but average costs were almost 4 percent higher. Hotel vacancy rates were mixed but flat overall across District states. Airline passenger traffic was also flat, but Montana airports saw rising travel.

Services

Activity among services firms edged up slightly over the most recent period. Firms in finance, insurance, and real estate reported better conditions than those in other service areas. Labor demand rose across most subsectors except for information technology. Several contacts commented on the struggle to find qualified workers. Nonlabor input costs increased considerably for many firms. The owner of an auto repair shop said that "oil and lube prices have increased twice in the last month," prompting them to raise their own prices. They expected the summer travel season to increase their sales, but acknowledged that "with gas prices still high, our customers may not travel."

Construction and Real Estate

Activity among construction firms increased modestly on balance. Head counts and labor demand were higher, mostly due to seasonality. The president of a Minnesota firm said that while the summer was busy, they were still looking for projects for later in the year. Another contact commented on the anemic bid environment, expecting a substantial slowdown. "If you are not directly involved in data center work, the broader construction market feels relatively weak," shared an electrical contractor in North Dakota.

Commercial real estate rose slightly since the last report. A lack of new construction in many segments has helped existing landlords with vacancy rates and leasing activity. The industrial sector was an exception, where new development has pushed vacancy rates higher. Retail leasing and occupancy have been healthy, with rising activity in suburban and exurban communities. Residential real estate was mixed; home sales in May rose modestly across Minnesota, but they were flat in Minneapolis-St. Paul and fell in most large markets in other District states.

Manufacturing

District manufacturing activity increased modestly since the last report. Manufacturing survey respondents reported an increase in orders on balance in June compared with the prior month, and month-ahead expectations were positive. An index of regional manufacturing conditions indicated that activity increased in Minnesota, North Dakota, and South Dakota in June from the previous month. However, contacts continued to report substantial volatility. An equipment producer said recent sales were "erratic" and added, "there is a sense that overall demand is softening."

Agriculture, Energy, and Natural Resources

Though crop progress and conditions were generally good, District agricultural conditions worsened slightly since the last report. Corn and soybean progress was on par with their averages in

District states, and most crops were in good or excellent condition, but wheat in Montana and South Dakota was mostly in fair or worse condition. Contacts reported that a recent sell-off in commodities was having a depressing effect on already-low crop prices; “Farmers [are] selling out due to poor markets and [inability] to get operating loans,” commented a Minnesota farm operator. Oil and gas exploration activity in the District was unchanged since the previous report. Output at District iron ore mines was steady.

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 expanded slightly within the Tenth District, which was similar to the previous report. Manufacturing activity continued to improve, supported by higher shipments and production, while firms reported ongoing competition for skilled labor, particularly machine operators and welders. Inflationary pressures continued to compress profit margins, prompting firms to rely primarily on selective price increases and investments in cost-saving technologies while closely monitoring consumer responsiveness to pricing decisions. Consumer spending remained flat, as modest declines in auto sales and general retail were offset by continued strength in travel, tourism, restaurants, and drinking establishments, with bankers noting early signs of increasing household financial stress. At the same time, capital spending improved as firms pursued facility expansions and relocations to take advantage of enhanced investment expensing provisions. Firms expect slight growth over the next six months, although uncertainty surrounding costs and consumer demand remains elevated.

Labor Markets

Employment increased slightly, with manufacturing firms leading the job growth while hiring among service providers changed little, aside from increased demand for part-time and temporary workers to support higher travel activity and the World Cup. Manufacturing firms reported continued competition for skilled machine operators and welders, with workers willing to commute for up to 45 minutes for slightly higher wages. One employer noted that employees have become increasingly willing to change jobs for as little as a one-dollar-per-hour, reflecting greater wage sensitivity as household financial conditions tighten. Overall wage growth remained modest, though firms continued to selectively raise pay for difficult-to-fill skilled positions. Despite ongoing hiring challenges, employers generally remained committed to retaining workers. On the whole, firms expect slight employment growth over the next six months.

Prices

Prices increased moderately within the Tenth District. Despite improving activity, firms continued to report pressure on profit margins. While tariffs remained part of the discussion, many contacts attributed recent cost pressure to persistent volatility and uncertainty in energy markets. To preserve margins, firms most frequently reported raising prices and investing in cost-saving technologies.

Several firms also described recalibrating pricing strategies based on observed consumer responsiveness to prior increases, reflecting heightened attention to household financial conditions and price sensitivity. Other strategies include reducing planned expenditures, diversifying suppliers, and cutting overtime or working hours. Firms expect raw materials and other input costs to remain high over the next six months.

Consumer Spending

Consumer spending within the Tenth District was flat. Within discretionary spending, however, two segments diverged. Auto sales and general retail firms noticed modest declines, while travel, tourism, restaurants, and drinking establishments continued to report growth. During a banking roundtable, several lenders noted that roughly half of the new auto loans they originate involve borrowers with negative equity from a trade-in, although they cautioned that this reflects a higher-risk borrower pool. One banker noted that while auto loans stress is increasing, conditions have not deteriorated to crisis level, suggesting concerns are manageable at present. Separately, a national home furnishings company expressed concern that persistent inflation is permanently shifting middle-income households toward lower-cost imported goods at the expense of higher-quality domestic products. Firms generally expect sales to rebound to a moderate pace of growth over the next six months.

Community Conditions

Employment services organizations across the Tenth District reported growing challenges for both employers and jobseekers. Employers said they were willing to train candidates with technical skill gaps but struggled more with those lacking soft skills. Small businesses were also cutting jobs as lower- and middle-income consumers cut discretionary spending and as overhead costs increased. Jobseekers reported increased difficulty getting past AI application screeners, even with help from career assistance centers. They also started to favor jobs offering greater stability and advancement opportunities rather than positions based solely on hourly pay, even though fewer of these jobs were available.

Manufacturing and Other Business Activity

Business activity increased slightly, with both manufacturing and services reporting growth, although manufacturing expanded at a faster, albeit moderate pace. Manufacturers cited increased shipments and production compared to the previous reporting period. After several months of relatively subdued investment, firms reported a modest increase in capital spending over the past two months. Several contacts attributed the improvement to planned facility expansions and relocations designed to take advantage of recently enhanced capital investment expensing provisions. While firms remained cautious about the economic outlook, investment activity reflected a greater willingness to pursue strategic projects rather than defer expenditures. Firms expect slight growth over the next six months.

Real Estate and Construction

Contacts in the commercial real estate sector indicated that the capital flow to support property sales and other transaction activity rose moderately. However, developers reported that credit for new property development was modestly harder to access, particularly in the multifamily housing sector. The prices of acquired properties rose moderately compared to earlier this year and were reportedly substantially higher compared to a year ago. While sales, refinancing activity, and prices of commercial properties were all up, contacts noted that most transactions involved owners contributing additional capital or accepting a smaller ownership share. Additionally, contacts indicated that many more transactions used floating rates earlier this year, a trend that has stalled in recent months.

Community and Regional Banking

District banks noted loan demand and credit standards were largely unchanged across lending categories, though several respondents indicated moderately stronger demand for residential mortgage loans. Overall loan quality remained relatively stable; however, some banks experienced modest deterioration, largely concentrated in commercial real estate (CRE) loans. The primary outlook for credit performance over the next six months is for ongoing stability. Respondents noted minimal loan extensions or other modification activity in the past six months and similarly expect minimal activity over the next six months, focused on the CRE and agricultural loan segments. Bankers indicated deposit levels have been comparatively stable.

Energy

Tenth District oil and gas activity increased moderately in June. Nearly a quarter of contacts reported increased drilling while over two-thirds reported unchanged activity, citing uncertainty and price volatility. Although oil prices have come down in recent weeks, they remain above pre-Middle East conflict levels, boosting District firms' profits and capital expenditures. Despite potential supply chain and financing constraints, over a third of contacts increased capital expenditure plans from the beginning of the year, while most firms are sticking to their original investment plans. Looking ahead, District firms expect activity to increase slightly in the coming months, but do not anticipate oil prices will reach levels supporting a substantial increase in drilling.

Agriculture

Strength in the cattle sector continued to support the Tenth District farm economy but ongoing weakness in the crop sector weighed on conditions in many areas. Cattle prices stayed near record highs and contacts in many parts of the region reported that strong calf revenues were supporting farm finances and credit conditions. Profit opportunities for crops remained limited and lenders noted the outlook for the sector was an ongoing concern. Drought also intensified in the southern and western portion of the region and was mentioned as a key risk for crop and livestock producers. Despite ongoing challenges for many operations, deterioration in agricultural credit conditions and loan performance was modest during the most recent survey period and farmland values were stable.

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 expanded moderately over the reporting period. Growth picked up in the nonfinancial services, banking, and energy sectors, but moderated in manufacturing. Retail sales and agricultural conditions improved. The real estate sector was mixed, with sluggish home sales but rising commercial activity. Employment and wage growth strengthened, and price pressures rose. Outlooks were stable to positive, dampened by concern over inflation, the level of demand, and geopolitical and domestic policy uncertainty.

Labor Markets

Employment growth was solid. Staffing firms cited a broad-based increase in demand across sectors and skill levels, with one contact noting that June was their best month since before the pandemic. Finding the right talent remained challenging, partly driven by an aging workforce and reluctance among qualified candidates to switch jobs in an uncertain environment. Oilfield services firms noted increased competition for skilled labor from the power generation and AI industries, and data center developers also said it was challenging to find skilled workers such as electricians and technicians.

Wage growth picked up, particularly in the service sector. A staffing firm making direct hire placements noted raising their fees to the maximum level. There were reports of upward wage pressures stemming from inflation and a shortage of experienced workers. Firms expect wage growth to be 3.5 percent over the next 12 months, up from 3.1 percent in March.

Prices

Price pressures increased over the reporting period, largely driven by higher fuel and freight costs. Some contacts noted that supply-chain issues related to trade policy and to the Middle East conflict prompted raw material price increases, and a restaurant owner noted higher food costs. Data center developers said skilled labor shortages and supply-chain issues were driving up costs for new projects. Input and selling price expectations among Texas businesses surveyed were flat to slightly down in June compared with March, with input prices expected to increase 3.7 percent and selling prices expected to rise 2.8 percent over the next 12 months. Some firms expected falling fuel prices to ease cost pressures, while one noted that a few retailers may use tariff refunds to reduce prices.

Manufacturing

Manufacturing activity growth slowed to a modest pace in June. Output held steady for nondurable goods but grew broadly in durables, buoyed by strength in machinery, transportation equipment, and computer manufacturing. Some contacts noted that trade policy was hindering their ability to conduct business with international partners. Petrochemical producers saw output retreat slightly due to lower prices and rising Chinese polymer exports. Gulf Coast refiners maintained high output levels amid disrupted global supply chains. Manufacturing outlooks were stable despite uncertainty stemming from inflation, geopolitical tensions, demand concerns, and supply-chain disruptions.

Retail Sales

Retail sales rose over the reporting period, an improvement contacts attributed to consumer resilience that supported purchases despite elevated gasoline prices. Retailers continued to observe divergence in spending patterns, with lower-income households increasingly prioritizing value in their purchases. Auto sales fell in June, which dealerships ascribed to elevated financing costs, high gasoline prices, and low consumer confidence. Outlooks were positive, buoyed by the agreement to reopen the Strait of Hormuz, which has caused gasoline prices to fall and reduced some of the uncertainty about future business conditions.

Nonfinancial Services

Activity in nonfinancial services accelerated in June. Growth was led by health care, and revenues rose in the information, professional and business services, and transportation and warehousing sectors. Transportation services firms reported increased volumes, and airlines said demand rose broadly, despite fare increases. Staffing firms noted an increase in demand for both temporary and direct hire placements. Outlooks improved although concerns regarding inflation, weak demand, and domestic and geopolitical uncertainty continued to dampen sentiment.

Construction and Real Estate

Activity in the housing market remained subdued, with slow and choppy sales and traffic, particularly in outlying areas and those reliant on recent immigrant buyers. The first-time buyer segment remained soft while the move-up segment performed better. Home prices were stable, but builders continued to offer discounts and rate buydowns to attract buyers amid weak demand. New deals are not moving forward due to high lot prices and weak demand, and there were reports of builders walking away from transactions, sometimes forfeiting earnest money. Outlooks remained cautious as builders navigated sluggish demand, elevated input costs, and weak pricing power.

Commercial real estate activity rose further. Apartment absorption remained solid though rent concessions were widespread due to elevated supply. The office market was stable, with consistent demand, and the industrial market saw solid activity. Building activity was mixed. Office, apartment, and retail construction remained subdued, while data center and industrial construction were robust. Data center capacity demand has increased, but new projects are being hindered by limited access to energy, supply chain disruptions, and public pushback.

Financial Services

Loan volume and demand grew notably in June. Volume rose across all loan types except for consumer loan volume which was stable. Credit standards and terms tightened, but loan pricing held steady. Overall loan performance remained the same. Bankers reported expanding general business activity and were more optimistic about the future. Survey respondents expect strong growth in loan demand and business activity with a very slight deterioration in loan performance six months from now.

Energy

Eleventh District drilling activity increased during the reporting period. Contacts noted that producers are reacting to higher expected oil prices and timing increases to deliver higher output starting in the fall, when new pipeline capacity for natural gas comes online and alleviates transportation constraints. Oilfield services firms reported mixed pricing for drilling and fracturing services, reflecting improved demand and the passthrough of higher costs for diesel, labor, and other inputs. While near-term sentiment and expectations were broadly more optimistic, multiple contacts noted mounting challenges beyond the 2026 budget cycle regarding electric power supply and water disposal management.

Agriculture

Widespread rainfall improved soil moisture conditions across much of the District, though some areas of drought remain, particularly in the Texas Panhandle. Crop production prospects generally improved thanks to the rain, though elevated input costs continue to create financial stress for farmers. On the livestock side, the New World screwworm remains a key concern, particularly since the first U.S. case was identified in South Texas in early June. More cases have since been identified in Texas and New Mexico, prompting cattle producers in the region to dedicate resources to inspecting their herds.

Community Perspectives

Nonprofits and organizations serving lower-income individuals reported continued high, broad-based demand for assistance, with a notable pickup in service requests from seniors. Housing affordability was a growing concern in areas experiencing new economic development, including data centers. Contacts attributed the issue partly to an influx of workers, as well as to employers willing to subsidize housing costs for their workforce. Cuts in federal and state assistance programs as well as food and fuel cost inflation have prompted low- and moderate-income families to seek additional help. One nonprofit reported that demand for food assistance has surpassed levels experienced during the financial crisis and the pandemic. Some nonprofits reported struggling to fund services, with rising food and fuel costs posing challenges particularly for organizations engaged in food distribution or delivery services.

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

Federal Reserve Bank of San Francisco

Summary of Economic Activity

Economic activity in the Twelfth District was somewhat muted but largely stable during the mid-May through June reporting period. Employment levels were largely steady, with employers generally maintaining head counts at current levels and continuing to invest in productivity-enhancing AI technologies. Wages continued to rise at a slight pace. Prices rose moderately, and reports varied on the ability of firms to pass on higher operating costs to final prices. Retail sales and consumer spending on services ticked down slightly. Manufacturing activity rose modestly. The agriculture sector was challenged by elevated production costs and regional drought conditions. Residential and commercial real estate activity was largely similar to prior reporting periods, and overall lending activity was stable. Funding challenges pushed some nonprofit organizations to reduce staffing or cut back on offered services. Contacts reported a weak economic outlook, though sentiment was slightly more optimistic than in prior periods.

Labor Markets

Employment levels were largely unchanged over the reporting period. Employers continued to generally maintain head counts, selectively hiring in response to attrition or specific business needs. There were fewer reports of announced or planned layoffs relative to prior reporting periods. Turnover rates remained low, and reports indicated that most open roles were easy to fill, particularly for entry-level positions. However, recruiting remained difficult for some technical and senior positions, including those in financial services in the Mountain West and Hawaii. Firms continued to invest in AI technologies, seeking to drive productivity improvements, and to assess employees' ability and willingness to integrate AI agents into the workflow.

Wages continued to rise at a slight pace in recent weeks. Contacts generally reported pay adjustments in line with historical averages, with some employers able to hold steady following annual pay increases earlier in the year. Still, wage pressures were noted in engineering and the skilled trades, and some contacts mentioned needing to pay a premium to attract and retain workers for specialized, hard-to-fill roles in financial services and information technology. In the entertainment and hospitality sectors, changes to local minimum wage schedules in San Diego prompted some employers to cut staffing for seasonal and temporary positions, while employers in Las Vegas reduced overtime hours for current employees because of increased labor availability.

Prices

Prices rose at a moderate pace over the reporting period. Elevated energy costs further drove up transportation and freight expenses across sectors, with some contacts noting vendor-imposed fuel surcharges. Cost pressures were reported for tariff-impacted goods such as metals and electronic components and more broadly for animal protein, fertilizer, petrochemicals, apparel, insurance, and technology services. Reports varied across sectors and geographies on firms' ability to pass on elevated costs to higher prices. Several retailers mentioned raising prices in recent weeks to reflect the increased costs, while some contacts in consumer services noted recent customer pushback on higher prices.

Community Conditions

Conditions in the community support and services sector were strained. Demand for essential support services, such as housing and food assistance, remained elevated. Several contacts reported signs of heightened household financial stress, including faster spending of tax refunds and rising credit card balances. Nonprofit organizations continued to face funding issues, pushing some organizations to reduce staffing or cut back on services. Local health services providers and small businesses reported facing elevated operating costs and financial challenges.

Retail Trade and Services

Retail sales ticked down slightly in recent weeks. While demand remained stable for groceries, pet products, and home improvement tools, it weakened somewhat for specialty and big-ticket discretionary items. Price-sensitive consumers continued to trade down to lower-cost alternatives, with a Southern California contact noting that in-person shoppers were not only moving away from higher-priced food options but also ordering fewer items. Inventory levels were solid overall, though some retailers expressed concerns about the impact of ongoing global supply chain disruptions on their ability to source products in the second half of the year.

Demand for consumer and business services varied by sector but slowed somewhat on net. While tourist volumes were reportedly strong at District cities hosting World Cup matches, overall leisure travel and spending by locals on restaurants, hotels, and entertainment slowed modestly in several other markets. One leisure and hospitality contact noted that the recent cessation of operations by a large low-cost carrier negatively impacted the number of last-minute travelers to major tourist hubs. In contrast, business travel remained robust, and contacts expected strong demand for corporate events and conventions throughout the summer. Activity was solid for custodial services and for laboratory testing, security, and health care.

Manufacturing

Manufacturing activity rose modestly in recent weeks, although with widespread challenges related to supply chain disruptions and commodity prices. Order pipelines improved for packaging machinery and remained solid for industrial automation equipment. Demand for building materials was reportedly down due to elevated economic uncertainty. Some manufacturers indicated that recent adjustments to tariffs on steel, aluminum, and copper pushed their clients to reassess planned investment projects.

Agriculture and Resource-Related Industries

Conditions in agriculture and resource-related sectors remained weak and largely unchanged from the prior reporting period. Farmers across the District were challenged by elevated production costs and low commodity crop prices. Acute drought conditions were reported throughout the Mountain West and parts of Oregon. Exports of cherries, apples, hay, and grains to Asian markets reportedly declined. A Mountain West contact described the agricultural sector in the region as undergoing a recession, with many farmers experiencing their second or third consecutive year of operational losses. In contrast, conditions in livestock markets were solid, similar to prior reporting periods.

Real Estate and Construction

Residential real estate activity was largely similar to prior reporting periods. Demand for single-family homes was solid overall, particularly in the Mountain West, but was dampened by recent upward movement in mortgage rates. Home sales were reportedly muted across California due to limited inventory and elevated asking prices. Supply of multifamily rental units in urban markets continued to outpace demand, putting some downward pressure on rental rates and pushing property managers to offer concessions. Construction activity was steady overall; however, reports on financing for new projects were mixed.

Activity in commercial real estate was steady on net but varied by region and segment. Demand for industrial space weakened slightly in Southern California, while demand for retail space was steady at solid levels across the Mountain West. Office space markets remained soft. Construction activity continued for well-capitalized projects, particularly large institutional and infrastructure work, but softened slightly on net. A large real estate developer noted that this slowdown recently pushed many general contractors to submit more competitive bids.

Financial Institutions

Conditions in the financial services sector were stable overall. Demand and inquiries for commercial and industrial loans picked up modestly, with positive activity led by middle-market companies. Borrowing activity among smaller businesses was mixed. Auto lending was weak, and mortgage activity remained muted. Competition for deposits was brisk. Credit quality was generally sound, though contacts reported some emerging concerns for small businesses and an increased level of substandard loans. Credit conditions in the agricultural sector were weak.

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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