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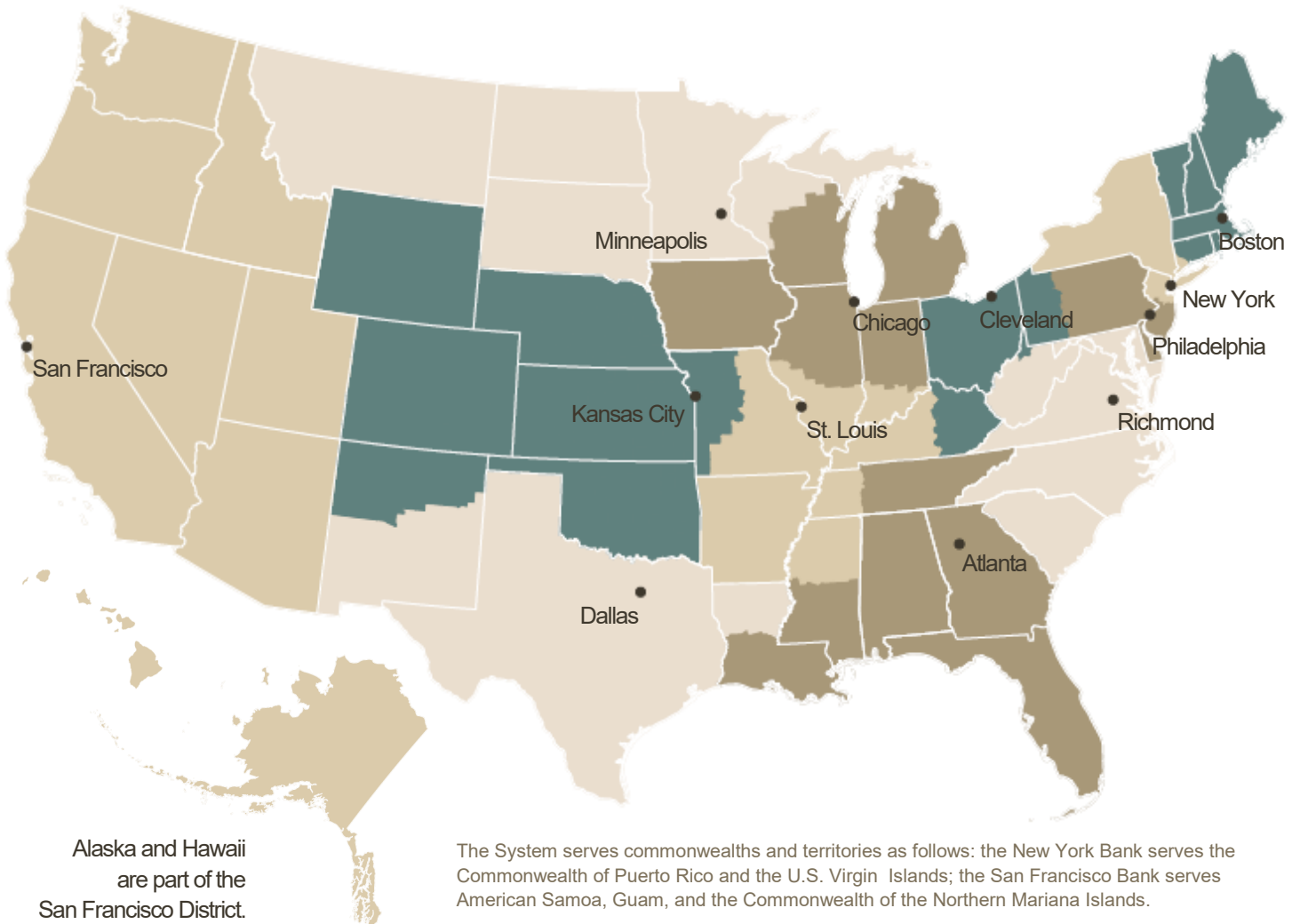
The Beige Book

Summary of Commentary on Current Economic Conditions

By Federal Reserve District

August 2022

Federal Reserve Districts



This report was prepared at the Federal Reserve Bank of San Francisco based on information collected on or before August 29, 2022. This document summarizes comments received from contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.

Federal Reserve Banks collect information for the Beige Book from a variety of business and nonbusiness sources. Beginning September 7, 2022, six Banks started including individual community sections with information from nonbusiness sources, while the remaining Banks will continue to include such information within the existing structure of their District reports.

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What is the Beige Book?

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

What is the purpose of the Beige Book?

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

How is the information collected?

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

How is the information used?

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

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

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



National Summary

The Beige Book ■ August 2022

Overall Economic Activity

Economic activity was unchanged, on balance, since early July, with five Districts reporting slight to modest growth in activity and five others reporting slight to modest softening. Most Districts reported steady consumer spending as households continued to trade down and to shift spending away from discretionary goods and toward food and other essential items. Auto sales remained muted across most Districts, reflecting limited inventories and elevated prices. Hospitality and tourism contacts highlighted overall solid leisure travel activity with some reporting an uptick in business and group travel. Manufacturing activity grew in several Districts, although there were some reports of declining output as supply chain disruptions and labor shortages continued to hamper production. Despite some reports of strong leasing activity, residential real estate conditions weakened noticeably as home sales fell in all twelve Districts and residential construction remained constrained by input shortages. Commercial real estate activity softened, particularly demand for office space. Loan demand was mixed; while financial institutions reported generally strong demand for credit cards and commercial and industrial loans, residential loan demand was weak amid elevated mortgage interest rates. Nonfinancial services firms experienced stable to slightly higher demand. Demand for transportation services was mixed and reports on agriculture conditions across reporting Districts varied. While demand for energy products was robust, production remained constrained by supply chain bottlenecks for critical components. The outlook for future economic growth remained generally weak, with contacts noting expectations for further softening of demand over the next six to twelve months.

Labor Markets

Employment rose at a modest to moderate pace in most Districts. Overall labor market conditions remained tight, although nearly all Districts highlighted some improvement in labor availability, particularly among manufacturing, construction, and financial services contacts. Moreover, employers noted improved worker retention, on balance. Wages grew across all Districts, although reports of a slower pace of increase and moderating salary expectations were widespread. Employers in several Districts reported giving midyear and off-cycle raises to offset higher living costs, and many noted that offering bonuses, flexible work arrangements, and comprehensive benefits were deemed necessary to attract and retain workers. Looking ahead, employers planned to provide end-of-year pay raises to their workers, but expectations for the pace of wage growth varied across industries and Districts.

Prices

Price levels remained highly elevated, but nine Districts reported some degree of moderation in their rate of increase. Substantial price increases were reported across all Districts, particularly for food, rent, utilities, and hospitality services. While manufacturing and construction input costs remained elevated, lower fuel prices and cooling overall demand alleviated cost pressures, especially freight shipping rates. Several Districts reported some tapering in prices for steel, lumber, and copper. Most contacts expected price pressures to persist at least through the end of the year.

Highlights by Federal Reserve District

Boston

Business activity expanded at a modest pace. Labor markets remained very tight, and employment increased modestly despite above average wage growth. Output prices increased moderately, but contacts noticed a stabilization or easing of input prices. Although many contacts were optimistic, the real estate outlook worsened, and some contacts perceived an elevated risk of recession.

New York

Economic activity contracted modestly, with supply disruptions easing somewhat. Employment increased modestly despite ongoing worker shortages. Tourism remained strong, whereas consumer spending was flat and manufacturing activity fell significantly. Businesses continued to report widespread increases in selling prices, input prices, and wages, though to a slightly lesser extent than earlier in the year.

Philadelphia

Business activity held steady compared with the prior Beige Book period. Manufacturing, among other sectors, continued to decline. Employment grew slightly despite increased talk of a recession. Firms reported wage and price pressures subsided, but growth remained at a moderate and strong pace, respectively. Hiring, supply chains, and price growth remained key challenges for most firms. Firms' expectations for future prices fell.

Cleveland

Business activity steadied in the District, after slowing slightly in the prior reporting period. Moreover, contacts appeared cautiously optimistic that demand would not soften much further in the next few months. Firms continued to add to their payrolls even though their hiring plans were not as aggressive as earlier in the year. Upward cost and price pressures let up somewhat with generally softer demand and some easing of supply disruptions.

Richmond

Economic activity slowed slightly in recent weeks. Manufacturers, ports and transportation companies, retailers, and hospitality firms reported slight to modest declines in sales and volumes. Real estate activity was flat to down moderately. Lending activity declined for most loan types. Meanwhile, nonfinancial services saw moderate growth, employment increased strongly, and price growth remained robust.

Atlanta

Economic activity grew slightly. Labor markets eased some, but wage pressures continued. Many nonlabor costs moderated. Retail sales softened. Leisure travel activity slowed while business travel grew. Housing demand weakened. Commercial real estate conditions were mixed. Manufacturing activity was strong. Demand for transportation services was mixed. Banking activity was steady.

Chicago

Economic activity decreased modestly. Employment increased moderately, business spending was little changed, consumer spending and construction and real estate declined modestly, and manufacturing orders were down moderately. Wages rose rapidly, as did most prices, while financial conditions improved modestly. Agriculture income expectations for 2022 were unchanged. Nonbusiness contacts reported little change in economic activity.

St. Louis

Economic conditions have declined slightly since our previous report. Slowing consumer demand and continued price increases have contributed to a weaker outlook. Residential housing activity slowed and rental demand rose. Manufacturing and agriculture firms saw significant input price increases.

Minneapolis

The Ninth District economy fell slightly since early July. Employment grew moderately and wage pressures remained strong. High prices persisted but showed signs of easing. Energy and manufacturing saw only slight growth. Consumer spending was flat; construction and real estate sectors were subdued. Farm conditions were healthy, save for drought in some areas. Reports from minority- and women-owned businesses were mixed.

Kansas City

The Tenth District economy expanded slightly, with much of the growth in business revenue driven by higher prices rather than greater volumes of activity. Worker turnover declined moderately, and labor demand remained strong. Prices grew rapidly, including housing rental rates. Consumer spending was mostly unchanged, but more households began to express difficulty in meeting regular expenses, such as utility payments.

Dallas

Economic growth in the district continued, though the modest pace experienced over the summer has been a downshift from stronger expansion experienced earlier in the year. Job growth was quite robust and wage growth remained highly elevated due to a tight labor market. Supply chain bottlenecks have begun easing and prices were not rising as fast. Outlooks were mixed as uncertainty remained elevated.

San Francisco

Economic activity expanded modestly over the reporting period. Hiring activity grew at a modest pace amid tight labor market conditions. Wages and price levels increased further, albeit at a slower pace. Retail sales were stable while demand for services strengthened. Conditions in the agriculture sector were mixed. Residential real estate activity eased, and lending activity was steady.



Summary of Economic Activity

Business activity expanded at a modest pace on balance, led by solid revenue growth among retailers and manufacturers and robust tourism activity. In contrast, commercial real estate activity was flat and home sales fell, developments attributed in part to higher interest rates. Labor markets remained very tight, and employment increased only modestly despite above average (but stable) wage growth. Labor scarcity held back revenue growth at staffing firms and led to reduced hours at some Massachusetts restaurants. Firms' output prices increased moderately on average, but several contacts noticed a stabilization of input prices such as for wholesale food items. Also, freight costs eased owing to a reversal of earlier fuel surcharges. Retail, hospitality, and manufacturing contacts were mostly optimistic, but the real estate outlook worsened and several contacts in diverse businesses perceived that the risk of recession remained elevated.

Labor Markets

Employment increased modestly and wage growth held steady at an above-average pace. Although headcounts were flat in most cases, two manufacturers managed to boost their staffing levels by moderate and large margins, respectively. Across sectors, most contacts said that attracting and retaining workers remained very challenging, even after having raised their wage offers for new and/or existing employees. However, selected contacts in the retail sector experienced a modest decline in attrition. The dearth of labor supply held back revenue growth at staffing firms and caused some restaurants to reduce their hours. Contacts said that non-wage incentives, such as remote work options, flexible schedules, and career training, remained important for attracting and retaining employees. One manufacturer experienced high absenteeism rates among workers dealing with substance abuse problems. Contacts who commented on the labor outlook expected labor shortages to persist, but not worsen, moving forward.

Prices

Output prices increased moderately on average, but input pricing pressures were mostly stable. All but one manufacturer raised its output prices recently, with increases ranging from 2 percent to 12 percent. One retailer posted a moderate price increase in the second quarter in response to higher costs for labor and a steep increase in propane costs following a contract renegotiation. Restaurant menu prices mostly stabilized but re-

mained up 7 percent on average from one year ago, as wholesale food prices levelled off. Freight and shipping costs subsided following a reduction in fuel surcharges that had been added in the spring, and contacts said that supply chain issues had either eased or at least not intensified in recent months. Hotel room rates climbed at a robust pace that was nonetheless more moderate than that of earlier in the year. Despite the stabilization of cost pressures, some contacts said that further price increases were possible moving forward, as their output prices tended to adjust to cost increases with a lag.

Retail and Tourism

Retail and restaurant contacts reported moderately higher sales, while hotels enjoyed a summer surge that exceeded even their optimistic expectations. An online retailer had a modest uptick in sales and recaptured market share lost earlier this year from supply chain woes. A salvage store enjoyed a substantial increase in sales, but high costs kept profits flat. A Massachusetts restaurant industry contact said that sales increased solidly throughout the state amid renewed tourism activity, as summer customers appeared undeterred by earlier menu price hikes. Downtown Boston restaurants saw relatively muted growth, a fact attributed to the still tepid rebound in business travel. Cape Cod restaurants faced very high demand, but labor shortages forced many to reduce their operating hours. Hotel occupancy rates in the Boston area climbed rapidly in recent months, ap-

proaching pre-pandemic levels despite reduced business travel. The outlook was mostly optimistic, but concerns about ongoing inflationary pressures and labor shortages persisted.

Manufacturing and Related Services

Most First District manufacturing contacts reported moderately stronger sales on balance. The semiconductor industry continued to enjoy very strong revenue growth. A furniture maker said that his earlier pessimism turned out to be groundless: demand for his firm's goods has been exceptionally strong, with in-store traffic back at pre-pandemic levels and online sales well above pre-pandemic levels. The only firm to report weaker sales, a veterinary care supplier, explained that veterinary clinics were cutting their hours to relieve overworked staff. While all contacts experienced ongoing stresses in the supply chain, some said that such issues had eased, and one reported that logistics firms had stopped levying surcharges. None of our contacts reported any revisions to their capital expenditure plans. The outlook was mostly positive, with two exceptions. The veterinary supplier expected demand to continue to soften back to pre-pandemic levels, and a capital equipment manufacturer foresaw weaker demand in the third quarter owing to overall pessimism about the economy.

Staffing Services

First District staffing contacts reported no significant revenue changes in 2022Q2 from the previous quarter, as revenue growth was reportedly held back by weakness in labor supply. Demand for labor continued to outpace supply across a variety of industries and experience levels, and wages remained elevated throughout the region. Contacts characterized the labor market as extremely competitive and fast-paced, with candidates being placed in a matter of days. One contact noted an increase in pre-college-graduation recruitment activity for some entry-level jobs. According to another contact, any number of snags could become an immediate dealbreaker for a job seeker, such as the need to relocate or to work in-person rather than remotely. In response to the tough hiring environment, staffing firms made renewed efforts to reach new job candidates and/or to accelerate the hiring process, such as by boosting their advertising activity and offering referral bonuses. Some contacts expressed concerns about an impending economic contraction, signaled both by macroeconomic conditions and by recent layoffs at a large Boston-area employer, but one was hopeful for a mild slowdown that would normalize the labor market.

Commercial Real Estate

First District commercial real estate markets were mostly stable. Contacts reported a largely static retail leasing market, with little change in rents or demand for space. Rents for industrial space remained quite high, with vacancy rates at historic lows, as scarce land and labor constrained the addition of new supply. Demand for high-square-footage industrial space continued to outstrip supply, particularly in urban areas. Vacancy rates in office buildings remained elevated throughout the region, and lease rates fell or held steady, as working from home remained prevalent. Contacts said that office rents were flat but that concessions such as high renovation budgets had become standard. Higher interest rates deterred borrowing for new construction and acquisitions. Equity contributions on new loans increased, as investors sought to avoid lower-yielding options. The outlook was generally pessimistic. In the retail and industrial markets, contacts expected high borrowing and building costs to continue to deter construction activity. Several contacts expected office leasing activity to pick up by the end of the year but cautioned that such activity would result in significant tenant downsizing.

Residential Real Estate

Higher interest rates cooled home-buying demand, leading to fewer closed sales in the First District's residential real estate markets. (Vermont reported year-over-year changes for June 2022 and all other areas reported changes for July 2022. Connecticut data were unavailable.) Closed sales fell sharply over-the-year in all reporting markets, in a notable weakening from the previous report. Contacts attributed the decline in sales to rising mortgage rates, coupled with high price inflation that crimped buyers' budgets. Home prices increased over-the-year in all reporting markets. For single-family homes, the over-the-year price increase was smaller than in the previous report, and contacts anticipated that prices would continue to level off into the fall. In condo markets, the price increases were slightly larger than or on par with those from the previous report. Since the spring, inventories were substantially lower in Rhode Island, Maine, and Vermont, but moderately higher in Massachusetts (including Boston proper) and New Hampshire. Several contacts described a return to pre-pandemic normalcy in the market after the home-buying "frenzy" of the past two years. ■

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



Summary of Economic Activity

Economic activity in the Second District contracted modestly in the latest reporting period, with worker shortages continuing but supply backlogs easing somewhat. Businesses did not expect much improvement in the months ahead. Selling prices, input prices, and wages all continued to increase but to a slightly lesser extent than earlier in the year. Businesses continued to hire, albeit at a somewhat slower pace than in recent months, and there have been scattered reports of layoffs. Still, a wide range of employers plan to add staff, on net, in the months ahead. Manufacturers reported that activity fell significantly in recent weeks. Consumer spending has been flat, though tourism has remained strong. The home sales market softened further, while the rental market continued to strengthen, amplifying concerns about housing affordability. Commercial real estate markets were mixed but, on balance, a bit weaker. Construction starts declined, and industry contacts have grown increasingly pessimistic. Conditions in the broad finance sector improved but remained weak, and regional banks reported ongoing declines in loan demand, tighter credit standards, and steady delinquencies.

Labor Markets

Employment increased modestly despite ongoing worker shortages, though businesses reported some improvement in labor availability and there have been scattered reports of layoffs. One upstate New York employment agency noted that demand for workers has abated a bit but remains solid, especially in technology-related fields. A New York City agency reported that hiring has remained strong and workers remain hard to find. Businesses in the manufacturing, distribution, and information sectors indicated that they continue to add staff, on net. Firms in all major industry sectors except construction, retail, and finance plan to add staff in the months ahead.

Businesses across all major sectors except finance continued to report widespread wage increases. However, one employment agency noted a leveling off in wages, and another indicated that the pace of wage growth was slowing. Businesses across all sectors plan to raise wages further in the months ahead. Remote work arrangements among office-based businesses remain fairly widespread and are not expected to change much in the year ahead.

Prices

Most business contacts noted ongoing broad-based escalation in input prices, though to a somewhat lesser extent than in the prior report. Cost increases were particularly widespread in construction. Contacts across all major sectors expect cost pressures to persist.

Businesses continued to report widespread escalation in their selling prices, though to a slightly lesser extent than in recent months. Increases were most pervasive in the construction, manufacturing, distribution, and leisure & hospitality industries. A large but declining share of businesses said they plan further price hikes in the months ahead.

Consumer Spending

Consumer spending has been little changed in recent weeks. Nonauto retailers reported that business has been essentially flat, picking up a bit in July but tapering off in the first half of August. One retail chain noted some uncertainty about the upcoming holiday season, anticipating a modest decline from 2021 levels. Auto dealers in upstate New York reported that sales of both new and used vehicles have remained sluggish in the latest re-

porting period—due mainly to lack of inventory but also to affordability issues which have crimped demand.

Manufacturing and Distribution

Manufacturing activity has been choppy, declining significantly in recent weeks. However, businesses engaged in wholesale trade and transportation & warehousing continued to report modest growth. Manufacturers reported a slight decline in unfilled orders and expect both unfilled orders and delivery times to decline noticeably in the months ahead. Businesses in manufacturing and distribution report some improvement in supply availability, and, looking ahead, disruptions and delays are expected to diminish.

Services

Activity in the service sector has been flat to slightly weaker in the latest reporting period. Education & health providers and information firms noted a slight increase in activity, while businesses engaged in leisure & hospitality and professional & business services saw a modest decline. Businesses in these sectors remain mildly optimistic about the near-term outlook.

Tourism, however, has continued to show strength. In New York City, hotel occupancy has remained at or above 75 percent in recent weeks. Domestic tourism has been fairly robust, and international visits have picked up further, led by Europe, whereas visits from Asia (especially China) have lagged substantially. Moreover, visitors from Europe have been spending briskly, despite the weak Euro and Sterling. Underscoring this trend, attendance at tourist attractions, such as the Statue of Liberty, has been solid, and the U.S. Tennis Open is reportedly sold out. Upcoming events, such as the UN General Assembly and Climate Week, are expected to draw more visitors. Business travel, though still well below pre-pandemic levels, has picked up—mainly reflecting smaller in-person-only conferences and meetings.

Real Estate and Construction

The home sales market has softened over the summer, while the rental market has continued to strengthen. In New York City, as well as across most of the District, homes sales tapered off, and the inventory of available homes, though still very low, edged higher. Home prices appear to have leveled off across most of the region and the prevalence of bidding wars has receded noticeably.

In contrast, residential rental markets strengthened further. Throughout New York City, rents continued to

rise briskly in July and were up roughly 20 percent from a year earlier in Manhattan and up about 15 percent in Brooklyn and Queens. Rental vacancy rates turned up modestly but are still near 20-year lows. Rents have also continued to trend up fairly strongly in upstate New York and northern New Jersey.

Commercial real estate markets have softened a bit, on balance. Office markets were steady to slightly weaker, with vacancy rates edging up in Manhattan, northern New Jersey, and upstate New York but steady elsewhere. Office rents were little changed across the District. The industrial market has also shown scattered signs of weakening, with vacancy rates steady to modestly higher but rents continuing to rise briskly. Retail rents were flat, while vacancy rates rose modestly.

Construction activity weakened somewhat, as construction starts slipped. Still, a fair amount of space remains under construction, though this too has declined a bit, as a good deal of commercial space under development has come or is about to come to market. Industry contacts characterized the general business climate as quite negative and worsening, and contacts are somewhat pessimistic about the near-term outlook.

Banking and Finance

Contacts in the broad finance sector characterized the general business climate as negative but improving modestly. Small to medium-sized banks reported lower loan demand across all segments. Refinancing activity also decreased. Credit standards tightened for business loans and commercial mortgages but were little changed for consumer loans and home mortgages. Loan spreads widened and deposit rates rose. Finally, delinquency rates were unchanged across all categories.

Community Perspectives

Community leaders reported that rising prices have had various adverse effects on people in the District. Food pantry managers were seeing an ongoing rise in food prices and increased demand from clients, leading to heightened food insecurity. However, they noted some easing of logistical and delivery challenges. With rents escalating rapidly, especially in New York City, concerns about housing affordability have grown. Some nonprofits' expansion plans, driven by new mandates and funding, have been hampered by labor shortages caused by turnover, retirements, and wage competition from the private sector. ■

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



Summary of Economic Activity

On balance, business activity in the Third District held steady – a pause from the slight growth of the prior Beige Book period. Broad nonfinancial services activity grew slightly, but most other sectors were flat or down. Activity in a few sectors remained below pre-pandemic levels. Employment grew slightly as fears of a recession increased. Wages and prices continued to grow at a moderate and strong pace, respectively. However, firms noted that wage and price pressures were, in fact, easing. Moreover, firms' expectations for future prices fell. Most firms continued to note hiring difficulty, supply chain disruptions, and high prices as their biggest challenges; COVID-19 cases held steady in the District at relatively low rates. On balance, expectations for continued economic growth over the next six months declined for nonmanufacturing firms but remained positive. Among manufacturers, expectations remained negative and deteriorated further. Expectations for all firms were well below their nonrecessionary historical averages.

Labor Markets

Employment grew slightly – slower than the prior period's modest pace. Scattered reports of layoffs, attrition, and hiring freezes have increased since the prior period. One staffing company reported slower job orders, noting order activity is approaching levels consistent with prior recessions. The share of firms reporting employment increases edged down from the prior period. However, the share remained near one-quarter among both manufacturing and nonmanufacturing firms despite rising signs of a cooling labor market.

Overall, most firms still describe hiring and retention as a top concern. However, many contacts, including staffing firms, noted a slight easing of labor supply challenges in recent months, with more workers applying for open positions. One contact stated that some workers have explained that they had quit jobs because of poor management, unkept promises, or racist attitudes.

Firms continued to note that wage growth subsided in recent months. However, wage inflation remains widespread and appears to have maintained a moderate pace. In our monthly surveys, the share of nonmanufacturing firms reporting higher wage and benefit costs per employee edged down but remained above 50 percent, as has been true for the past year. Few firms reported lower compensation.

On a quarterly basis, firms reported a somewhat higher expectation of the one-year-ahead change in compensation cost per worker, with a trimmed mean of 5.8 percent in the third quarter of 2022 – up from 5.2 percent in the second quarter.

Prices

Prices appear to have continued growing at a strong pace. Contacts reported that price increases received for their own goods and services over the past year rebounded in the third quarter of 2022 after slowing in the prior quarter. The trimmed mean for reported price changes in our quarterly survey questions rose to 7.2 percent from 6.3 percent in the second quarter of 2022 for all firms. Price increases ticked up to 4.5 percent from 4.4 percent for nonmanufacturers and rose to a high of 10.4 percent from 9.6 percent among manufacturers.

Despite the rise in year-over-year price growth, price increases for firms' inputs were less widespread in recent months. Additionally, a smaller share of firms reported price increases throughout much of the downstream supply chain, including prices faced by consumers.

Looking ahead one year, the price increases that firms anticipated receiving fell for the third consecutive quarter – the trimmed mean for all firms was 4.3 percent in the

third quarter of 2022, down from 5.0 percent in the second quarter of 2022 and a peak of 5.9 percent in the fourth quarter of 2021. The expected rate of growth was 3.5 percent for nonmanufacturers and 5.4 percent for manufacturers.

Manufacturing

On average, current manufacturing activity continued to decline slightly. The index of new orders fell from an already negative reading. Despite the decline in new orders, the shipments index rose modestly as firms worked through backlogs.

Manufacturing firms' expectations remained muted. The indexes of future activity and new orders fell further into negative territory; however, expectations of future capital expenditures and employment were positive and even rebounded slightly.

Consumer Spending

On balance, retailers (nonauto) and restaurateurs reported overall sales held steady from the prior period. Most contacts noted no change in customer traffic, but one contact reported smaller purchases per visit.

Auto dealers reported little change to the weak level of sales observed during the prior period, as inventories remained extremely low; sales remained significantly below the levels in 2019. While constrained supply makes it difficult to observe demand, one contact noted that high prices and rising interest rates appeared to slightly reduce demand for vehicles' most expensive trim options.

Overall, tourism continued to grow slightly. The ongoing recovery of business travel outweighed a slight pullback in leisure travel. Despite the slight slowdown, domestic leisure travel remained strong, particularly at shore destinations. One contact reported that the number of large events, such as conventions and concerts, had returned to near 2019 levels, but attendance at such events remained well below what was seen prior to the pandemic.

Nonfinancial Services

On balance, nonmanufacturing activity grew slightly – at a slower pace than in the prior period. Overall, the share of firms reporting increases in sales and in new orders declined, while the share of firms that reported decreases rose in both categories.

Financial Services

The volume of bank lending (excluding credit cards) grew modestly during the period (not seasonally adjusted) – at a slower pace than in the prior period, but comparable with the same period in 2019. Growth was bal-

anced as all but one individual loan segment grew modestly to moderately during the period. Inflation is contributing more to the growth during the current year relative to past years.

Loan volumes declined at a moderate pace for commercial and industrial loans. Multiple contacts noted a slowdown in commercial loan demand, as potential borrowers remained concerned about rising interest rates and economic uncertainty. Some contacts also highlighted the amount of untouched stimulus money still on firms' balance sheets. Credit card volumes appeared to continue growing moderately – at a quicker pace than typically experienced this season of the year.

Real Estate and Construction

Homebuilders reported that contract signings for new homes continued to fall modestly. However, contacts noted that sales traffic rebounded slightly in recent weeks following the introduction of new incentives and lower-priced options.

Existing home sales continued to fall slightly. While prices continued to rise on a year-over-year basis, contacts noted that the percentage of houses selling for more than the asking price declined. Housing affordability remained a challenge, and rents remained high. The share of 211 calls that sought assistance for housing have edged higher since the prior period, to 35 percent of total calls – 42 percent of those were for rental assistance. Calls for help with utility bills edged down to 20 percent.

On balance, construction activity and leasing activity for commercial real estate continued to hold steady. The markets for industrial/warehouse space, multifamily housing, and institutional projects remained strong. Rents for industrial/warehouse space and multifamily housing continued to rise. Contacts noted that high input prices remain a challenge for construction, but price growth has slowed. Multiple contacts reported that new land purchases and long-term projects have been delayed until firms have more clarity on interest rates and inflation. ■

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



Summary of Economic Activity

After declining slightly during the prior reporting period, Fourth District business activity steadied in recent weeks. Retailers reported that higher inflation had constrained households' ability to spend on some items, particularly among lower-income households. In addition, higher prices and interest rates dampened demand for automobiles and homes. Manufacturing and nonresidential construction activity held up better, but growth was softer than earlier in the year. While, on balance, contacts did not expect a meaningful increase in activity in the fall, they continued to add to their payrolls. Supply chain disruptions remained prominent, but there were more frequent reports of relief from these disruptions. Generally softer economic conditions and slight relief from supply disruptions appeared to alleviate some inflationary pressures. Though still high, both the share of contacts reporting higher input costs and the share reporting higher selling prices dipped to their lowest levels in more than a year.

Labor Markets

Employment increased modestly. While most contacts said that staffing held steady, nearly a third indicated that they had added to their payrolls in the prior two months. Several business contacts acknowledged that they had curbed hiring plans from earlier in the year, but many indicated that because of persistent worker shortages they continued to run shorthanded and were playing catch up with staffing. A manufacturer said his firm "will continue to hire until we can gain a full staff, even if the economy slows." Based on contact reports, labor availability recently increased somewhat.

Increased availability of workers along with a modest pullback in hiring may have contributed to a slight easing in wage pressures. The share of contacts reporting pay increases has been edging down since the beginning of the year but remained elevated. In many cases, contacts suggested that they had paused pay increases after generous pay hikes in prior periods. While the percentage of contacts offering higher pay decreased, those who hiked wages often did so "to blunt the effects of inflation" on their workers. In addition, many said that pay increases were still high by historical standards.

Prices

Weaker demand appeared to relieve some upward

pressure on prices. The share of contacts reporting increased nonlabor input costs fell to its lowest in more than a year, though it remained high by historical standards. Several freight contacts noted that falling fuel prices helped alleviate overall cost pressures, while those in construction and manufacturing reported lower prices for lumber and steel. One nonresidential builder said that "an endless chain of 10 percent increases every 30 days has subsided." Moreover, a manufacturer who did experience higher costs said that they were "moderate increases, not as outrageous as in previous periods." Looking ahead, contacts expected cost pressures to ease somewhat further in coming months.

While still elevated, the share of contacts reporting an increase in selling prices also dipped to its lowest in more than a year. In some cases, firms passed lower input costs along to customers. One manufacturer said that "most of our contracts have pass through provisions. As our raw material costs have decreased, so have prices." In other cases, slower demand growth and higher inventories led to more intense price competition. One general merchandiser, citing public reports of higher inventories at the retail level, said "markdowns are coming."

Consumer Spending

Retailers reported weaker sales, particularly for discretionary items, as higher prices for food and other essentials depleted households' discretionary income. One general merchandiser said that lower-income consumers were spreading out their back-to-school purchases rather than purchasing everything at once. First, they bought school essentials, and will likely purchase school apparel later. Restaurateurs and tourism contacts reported that sales remained steady over the summer and are optimistic that customer demand will remain steady into the next quarter. Auto dealers reported a decline in demand for both new and used vehicles, which they attribute to higher prices, rising interest rates, and general inflation taking up more of households' incomes.

Manufacturing

Demand for manufactured goods was mixed but generally stable. Several contacts said that their customers were working down inventories, a situation which resulted in fewer orders, and some noted a reduction in demand from abroad. Still, others indicated that demand was relatively steady, and several were cheered by plateauing or declining costs for some inputs. On balance, manufacturers expected little change in demand in coming months.

Real Estate and Construction

Demand for residential construction and real estate remained well below levels experienced earlier in the year. Contacts attributed softer demand to high construction costs and rising interest rates. One homebuilder noted that his firm's construction starts have outpaced sales over the past couple of months, raising the concern that his backlogs may soon diminish. Contacts anticipated activity would remain slow and did not expect to see any significant improvement in demand in the coming months.

Most nonresidential construction and real estate contacts reported that demand has remained stable despite increasing interest rates. Demand for warehousing space in particular has remained strong as firms continue to shift toward more ecommerce activity. While contacts expected demand to remain stable in the near future, a few worried that higher construction costs and rising interest rates could lead to declines in overall demand.

Financial Services

Overall loan demand was generally unchanged as a decline in new mortgage and auto originations was offset by an increase in commercial lending. Bankers reported a notable increase in demand for commercial loans and credit that they attributed to firms' initiating projects

earlier than planned to get ahead of anticipated interest rate increases. On the household side, contacts noted a continued decline in auto, mortgage, and refinancing applications related to higher borrowing costs and low inventories. According to bankers, commercial and consumer loan delinquency rates remained low and core deposits flat. However, one banker noted that customers have started drawing down their savings to meet financial obligations. Looking ahead, bankers expected inflationary pressures and higher interest rates to cause consumers and businesses to delay major purchases, a situation leading to weaker loan demand in the near term.

Nonfinancial Services

Demand for nonfinancial services was mixed in recent weeks. Freight activity softened further as demand from customers in certain markets (such as residential construction) slowed. Meanwhile, demand for technology services remained strong, including for human resources - and payroll-related software. Digital authentication services also continued to see strong activity because online purchasing remained robust. Going forward, contacts anticipated freight demand would remain soft, though professional and business services firms expected demand for their services to remain strong.

Community Conditions

Community organizations experienced heightened demand for services in recent months. Several contacts mentioned that the number of families seeking food assistance increased because of higher prices. One contact said inflation "impacts what families are able to purchase with their SNAP benefits and their own resources, which means they are coming to our foodbanks in larger numbers." Adding to the challenge, declines in donations and general constraints in the food supply chain led food banks to ration food. Several contacts also noted an uptick in the number of unsheltered families and longer stays in shelters. ■

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



Summary of Economic Activity

On balance, economic activity in the Fifth District slowed slightly in recent weeks. Manufacturers reported a modest pull back in new orders while supply chains improved slightly, leading to reduced backlogs and higher inventory levels. District ports and trucking companies reported slight declines in shipping volumes and shipping rates; however, volumes were still high relative to their pre-pandemic levels. Retailers reported little change in total sales, overall, with some reports of shifts and reductions in consumer demand. Similarly, travel and tourism contacts saw flat to slightly declining consumer demand. Residential real estate sales slowed moderately, leading to increases in inventory and average days on the market; however, the housing market remains historically tight. Commercial real estate held steady, overall, but there were some reports of slowing demand in the office segment and a slight reduction in construction projects. Financial institutions reported modest declines in commercial lending and residential mortgages but solid demand for auto loans, particularly for used vehicles. Nonfinancial firms saw moderate growth but remained very concerned about inflation. Employment rose strongly in recent weeks and a majority firms reported increasing wages to recruit and retain workers. Price growth picked up slightly and continued to increase robustly, year-over-year.

Labor Markets

Since the last report, the Fifth District labor market remained tight while employment grew strongly. Firms continued to report off-cycle wage increases to attract and retain workers and planned to raise wages again on their typical annual cycle. Several contacts reported reducing hours of service or turning down work because they did not have enough employees. An increasing number of contacts mentioned concerns about a possible economic downturn, but this has not slowed down their hiring and many firms expected to increase their employment in the next six months.

Prices

Since our previous report, price growth edged higher from an already robust year-over-year rate. Firms in both manufacturing and non-manufacturing sectors reported a slight uptick in the rate of price growth for their goods and services. Input price growth, on the other hand, picked up slightly for service sector firms but was flat for manufacturers. Several producers noted that supply chain issues continue to lead to volatility in the availability and prices for inputs. One manufacturer added that not only were raw material prices rising, but so were the prices they pay for business-to-business services.

Manufacturing

On balance, Fifth District manufacturers reported modest declines in new orders. Some survey contacts reported improving, but still strained, supply chains as order backlogs and vendor lead times both decreased. Some manufacturers reported higher inventories, which many attributed to a varying combination of a pullback in demand and improving supply chains. Firms also reported that the cost of raw materials and energy prices remained elevated, although some noted that prices have eased somewhat from their recent peaks. Contacts continued to report difficulty finding workers with job-specific skills but had less trouble hiring office workers.

Ports and Transportation

Fifth District ports indicated that shipping volumes weakened slightly this period. Imports again outpaced exports but there was some improvement in loaded exports. There was a steady volume of empties leaving the ports, allowing for reduced container congestion. However, there continued to be higher than normal dwell times of imports at the ports mainly due to chassis and warehouse constraints. Import volumes at Fifth District ports continued to be led by furniture and construction equipment. Spot shipping rates maintained their decline but were still above their 2019 levels. Air freight volume decreased this period partially due to carriers taking

planes out of service for routine maintenance. Air freight rates remained elevated despite slightly lower fuel costs.

Trucking companies stated that demand had slowed and the number of booked orders had decreased, but that they were not struggling to find loads as customers were still having issues with supply-chain inventory backlogs. Respondents indicated that there was expanding truckload capacity with spot rates down 30% since spring; though, less-than-truckload shipping rates remained unchanged. Most firms reported an improvement in hiring drivers. Trucking companies noted continued challenges obtaining parts to maintain their equipment, causing equipment to be out-of-service for longer periods.

Retail, Travel, and Tourism

On balance, retailers reported little to no change in revenues and a slight softening of consumer demand in recent weeks. A few contacts in the fast casual food service industry reported steady sales and demand but saw more consumers shifting away from in-person ordering to third party delivery services. A furniture company said that they were still rebuilding their inventory but were seeing less demand due to price increases. Auto dealers continued to report low inventory levels, low sales volumes, and some hesitations by consumers due to high vehicle costs and higher interest rates for auto loans.

Travel and tourism contacts reported steady to slightly lower revenues and demand. Hotels in the Fifth District gave mixed reports. A hotel in South Carolina said that occupancy in July was down from June but that was typical, and compared to last June occupancy was up. In contrast, a hotel in North Carolina saw occupancy rates lower this July than last year, which was the first time this year that occupancy was down compared to the same month last year. However, their average revenue per room was reportedly up and future booking remained strong. Business air travel reportedly picked up and a port contact reported strong demand for leisure cruises.

Real Estate and Construction

Residential real estate market activity declined moderately this period. Respondents indicated that sales volumes were slightly lower and there was a reduction in buyer traffic. Inventories of homes for sale and days on market increased while home prices have softened. Demand remained strong but it was noted that affordability was an issue as some buyers no longer qualified to purchase a house due to elevated home prices coupled with increasing mortgage rates. Existing new home

construction continued but new housing starts were down; some input costs declined this period, like lumber, but on the whole residential construction costs remained elevated.

Commercial real estate activity remained stable. Some respondents noted that office and retail market activity was starting to slow while the industrial or multifamily segments continued to experience strong leasing demand, low vacancy rates, and increasing rental rates. There remained a shortage of Class A office space, especially in suburban markets, and the amount of sub-lease space had been shrinking. Retail vacancy rates continued to edge down; but less desirable retail centers were still struggling with vacancies. New commercial construction projects decreased slightly due to higher construction costs, lack of availability of some materials, and increased interest rates. Commercial real estate capital market activity softened this period.

Banking and Finance

Loan demand continued to slow modestly across all commercial loan types, with this being attributed to both rising rates and economic uncertainty. Residential mortgage demand continued to slow as well, also attributed to rising interest rates. Auto loan demand, especially used autos, remained stable as rising interest rates did not restrict demand. Deposit growth was flat despite institutions noting they had started to increase rates. Overall loan quality remained good, but some respondents noted delinquency rates were starting to move slightly upward, mainly in their consumer portfolio. Borrower credit quality remained good with no signs of deterioration.

Nonfinancial Services

Nonfinancial service providers continued to report moderate growth and stable demand. Contacts were still concerned that their increased costs could slow growth and negatively impact employment. Several firms noted the lack of labor and supply chain issues were still impacting their ability to expand. They continue to find creative ways to attract and maintain their employee base, but this was seen as a temporary fix. One firm noted they are observing a reduction in consumer spending and visits to entertainment districts in their area. Inflation in all areas of their businesses was a top concern of many firms. ■

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



Summary of Economic Activity

The Sixth District economy expanded slightly from July through mid-August. Pressures in the labor markets lessened somewhat, but overall, the labor market remained tight amid persistent wage pressures. Certain nonlabor costs fell, but remained elevated as compared with pre-pandemic levels. Retailers reported declining unit sales and evidence of consumers trading down from brand names to private label products. Demand for automobiles was strong, but inventory shortages continued to hinder sales. Leisure travel activity slowed while business travel continued to recover. Demand for housing continued to fall as affordability further declined. Commercial real estate activity remained mixed. Manufacturing activity was robust, though some slowing was reported. Transportation activity varied. Deposit growth continued to slow at financial institutions, but loan growth improved.

Labor Markets

Sixth District labor market pressures eased modestly since the previous report, as several employers reported an uptick in applicants and some lessening in turnover. However, conditions remained tight and several noted ongoing automation efforts designed to reduce labor reliance. Housing affordability and higher costs of living were said to be limiting the pool of workers in some areas. Some indicated that retention had improved in response to growing economic uncertainty. No business contacts reported layoffs, but several said that they had begun to shrink headcount through attrition, reduce open positions, and fill positions more slowly. Several firms anticipate layoffs amid slowing demand later this year and into next year.

Most employers reported persistent upward wage pressure. Many firms tried to offset higher wages with bonuses and per diems to attract workers and incentivize attendance and productivity. Enhanced benefits options were also offered. The outlook for wage growth was mixed; some expect wage growth to remain strong, while others anticipate it will subside over the next year.

Prices

Freight costs continued to slowly decline over the reporting period, and costs for some inputs like copper, lumber, and steel softened from pandemic highs but remained elevated. Numerous contacts reported diminished pricing power, either through pushback in negotiations or reduced demand, and there was widespread uncertainty over near-term inflationary impacts on demand. Gasoline prices also moderated, but rent, utilities, and food prices continued to climb. The Atlanta Fed's Business Inflation Expectations survey

showed year-over-year unit cost growth remained unchanged at 4.3 percent, on average. Firms' year-ahead inflation expectations decreased to 3.5 percent, on average, from 3.7 percent in July.

Consumer Spending and Tourism

District retailers reported declining unit sales and an increase in consumers trading down from brand name to private label products, attributed to diminishing real discretionary income. Automobile dealerships continued to report healthy demand for new vehicles, but sales were muted by inventory shortages. Most retailers are cautiously optimistic for the upcoming holiday season.

Travel and tourism contacts experienced slowing demand for leisure travel, described as a return to more "normal," pre-pandemic levels. Business travel and convention activity continued to recover with healthy bookings for the fall, although still below 2019 levels. Contacts are optimistic that travel will continue to normalize throughout the remainder of the year.

Construction and Real Estate

Housing markets remained challenged across the District due to rising home prices and interest rates, declining affordability, and inventory shortages. Although some markets experienced a sharp increase in home prices over the past year as housing demand in these regions exceeded supply, overall homebuyer sentiment throughout the District dropped sharply, mortgage originations and pending home sales declined compared with a year ago, and the share of homes on the market with a reduced asking price rose. Though construction supply chain issues eased and cost inflation slowed, homebuilders experienced increased contract cancellations as rising interest rates priced

more buyers out of the market.

District commercial real estate (CRE) activity was mixed. Contacts reported healthy conditions in the multifamily and industrial markets, but voiced concerns that negative sentiment associated with a potential economic slowdown could impact activity. Slowing occurred in certain segments of retail CRE as some contacts reported a growing number of restaurant closings. Contacts also noted increasing concerns about possible declining CRE values as the bid-ask spread widened, pools of buyers diminished, the number of buyers seeking concessions grew, and prices declining in some of the less robust property types.

Manufacturing

District manufacturers continued to report strong demand, though a few noted a slowing of activity since the previous report. Some improvement in delivery times was mentioned. However, according to the Atlanta Fed's Business Inflation Expectations Survey, more than half of manufacturing respondents experienced moderate or severe supply chain disruptions causing shortages of supplies or inputs. Roughly two-thirds of manufacturers surveyed noted concerns about a potential recession due to inflation, rising interest rates, stock market volatility, and the Russia-Ukraine conflict. Most manufacturers expect sales over the next twelve months to be similar or slightly higher than pre-pandemic levels.

Transportation

Activity was mixed for District transportation firms. Container ports continued to see record container volumes. Inland barge companies reported solid coal exports and refined petroleum product shipments. Trucking activity slowed for some carriers, and freight brokerages saw spot market rates drop and slowing demand for flatbed services. Rail activity declined as domestic intermodal freight, lumber shipments, and international chemical volumes fell.

Banking and Finance

District banking conditions were steady. Loan growth improved despite higher interest rates, while growth in

securities portfolios declined, reflective of slowing deposit growth. Financial institutions reported strong asset quality metrics, although the level of nonperforming assets increased slightly. Provisions for credit losses also increased. Improved earnings were driven by higher net interest margins offsetting lower noninterest fee income.

Energy

Energy contacts indicated that the supply of crude oil and gasoline did not keep pace with demand over the reporting period. Oil refining utilization eased slightly, which contacts attributed to some refiners completing previously delayed maintenance projects. However, refiners experienced strong margins and are expected to rebuild product inventories over the balance of the year. Natural gas production trended up and exports soared. Utility contacts reported rising demand for power, driven by hot weather and strong growth in retail and commercial customers; utilities also experienced higher fuel and power costs, resulting in higher utility bills for customers. Providers continued to diversify power generation systems, including investing in renewables, particularly solar and wind.

Agriculture

Demand for agricultural products remained strong. Hot weather and dry spells damaged crop yields, particularly corn, in many areas of the District. Prices paid to farmers were elevated overall but fell somewhat for corn and milk. Restrictions on imports from China led to higher demand for domestic cotton. Demand for poultry exceeded supply, while the beef market held steady. Long lead times for machinery and parts forced many farmers to use decommissioned machinery and some small farms suffered crop losses due to inoperable equipment. ■



Summary of Economic Activity

Economic activity in the Seventh District decreased modestly overall in July and early August. Contacts expected slow growth in the coming months, with many expressing concerns about the potential for a recession. Employment increased moderately, business spending was little changed, consumer spending and construction and real estate declined modestly, and manufacturing orders were down moderately. Wages rose rapidly, as did most prices, while financial conditions improved modestly. Agriculture income expectations for 2022 were unchanged. Nonbusiness contacts reported little change in economic activity.

Labor Markets

Employment increased moderately over the reporting period, and contacts expected a similar pace of growth over the next 12 months. Many contacts continued to report difficulty in finding workers across sectors and skill levels. One contact in construction said they had rushed completion of a restaurant in time for a local festival, but the restaurant couldn't open because of lack of staff. Still, a number of contacts said finding workers had become easier. In addition, a workforce development agency saw an increase in the number of people coming in for job placement assistance or to apply for unemployment insurance benefits. Overall, wage and benefit costs increased rapidly and were aimed both at attracting new workers and retaining existing talent. In addition to labor market tightness, contacts cited high inflation as an impetus for workers requesting wage increases.

Prices

Most prices rose rapidly in July and early August, though energy prices decreased. Contacts expected the pace of price increases to slow over the next 12 months. Aside from a decline in energy costs, producer prices continued to rise, spurred by passthrough of higher costs for raw materials, labor, and shipping. However, growth in raw materials prices continued to slow, with contacts highlighting lower steel prices. Consumer prices general-

ly moved up robustly (apart from declines in fuel prices) due to solid demand levels and passthrough of higher costs.

Consumer Spending

Consumer spending decreased modestly over the reporting period. Contacts noted that unit-sales of goods had fallen and that leisure and hospitality spending declined, albeit from a strong level earlier in the summer. Consumers continued to shift their spending toward essential items. Grocery contacts noted that trading down picked up across income levels—lower income shoppers moved to store brands over name brands while higher income shoppers shifted toward prepared foods from eating out. Contacts expected a slight increase in back-to-school sales over last year. Light vehicle sales were unchanged at a low level, although dealers indicated that pre-orders of new vehicles stayed robust.

Business Spending

Business spending was little changed on balance in July and early August. Retail inventories were elevated overall, and contacts expected to see increased price promotions for the rest of the year to help pare them down. Auto inventories increased slightly from their pandemic lows. In manufacturing, inventories were moderately elevated, as contacts reported building up “just-in-case”

stocks of available inputs while also holding on to nearly completed products as they waited for missing parts to arrive. Retail and manufacturing contacts expected various inventory challenges to persist into 2023. Transportation services activity decreased slightly as greater congestion in the rail system slowed container movement. Capital expenditures increased modestly, with contacts highlighting purchases of new equipment, including machinery and vehicles. Commercial, residential, and industrial energy consumption was up slightly.

Construction and Real Estate

Construction and real estate activity decreased modestly overall. Residential construction pulled back slightly, and homebuilders expected a further decline in coming months. Residential real estate activity decreased moderately. Contacts noted that the number of offers homes typically received had fallen and that it was taking longer for them to sell. Home price growth slowed but remained positive. Rents were up modestly. Nonresidential construction decreased slightly, as contacts continued to report project delays and elevated costs. Commercial real estate activity also fell slightly, with contacts highlighting some cooling in the strong demand for industrial space. There were concerns about the ability of owners of multifamily properties to repay floating interest rate loans that were underwritten with large forecasted rent increases. Prices and rents fell slightly, as did vacancy rates.

Manufacturing

Manufacturing demand was down moderately in July and early August. Contacts again reported that with slowing new orders they were making headway in filling their large backlog of unfilled orders. Still, one contact indicated that at many manufacturers, current backlogs were large enough to sustain production levels through the end of the year. Output continued to be held back by difficulties with labor availability and supply chains. Steel demand decreased modestly, with one contact noting a decline in construction demand. There was a moderate fall in orders of fabricated metals, led by declines in demand from the transportation sector. Auto production was little changed, as shortages of microchips and other materials persisted. One contact said there is growing recognition in the auto industry that the microchip shortage would continue well into 2023. Heavy truck demand increased slightly, while inventories continue to be very low. Demand for heavy machinery was flat.

Banking and Finance

Financial conditions improved modestly over the reporting period. Participants in the equity and bond markets reported net increases in asset values and somewhat

lower volatility. Business loan demand slowed slightly overall, with contacts pointing to higher borrowing rates and elevated uncertainty as contributing to the slowdown. Business loan quality remained very strong, though one contact said they were planning for some weakening in the coming months. Business loan standards tightened some. In consumer markets, loan volumes decreased modestly, with contacts continuing to note large declines in mortgage lending in the face of higher interest rates. Consumer loan quality was strong and stable, while standards tightened a bit.

Agriculture

Agricultural income prospects for 2022 were little changed, with contacts continuing to expect that most producers would turn a profit this year. Although portions of the District were in drought, farms were generally expected to have at least average yields for corn and soybeans. Crop progress was behind the typical pace due to late plantings but was catching up. Corn, soybean, and wheat prices were down from the previous reporting period, as were prices for milk and eggs. Hog prices declined slightly from a high level, while cattle prices edged up. Strong demand for agricultural equipment continued, with long lead times for delivery.

Community Conditions

Community development organizations and public administrators reported little change in overall economic activity, although inflation was creating financial challenges for some organizations and their clients. State government officials saw healthy growth in tax revenues over the reporting period. Small business development organizations noted their manufacturing clients' large order backlogs would take time to clear because of labor and supply chain constraints. Small business investment demand waned some due to higher interest rates and elevated economic uncertainty. Nonprofits assisting low- and moderate-income households indicated that higher prices for fuel, food, and housing were straining household budgets and leading to strong demand for their services. Nonprofits also noted financial challenges, as their funding was unable to keep up with rising staff wages. ■

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



Summary of Economic Activity

Economic conditions have declined slightly since our previous report. Consumer demand for goods and services has slowed slightly and price increases have continued across a broad range of sectors. Labor shortages have limited activity in service sectors, and employers continue to raise wages to attract and retain workers. Input prices rose, and most firms reported plans to pass additional increases on to consumers. Real estate contacts saw homebuying activity slow significantly, while demand for rental properties strengthened. The agriculture and manufacturing sectors experienced continued supply chain bottlenecks and input shortages that contributed to price increases. The overall outlook for business conditions over the next 12 months has improved slightly but remains pessimistic.

Labor Markets

Employment activity has been mixed since our previous report. Contacts across the District continue to report that workers remained scarce. Several St. Louis public schools temporarily suspended school bus services because of a shortage of drivers. Some firms utilized flexible hours, bonuses, and increased entry-level pay to fill jobs and retain workers. In contrast, some Arkansas contacts reported recent signs of the labor market easing, including wage pressures beginning to level out.

Wages across the District have grown moderately since our previous report. One Louisville-area professional services firm gave workers bonuses to keep up with inflation, and a Little Rock leisure and recreation contact had to raise their skilled labor wages by 15%. Some short-staffed firms reported they were continuing to offer incentives to work more hours or on weekends but were still receiving few to no takers.

Prices

Prices have increased moderately since our previous report. Approximately half of all contacts reported modest to moderate increases in prices charged to consumers. A jewelry retailer reported higher prices charged to consumers and expects to further raise prices in coming months. Auto dealers reported increased prices charged

to consumers. A contact in the health care industry reported “double digit” increases in payroll costs. Multiple contacts in the hospitality industry reported higher input costs, but reports on the pass-through rate to consumers were mixed. A furniture store contact expects sales prices to decrease due to excess supplier inventory.

Consumer Spending

District general retailers, auto dealers, and hospitality contacts reported mixed business activity and a mixed outlook. One retailer in St. Louis noted that they had a dramatic improvement in sales in early August; although they are not completely sure of the reason, they suspect that declining fuel prices played a big role. An auto dealer in Little Rock reported that some of their customers are asking to be let out of their vehicle order commitments. Most restaurants in Louisville noted that overall customer volume is down considerably. Hospitality contacts reported mixed business activity compared with this time last year and a mixed outlook for the upcoming months.

Manufacturing

Overall manufacturing activity increased slightly since our previous report. Survey-based indices suggest that production, capacity utilization, and new orders have all increased slightly, while inventory levels and employment remain low. Production times are still longer than

they were pre-pandemic, and supply chain issues still limit the availability of key inputs. Though the backlog of orders remains long, the rate of new orders has slowed due to softening demand. Labor shortages from COVID-related absenteeism are still a major concern for manufacturers. On average, firms reported they expect slight increases in production, capacity utilization, and new orders in the coming quarter.

Nonfinancial Services

Activity in the nonfinancial services sector has decreased slightly since our previous report. While freight air traffic has slightly increased, passenger traffic decreased. A ground transportation company in Kentucky reported struggling to meet demand and to find new trucks and mechanics. Healthcare firms in the Louisville region saw tight labor markets and high employee turnover rates. Labor costs increased as outpatient medical clinics competed with hospitals for the same credentialed employees by increasing pay by 25% and paying licensing fees, but an increase in appointment cancellations and higher out-of-pocket expenses for patients led to fewer sales this quarter. In Eastern Missouri and Northern Kentucky, post-secondary education institutions saw lower enrollment as fewer people opted to attend college, and childcare contacts reported that a lack of qualified applicants inhibited expansion.

Real Estate and Construction

Commercial real estate activity has slowed slightly since our previous report, with large office buildings competing for few clients. Industrial real estate inventory remains extremely low, though industrial construction activity has increased.

Residential real estate demand has slowed significantly since our previous report. Contacts reported that it remains a seller's market, but the "multiple-offer" market has ended. Prices remain elevated compared with one year ago, and inventories are just beginning to return to pre-pandemic levels. An Arkansas real estate contact noted that, while demand has contracted, it remains above pre-pandemic levels.

Demand for rental units has continued to increase since our previous report—especially for single-family housing. Rental rates in all four major District MSAs increased since our previous report. The general outlook of contacts remains negative, with over 80% of contacts in real estate and construction describing their outlook as somewhat or significantly worse than the previous quarter.

Banking and Finance

Banking conditions in the District have seen little change since our previous report. On average, surveyed bankers indicated that overall loan demand has decreased slightly compared with the same quarter of last year. While mortgage loan demand has declined, due to a combination of rising interest rates and low housing inventory, demand for commercial and industrial loans has increased moderately. Delinquency rates for all loans are largely unchanged relative to the same quarter of last year, and watch-list loans remain manageable. Banking contacts in Louisville expect more competitive deposit rates in the coming months, as liquidity wanes from its previously high levels.

Agriculture and Natural Resources

District agriculture conditions have moderately worsened since our previous report. Compared with the previous reporting period, crop conditions in the District have either slightly declined or remained relatively unchanged. Relative to the previous year, the percentage of corn, cotton, and soybeans rated fair or better sharply declined, while the same measure for rice slightly increased. Worsened conditions may be partially attributable to the droughts and severe flooding that have affected the District, especially Missouri and Kentucky. Additionally, District contacts indicated that farming conditions remained strained due to input prices and labor shortages, with the ability to hire quality labor being their biggest concern.

Natural resource production fell moderately from July to August, with seasonally adjusted coal production decreasing just above 7%. Additionally, production is down approximately 3% from a year ago. ■



Summary of Economic Activity

Economic activity in the Ninth District was slightly lower since early July. Employment grew moderately since the last report. Wage pressures were strong as labor demand remained healthy and labor availability was still tight. Price pressures were strong but eased slightly. Manufacturing and energy activity increased slightly since the last report. Consumer spending was flat overall with contacts reporting a wide variety of conditions. Commercial construction and real estate were flat, while residential construction and real estate declined. Agricultural conditions strengthened modestly, though drought threatened crop production in some parts of the District. Reports from minority- and women-owned business enterprises were mixed.

Labor Markets

Employment grew moderately since the last report. Multiple surveys from late July through the last half of August confirmed that labor demand from District employers remained very healthy. A large majority of employers were actively looking for labor in some capacity, including many hoping to add full-time, permanent workers to their total workforce. However, employers continued to report difficulty finding and hiring workers for open positions. Larger firms reported more success in hiring workers compared with smaller firms, but they were also experiencing rising turnover rates. Total job openings have dipped recently, but initial unemployment claims also fell over the most recent four-week period (through mid-August) compared with the previous four-week period.

Wage pressures remained strong. A large majority of employers reported higher wages, and those raising wages by more than 5 percent increased modestly from earlier in the year. A health care firm in Michigan's Upper Peninsula said that lower revenue might lead to potential staffing cuts. "But to keep good employees, we have to pay them more than the 5 percent raise we normally give." Among many strategies to attract labor, firms reported that raising wages was by far the most common strategy, followed by increased work flexibility, lowered job experience requirements, better benefits, and outsourcing more work.

Prices

Price pressures remained elevated but eased slightly since the last report. More than half of respondents to a monthly survey of Ninth District businesses said their nonlabor input prices increased in July compared with the previous month, while three-fifths said that prices they charged to customers were unchanged or decreased. While manufacturers continued to see strong price pressures for raw materials and transportation, several reported that steel prices have declined recently. "Metal markets are cooling off significantly," noted one contact. Prices for certain inputs such as lumber and copper also eased, according to contacts. Agricultural producers continued to report significant input cost pressures, particularly for fertilizer. Retail fuel prices in District states declined briskly since the previous report.

Worker Experience

Unemployed respondents to a recent survey in Montana were prioritizing higher wages, more flexibility, and better benefits as they looked for jobs. Employed job seekers were mainly looking for better pay and career advancement. Respondents listed child care costs and availability and the need for skills to meet job requirements as the top barriers to employment. "Lack of reliable childcare has caused many issues in finding and keeping a job," shared a recently unemployed survey participant. A social services job seeker expressed frustration at having applied for 28 jobs but only hearing

back from one. A partially retired nonprofit worker was considering returning to full-time work due to inflation pressures and the declining value of retirement savings. Pressures from higher food and fuel costs were broadly spread among workers.

Consumer Spending

Consumer spending was flat overall since the last report, with contacts reporting a wide variety of conditions. Several shopping centers reported that sales at home furnishing stores, services firms, and restaurants were solid, while apparel and luxury retail sales dropped. Tourism businesses reported strong activity across much of Montana, but the southern region was still suffering from closed entrances to Yellowstone National Park. An August survey of Minnesota hospitality and tourism firms found modest revenue growth compared with the start of summer and with the same period last year. In southern Minnesota, “distilleries, wineries, [and] restaurants are banging right now.” But some firms reported slowing sales, including an entertainment center whose customers were “not being as frivolous with spending” as earlier in the year. Sales of cars, trucks, and various recreational vehicles have slowed, in some cases significantly, with lower demand and continued inventory shortages both playing a role. Contacts said business travel remained subdued.

Construction and Real Estate

Commercial construction was flat since the last report. Among several dozen contacts, revenue trends were modestly higher, which some contacts attributed to higher input costs getting passed on to customers. More than half said profits declined. Firms reported decent project backlogs but many challenges, including long product lead times and uncertain pricing that “make it hard to bid projects and not lose money,” said one contact. Residential housing slowed. Recent single-family permitting was lower across the District’s larger markets compared with a year earlier, with higher interest rates reportedly pushing some builders and buyers to pause projects.

Commercial real estate was flat overall since the last report. Real estate sources said that the office market continued to soften, with rising vacancy rates and subleasing activity. Office space sales also remained subdued with the increase in interest rates and related financing costs. However, demand for industrial space remained high, and low vacancy rates were spurring a host of new construction projects, including an increase in speculative developments, according to a source. Residential real estate activity fell. Closed sales of single

-family homes were lower in markets across the District, with many seeing recent year-over-year sales decline by 10 percent to 30 percent.

Manufacturing

Manufacturing activity increased slightly since the previous report, with some signs of slowing. An index of regional manufacturing conditions indicated increased activity in Minnesota and South Dakota in July compared with a month earlier, while activity in North Dakota decreased. Manufacturing respondents to business surveys reported decreased new orders on balance. Expectations for the near future were generally positive, but about a third of manufacturers said their outlook for the second half of 2022 was somewhat or very pessimistic. A packaging producer announced the closure of a plant in Minnesota.

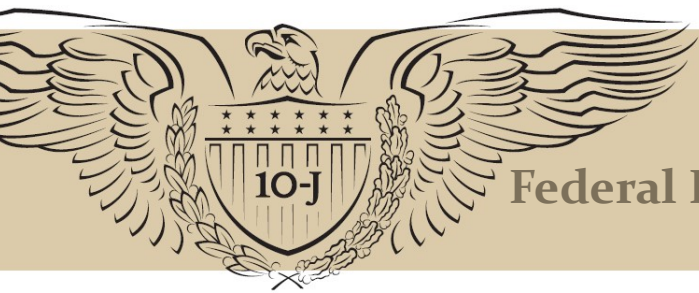
Agriculture, Energy, and Natural Resources

District agricultural conditions strengthened modestly since the previous report, with notable exceptions. A survey of agricultural credit conditions pointed to continued growth in farm incomes; 80 percent of farm lenders said incomes in their area increased in the second quarter from a year earlier. While lenders reported continued concerns about rising production costs, commodity prices were strong enough to offset them. However, wheat and small grains production in Montana will be severely impacted by drought for the second year in a row. District oil and gas exploration activity increased slightly since the last report. A regional electrical transmission operator announced a multibillion-dollar, long-term expansion to its grid infrastructure. Production at District iron ore mines was expected to decrease significantly in 2022 from the previous year, due largely to an idling at one facility along with reductions in output at others.

Minority- and Women-Owned Business Enterprises

Reports from minority- and women-owned business enterprises in the District were mixed. Services firms reported experiencing positive sales and profits while some retail and hospitality contacts had much lower sales compared to the same time last year. Hiring, prices, and the availability of input materials remained a challenge for many. Outlooks for the next four-week period were slightly more positive; contacts expected sales and profits to improve and other production pressures to ease. A contact in Minnesota noted that “supplier notifications of price increases slowed down significantly.” ■

For more information about District economic conditions visit: minneapolisfed.org/region-and-community



Summary of Economic Activity

The Tenth District economy expanded slightly, with much of the growth in business sales and revenue being driven by higher prices rather than a greater volume of activity. Consumer spending was mostly unchanged. Yet, more households began to report difficulty in meeting regular expenses, and delinquencies on utility payments picked up slightly. Amid high levels of overall production, new orders and backlogs at manufacturers declined modestly, indicating some softening of overall demand. Job growth was constrained by difficulties in attracting applicants. Many contacts indicated that worker turnover declined moderately, and that they were better able to retain high quality workers in recent months. Many businesses reported that they raised worker compensation mid-year in response to high inflation. Prices in the District rose broadly at a robust pace. Lags in the ability to fully pass-through costs led most contacts to report declining margins. Housing rental rates also increased in recent months. Several contacts pointed to an increased prevalence of property investors in both rural and metro rental markets contributing to rental cost pressures.

Labor Markets

Employment grew at a moderate pace in the Tenth District, as the overwhelming majority of contacts expressed difficulty in filling newly opened positions. Most businesses pointed to low numbers of applicants, or qualified applicants, as the primary challenge to recruiting. Many contacts also highlighted difficulty in meeting workers' expectations regarding compensation. Worker turnover declined moderately across industries and across District states. Many businesses noted that they have been better able to retain higher quality workers in recent months, although retention continues to be a challenge. Expectations for hiring over the next six months declined modestly as some businesses indicated they do not plan to add to their workforce for the remainder of the year.

Contacts reported broadly they made mid-year adjustments to worker compensation that were tied directly to inflation pressures. Nearly all contacts reported wage increases. In addition, many businesses also made one-time bonus payments, added flexibility in work schedules, or adjusted the benefits they offer. Looking ahead, contacts were mixed on whether further changes to wages or other compensation will be needed before the end of the year. Most contacts expressed they would be more likely to continue inflation-related bonus payments.

Prices

Prices continued to grow at a robust pace. Most contacts reported a slight slowing of input price growth from recent highs, particularly for commodity-related materials. In contrast to the past year, where supply chain disruptions led to outsized increases in input costs for particular products, several contacts noted that input cost pressures are now more broad-based and incremental. Businesses' ability to pass price increases to customers improved moderately. On balance, though, most businesses indicated that price margins declined further as higher selling prices continued to be insufficient to fully offset higher materials costs and rising labor costs.

Consumer Spending

Total consumer spending changed little over recent months. However, several contacts noted sales revenues were supported by higher prices, as quantities sold fell slightly. For example, even restaurants with lower price points commented the number of transactions was lower over the last month. Although consumer delinquencies on credit cards and mortgages remained subdued, more households began to express difficulty in meeting regular expenses as prices rose. Delinquencies on household utility bills picked up slightly.

Community Conditions

Housing affordability challenges for both renters and owners grew moderately in both rural and metro areas, particularly for low and moderate income (LMI) households. Contacts in several District states pointed to pressures on rental housing prices resulting from increases in investor purchases of local homes. Some investors have been reportedly less willing to accept vouchers or less willing to negotiate rents. Although purchase prices of single-family homes moderated somewhat, contacts reported that rising interest rates have pushed many prospective LMI buyers out of the market. Eviction cases increased in recent months. For example, a record number of eviction cases were filed in the Oklahoma County District Court in July and August. Funds from assistance programs for preventing evictions and foreclosures diminished recently.

Manufacturing and Other Business Activity

Revenues at manufacturing firms expanded slightly, primarily due to robust growth in prices with slight decreases in production. Inventories grew mildly. Manufacturing contacts reported modest declines in a number of forward-looking indicators, such as new orders and order backlogs, which point to a tempering of otherwise high levels of demand. Services business contacts, both professional-oriented and consumer-facing, reported moderate growth in revenues but only modest increases on overall activity. Contacts also noted persistent supply chain disruptions continue to hamper growth. In line with softening demand, expectations for future activity over the next six months and planned capital expenditures eased slightly.

Real Estate and Construction

Growth in non-residential real estate activity expanded at a moderate pace. While office vacancies remained elevated, demand for industrial space grew rapidly, and occupancy of retail spaces continued to expand at a moderate pace. Planned development for industrial sites expanded at a robust pace in several states. However, contacts expressed mixed views regarding future development and building activity for commercial properties. As financial conditions continued to tighten, several contacts noted that they were able to adjust terms and covenants, and to continue with planned construction. Other contacts indicated that persistently high materials costs and labor shortages are inhibiting further new development of large commercial projects.

Community and Regional Banking

Loan demand weakened modestly in the past month as rising interest rates and heightened economic uncertainty adversely affected borrower demand. Contacts noted that credit standards remained unchanged and credit quality was stable, with low past due and problem asset levels. Deposits were stable across community and regional banks in the District, but several contacts noted that competition for deposits intensified as rates rose further. Bankers largely expected credit quality to remain stable over the next six months, but concerns were noted regarding rising inflation and the prospect of a recession.

Energy

Tenth District energy activity was roughly unchanged over the last month, with notable differences across segments of the energy sector. The overall number of newly drilled wells and well completions were steady on net over the last month. Declines in oil prices led to a slight reduction in total active oil drilling rigs in the District. Offsetting those declines, robust increases in natural gas prices contributed to moderate increases in the number of rigs targeted towards natural gas production. Contacts noted that surging natural gas prices were driven by confluence of low inventories, high summer demand amidst historic heat waves, and rising exports. Coal producers also saw a slight uptick in production, due to persistently high demand from electricity generation and elevated coal prices.

Agriculture

Conditions for the Tenth District's farm economy remained favorable, supported by the overall strength in commodity prices, despite elevated volatility in certain markets in recent months. Crop prices remained generally higher than a year ago, but were lower in August compared to earlier in the summer. Specifically, corn and wheat prices declined moderately, and soybean prices also dropped slightly during the past month. Heightened production costs and adverse growing conditions were worse than the national average in some District states over the past month. Several farmers noted that, even with elevated levels of revenue expected this year, net income levels would likely be more subdued. In the livestock sector, profit opportunities remained sound as cattle prices were slightly higher than the previous reporting period and hog prices increased notably. ■

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



Summary of Economic Activity

Growth in the Eleventh District economy continued at a modest pace, though job growth was quite robust. Manufacturing and service sector activity continued to slow, growing at a diminished clip from earlier this year. Retail sales were flat to down, and homes sales remained relatively subdued. Loan demand continued to increase but at a markedly slower pace. Local nonprofits reported increased demand for rent and food assistance amid rising costs. The energy sector expanded further while ongoing drought resulted in significantly lower crop production and culling of livestock herds. Wage growth remained highly elevated due to a tight labor market. Supply chain bottlenecks have begun easing and prices were not rising as fast, though inflation is still high. Outlooks were mixed as uncertainty remained elevated, and contacts voiced concern about slowing demand and the risk of a recession stemming from high prices, weakening consumer sentiment, and rising interest rates.

Labor Markets

Robust employment growth continued, though the supply of workers remained tight. Among 367 Texas business executives responding to a Dallas Fed July survey, 62 percent were trying to hire and a vast majority cited lack of applicants as an impediment. Workforce shortages were particularly acute in manufacturing, where one contact said they have the highest unfilled job rates in recent history and another noted the labor pool was more like “a labor puddle.” Transportation services firms are experiencing shortages of drivers and pilots. Oil and gas firms noted widespread hiring but also significant challenges getting qualified applicants.

Wage growth remained high as firms tried to attract and retain employees amid the dearth of labor. Among Texas business trying to hire, more than half said workers looking for more pay than offered was an impediment. Staffing agencies in particular described a large gap between what employers were willing to pay and the wages job hunters were expecting. Contacts noted high turnover at low-skill positions and openings filling at higher pay rates. Others said they were having to pay sizable bonuses to attract talent.

Prices

While input costs and selling prices continued to climb, the pace has slowed slightly, especially for manufacturing raw materials. Price decreases have been seen for some metals like aluminum and copper. Overall, supply chain shortages remained a primary driver of input cost increases, though there was some easing over the past six weeks. High fuel prices have also pushed up costs for a majority of firms. Most contacts report passing at least some of their higher costs on to customers through higher prices, though only about 10 percent were able to pass along all. Airline ticket prices have risen, and contacts expect them to remain elevated amid persistent labor shortages and high input costs. Looking ahead, price increases are expected to moderate over the next six months but remain historically elevated.

Manufacturing

Texas manufacturing activity increased modestly during the reporting period. Output growth was led by durable goods manufacturing such as computers and autos. Overall manufacturing demand has waned, however, with slightly more firms noting a decrease in new order volumes in August than an increase. While a majority of manufacturers continued to experience supply chain disruptions, some say the severity has lessened. The pullback in orders coupled with unwinding supply issues

has allowed firms to work through backlogs and reduce delivery times. Petrochemical companies reported strong business despite some logistics challenges, and refineries were running at near full utilization with very healthy margins. Overall manufacturing outlooks were mixed, with some contacts losing confidence amid weakening demand.

Retail Sales

Retail sales were flat to down over the past six weeks, with some contacts citing pushback from customers on higher pricing. Broad improvement in supply chain disruptions was noted, and inventories have started to rebuild. An auto dealer expects a slow increase in new vehicle availability over the next year, which will put downward pressure on prices. Overall outlooks were for increased sales six months from now, though expectations for general business activity were less optimistic.

Nonfinancial Services

The service sector continued to expand moderately during the reporting period. Revenue growth was mostly broad-based, with continued solid increases seen in the transportation sector. Airlines reported elevated demand despite high ticket prices and said leisure travel has mostly recovered to prepandemic levels while business travel has lagged behind. Cargo volumes through Texas seaports experienced record-breaking growth. Staffing firms continued to report very strong demand, including for permanent placements for professionals. Service-sector outlooks were fairly neutral amid increased uncertainty about future business conditions.

Construction and Real Estate

Housing market activity remained weak, particularly at the entry level. Sales were off notably in July but improved in August partly due to a dip in mortgage rates. Home prices were flat to down, and incentives were becoming more widespread. Outlooks were uncertain, with contacts expecting further weakness ahead. Apartment leasing was solid and in line with pre-COVID levels, though momentum has slowed from its 2021 highs. Occupancy was flat to down and rent growth remained elevated but was declining from its earlier feverish pace. Demand for office space was mixed and construction subdued, while industrial leasing and construction remained high.

Financial Services

Loan demand continued to increase but at a markedly slower pace than what has been seen over the last 18 months. Total loan volume growth also declined, with mixed movements by lending type. Residential real estate loan volumes decreased over the past six weeks

after flattening out earlier this year amid higher mortgage rates. Consumer, commercial, and industrial loan volumes largely held steady, while commercial real estate loan volumes continued to increase. Loan nonperformance increased for consumer loans but continued to decrease for other loan types, leading to little change in nonperforming loans overall. Looking six months ahead, contacts continue to expect that loan demand and general business activity will decrease, and loan delinquency will increase, though outlooks were somewhat less pessimistic than six weeks ago.

Energy

Oil and gas activity increased, with the Eleventh District rig count ticking up and contacts noting strong demand for oilfield services. Labor and supply chain challenges continued to restrain the pace of increases in drilling and well completions. Lead times for new oilfield equipment have extended further. Outlooks were quite strong, as firms seem confident that prices will remain high enough to support continued growth in oil and gas activity.

Agriculture

Overall drought conditions improved slightly over the past six weeks, as some areas received significant rainfall in late August. Many row crops were experiencing high abandonment and low yields resulting in significantly lowered production this year, particularly for cotton. High input costs and low production will financially strain many producers. Severe drought and higher feed costs have prompted significant culling of cattle herds.

Community Perspectives

Nonprofits reported increased demand for services among the communities they serve over the past six weeks. Inquiries regarding rent and food assistance picked up, and contacts noted high inflation was straining household budgets. Housing costs have become a primary concern for low-income residents, driven by an insufficient stock of affordable housing, rapid rent hikes, and the winding down of state and federal assistance programs. Evictions have increased, and a rise in first-time homelessness has been seen. Community colleges reported enrollment increases, though matriculation among female students has not rebounded as fast as among males. ■

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



Summary of Economic Activity

Economic activity in the Twelfth District expanded modestly during the July through mid-August reporting period. Hiring activity continued to grow at a modest pace, and wages grew further amid tight labor market conditions. Inflation remained elevated, albeit with some indication of slight moderation. Retail sales were stable, and activity in the consumer and business services sectors was reportedly strong. Manufacturing output grew, while conditions in the agriculture and resource-related sectors were mixed. Residential real estate activity eased despite strong demand for multifamily housing, and activity in commercial real estate was mixed. Lending activity was unchanged on net. Communities across the Twelfth District were challenged by housing affordability and elevated living costs. Looking ahead, contacts expected prices to moderate further and overall economic conditions to weaken.

Labor Markets

Hiring activity continued to grow at a modest pace, although a notable portion of recruiting efforts was dedicated to replacing existing employees rather than expanding payroll. Firms reported increased employment levels despite difficulty attracting workers in health care, retail, education, professional services, travel, and skilled trades. Employment in leisure and hospitality remained far below target levels, with some employers in Southern California relying more heavily on temporary immigrant workers. Conversely, providers of financial services, construction, and utilities reported an easing of labor supply constraints, partly due to slower activity in the real estate market. In entertainment, one contact noted that recent mergers and acquisitions could lead to significant layoffs. Reports indicated some improvement in employee retention, but many employers continued to highlight persistently high turnover rates. Several business and community representatives noted that worker fatigue has become a more significant driver of voluntary quits. Employers of skilled trades workers highlighted early retirements and skill mismatch as additional constraining factors. Many contacts revised their future hiring plans due to the uncertain economic outlook.

Wages grew further over the reporting period but at a more moderate pace. Reports indicated that the increasing cost of living across the District, including the rising costs for essential expenses such as food and rent, continued to drive wage pressures upward. Several

manufacturers and financiers reported some easing in salary expectation from new hires. Nonetheless, employees across sectors continued to demand more comprehensive benefits, flexible work arrangements, and upfront hiring incentives.

Prices

Prices continued to rise during the reporting period, albeit with some slight moderation in the rate of increase. Reports noted persistent inflation across industries and products, including prices for food, entertainment, insurance, packaging, natural gas, and some manufacturing products due to continued pressures from material or labor costs. However, falling oil prices and cooling overall demand helped alleviate some price pressures in recent weeks. Reduced port backlogs and a stronger dollar also helped moderate inflation of imported goods and services. Contacts additionally noted more stable prices for used vehicles, construction materials, and airfares.

Community Conditions

Communities across the District reported being challenged by housing affordability, homelessness, higher cost of living, and food insecurity. Contacts highlighted that the lack of affordable childcare has continued to impede parents' access to employment. Small business owners noted limited ability to compete for workers in the tight labor market. Mental health and wellness service providers mentioned the inability to meet higher demand

for support due to the tight availability of licensed practitioners. Some contacts also noted that increased safety concerns in downtown areas have led some businesses to relocate.

Retail Trade and Services

Retail sales were stable during the reporting period. Demand for retail goods remained strong but elevated prices and economic uncertainty shifted consumer spending away from discretionary goods and toward food and energy. Contacts noted that sales growth for apparel and durable goods such as motor vehicles, electronics, and appliances softened noticeably. Although labor challenges and supply disruptions impacting the retail sector eased slightly, these pressures remained as major headwinds to productivity.

Activity in the consumer and business services sectors strengthened. Demand for consumer services, such as those related to leisure and hospitality, was strong, and demand for live performances and attractions was robust. While business and group travel activity remained weak, demand for leisure travel continued to grow. A Las Vegas contact reported record-breaking tourist spending in the city in recent months. Demand for health-care, wellness, and legal services remained at or near capacity.

Manufacturing

Manufacturing production grew moderately during the reporting period. Sales and new orders were strong across many industries, and capacity utilization improved on balance. Demand for capital equipment was notably strong, as firms in the food, beverage, chemical, personal care, and pharmaceutical industries sought to boost productivity. Despite some reported improvement, supply bottlenecks persisted, and input costs remained elevated. Several manufacturers reported accumulating vast inventories to meet demand amid materials shortages. Contacts expected supply disruptions and cost pressures to ease in the coming months, although uncertainty related to the war in Ukraine and pandemic developments in China remained high.

Agriculture and Resource-Related Industries

Conditions in the agriculture and resource-related sectors were mixed. Drought conditions in many areas continued to impact the growing season, with some producers letting portions of their farms go fallow to

prioritize water usage. Farmers throughout the District reported strong international demand for both fresh and processed foods. Shipping bottlenecks eased slightly in recent weeks, but overall supply chain disruptions persisted. Utilities reported continued challenges meeting demand as labor and materials shortages delayed maintenance and expansion projects. Input costs, despite some relief in fuel prices, remained elevated.

Real Estate and Construction

Residential real estate activity eased further over the reporting period. High mortgage rates and overall economic uncertainty cooled demand for existing and new single-family homes. Conversely, demand for multifamily housing units remained strong and rental rates grew in many regions. A Northern California banker reported a recent increase in financing requests for multifamily construction projects. Despite cooling demand, housing prices remained elevated and inventories strained, by historical standards. Homebuilders' confidence declined further as materials shortages continued to delay existing projects.

Activity in the commercial real estate market was mixed. Demand for industrial and warehouse space remained robust, while demand for office and retail space weakened in most of the District. One contact in Los Angeles expected office vacancies to rise when leases are renegotiated as businesses continued to struggle to return workers to the office. Contacts noted that commercial real estate permits and construction slowed down in some areas due to cooling activity.

Financial Institutions

Lending activity was steady over the reporting period. Business lending grew, especially for commercial and industrial loans, and many contacts reported solid loan pipelines. While demand for credit cards and home equity loans remained elevated, mortgage originations and refinancing activity dipped further as higher interest rates and limited inventories dampened housing activity. Many contacts mentioned a notable increase in competition for loans and continued ample liquidity. Credit quality remained high, but contacts expected some deterioration going forward on account of increasing interest rates and moderating deposits. Financiers in the private equity and venture capital space reported lower valuations as financial conditions tightened. ■



