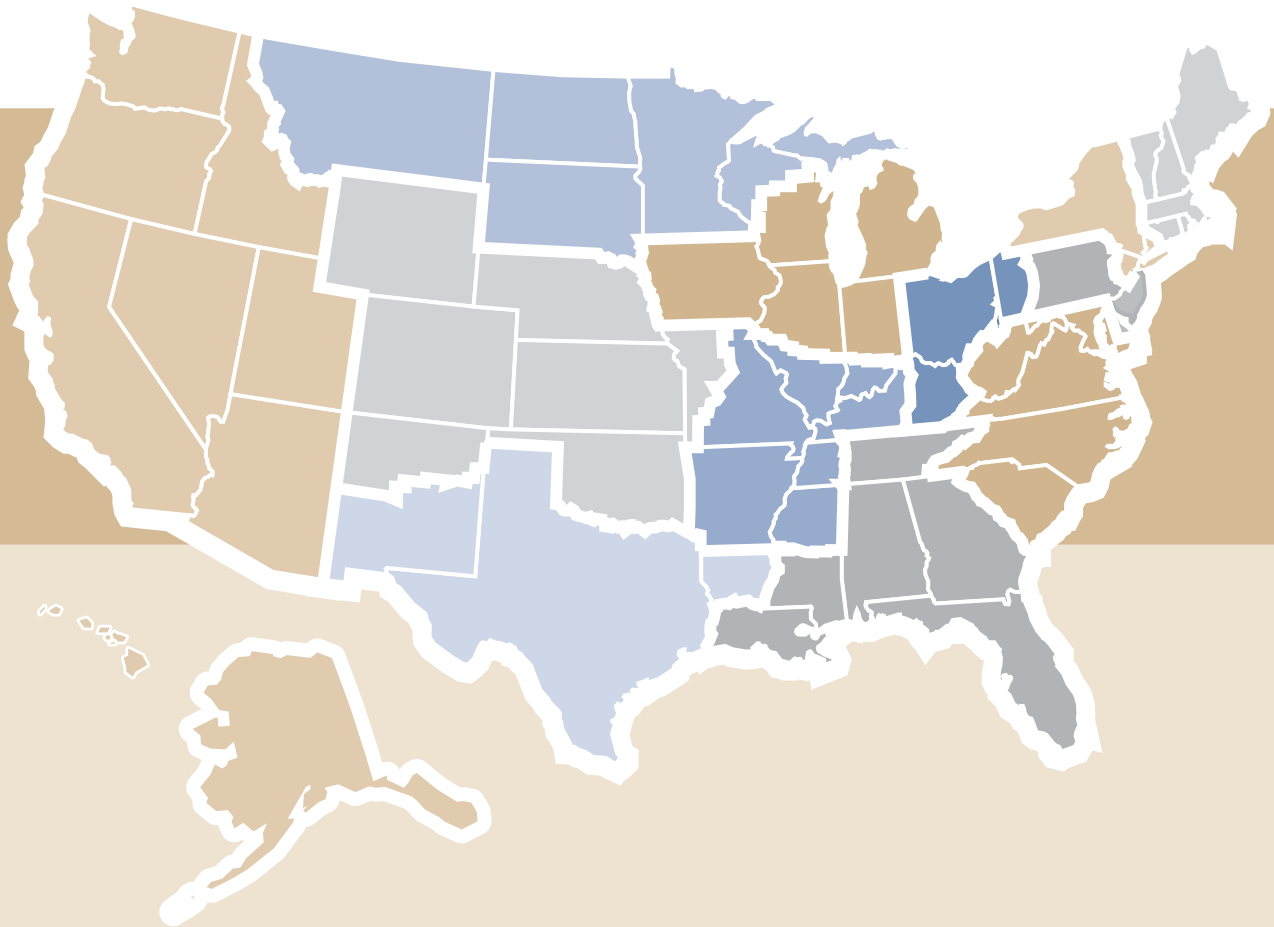




The Beige Book

Summary of Commentary on
Current Economic Conditions by
Federal Reserve District

October 2026



FEDERAL RESERVE SYSTEM

Contents

About This Publication	ii
National Summary	1
Federal Reserve Bank of Boston	5
Federal Reserve Bank of New York	9
Federal Reserve Bank of Philadelphia	13
Federal Reserve Bank of Cleveland	17
Federal Reserve Bank of Richmond	21
Federal Reserve Bank of Atlanta	24
Federal Reserve Bank of Chicago	28
Federal Reserve Bank of St. Louis	32
Federal Reserve Bank of Minneapolis	36
Federal Reserve Bank of Kansas City	40
Federal Reserve Bank of Dallas	44
Federal Reserve Bank of San Francisco	48

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

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

Since the prior Beige Book, two of the twelve Federal Reserve Districts reported moderate growth in economic activity. Three Districts reported modest growth, while four reported slight growth, and three reported no significant change. Robust, broad-based growth in manufacturing led the moderate growth reported in the Dallas District. While not as robust, another six Districts reported modest to moderate growth from their manufacturing firms. The remaining five Districts noted little or no manufacturing growth. Reports on other sectors indicate little growth overall. Most Districts reported little or no change in overall consumer spending. Auto contacts noted flat to modestly lower sales in five of the six Districts that reported. Over half of the Districts noted that consumer spending was driven by high-income households. Even in Dallas, where District firms reported solid retail sales, there were “some reports of lower-income customers being more cautious with spending.” Tourism continued to grow, but firms in the Boston, Minneapolis, and San Francisco Districts noted a decline in sales from Canadian tourists. Overall, most Districts reported that firms have maintained a positive economic outlook for the coming months. However, expectations tend to be for slight growth, weighted toward manufacturing and burdened by persistent uncertainties.

Labor Markets

Most Districts described little or no net change in overall employment levels. While three Districts described modest increases, five reported slight increases, and four reported no significant change. Overall, labor market conditions were little changed. Labor supply was generally adequate to meet demand; however, shortages persisted for specialized, technical, and skilled trade workers. Five Districts reported that some firms had either reduced staffing levels (through attrition), delayed hiring, or anticipated less job creation after increasing productivity by investing in AI. Five Districts described moderate growth in overall wages, four reported modest growth, and two reported slight growth. Several Districts noted that inflation has spawned additional wage pressure in the form of higher cost-of-living demands from individuals as well as challenges from rising benefit costs. Staffing contacts in the Boston District noted that workers were motivated to seek new jobs as wage increases lagged inflation.

Note: This report was prepared at the Federal Reserve Bank of Philadelphia based on information collected on or before October 5, 2026. This document summarizes comments received from contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.

Prices

Three Districts characterized overall price growth as robust, while eight noted that growth was moderate—and three of the eight noted that input price pressures were intensifying, if not already growing robustly. One District reported modest price growth. Moreover, four Districts reported that the pace of price increases picked up since the prior period. Higher oil prices permeated all District reports. Firms reported elevated diesel prices and noted that fuel surcharges were passing on increased costs throughout the supply chain. Contacts in multiple Districts also noted continued price pressure from other commodities, tariffs, and insurance. Consumer-facing firms noted tighter profit margins as price-sensitive customers continue to resist price hikes. Contacts are managing their margins with selective price hikes, targeted incentives, and menu changes that reduce their costs. Firms in several Districts cited persistent uncertainty around energy and tariffs and expect that prices will increase further in the coming months, as existing contracts expire, and firms must renegotiate hedge contracts for their own inputs and/or delivery contracts to their customers.

Highlights by Federal Reserve District

Boston

Economic activity expanded further, slightly. Consumer spending was flat, with an uptick in tourism spending but softer retail sales. Employment rose by a small margin, with wages up slightly on average. Home sales showed new weakness. Inflation was modest overall, but home heating oil prices rose sharply from a year earlier, raising concerns about heating costs for the winter.

New York

Economic activity increased slightly, led by strength in manufacturing. Rising costs and heightened uncertainty weighed on businesses and consumers. Employment was steady to up slightly and wage growth remained modest. Selling price increases picked up to the high end of the moderate range, while input prices continued to rise strongly. Consumer spending edged up.

Philadelphia

Business activity rose slightly this period, down from a modest increase in the prior period. Employment improved modestly, as both manufacturers and nonmanufacturers reported increased hiring. Wage inflation again grew modestly, and firm price inflation edged up to a moderate pace. Looking ahead, manufacturers have more widespread expectations for growth than nonmanufacturers.

Cleveland

Fourth District business activity increased modestly, with slight growth anticipated in the months ahead. Manufacturing demand rose moderately, while retailers continued to face dampened demand from higher fuel prices. Employment levels increased modestly, and wage pressures remained moderate. Nonlabor cost pressures remained strong, and selling prices grew robustly.

Richmond

The regional economy continued to grow moderately. Consumer spending remained solid amid continued tradeoffs due to higher gas prices. Hotels reported strong occupancy rates this cycle. Manufacturing activity was flat despite strength reported in some high-growth sectors and regions. Nonfinancial services reported modest growth while the remaining sectors reported little change in activity. Employment grew slightly and price growth remained moderate.

Atlanta

Economic activity grew modestly. Employment levels remained flat. Wages, costs, and prices rose moderately. Consumer spending and transportation activity expanded slightly. Residential real estate saw moderate growth and manufacturing was stable. Commercial real estate and lending rose at a modest pace. Energy activity grew moderately, and agriculture was mixed.

Chicago

Economic activity was flat on balance. Manufacturing demand rose modestly; employment was up slightly; consumer spending was flat on balance; construction and real estate activity and business spending declined slightly; and nonbusiness contacts saw no change in economic activity. Prices rose moderately, wages rose modestly, and financial conditions tightened modestly. Farm income expectations for 2026 were down slightly.

St. Louis

Economic activity has modestly increased. Employment was unchanged and wage growth remained moderate. Prices have risen at a robust pace and increases were widespread. Businesses expressed rising concerns about health-care costs. The outlook has remained unchanged.

Minneapolis

District economic activity increased slightly. Employment increased and wage pressures were modest. Prices increased moderately. Consumer spending fell slightly. Manufacturing activity increased moderately. Construction activity increased modestly, and commercial real estate was flat. Agricultural conditions were unchanged at low levels.

Kansas City

Business activity in the Tenth District continued to hold steady in a pattern of subdued conditions punctuated by pockets of strong demand. Rising diesel prices and shipping costs were a top concern, as both put more pressure on profit margins.

Dallas

Economic activity in the Eleventh District expanded moderately. Growth picked up notably in the manufacturing sector but eased in the banking and nonfinancial services sectors. Employment grew modestly and price growth was strong. Outlooks were mostly positive, though inflation and continued geopolitical and trade policy uncertainty remained headwinds.

San Francisco

Economic activity was broadly steady. Employers maintained staffing levels. Prices rose moderately, while wages increased only slightly. Retail sales softened somewhat, while demand for services varied by region and market segment. Conditions were mixed in manufacturing and stable in commercial real estate, but weakened slightly in agriculture, residential real estate, and financial services.



Federal Reserve Bank of Boston

Summary of Economic Activity

Economic activity expanded slightly, with mixed results across sectors. Retail spending softened, and tourism activity was variable, leaving consumer spending as a whole unchanged. Activity in manufacturing and nonfinancial services edged higher. Bank loan volume expanded slightly. Commercial real estate activity was stable, but construction slowed, and home sales saw moderate declines. Employment showed small gains on an uptick in hiring, and wage growth was muted. Prices rose modestly on balance. The outlook dimmed somewhat, with widespread concerns about cost pressures on lower-income families, small businesses, and nonprofits, but there was cautious optimism regarding hiring activity and further growth in manufacturing and nonfinancial services.

Labor Markets

Employment rose slightly on average. Head counts were mostly unchanged in retail, tourism, and financial services, while manufacturing employment edged up overall. Hiring picked up a bit, reflecting both permanent and temporary placements, but some employers were deterred by rising labor costs, particularly medical benefits. Labor demand was healthy for roles in professional services, insurance, law, and accounting, and weaker for health care and IT. Labor supply appeared mostly stable, but contacts pointed to workforce shortages in health care, childcare and human services, owing to increased immigration enforcement and an aging population. A grocer reported staffing challenges in its trucking and supply-chain operations, leading to increased reliance on third-party providers. Wages rose slightly overall, with isolated premiums for highly skilled talent. Staffing contacts said wage increases often fell short of inflation, motivating more workers to seek new jobs. The outlook called for small further increases in hiring going forward.

Prices

Output prices rose modestly on average in recent months, with home heating oil prices up sharply from a year ago. Contacts in manufacturing, tourism, and retail reported slight average price increases, although candy prices rose considerably, reflecting lagged cocoa price impacts. Financial and nonfinancial services firms largely left prices fixed. Restaurant operators were hesitant to raise prices despite broad-based cost pressures, citing consumers' heightened price sensitivity,

and instead simplified their menus to trim costs. Produce prices held firm despite elevated diesel prices, but that could change as trucking contracts are renegotiated. Separately, many contacts cited energy and freight expenses as significant ongoing cost burdens, and recent tariffs on Canadian imports created new cost pressures for several manufacturers. Construction costs rose modestly. Looking ahead, tourism contacts expected slight price increases, tuition at a public university was set to rise, and households were expected to face considerably higher utility bills this winter.

Consumer Spending

Consumer spending was unchanged overall but uneven, as retail spending fell slightly, and tourism spending edged higher. In Maine, hotel revenues reached record levels at some higher-end properties, mostly reflecting higher room prices, although the dearth of Canadian tourists continued to weigh on tourism in parts of the region. In Vermont, pre-season ski pass sales and ski resort bookings have outperformed those of last year. Sales at a large grocery chain were mixed, as summer's cyclospora outbreak prompted significant declines in produce sales, especially berries and salads; but strength in other categories helped offset the produce-related weakness, which recently stabilized somewhat. A range of contacts in retail and hospitality noted profit margins getting squeezed by a combination of rising costs and consumers' price-consciousness. Contacts in northern Maine expressed increased pessimism regarding discretionary consumer spending heading into winter, given the large increase in home heating costs over last year. Contacts throughout the First District also noted downward pressure on disposable incomes from inflation more generally. Nonetheless, contacts expected ongoing strength in higher-end consumer spending.

Manufacturing and Distribution

Manufacturing activity expanded slightly on a combination of robust growth for a small number of firms and stable activity otherwise. Capital expenditures and inventories were mostly unchanged, although some contacts reported substantial increases in both measures. Profits increased by a small margin for most contacts. Frozen food manufacturers experienced stable demand net of seasonal increases. An advanced cutting products manufacturer noted significant revenue growth derived from investments in data centers, energy, and defense, while a machine parts manufacturer reported robust demand and record revenue levels. Higher energy costs hindered expansion plans and hiring activity for one energy-intensive firm. Overall, firms offered generally positive outlooks, though tempered by uncertainty concerning trade policy and inflation in input prices.

Nonfinancial Services

Demand for nonfinancial services increased broadly across contacts in staffing, higher education, and professional services. Revenues rose slightly on average, although individual reports ranged from flat revenues to moderate increases. Contacts in IT and law reported modest growth in capital expenditures and a moderate rise in profits on average. Staffing contacts noted that employers struggled to find candidates for specialized jobs in law, accounting, and insurance, as those roles are dominated by people nearing or entering retirement. Contacts expected modest to moderate growth in demand for their services going forward and felt that uncertainty had decreased compared with two months ago.

Financial Services

Bank loan volume was mixed but rose a bit overall. Changes in loan demand ranged from slight decreases to moderate increases, and multiple contacts said higher borrowing rates dampened demand. Credit standards were unchanged, and loan pricing firmed slightly; Most contacts reported no changes in the share of nonperforming loans. A large financial services firm reported slight growth in both revenues and profits, along with stable capital outlays. Banks expressed decreased optimism and greater uncertainty—tied to the conflict in the Middle East, interest rates, and upcoming elections—while other financial services firms maintained stable to optimistic outlooks.

Real Estate and Construction

Commercial real estate activity was roughly stable on balance, with contacts reporting both positive and negative developments. Office leasing continued to rise slowly, while vacancy rates edged lower. Industrial leasing activity, rents, and vacancy rates were flat on average. Construction slowed somewhat, with weakness attributed to earlier overbuilding—in the case of Boston—and prohibitive costs in the case of Providence. Nonetheless, Rhode Island continued to see substantial public infrastructure construction. Loan availability was stable, but financing costs increased, and loan terms tightened. Commercial property foreclosures remained limited despite elevated rates of loan distress among urban office buildings. The outlook for commercial real estate was mostly unchanged, but contacts cited downside risks tied to political uncertainty and rising longer-term interest rates.

Closed residential home sales decreased moderately in August on a year-over-year basis on average, although Massachusetts' sales registered only a small decline, and sales fell sharply in Maine. As exceptions to the overall trend, single-family sales rose modestly in New Hampshire, and condominium sales improved in Vermont. Median home prices increased modestly

year-over-year, and home inventories expanded somewhat on average. Apartment leasing was flat, with multifamily construction and sales both down slightly.

Community Perspectives

Contacts serving low- and moderate-income communities report intensifying strain, instability, and uncertainty attributed to rising cost burdens for households, businesses, and nonprofit organizations. Specifically, contacts mentioned difficulties managing higher utilities and energy prices, followed by groceries, housing costs, transportation, childcare, and insurance. Low-income households faced risks of losing Medicaid, SNAP, and other benefits in 2027, given new work requirements and more frequent paperwork. Immigration enforcement also reportedly disrupted families' spending and saving patterns and dampened small business revenues and hiring activity. Small businesses and nonprofits faced mounting financial strain due to inflation and revenue uncertainty.

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



Federal Reserve Bank of New York

Summary of Economic Activity

Economic activity in the Second District increased slightly, led by strength in manufacturing. Elevated energy costs, tariffs, rising interest rates, and geopolitical and policy uncertainty weighed on businesses and consumers. Service sector activity was little changed, on balance. Employment was steady to up slightly, and wage growth remained modest. Selling price increases picked up to the high end of the moderate range, while input prices continued to rise strongly. Consumer spending edged up, buoyed by higher-income households. Housing market activity was little changed, as persistently tight supply continued to limit sales and push prices higher. Businesses generally expected little improvement in the months ahead, although manufacturers were more optimistic.

Labor Markets

On balance, employment was steady to up slightly. Employment increased at a solid clip in the manufacturing sector, and rose in the transportation and warehousing, construction, and wholesale trade sectors, while head counts declined in the education, personal services, and health-care sectors. Larger businesses continued to outperform smaller ones, with larger businesses hiring for growth and smaller businesses remaining in a “low hire, low fire” environment.

Labor supply and labor demand were relatively balanced, on net. A payroll services contact reported that finding workers was generally not difficult, though workers in the skilled trades remained scarce. A number of manufacturers continued to report difficulty hiring qualified production workers, and contacts in landscaping, restaurants, home health care, and passenger transportation cited persistent trouble finding and retaining reliable workers. However, a childcare provider noted a readily available supply of applicants. Some larger organizations were beginning to cut selected jobs or hold off on hiring as they integrated AI into their operations, and demand for marketing roles softened. There were no reports of large-scale layoffs in the region, though a few smaller firms reported cutting staff in response to lost business and rising costs. Wage growth remained steady and modest, though wages rose more strongly in the construction sector.

Prices

The pace of selling price increases picked up to the high end of the moderate range, while input prices continued to rise strongly. Tariffs remained a widely cited cost pressure for manufacturers, wholesalers, and retailers, some of whom had little room to pass costs on while others raised prices in response. Energy and fuel costs remained a drag on profit margins, particularly for transportation, landscaping, and other fuel-intensive businesses. A food manufacturer noted it had not seen such broad-based inflationary pressures since the pandemic. Contacts renewing health insurance plans reported steep premium increases alongside higher deductibles and co-pays. Firms did not expect pricing pressures to ease in the coming months.

Consumer Spending

Consumer spending continued to edge up, with strength from higher-income households. A supermarket contact reported an uptick in purchases of higher-priced, higher-quality products among some shoppers. At the same time, signs of strain among lower-income households were evident. A payroll services contact noted rising 401(k) hardship withdrawals and growing use of earned-wage advances among lower-income workers and those with heavy health-care costs.

Upstate New York auto dealers reported new vehicle sales had softened, citing affordability, high gas prices, and rising interest rates. Still, luxury brands outperformed lower-priced volume brands, pointing to ongoing strength among more affluent buyers. Manufacturer incentives picked up but were not widespread. Used car sales softened.

Manufacturing and Distribution

Manufacturing activity grew moderately following a solid pickup last period. An industrial equipment manufacturer reported a surge in semiconductor, electronics, government, and aerospace orders, though demand in other segments declined. Delivery times lengthened, and supply availability continued to worsen. A number of manufacturing contacts reported that tariffs were raising input costs, disrupting supply chains, and damaging cross-border trade, particularly with Canada. Several contacts noted that tariff uncertainty was leading customers to delay capital projects and had complicated planning. Wholesale and distribution firms reported a moderate increase in activity. A shipping contact reported continued strong import demand despite congestion at Asian ports and elevated diesel costs, with importers paying a premium for air freight to ensure arrival ahead of the holiday season. Another shipping contact said import volumes remained resilient, as buyers of specialized machinery and components had no domestic alternatives, though exports continued to lag. On the whole, manufacturers remained optimistic about the outlook.

Services

Service sector activity was little changed, on balance. There was slight growth in the information sector, while contacts in consumer-facing sectors, business services, and health care noted softer demand. A tech consulting firm said growing client interest in AI data preparation and governance was a bright spot even as broader capital spending decisions remained on hold. A childcare provider reported a significant decline in business.

Tourism activity in New York City remained solid, buoyed by domestic travelers and day visitors, while international visits were weak. Hotel demand remained strong, and nightly rates remained exceptionally high. After some weakness during the summer, attractions reported a pickup in visits, approaching more normal levels. Tourism contacts were optimistic, with strong advance bookings for the coming months.

Real Estate and Construction

Housing market activity was little changed. Persistently low inventory continued to limit sales and push prices higher, though listings continued to edge up in most of the District. Still, with mortgage rates rising again, lock-in remained a key issue holding back homeowners from moving. In New York City, activity was concentrated at the high end as buyers who had been waiting for lower rates began to capitulate, and inventory fell slightly.

Rental markets strengthened, particularly in New York City where rents remained near historic highs. A New York City real estate contact noted that rising mortgage rates typically push more households into the rental market and expected rents to remain elevated for some time.

Commercial real estate markets remained strong, led by a hot office leasing market in New York City. Manhattan office leasing continued at a brisk pace, with bidding wars for top-tier space. Multiple contacts reported that sales of commercial properties slowed in recent weeks, as rising interest rates reduced demand. Industrial demand remained strong, largely driven by data centers. Construction activity held steady after several months of strong growth.

Banking and Finance

Activity in the broad finance sector picked up slightly. Small- to medium-sized banks reported lower demand for business loans, while demand was flat for consumer loans and commercial mortgages, and slightly higher for residential mortgages. Refinancing activity was little changed. A regional bank reported resetting its loan stress-test assumptions to reflect higher rates, and another financial sector contact said interest rate exposure had become the dominant question among banks and institutional investors, citing significant repricing on maturing fixed-rate loans.

Credit standards tightened slightly for business loans and commercial mortgages but were unchanged for other products. Deposits declined. Delinquency rates moved slightly higher.

Community Perspectives

Community organizations across the District reported surging demand for food and emergency assistance as stricter eligibility and work requirements for SNAP and Medicaid took effect. Food pantries saw a sharp rise in first-time users, with one nonprofit leader describing strains comparable to the pandemic but without the accompanying philanthropic and government support. One agency noted eligible working families and seniors were losing benefits after missing recertification deadlines or being deterred by complex paperwork. An organization assisting mixed-immigrant status households with benefits applications reported clients served at some locations fell dramatically, as families feared applying could jeopardize their immigration status.

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 grew slightly, after picking up to a modest pace of growth last period. Employment rose modestly, as both manufacturing and nonmanufacturing firms reported increased hiring. Wage inflation remained steady at a modest pace, although some firms reported upward wage pressures. Prices rose moderately after slowing to a modest pace last period. Firms reported increased cost pressures and that they raised prices to offset these higher costs, where possible. Manufacturing activity rose moderately, slightly slower than the prior period's strong growth. Nonmanufacturing activity was little changed, down from a slight increase. Retailers, both auto and nonauto, reported slight declines in sales. Tourism continued to grow at a moderate pace. Expectations for growth over the next six months varied by firm type. Manufacturers' growth expectations remained widespread and above their historical average, but non-manufacturers' expectations were limited and less widespread than in the prior period.

Labor Markets

Employment rose modestly during the period, up from a slight increase in the prior period. On balance, nonmanufacturing firms reported modest increases in both full- and part-time employment, and manufacturing firms also reported a modest rise in total employment.

Overall, staffing contacts reported mostly steady demand—up from a year ago but still muted by historical standards. Most contacts reported little trouble with labor supply and low employee turnover. However, the lack of skilled labor has continued to constrain manufacturing activity, according to contacts. Nearly three-quarters of the surveyed manufacturers reported labor supply as at least a slight constraint on capacity utilization in the third quarter, up from half in the previous quarter. A manufacturing-focused staffing contact noted increased demand for high- and low-skilled workers in recent months, with some firms becoming less selective in their hiring and more willing to train new employees.

Wage inflation remained largely unchanged at a modest pace overall; however, some contacts reported pockets of higher wage pressures over the period. A retailer shared plans for an upcoming wage increase of 4 percent (up from 2.5 percent last year) owing to the high cost of living, weaker labor availability, and an expectation of higher-than-usual wage increases by

competitors. A staffing contact highlighted increased job seeker pushback on wages for manufacturing jobs and a willingness from some firms to raise starting pay for the first time in years.

Prices

On balance, firms' prices rose at a moderate pace, up from a modest increase last period. In our monthly surveys, the diffusion indexes for prices paid and prices received rose from the prior period for nonmanufacturers, moving above their historical averages. The prices paid index was little changed for manufacturers at an elevated level, while the prices received index moved further above its historical average.

Contacts across sectors reported higher input costs this period. In addition to continued cost pressures from fuel surcharges, tariffs, and insurance, contacts noted the expiration of some contracts or hedges that kept costs relatively stable in recent months. The expiration of these contracts has given manufacturers greater pricing power, allowing them to pass increased costs further along the supply chain, according to contacts.

However, contacts reported that many consumer-facing businesses have little ability to pass on recent or expected future cost increases. Consumer-facing contacts across sectors instead reported absorbing higher costs while increasing discounts and incentives to sustain business, citing price-sensitive customers.

Looking ahead, multiple contacts expect the impact of contract repricing and expiring hedges to broaden over the next few months, leading to further price pressures. The indexes for future prices paid and future prices received rose further in September and are now among their highest readings of the past 35 years.

Manufacturing

Manufacturing activity grew moderately in the current period, down from the strong increase in the prior period. The indexes for new orders and shipments softened slightly from the last period; however, both indexes remained well above their historical averages.

Contacts reported that manufacturing growth continues to be driven primarily by data centers, AI, and defense-related activity. However, more than two-thirds of the surveyed firms reported increased production in the third quarter, the highest share since the second quarter of 2022, suggesting growth may be broadening across the sector. Labor supply and uncertainty are the biggest constraints on capacity utilization, according to contacts.

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 also remained elevated.

Trade and Services

Firms across a broad spectrum of nonmanufacturing industries reported little change in activity this period after a slight increase last period. The sales/revenues index softened to a modestly positive level, while the new orders index suggested a slight decline.

Retailers (nonauto) continued to report a slight decline in consumer spending during the period and continued to describe consumers as price sensitive. One retailer reported that customer traffic remained weak at the end of August and during the first half of September, but they highlighted a noticeable uptick in visits during the second half of September when gas prices declined slightly.

Auto dealers reported a slight decline in sales this period after holding steady in the prior period. One contact explained that aggressive manufacturer incentives likely boosted overall sales in September, somewhat masking the increased strain on consumers and dealers from rising financing costs.

Tourism activity again grew at a moderate pace. Contacts reported that ongoing healthy levels of leisure travel were augmented by increased business travel and continued increases in average daily rates for lodging. However, one tourism contact noted that in recent months travelers have become more price resistant, booked more last-minute trips once rates were discounted, and spent less money at their destination.

Expectations among nonmanufacturers for their own growth over the next six months remained low by historical standards and were less widespread than in the prior period.

Real Estate and Construction

Existing home sales continued to decline slightly this period. Contacts reported that rising mortgage rates in September slowed activity in the housing market even further—higher borrowing costs forced prospective buyers out of the market, while the inventory of for-sale properties remained low.

New-home builders again reported a slight decline in sales. Similar to the existing home sales market, contacts attributed weaker demand to rising interest rates in recent months. One builder

noted that most buyers have to first sell their existing house, which has become more difficult. Another contact reported that a large developer has started to walk away from some early-stage projects and that an excess supply of homes built without secured buyers has led to steep discounting by competitors.

Nonresidential construction activity again appeared little changed this period. Contacts reported continued construction activity by firms in the data center and related manufacturing spaces but little new activity elsewhere.

Credit Conditions

The volume of bank lending (excluding credit cards) continued to rise slightly this period (not seasonally adjusted), compared with a modest decline one year ago.

District banks reported moderate increases in commercial and industrial loans and home equity lines of credit, and a slight increase in auto loans. Mortgage lending was flat, while commercial real estate lending ticked down slightly. Credit card volumes rose modestly during the period, after little change in the prior period.

Banking contacts reported mostly steady levels of loan demand during the period, despite higher loan pricing. Many contacts noted that it was too soon to tell the impact of higher interest rates on business investment, saying it would take time to discourage demand. However, contacts highlighted that higher borrowing costs did slow demand for mortgages, which was already weak.

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



Federal Reserve Bank of Cleveland

Summary of Economic Activity

On balance, business activity in the Fourth District increased modestly in recent weeks, with slight growth expected in the months ahead. Demand for manufactured goods grew moderately, with data center buildouts, power generation, and defense spending remaining the main sources of growth. While higher fuel prices continued to dampen demand, consumer spending was flat following a period of decline. Employment levels increased modestly, and wage pressures remained moderate. Nonlabor cost pressures remained robust for the eleventh consecutive period, driven by higher fuel costs and tariffs, and selling prices increased robustly as firms passed along rising input costs.

Labor Markets

Employment levels increased modestly on net in recent weeks. Many manufacturers added staff to address rising backlogs, launch new products, and prepare for anticipated growth, and several bankers added positions to expand coverage in growing markets. However, talent shortages continued to constrain hiring for skilled trades and technicians. By contrast, some real estate and construction contacts were cautious, and a few reported holding or trimming staffing because higher long-term interest rates had dampened demand. Meanwhile, one large manufacturer was consolidating plants and offshoring higher-level roles to reduce costs. Two banking contacts said that automation and AI had reduced staffing needs by enhancing the productivity of certain roles. Overall, contacts anticipated modest employment growth in the coming months.

Contacts continued to report moderate wage pressure on balance. While most increases came through annual merit cycles, several contacts attributed raises to higher living costs, particularly for gasoline and electricity. In sectors in which labor was harder to find, contacts reported using a variety of strategies to attract and retain workers such as raising starting wages or providing off-cycle pay increases. By contrast, some banking and staffing contacts mentioned that fewer outside job opportunities had reduced turnover and eased wage pressure. Uncertainty about long-term interest rates or weak cash flow led some construction contacts to hold wages steady.

Prices

Nonlabor cost pressures remained robust for the eleventh consecutive reporting period. Higher fuel costs remained the dominant driver, and several contacts noted that these costs were spilling over into freight, packaging, and petroleum-based materials. Multiple manufacturing, construction, and retail contacts said that tariffs added to upward pressure on raw materials costs, and one builder referred to the combination of high fuel costs and tariffs as a “double whammy.” Many services contacts cited sharp increases in health insurance premiums, and banking and professional services contacts noted rising costs for software, AI tools, and computer hardware. Looking ahead, contacts expected nonlabor cost pressures to remain robust.

Overall, contacts reported robust increases in selling prices in recent weeks, driven by rising input costs. Tighter capacity, fewer available drivers, and higher fuel costs allowed freight carriers to raise rates after an extended period of “depressed pricing.” Manufacturers continued to raise prices to cover higher costs associated with tariffs and for raw materials, particularly metals. Some restaurateurs and grocers held prices steady or increased them only selectively because of customer price sensitivity and competitive pressures. Many contacts across sectors noted that their prices are set annually or by contract, and they anticipated raising prices at upcoming renewals.

Consumer Spending

Consumer spending was flat in recent weeks, following four consecutive reporting periods of decline. Retailers across sectors continued to attribute slow activity to high fuel prices. Reports from food and hospitality contacts were mixed. One fast food chain reported growth, and one hotelier noted a rebound in corporate travel; others reported that extreme heat and reduced discretionary spending weighed on sales. Auto dealers reported soft demand, with many citing higher fuel prices and interest rates. Another noted lower maintenance spending as customers spent the “bare minimum to keep the vehicle safe.” Retailers expected slight declines in activity ahead, with affordability remaining the main concern.

Manufacturing

Demand for manufactured goods increased moderately, with momentum concentrated in data center buildouts, power generation, and defense and aerospace. Additionally, contacts mentioned higher orders from truck trailer and light automotive producers and higher international demand for hydrogen vehicle parts. Steel producers reported strong spot market demand as long mill lead times kept customer inventories lean and prices high. A few producers reported softer demand as higher interest rates weighed on housing-related activity and rising fuel costs squeezed margins. Demand was expected to increase moderately in the coming months.

Real Estate and Construction

Residential construction and real estate activity increased modestly in recent weeks, though conditions varied by segment. Sales of existing homes rose. One contact attributed increased sales to pent-up demand but noted that elevated mortgage rates continued to hold back a stronger recovery. By contrast, homebuilders indicated that housing starts remained soft, a situation which they attributed to rising interest rates, higher materials costs, and negative perceptions of the overall economy. Accordingly, contacts expected a moderate demand decline over the coming months.

Nonresidential construction and real estate activity increased moderately in recent weeks. Several contacts noted that previously delayed projects had resumed, and heavy highway and data center projects boosted activity. However, some contacts reported that rising interest rates and uncertainty around tariffs and the Middle East conflict continued to delay decisions about construction investment. One contractor reported that a local moratorium had led to the cancellation of a data center project. On net, contacts anticipated flat conditions in the near term.

Financial Services

Overall, loan demand grew robustly in recent weeks. Some bankers pointed to increased line utilization, growing credit card applications, and commercial projects' moving forward as reasons for the growth in loan demand. A couple of bankers noted increased activity from market-share gains due to closures and acquisitions of other banks. A few expressed concern about the effects of the ongoing Middle East conflict and rising interest rates on the economic outlook of their clients. In the coming months, bankers expected loan demand to increase only modestly, tempered by a weaker economic outlook and higher interest rates.

Nonfinancial Services

Demand for professional and business services grew robustly in recent weeks, with growth concentrated among accounting and consulting firms. One attorney noted that demand for bankruptcy services increased because of higher interest rates and tariffs. Looking ahead, contacts expected activity to increase modestly, as economic and political uncertainty and higher fuel and goods costs might lead some clients to reduce spending. Freight demand increased modestly in recent weeks. One hauler mentioned that warehousing demand increased for data center and solar panel storage. Haulers expected a slight increase in demand in the coming months.

Community Conditions

In a semiannual survey of nonprofit organizations, 87 percent of respondents, the highest share in the survey's history, reported that their clients' financial well-being had declined over the past six months, a situation which they attributed to continued price increases. Respondents noted higher numbers of people seeking food, rent, utility, and foreclosure-prevention assistance. One respondent said, "families [are] one setback, such as a car repair, from losing their ability to meet basic needs," and a financial counseling service provider said that demand was so high that they had to close their waitlist and stop taking on new clients. Additionally, several respondents mentioned an increase in first-time homelessness, specifically among older adults and families with young children.

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



Federal Reserve Bank of Richmond

Summary of Economic Activity

The Fifth District economy continued to grow at a moderate pace this cycle. Consumer spending grew moderately, and consumers continued to make tradeoffs in response to higher fuel prices. Spending on travel and tourism increased with hotels in our region noting strong occupancy rates. Manufacturing activity was flat, on balance, as some sectors reported strong growth that was offset by weakness in other sectors. Nonfinancial services providers continued to report modest growth in revenue and demand while financial services firms reported no changes this cycle. Residential real estate picked up slightly while commercial construction continued to slow. Employment and wages grew moderately. Price growth remained at a modest year-over-year rate.

Labor Markets

Employment in the Fifth District increased slightly in the recent period. While many firms were able to find the talent they needed, some firms faced challenges with candidate pools. For example, an oil and gas pipeline company cited a shortage of candidates with the right acumen, while a trucking company struggled to find drivers who could pass vetting standards. In contrast, a janitorial company noted an oversupply of overqualified candidates seeking quick income. Retention also posed challenges for some, such as a lighting manufacturer that faced 40 percent attrition among new hires. A compressor producer braced for a wave of upcoming retirements as its workforce ages. Wages continued to rise moderately due in part to new minimum wage laws and the need to attract skilled workers.

Prices

Price growth year-over-year continued to rise moderately. Our most recent surveys showed both service sector firms' price growth and non-labor input costs remained unchanged at moderately elevated rates. Manufacturing firms reported a pickup in non-labor costs pushing input price growth back to just above 7 percent. Prices received by manufacturers remained relatively unchanged. Across the District and within all sectors, survey participants noted the continued pressures with oil prices.

Manufacturing

Manufacturing activity was unchanged, on net, in the recent period. Business expansion was concentrated in high-growth sectors and regions. A panel manufacturer expanded into a second facility to meet data center customer demand, while a filter producer reported spikes in orders from aerospace clients. A Carolina-based cabinetmaker reported strong commercial growth tied to regional population growth. Contacts reporting weaker sales cited several factors. A poultry producer cited both the lettuce recall leading restaurants to pull back on orders and the increase in GLP-1 usage was shifting consumer preferences. Other manufacturers pointed to geopolitics, tariffs, and rising fuel prices as ongoing challenges for their business. Labor remained a challenge, with manufacturers reporting difficulty finding workers and don't expect improvements soon.

Ports and Transportation

Overall volumes at Fifth District ports were slightly up this cycle with positive demand for imports like food and beverage commodities, autos, flooring, forged metals, and other materials used in data center construction. Agricultural and lumber shipments to China continued to bolster export volumes. Ocean freight rates continued to rise week after week with spot rates up 200 percent to the East Coast since February. Contacts attributed the rate increases to capacity constraints, energy costs, repeated weather events impacting overseas ports, and an underestimation of the continued strength of U.S. cargo demand. Reduced industry capacity and rising fuel costs have maintained upward pressure on trucking rates as well, but carriers said it has been hard to make a profit when diesel prices accelerated after they negotiate contract rates. In order to cover the fuel cost increases out of pocket, trucking contacts noted that some carriers have dipped into savings or shifted spending from fleet maintenance, and others have halted purchases of new, fuel-efficient trucks that would have improved costs and emissions in the long run.

Retail, Travel, and Tourism

Overall, retailers noted moderate demand this cycle with some higher growth reported by seasonal businesses and retailers that ran successful discounting campaigns. Many consumer-facing firms emphasized that customer budgets have been impacted by fuel prices. Some smaller businesses reported revenue declines due to increased input costs from tariffs, insurance and labor costs. Fuel prices have also heavily cut into profits. A regional grocery chain noted that with diesel prices rising thirty percent since last year, they now pay more to transport a head of lettuce from California than the cost of the lettuce itself. At the same time, the grocer noted extreme customer price sensitivity and an inability to pass along those rising transportation costs. Hotel occupancy levels across the District continued to benefit from a post-Covid shift to spending on experiences.

Real Estate and Construction

Residential real estate saw renewed activity post-Labor Day, with steady traffic despite ongoing uncertainty. Brokers noted increased concessions in both new and resale homes with buyers willing to pay asking price if sellers cover closing costs or buy down the mortgage interest rate. A North Carolina broker observed that higher interest rates primarily affected the workforce, while stock market performance impacted retirement markets. Construction remained strong in certain pockets, though builders cited challenges with materials tied to data center demand. They noted they could pass these costs to buyers as long as they were transparent about the price increases being genuine.

Commercial real estate continued its slow pace into fall. Brokers across the Fifth District reported more sellers entering the market. In Maryland and Virginia, suburban office markets continued outperforming urban ones. Industrial contacts expressed ongoing concern over data center moratoriums. Several contacts noted that economic uncertainty has kept buyers hesitant to commit, causing longer deal timelines, with one contact noting that: “time ultimately kills deals.”

Banking and Finance

Loan demand remained stable for both consumer and commercial loan products. One institution observed that commercial borrowers were paying closer attention to financing costs and the return on any new business investment. A credit union noted that demand for home equity lines of credit remained strong with utilization rates also remaining steady. An almost universal observation from respondents was that competition for core deposits remained strong with institutions struggling to grow their balances. Institutions noted past due loan levels are slightly elevated from historically low levels, and delinquency rates have remained steady.

Nonfinancial Services

Nonfinancial service providers continued to report modest growth in revenue and demand for their services, however economic uncertainty remained a challenge to their firms. A recruiting firm noted that they have demand for their services, but clients were moving “slower than normal” to fill open positions. An architectural firm observed that work they have won will not start or will be very slow to start, indicating a “wait and see” attitude from their clients. A marketing firm indicated that clients were being more strategic and conservative with their spending, looking for immediate value and return on their investment.

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



Federal Reserve Bank of Atlanta

Summary of Economic Activity

The economy of the Sixth District grew modestly over the reporting period. Employment levels remained flat, and wages continued to grow by low single digits. Prices and nonlabor costs rose moderately. Consumer spending, tourism, and transportation experienced slight growth overall. While commercial real estate and lending increased modestly, residential real estate expanded at a moderate pace, and manufacturing activity was stable. Energy sector activity rose moderately, and agriculture conditions were mixed.

Labor Markets

Employment levels were largely flat, and reports of layoffs remained limited. Shortages of specialized, technical, and skilled trade workers persisted over the reporting period. Some professional services and banking contacts noted hiring for revenue generating/customer-facing roles to increase sales. AI implementation broadened across surveyed firms, as more contacts deployed AI tools and automation to boost employee productivity and efficiency. Similar to previous reports, most firms did not expect these efforts to lead to significant workforce reductions in the near term.

Most contacts reported moderate annual wage increases in the 2 to 3 percent range. However, some contacts noted continued wage pressure for skilled roles, along with concerns among their employees that cost-of-living increases were insufficient in the current inflationary environment. Many contacts reported escalating costs in employer-offered benefits and insurance, much of which were being passed on to employees.

Prices

Price growth remained moderate over the reporting period, with persistent pressure on various input costs. Transportation costs grew notably as diesel prices rose, and demand for rapid delivery of items related to data center projects strained freight and shipping capacity. Wholesalers reported increasing inventory orders to minimize transportation costs or simply absorbing fuel surcharges in their margins. Construction inputs, particularly steel and mechanical equipment, saw more frequent upward price adjustments. Auto, liability, and health insurance costs

continued to rise. Firms that have received tariff refunds most often used them to offset other operating costs. Weakening pricing power for retailers persisted, and most reported limited, “surgical” price increases.

Consumer Spending

Consumer spending expanded slightly, with strength in high-end retail offsetting flat or contracting demand in other value tiers. Discretionary spending continued to pull back, as rising fuel and food costs increasingly strained low- to moderate-income consumers. Restaurants reported reduced foot traffic, lower average spend, and increased use of promotional pricing. New auto sales were largely flat amid declining consumer creditworthiness and elevated interest rates.

Tourism activity grew slightly, and some contacts revised forecasts downward for the year. Hoteliers targeted luxury travelers to compensate for a slowdown in group and business travel bookings. While business travel still outpaced leisure, economic uncertainty drove some firms to tighten travel budgets. One hospitality firm noted increased activity at its economy extended-stay hotels, which were being used as living arrangements for some families unable to rent or buy a home. International travel to the District saw a slight rebound but remained below historical norms.

Construction and Real Estate

Home sales improved moderately across the Sixth District, and balanced inventory levels kept price growth stable overall. In comparison to other parts of the country, more homes in the District sold below asking price, especially in Florida, and sellers offered discounts and incentives. Home-buyer confidence was especially weak in the entry-level and move-up segments, and contacts noted many buyers had difficulty qualifying for a mortgage. Some home builders expect that rate buydowns will remain a permanent sales tactic as a long-term competitive advantage over resales.

Commercial real estate conditions expanded modestly on balance. Demand for and supply of office space across classes was stable, though new space drew the strongest investor demand. Retail vacancies remained unchanged. Multifamily demand increased slightly and vacancy rates declined, although rent concessions were still widespread. The industrial sector saw a slight uptick in vacancies as new space came online, but data center construction continued to drive growth.

Transportation

Transportation demand rose slightly. Trucking demand remained soft, with some signs of stabilization driven mainly by industrial sectors tied to advanced manufacturing and data center

construction; shipments of residential construction materials and consumer-related freight continued to lag. Freight forwarders reported increased volumes as business inventory levels rose and Asia-to-U.S. trade improved (excluding China). Railroads saw robust intermodal freight volumes and solid increases in total traffic year over year.

Manufacturing

Manufacturing activity was flat over the reporting period. An apparel manufacturer noted stability in both their volumes and pricing but expects 2026 retail sales to be down year over year. Similarly, a large distillery and brewery reported that demand was flat to slightly down for the year, and that long-term demand forecasts may be shifting downward because of changing consumer preferences and consumption trends, such as the growing use of GLP-1 drugs and alcohol alternatives. Contacts continued to report strength in data center construction, industrial components fabrication, and advanced manufacturing, which offset the slight contraction in other sectors.

Banking and Finance

While loan growth was modest overall, niche lending continued to show the strongest growth, driven by specialized consumer and business loans, and loans to non-depository institutions. Credit card lending increased modestly, but other consumer loan types were unchanged. Some banks reported an increase in “buy now-pay later” financing, mostly for dining out and buying groceries. Construction and land development lending expanded amid continued data center build-outs. Several institutions exited the SBA lending market because of increased risk and unclear compliance requirements. Cash-to-total assets ratios fell in tandem with a decline in bank borrowing, signaling healthy profit margins in aggregate. Five Districtwide mergers were announced and robust activity in this space is expected to continue through year end.

Energy

Energy activity grew moderately over the reporting period. Consumer and industrial demand, particularly for diesel and gasoline, remained solid. However, decreases in global inventories related to the crisis in the Middle East and the conflict in Europe raised concerns about future supply availability. American production remained resilient, but contacts noted that they alone cannot support the demand from both domestic and international consumers. Refining contacts reported record margins for their products, as limited international capacity drove more robust demand. The contact noted that scheduled maintenance for American refiners cannot be deferred past early 2027, which will likely further constrain supply and drive continued price increases. Utility contacts described persistent strength in demand from AI-related infrastructure, even with many projects not projected to be operational until the late 2020s.

Agriculture

Agriculture contacts reported mixed conditions across the Southeast. Contacts shared that dietary trends and export barriers have reshaped demand, with poultry and beef impacted positively, while dairy, grain and rice exports declined. While one poultry farmer expects that GLP-1 drugs will drive strong, lasting demand for proteins like chicken and beef for the foreseeable future, another noted that current demand is unusually weak and unstable compared to historical norms because consumers were fatigued with chicken and were buying beef, despite higher prices. This has contributed to a glut of chicken and falling wholesale spot prices. Robust demand for beef has propped up dairy farmers, who increased calf production to sell to cattle operations.

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 was flat on balance in late August and September, and contacts expected a slight pace of increase in the coming year. Manufacturing demand rose modestly; employment was up slightly; consumer spending was flat on balance; construction and real estate activity and business spending declined slightly; and nonbusiness contacts saw no change in economic activity. Prices rose moderately, wages rose modestly, and financial conditions tightened modestly. Farm income expectations for 2026 were down slightly.

Labor Markets

Employment rose slightly over the reporting period, and contacts expected a similar pace of hiring over the next 12 months. As in the prior report, labor market conditions were little changed overall. There were some signs of increased demand for labor, including from manufacturing contacts, who noted difficulty finding skilled workers and trouble retaining existing ones. There were also some signs of easing labor demand. A contact at a temporary employment placement agency reported uneven demand for workers across manufacturing subsectors, and a manufacturing contact said that layoffs at nearby plants had led to more applications for their open positions. In the administrative and professional services sectors, contacts noted greater ease in hiring. In addition, one contact in business services commented that productivity gains from AI adoption allowed their company to reduce employment through attrition. A retail industry contact expected holiday hiring to be at or below last year's level. Wages were up modestly but benefits costs grew moderately. Several contacts noted large increases in quotes for health insurance.

Prices

Prices rose moderately overall in late August and September, and contacts expected a similar growth rate over the next 12 months. There was a moderate increase in producer prices on net. Nonlabor input costs also grew moderately, with contacts reporting price increases across a variety of categories. Raw materials and equipment costs rose, notably for lumber and metals. Contacts reported that the cost of energy was up as well, with contacts highlighting higher prices for diesel and oil. Shipping costs moved higher, and a consultant for the transportation industry

noted that higher diesel prices were largely being passed on to shippers via surcharges. Consumer prices rose moderately.

Consumer Spending

Consumer spending was unchanged on balance over the reporting period. Nonauto retail spending was flat. Contacts were generally pleased with the back-to-school season, noting especially good results in the return-to-college segment, which boosted sales of electronics and furniture. In contrast, grocery sales were down. Forecasts for holiday sales call for modest growth, similar to last year. Leisure and hospitality spending increased slightly, led by a pickup in demand at restaurants and hotels. Light vehicle sales were down slightly, but were better than expected, and contacts noted continued willingness by customers to make purchases despite overall affordability concerns. Mid-size and hybrid models remained most popular, with some dealers indicating that high gas prices were more of a factor in vehicle choice than in the last reporting period.

Business Spending

Business spending decreased slightly in late August and September. Capital expenditures decreased modestly, though expectations for expenditures in the coming year improved. Contacts mostly reported making purchases to replace old equipment. Demand for truck transportation was flat, but rates increased moderately, in part due to tight capacity. Retail inventories were unchanged at a comfortable level, while manufacturing inventories were a little low. Manufacturing contacts reported longer lead times for some metals, like copper alloys, and difficulty sourcing others, like steel and aluminum components.

Construction and Real Estate

Construction and real estate activity decreased slightly. Residential construction declined a bit overall, with contacts pointing to higher mortgage rates and elevated economic uncertainty as reasons for weaker demand. Some homebuilders were offering more generous promotions on new single-family homes. Residential real estate demand decreased slightly, while prices ticked up. Rents increased slightly, helped by healthy demand for townhomes. Nonresidential construction was unchanged, but activity remained at a robust level. Contacts indicated that megaprojects were crowding out capacity for other projects. An equipment distributor said that tech companies had tried to buy all the available electrical equipment for their data center developments, but that suppliers had pushed back because of commitments to other projects. Commercial real estate activity was unchanged overall, though office leasing in government, medical, and higher education spaces increased. Prices and vacancy rates were unchanged. In the retail sector, low availability and high demand for prime space pushed up rents and led some existing tenants to move to other spaces. Otherwise, rents were unchanged.

Manufacturing

Manufacturing demand increased modestly in late August and September. Primary metals manufacturers and wholesalers reported a slight increase in demand on top of an already high level, driven in part by defense spending. One contact said that while mills have not yet run into capacity constraints, continued high demand from megaproject construction could lead to future capacity issues. Fabricated metals production rose slightly, driven by higher demand from the defense and construction sectors. In the machinery industry, sales increased moderately, while auto and heavy truck production were both flat on balance.

Banking and Finance

Financial conditions tightened modestly in late August and September. Bond values fell, equity values were unchanged, and volatility was flat. Business loan demand increased slightly, while loan quality declined slightly overall. One contact noted stress for some clients in the manufacturing and food and beverage industries related to cost increases and supply disruptions. Business loan rates increased modestly overall, while loan terms were unchanged. In the consumer sector, loan demand increased slightly. Loan quality deteriorated slightly, rates increased modestly, and terms were flat.

Agriculture

Expectations for 2026 District farm income edged down over the reporting period, which included the start of harvest. Heavy rains in much of the District slowed the harvest and were expected to lower yields for corn and, especially, soybeans. Farmers also were expected to spend more on fuel to dry bushels, compounding the effect of high energy prices on the costs of harvest. Corn and soybean prices again moved higher, with reports of premiums for current deliveries. Wheat and egg prices were higher, while cattle, hog, and most dairy prices declined. In parts of the District, crop insurance wasn't expected to make up for lost income. Even so, some contacts expected farmers to replace equipment after holding off doing so in recent years.

Community Conditions

Nonbusiness, government, and other community contacts reported steady economic conditions in late August and September, although price pressures weighed on future outlooks. State government contacts noted continued resilience in tax revenues. However, small business contacts were experiencing a more stressed environment. Businesses explored ways to cover operating expenses as higher costs, late payments from clients, and lower discretionary spending by customers eroded margins. As membership dues and other revenues trended lower, nonprofit

organizations looked for ways to cut expenses, including by combining positions or reducing office space.

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 modestly increased since our previous report. Employment was unchanged, and wage growth remained moderate. Reports of price increases were broad based, indicating strong upward price pressure. Many businesses expressed rising concerns about health-care costs. Consumer spending was mixed, while banking conditions were largely stable. Activity in nonfinancial services and manufacturing increased modestly overall, with manufacturing gains driven primarily by stronger demand from national defense and from data center and energy construction. The outlook remains unchanged from our previous report, with persistent uncertainty weighing on expectations.

Labor Markets

Employment levels have remained unchanged since our previous report. A retailer in Arkansas noted that staffing levels were stable following an intentional reduction last year. A financial services firm in Memphis reported staffing growth in some divisions, while a contact in St. Louis indicated that employment growth among small businesses had stagnated, with some firms reducing staff. Several contacts also reported increased churn. A health-care provider in Mississippi cited rising turnover among highly skilled workers; a nonprofit in Louisville reported worsening morale and higher turnover among younger staff; and another nonprofit in Central Kentucky attributed recent turnover to financial instability within their community.

Wage growth has been moderate. A health-care provider reported implementing 2.5 percent annual pay increases, with larger increases in some segments. Nonprofit organizations in Arkansas and Kentucky reported increasing wage pressures due to higher inflation, with one organization reporting a 3 percent cost-of-living adjustment.

Prices

Prices have risen at a robust pace since our previous report. Across the District, contacts highlighted sharp increases in non-wage labor costs—especially health care—which many firms are struggling to sustain. Some employers have begun shifting premiums to workers, several nonprofits have reduced or eliminated employer-paid benefits, and one contact noted that some

workers declined job offers due to high insurance costs, particularly at smaller firms. Nonlabor costs have also climbed. A health-care provider in Arkansas reported rising expenses for supplies, equipment, technology, and insurance, with increases outpacing reimbursement gains. A logistics firm observed more-pronounced vendor price increases compared with a year ago and that companies were using recently returned tariff rebates to defer future price hikes. Contacts continued to report substantial price volatility, with some industrial services firms relying more on dynamic pricing and with construction firms increasing their use of cost-plus contracts to manage fluctuating input costs.

Consumer Spending

Consumer spending has remained mixed. A business services firm in Memphis reported softer demand for entertainment-related services over the past three months: Fewer corporate events and reduced discretionary spending have lowered activity compared with the same period last year. A logistics firm noted that consumers were pulling back on purchases tied to construction and home-improvement retail, leading to weaker-than-expected sales volumes. An entertainment venue in Louisville reported lower admissions but stable revenue due to earlier price increases; demand also shifted from high-end tours toward mid-range options, and wedding rentals softened amid increased local competition. At the same time, a gas station retailer observed that consumers appeared stressed but selective, continuing to purchase discretionary items such as nicotine and energy drinks despite budget pressures. A retailer in Mississippi reported strong sales and sustained demand for retail space, with conditions resembling pre-pandemic levels. An airport contact noted that premium travel demand remained strong, while low-cost carriers experienced significant weakening.

Manufacturing

Manufacturing activity has increased modestly overall. Firms connected to data-center and energy construction and defense production reported strong demand, while those tied to housing materials continued to experience weakness. One industrial manufacturer noted exceptionally strong business conditions, and an engineering firm reported solid demand for industrial and engineering projects driven by recent digital and AI-related investments. In contrast, a logistics and distribution firm in Memphis observed softening manufacturing-adjacent activity tied to residential construction over the past three months, as elevated fuel prices contributed to weaker consumer demand in those segments. A contact in Tennessee reported that automation and data-integration projects had produced meaningful productivity gains, raising efficiency in some high-volume plants. These improvements lowered unit costs and expanded output capacity without equivalent growth in head count.

Nonfinancial Services

Activity in the nonfinancial services sector has continued to increase modestly since our previous report. A legal services provider reported stable but cautious demand, with clients seeking fixed-rate structures and multiple consultations to manage costs. An engineering services firm noted steady to above-average project activity. A firm serving entertainment and corporate functions scaled back offerings in response to weaker demand. Nonprofits reported rising demand for rental and mortgage assistance, noting that cost-of-living pressures were leading more households—including middle-income households—to seek services. Nonprofits highlighted significant delays in grant payments from state and federal agencies, which were straining operations and prompting consideration of layoffs while awaiting reimbursement.

Real Estate and Construction

Residential real estate activity has declined slightly since our previous report. Inventory has increased in the largest metro areas, and marketing times have lengthened. However, some pockets of strength remain. A real estate broker in Mississippi reported a roughly 2 percent year-over-year increase in sales volume and gross commission income across commercial, residential, and land transactions, with commission per sale unchanged. A small regional bank in Central Kentucky also noted strong housing market activity despite tighter financing conditions.

Commercial real estate activity was unchanged. A developer in Memphis reported that regional industrial momentum tied to large automotive and advanced-manufacturing projects had not materialized as quickly as expected, slowing related construction-adjacent activity. An airport contact noted that airport-related infrastructure planning remained constrained. They also noted that expansions have been dependent on legacy carriers, as low-cost carriers have weakened, which has limited near-term construction prospects for related facilities. Contacts also reported that substantial input-price volatility continued to affect construction-related operational planning, prompting contractors to seek ways to manage the risks associated with long-term projects under significant price swings.

Banking and Finance

Banking activity has remained mostly unchanged since the previous report. Loan demand was steady, with bankers in Mississippi noting stable activity but fewer large loan requests. A banker in the Memphis area reported increased reliance on lines of credit among firms facing delayed payments, indicating tighter cash-flow conditions. Bankers across the region also observed signs of household financial stress. A community development lender noted that clients were seeking bank loans to stabilize finances and increasingly relying on buy-now-pay-later and other short-term debt tools.

Agriculture and Natural Resources

Agriculture conditions have not changed since our previous report. A contact in Tennessee noted that the 2026 crop should range from profitable to break even, depending on yields and support from higher commodity prices. Grower sentiment is cautiously optimistic and less focused on immediate financial risk. In Arkansas, many acres previously planted with rice were replaced by soybeans or corn. Dry conditions allowed several farmers to complete the harvest early without delays from storage or shipping. Contacts reported strong yields for cotton, soybeans, rice, and corn in Arkansas, while in Mississippi drought and high fuel costs reduced hay production. Forestry contacts in Mississippi continued to report challenges stemming from high fuel and insurance costs, limited market access, and difficulty thinning stands.

Visit our [Regional Economic Data and Reports page](#) for more information about District economic conditions.



Federal Reserve Bank of Minneapolis

Summary of Economic Activity

Economic activity in the Ninth District increased slightly since the previous report. Employment grew slightly and labor demand remained positive. Price pressures rose moderately, and wage growth was modest. Consumer spending was down slightly. Construction improved modestly, while commercial real estate remained flat. Manufacturing activity increased moderately, and agricultural conditions were unchanged. Activity among minority- and women-owned business enterprises softened.

Labor Markets

Employment rose slightly since the last report. Surveys showed hiring demand remained positive, but many were simply addressing turnover, particularly in hospitality. Job openings edged lower but remained healthy. IT staffing contacts reported that artificial intelligence was not causing layoffs but was dampening the creation of new jobs. However, Minnesota firms continued to report that paid-leave legislation required more hiring to accommodate a rise in workers that were out of the office. A staffing firm with multiple offices across the District saw strong job orders, and many contacts reported relative success in finding labor. Tourism businesses in northern Wisconsin reported that, for the first time in years, they were fully staffed. Some agricultural and hospitality businesses reported declining availability of foreign-born workers, which was making staffing more difficult. A Wisconsin workforce contact noted, “Hiring has slowed compared with what we were seeing before, but there are still plenty of opportunities out there.”

Wage growth was modest. Surveys continued to show signs of positive but slowing wage growth. Hospitality and construction respondents reported weaker year-over-year wage growth. The Wisconsin workforce contact noted that wages “seem to have settled down. . . . There will be exceptions, but I’m not hearing much about employers broadly pushing wages higher.” A Minnesota workforce contact agreed: “I don’t hear as much from employers about their struggles to pay competitive wages.”

Prices

Prices increased moderately overall, though input price pressures intensified. In a monthly survey, more than one-third of firms reported that they increased prices to customers in September from the month earlier, about the same share as in the previous report. More than half of respondents reported increases in their nonlabor input prices for the month. Expectations for October were similar for input and final prices. Manufacturing contacts reported strong pricing pressures, particularly for raw materials and transportation. An equipment producer commented, “We had tried absorbing steel price increases for a few months hoping they would go down or at least stabilize. They continued to increase so we finally did implement a price increase.” Retail fuel prices increased notably since the last report. Prices received by farmers increased in August from a year earlier for corn, soybeans, wheat, canola, potatoes, hay, and turkeys; prices decreased from a year earlier for pulse crops, cattle, hogs, chicken, eggs, and milk.

Worker Experience

Surveys of workers showed that a significant number remained confident in their job security, and some cited a worker shortage in their area. The need for drivers with commercial licenses also remained high, with supply shrinking due to tougher federal regulations related to immigration. Workers in some sectors were notably less secure, including janitors affected by stubbornly high office vacancy and cleaning robots. Grocery store workers were facing reduced hours as stores saw tighter profit margins from higher wholesale costs. Underemployed workers needed second or third jobs to make ends meet.

Consumer Spending

Consumer spending was down slightly since the last report. In multiple surveys, retail and hospitality firms more often reported revenue declines than increases compared with last year. Some cited restrained budgets. A Minneapolis caterer said that the number of events had been stable, but “we are noticing lower budgets overall for our clients.” A ranch and home supply retailer in Montana said that the average number of basket items has been flat or gone down while average basket costs have gone up. Store sales in South Dakota were a mixed bag, according to a source there: “No one is reporting a banner year, but no one seems to be down a lot either.” A vehicle repair shop contact said that customers were picking which problems to fix, rather than all of them, noting that “money is tight and people are being more conservative.” Visitors to District national parks were mixed in August, as was hotel occupancy. Vehicle sales in August rose in Minnesota but declined at a dealer in the western portion of the District. August airline travel was down overall.

Services

Activity in the services sector decreased modestly over the most recent period. Contacts reported decreased orders on balance in September from a month earlier; the outlook for sales in the month ahead was net positive. In contrast, several contacts in financial services reported increased recent activity. Contacts reported that higher input costs were compressing profit margins. A funeral home operator commented, “Health and general insurance costs are killing small businesses.”

Construction and Real Estate

Construction rose modestly since the last report. Among several dozen firms, more reported recent revenue increases than decreases. But there was widespread concern over high and rising costs. A Wisconsin architecture firm said it had several clients “that cannot move ahead” due to “uncertainty and increased costs caused by tariffs and inflation.” Overall, firms expected revenue to increase modestly in the coming month. But recent hiring and head counts fell and were expected to decline further in the coming month; while some of this decline was likely due to normal seasonal fluctuations, it was more pronounced than last year.

Commercial real estate was flat overall. Office vacancy rates increased, but office tenants were reportedly signing longer lease terms and looking for allowances for space improvements. Retail vacancies were low in suburban markets, but much higher in urban markets. Although construction starts in office and retail remained flat, speculative industrial starts continued in Minneapolis–St. Paul. Residential real estate declined; home sales in August were down in most major District markets compared with a year ago.

Manufacturing

Manufacturing activity increased moderately since the last report. Industry contacts reported an increase in orders on balance in September compared with the month prior, and month-ahead expectations were net positive. An index of regional manufacturing conditions indicated that activity increased in Minnesota, North Dakota, and South Dakota in September from the previous month. In contrast, manufacturing contacts generally reported negative impacts from recent trade conflicts with Canada.

Agriculture Energy and Natural Resources

District agricultural conditions were unchanged since the previous report. Early indications pointed to a significant decrease in corn production and quality in some areas compared with last year, due to impacts of summer heat and drought. Soybean and wheat production was also expected to

decrease. However, a recent rally in crop prices was welcome news to farmers. Contacts were unsure what the net effect of higher prices and lower production would mean for incomes. Oil and gas exploration activity increased modestly since the previous report.

Minority- and Women-Owned Business Enterprises

Activity among minority- and women-owned business enterprises was down somewhat since the last report. More firms reported revenue decreases than increases in September, though results were slightly improved from the previous month. Input prices rose for more than half of firms. A Montana timber firm said fuel costs were a big expense and had “more than doubled” on a project contract signed several months ago. A bakery in Michigan’s Upper Peninsula noted that, based on credit card sales, it was seeing fewer Canadian tourists.

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

Business activity in the Tenth District continued to hold steady in a pattern of subdued conditions punctuated by pockets of strong demand. Durables manufacturing and business services were the strongest segments; however, it was noted that the data center buildout has crowded out other production and put pressure on the labor market. Firms have increased average hours, added overtime options, and extended shifts because of limited labor availability. There have been several reports of rising diesel prices and shipping costs, as well as delays in receiving inventory. Most firms reported being able to pass these costs on to consumers. However, services firms reported less ability to increase their selling prices, putting more pressure on profit margins. These costs and pricing pressures have squeezed margins across the value chain, prompting suppliers, distributors, and customers to renegotiate terms in an effort to protect profitability. Business activity is expected to increase slightly over the next six months.

Labor Markets

Labor conditions in the Tenth District have experienced little to no change since the last Beige Book, despite strong demand for labor from manufacturing firms. Manufacturing companies have indicated that they increased average hours, added overtime options, and extended shifts because of the limited labor availability within the market. One manufacturer noted, “It is hard to expand the workforce when they leave faster than you can replace them.” Unlike manufacturing firms, services firms, particularly retailers, saw a slight decrease in employment, part-time positions, and hours worked over the last month. Employment is expected to grow slightly within the District over the next six months, and wages and benefits are expected to increase moderately.

Prices

Prices increased moderately across the Tenth District. Manufacturing firms noted that increases in the costs of aluminum, copper, and fuel are driving up their input costs. There have also been several reports about increasing shipping costs and delays in receiving inventory. Most firms reported being able to pass the costs on to consumers. Meanwhile, services firms also reported increasing costs, especially for shipping. However, services firms reported less ability to increase their selling

prices, putting more pressure on their own margins. Both services and manufacturing firms expect prices to increase at a modest pace over the next six months.

Consumer Spending

Consumer spending declined modestly across most retail sectors within the Tenth District. Several firms noted that fuel prices have weighed on consumption, both by reducing household purchasing power and dampening consumer sentiment. Furthermore, households were more likely to eat at home, shift down on quality, and forgo planned purchases to help make ends meet. While higher income households supported consumption over the summer, contacts shared that hotel bookings and purchases slowed down over the last two months. Firms expect consumption to remain flat with little change over the next six months as they expect households to remain cautious.

Community Conditions

Organizations serving small businesses reported deteriorating financial conditions for their clients, primarily driven by worsening credit quality and reduced cash flow. They attributed the challenges to higher prices and ongoing policy uncertainty. Additionally, organizations reported that the Small Business Administration had implemented tighter lending standards. According to our contacts, small businesses were increasingly seeking liquidity through merchant cash advances (MCAs), often to cover overhead and payroll expenses. They also noted that the high cost of MCAs and the lack of education about this funding product have exacerbated the difficulties faced by small businesses.

Manufacturing and Other Business Activity

Business activity in the Tenth District continued to hold steady in a pattern of subdued conditions punctuated by pockets of strong demand. Contacts in both durables manufacturing and business services indicated that orders and sales improved moderately over the previous month. Durables manufacturing firms pointed to military contracts and the data center buildout as not only strong, but also as crowding out other production. Business service contacts noted that increased technology and infrastructure spending was spilling over into consulting, IT, engineering, and other services. The majority of firms within the District noted that higher fuel costs weighed on current orders and sales and expected demand to weaken further if fuel prices remained elevated. Additionally, several firms reported that rising diesel prices had intensified margin pressures across the value chain, prompting suppliers, distributors, and customers to renegotiate terms in an effort to protect profitability. Activity is expected to increase slightly over the next six months.

Real Estate and Construction

Commercial real estate (CRE) activity rose moderately across several property types. However, contacts expressed heightened uncertainty or expectations of softening activity going forward due to the recent increase in long-term interest rates. Many contacts indicated more time is needed to assess the effect of higher rates on their pipeline of deal activity. Adding to the uncertainty was the context of prior refinancing activity when owners extended terms, brought additional equity, or adjusted to a floating rate, which reportedly weighed on owners' willingness to take losses on property sales in the current environment. Market participants indicated access to credit diminished recently, while lenders reported that spreads on CRE loans rose substantially, with expectations that spreads will increase further in coming months.

Community and Regional Banking

Loan demand and credit standards were largely unchanged across lending categories, although several respondents noted moderately weaker demand for commercial real estate loans. Overall loan quality remained relatively stable, though multiple bankers noted marginal deterioration across lending categories. Respondents expect stable loan quality over the next six months; however, several respondents anticipate modest deterioration centered in agricultural and consumer loans. Loan pricing spreads remained largely unchanged. Moreover, during the next six months, most bankers anticipate that loan pricing spreads will stay the same or increase moderately, while term deposit rates and non-maturity deposit rates are expected to increase moderately. Deposit balances were stable overall, with some respondents observing an increase in demand deposit balances.

Energy

Tenth District oil and gas activity continued to increase moderately in September, with nearly a quarter of contacts reporting increased drilling. Although oil prices are volatile, they remain well above breakeven levels, boosting growth in profits and capital expenditures. Amid the ongoing Middle Eastern energy supply shock, several regional contacts in rural Colorado reported intermittent diesel shortages at gas stations in recent weeks, causing some buyers to take early delivery of fuel shipments to ensure availability. Looking ahead, oil and gas firms expect activity and investment to increase further in the next six months. Still, a slight majority expects oil prices to fall below levels needed for substantial increases in drilling in the next six months, as some anticipate further reopening of the Strait of Hormuz. However, contacts stressed the significant uncertainty in the outlook for oil prices, as they are currently affected by circumstances outside normal supply and demand dynamics.

Agriculture

Agricultural economic conditions in the Tenth District were subdued alongside volatile commodity prices and increased input costs. Crop prices rose notably in early September and stayed above year-ago levels, but market conditions were volatile, and a surge in diesel prices and severe drought in some areas raised concerns about costs and revenue. A food manufacturer also cited diesel costs as a concern, with higher freight expenses expected to meaningfully affect operations and profitability. Agricultural credit conditions deteriorated gradually. While high cattle prices provided support in some areas, many lenders noted that weakness in the crop sector had a modest negative effect on broader economic conditions.

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 notably in the manufacturing sector but eased in the banking and nonfinancial services sectors. Energy activity and retail sales continued to increase. Employment grew modestly with moderate wage growth. Price growth was strong. Outlooks were mostly positive, though inflation and continued geopolitical and trade policy uncertainty remained headwinds.

Labor Markets

Modest employment growth continued over the past six weeks, though an acceleration was seen in the manufacturing and energy sectors. Some contacts noted that hiring frictions have persisted due to mismatches in what pay and benefits companies offer and what workers want. One staffing firm said they hired new recruiters to help manage their AI expansion process—citing the example of having AI agents conduct more than 180 hours of interviews in a two-day period and needing workers to review and make decisions. One accounting contact noted that some large accounting firms are delaying new employment contracts because they may not need as many entry-level employees as initially anticipated, partly due to efficiency gains from AI. Wage growth remained moderate. There were continued reports of data center construction driving up labor costs and drawing workers away from other industries.

Prices

Price pressures picked up, with strong growth over the reporting period. The higher price for diesel reigned supreme in terms of the most commonly cited factor driving up costs, impacting freight, agriculture, and airline prices as well as causing widespread margin compression across numerous industries. While retailers expressed notable concern regarding higher diesel prices, most noted it has not yet led to hikes in selling prices. Cost pressures remained elevated across the energy sector.

Manufacturing

Texas manufacturing activity accelerated further over the past couple of months, with a sharp pickup in production and demand. Recent strength spanned both durables and nondurable goods manufacturing, and it goes beyond AI or semiconductor-related growth. One machinery manufacturer noted that oil companies were spending money at a much higher rate than expected. Gulf Coast refinery and petrochemical activity remained elevated. Outlooks continued to improve, though optimism waned somewhat from mid-year, with contacts citing increasing costs and uncertainty over continuing tariff and trade negotiations and disruptions in the Middle East.

Retail Sales

Retail sales rose over the reporting period, with contacts characterizing sales as solid. However, auto sales softened further in September, as affordability issues and weak consumer sentiment restrained demand. There were some reports of lower-income customers being more cautious with spending. Inventory levels were generally the right size, and most retailers reported normal supply chain operations. Overall, contacts maintained a positive outlook for retail sales for the remainder of the year.

Nonfinancial Services

Growth in nonfinancial services activity abated over the past six weeks. Revenue growth was primarily seen in transportation and administrative services. Airlines reported strong demand despite higher ticket prices, though one contact noted some weakness in demand from the lowest-income strata. Transportation contacts reported lower import volumes for ocean freight but higher export volumes. Air freight demand in North America is high due to semiconductor and AI demand, and volumes for small parcel delivery increased over the reporting period. Activity in leisure and hospitality was fairly flat, and health care and professional and business services activity weakened. Overall outlooks improved, with some contacts expressing sentiment that business and consumers have adjusted to inflation and uncertainty and are ready to move forward.

Construction and Real Estate

Activity in the housing market continued to be weak. Contacts noted that conditions remained challenging, and builders' margins remained under pressure from rising materials and labor costs. There were scattered reports of layoffs, and outlooks remained dim.

Apartment demand remained solid, vacancy rates improved, and year-over-year rent declines have moderated, though concessions remained elevated. Class C properties, however, were facing challenges amid softer demand at the lower end of the market. Office leasing activity remained

moderate and was concentrated in top-tier assets. Industrial demand was characterized as healthy, though year-over-year rent growth was mixed.

New construction activity for data centers has tempered due to a regulatory pause implemented by the state of Texas, which has frozen permits sought by data centers until their impact on electric grid reliability and on the state's water resources is audited. Data center developers are still finding it difficult to locate qualified workers, such as electricians and technicians, and building costs continue to rise for projects already underway. Water usage by AI data centers has become more efficient, as developers increasingly adopt closed-loop systems and liquid plate cooling. Meanwhile, public opposition remains a significant concern, potentially discouraging investment or delaying projects.

Financial Services

Loan volume and demand continued to grow but at a slower pace in September. Loan volume growth was driven by consumer and industrial and commercial real estate loans. Credit standards and terms tightened and loan pricing increased. Overall loan performance improved further. Bankers' outlooks turned pessimistic, with contacts citing the ongoing Mideast conflict, elevated inflation and the increase in the federal funds rate. Contacts overall expect a slight decline in loan demand six months from now, as well as worsening loan performance.

Energy

Growth continued in Eleventh District oil and gas activity over the past six weeks, though increases in the rig count were modest. Respondents to the Dallas Fed Energy Survey reported increases in both oil and natural gas production in the third quarter. Contacts noted sharp cost pressures from wages and benefits, fuel, and materials. Most Dallas Fed Energy Survey respondents anticipate that it will take until the end of the second quarter 2027 or beyond for crude oil exports from the Persian Gulf to return to normal levels. Thus, most contacts expect oil prices over the next year to remain well above the average breakeven price needed to profitably drill new wells, but there is elevated uncertainty regarding their price outlooks. Increased cash flow is largely being directed towards investor returns and capital expenditures. Outlooks improved, with particular optimism among exploration and production firms.

Agriculture

Drought conditions worsened significantly across much of the District in September, though widespread and heavy rainfall in early October helped paint a more favorable production picture going forward, supported by the expectation that an El Niño weather pattern will bring cooler and wetter weather this fall and winter. Contacts expressed optimism for the farm outlook, with strong

production prospects and solid grain prices, though there is concern over high input costs—fertilizer prices are up 10 to 25 percent from a year ago and diesel prices have nearly doubled. Cattle prices remained elevated amid continued tight supplies, but they declined over the reporting period and are lower than a year ago. Imports of Mexican cattle have resumed, after more than a yearlong ban due to New World screwworm concerns, though any impact to beef prices won't likely be seen for several months.

Community Perspectives

Nonprofits reported that cost inflation was squeezing margins and household finances among lower-income consumers. Tightening eligibility rules and stricter oversight in the Supplemental Nutrition Assistance Program (SNAP) are pushing food insecurity higher, and high utility costs from late summer heat was a top stressor on lower-income household budgets. While state childcare subsidies are critical for many lower-income parents, contacts note chronic supply constraints and expect a reduced budget next year. Nonprofits anticipate higher demand for basic needs assistance with no corresponding increase in resources, placing stress on both service providers and the communities they serve. Some contacts were seeing people use credit cards to supplement income, as well as retirees returning to the labor market to drive for rideshare apps to make ends meet.

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 broadly steady during the mid-August through September reporting period. Employers generally maintained employment levels and increased wages slightly. Prices rose moderately, and elevated diesel and fuel prices pushed up business operating costs across the District. Retail sales softened slightly, and consumer spending on leisure and hospitality services varied by region and income group. Conditions were mixed in manufacturing and stable in commercial real estate, while conditions softened slightly in residential real estate, agriculture, and financial services. Community-serving organizations struggled to meet elevated demand for their services as funding remained constrained. Contacts maintained a generally soft economic outlook, with similar sentiment to the prior period.

Labor Markets

Employment levels held steady over the reporting period. Employers across most sectors and geographies backfilled job vacancies but refrained from expanding their teams. While some businesses hired new staff to support expansion projects, including new bank branch locations, others implemented hiring freezes in anticipation of slower business growth. There were reported staff reductions in agriculture, janitorial services, and commercial real estate, with contacts citing cost savings, lost contracts, and firm mergers as the driving factors. Several nonprofit organizations adjusted staffing levels in response to funding challenges, and a large Northern California nonprofit implemented furloughs after a new grant allowed it to avoid further layoffs. Turnover remained low, and employers generally found it easy to fill most openings. However, experienced workers in technology and financial services were hard to recruit. A Northern California contact observed consultants leaving large and legacy firms to start their own AI-enabled businesses.

Wages increased slightly on net and were in line with prior reporting periods. Most reports indicated little to no change in wages and salaries. Several contacts mentioned employees requesting, and some receiving, cost-of-living pay adjustments to offset higher fuel and food prices. Contacts reported wage pressures across the District in manufacturing, including a large contractor in the Mountain West highlighting that competition from data center projects drove up pay for electricians and other skilled trades workers in the region. Contractual and statutory

obligations pushed pay upward in specific sectors and areas, including hospitality workers in San Diego, teachers in Seattle, and entertainment workers in Southern California.

Prices

Prices rose moderately and at a faster pace than in the prior reporting period. Elevated prices for diesel and other fuels pushed up transportation and freight costs for businesses across the District. Contacts in several sectors, including manufacturing, passed the increased costs on to their customers. One manufacturer reported that every material purchased in recent weeks carried a freight surcharge. Tariffs continued to put upward pressure on prices for imported textiles, metals, and some retail products. Businesses also reported higher costs for health insurance, cybersecurity, software, utilities, seafood, and beef. Prices fell for lumber and other wood products, and a construction firm in the Mountain West lowered prices for the first time in several years in order to retain customers.

Community Conditions

Conditions in the community support and services sector weakened somewhat. Nonprofit organizations continued to find it challenging to meet elevated demand for their services as operating costs rose and funding remained constrained. Contacts noted that households facing higher food and energy prices increasingly relied on community assistance programs. Housing affordability also remained a salient concern for renters and first-time home buyers. Several nonprofits continued to highlight declining or uncertain federal funding.

Retail Trade and Services

Retail sales softened slightly. Economic uncertainty and high prices pushed consumers to spend less on discretionary items, like apparel and footwear, and focus more on essential and value-oriented goods, such as groceries and back-to-school products. Contacts continued to describe economic conditions as bifurcated or K-shaped, with one contact observing that mounting financial pressures on lower-income families have spread to impact middle-income households. In Northern California, sales at luxury and specialty retailers outperformed those at large department stores, while a national value retailer reported attracting customers that typically shopped at more expensive competitors. Weak conditions in agriculture reportedly strained retail spending by consumers in rural areas in the Mountain West.

Demand for consumer and business services changed little on net. Tourism activity varied by region and market segment. Hotel occupancy exceeded expectations in San Diego, with contacts reporting a pickup in local reservations and last-minute bookings. Tourist volumes in Hawaii declined due to weaker demand from Canadian and Asian visitors. In Las Vegas, spending related

to convention visitors and those making high-end purchases offset the effects from the decline in the number of international and value-oriented travelers. Reports indicated that restaurant sales softened slightly overall as consumers dined out less often and ordered less alcohol, although demand at upscale dining establishments remained strong. Demand was steady for laboratory testing and fell slightly for janitorial services.

Manufacturing

Manufacturing activity was mixed. Demand for capital equipment and industrial automation machinery rose, and semiconductor manufacturing in the Mountain West expanded. Demand for office furniture softened somewhat. Export volumes to Canada, Mexico, and the European Union reportedly fell in recent weeks. Manufacturers remained challenged by higher transportation and materials costs.

Agriculture and Resource-Related Industries

Conditions in agriculture and resource-related sectors weakened somewhat. Prices that producers received for grain, forage, and row crops improved of late, and cattle prices remained near record levels. Still, elevated diesel prices raised production costs, and higher interest rates weighed heavily on capital-intensive producers. Weak demand for wood products held down log prices. The conflict in the Middle East pushed up sulfur prices sharply, forcing some phosphate producers to curtail output. Harvest quality was reportedly good in California, while yields in Idaho were somewhat below average. A Pacific Northwest contact noted that a sizable share of West Coast vineyards had been idled due to weakening demand for wine grapes. Some contacts highlighted concerns about the developing El Niño pattern and its impact on food supply.

Real Estate and Construction

Residential real estate conditions softened modestly. Rising mortgage rates, elevated asking prices, and limited supply curtailed single-family home sales across the District. Supply continued to outpace demand in multifamily markets, though a large developer in the Mountain West observed vacancies slowly being absorbed and leasing concessions easing. Construction activity was reportedly stable, and project timelines shortened as fewer delays occurred.

Commercial real estate conditions were steady on net. Demand for industrial space was solid across much of the District and improved in Southern California, with rental rates flat to slightly higher. Demand for office space was sluggish, and leasing of retail space varied by region. Construction activity was stable overall, with activity concentrated for data centers, governmental and infrastructure projects, and semiconductor factories and warehouses.

Financial Institutions

Overall lending activity weakened slightly on net in recent weeks. Higher borrowing costs dampened demand for mortgages and auto loans. Reports on credit card usage were mixed but generally indicated stable to softer demand for new accounts. Business lending held steady over the reporting period primarily for commercial and industrial loans for medium-sized firms. Some lenders reportedly tightened terms for small businesses and certain commercial real estate projects. Credit quality remained generally sound, though a few contacts noted a slight uptick in early-stage mortgage and auto delinquencies.

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



www.federalreserve.gov