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# The Beige Book

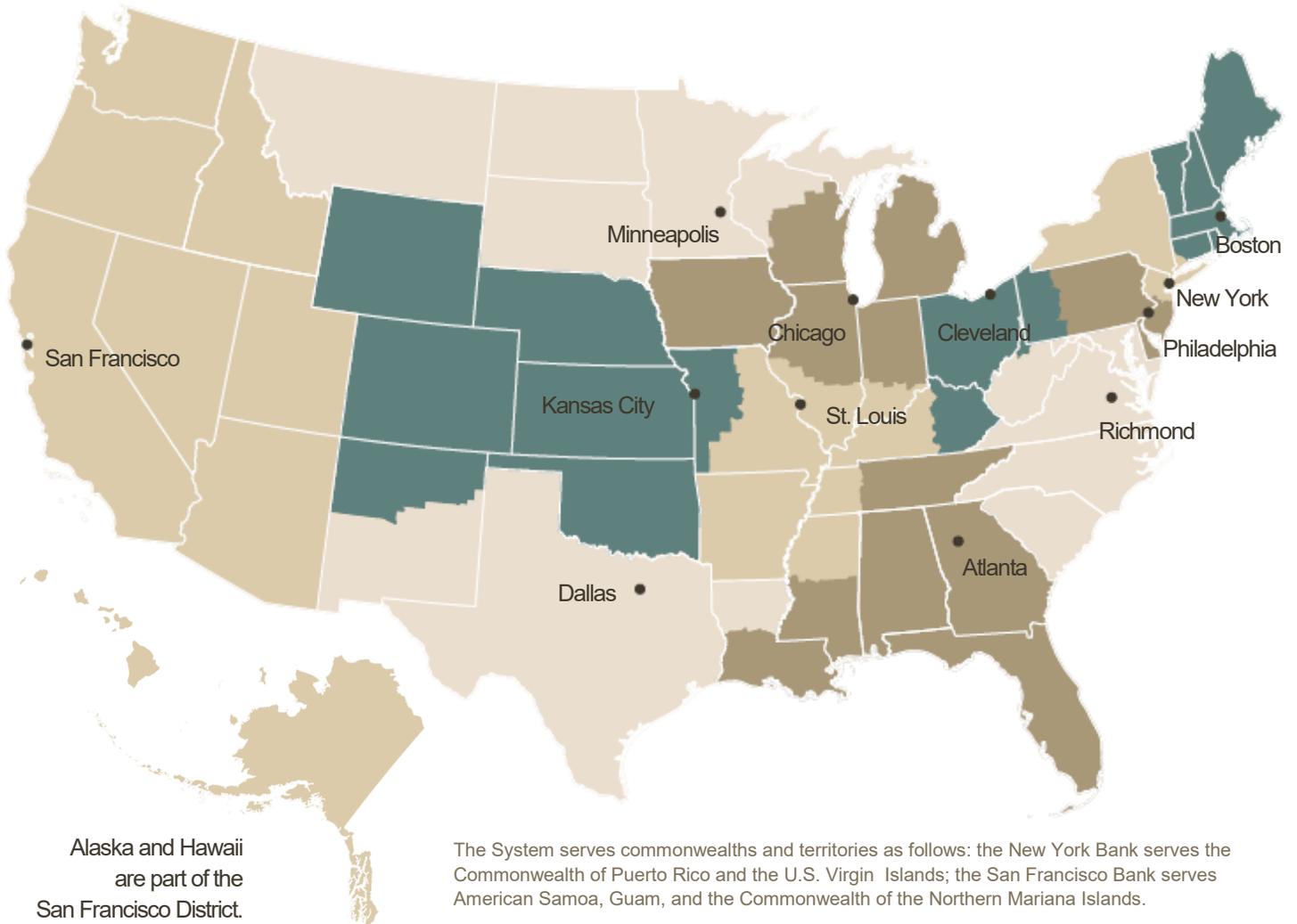
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Summary of Commentary on Current Economic Conditions

By Federal Reserve District

June 2023

## Federal Reserve Districts



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This report was prepared at the Federal Reserve Bank of Minneapolis based on information collected on or before June 30, 2023. This document summarizes comments received from contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.

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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 ■ June 2023

## Overall Economic Activity

Overall economic activity increased slightly since late May. Five Districts reported slight or modest growth, five noted no change, and two reported slight and modest declines. Reports on consumer spending were mixed; growth was generally observed in consumer services, but some retailers noted shifts away from discretionary spending. Tourism and travel activity was robust, and hospitality contacts expected a busy summer season. Auto sales remained unchanged or exhibited moderate growth across most Districts. Manufacturing activity edged up in half of the Districts and declined in the other half. Transportation activity was down or flat in most Districts that reported on it, as some contacts reported reduced demand due to high inventory levels and others noted continued challenges from labor shortages. Banking conditions were mostly subdued, as lending activity continued to soften. Despite higher mortgage rates, demand for residential real estate remained steady, although sales were constrained by low inventories. Construction for both residential and commercial units was slightly lower on balance. Agricultural conditions were mixed geographically but softened slightly on balance, with some contacts expecting further softening for the remainder of 2023. Energy activity decreased. Overall economic expectations for the coming months generally continued to call for slow growth.

## Labor Markets

Employment increased modestly this period, with most Districts experiencing some job growth. Labor demand remained healthy, though some contacts reported that hiring was getting more targeted and selective. Employers continued to have difficulty finding workers, particularly in health care, transportation, and hospitality, and for high-skilled positions in general. However, many Districts reported that labor availability had improved and that some employers were having an easier time hiring than they were having previously. Employers also reported that the unusually high turnover rates in recent years appear to be returning to pre-pandemic norms. Wages continued to rise, but more moderately. Contacts in multiple Districts reported that wage increases were returning to or nearing pre-pandemic levels.

## Prices

Prices increased at a modest pace overall, and several Districts noted some slowing in the pace of increase. Consumer prices generally increased, though reports differed in the extent to which firms were able to pass along input cost increases. Contacts in some Districts noted reluctance to raise prices because consumers had grown more sensitive to prices, while others reported that solid demand allowed firms to maintain margins. Input cost pressures remained elevated for services firms but eased notably in the manufacturing sector. Freight rates continued to decrease, along with the prices for many construction inputs, though concrete prices increased. Price expectations were generally stable or lower over the next several months.

## Highlights by Federal Reserve District

### Boston

Business activity expanded at a slight pace. Employment gains were small and prices were stable. Consumer spending increased by a small margin. Manufacturers reported moderate revenue growth. Home sales were disappointing and life sciences leasing activity slowed dramatically. The outlook was optimistic outside of real estate, but remained neutral or became increasingly pessimistic among real estate contacts.

### New York

Regional economic activity stabilized after a period of weakness. Labor market conditions were strong, with some firming in recent weeks. Inflationary pressures eased noticeably. Consumer spending grew steadily. Housing markets were solid but low inventory continued to restrain sales activity.

### Philadelphia

Business activity continued to decline slightly during the current Beige Book period. Consumer demand ticked down, although elevated profit margins buoyed overall sales figures. Employment fell slightly despite improved labor availability. Wage growth and inflation subsided but continued at a modest pace. Expectations for economic growth remained subdued.

### Cleveland

The Fourth District economy was generally stable in recent weeks as high interest rates continued to constrain households' big-ticket goods purchases and businesses' project plans. Bankers and transportation firms cited these effects as contributing to weaker demand for their own services. Nevertheless, contacts were generally more optimistic about the near-term outlook and less concerned that a U.S. recession would occur in 2023.

### Richmond

The regional economy grew slightly in recent weeks. Consumer spending on retail goods, as well as on travel and tourism, picked up modestly. Manufacturing and transportation sectors noted a slowdown in demand. Residential real estate was constrained by a lack of inventory. Commercial real estate activity and lending declined. Employment increased moderately and price growth eased slightly but remained robust, overall.

### Atlanta

Economic activity grew slowly. Labor markets became less tight, and wage pressures eased. Nonlabor costs moderated, on balance. Discretionary retail sales softened. Auto sales remained strong. Domestic leisure travel softened, and international and business travel rose. Housing demand remained strong. Transportation activity slowed. Energy demand was steady. Agriculture conditions softened.

### Chicago

Economic activity was little changed. Employment increased moderately; nonbusiness contacts saw little change in activity; consumer spending was flat; business spending and construction and real estate activity declined slightly; and manufacturing decreased modestly. Prices and wages rose moderately, while financial conditions tightened slightly further. Expectations for farm incomes in 2023 decreased some.

### St. Louis

Economic conditions have remained unchanged since our previous report. Employers continued to struggle finding skilled workers, but turnover slowed and wage pressures lessened. Consumer spending was largely steady, but contacts reported a shift away from discretionary goods. Homebuying activity increased, but the commercial real estate sector saw worsening conditions.

### Minneapolis

Economic activity in the region grew slightly in recent weeks. Employment rose moderately as labor availability improved. Price pressures were mild and wages rose moderately. Consumer spending was flat. Professional services reported solid activity and a positive outlook. Residential construction and real estate remained low. Dry conditions have lowered the farm outlook. Minority- and women-owned firms reported steady activity.

### Kansas City

Total economic activity across the Tenth District changed little during June. Though hiring was flat, expected employment levels at most businesses continued to point downward. Businesses predominantly reported they are relying on natural turnover and attrition to reduce their headcounts, rather than layoffs. Concerns about credit quality and credit access rose broadly, including among micro-businesses, consumers, and commercial real estate.

### Dallas

Modest expansion continued buoyed by gains in the service sector and single-family housing. Factory output, drilling activity and loan demand declined, and credit conditions tightened further. Employment rose moderately, and wage growth remained high. Price pressures evaporated in manufacturing but stayed elevated in the service sector. Uncertainty continued to rise, and contacts cited diminishing demand, higher labor costs, rising interest rates, and inflation as their primary outlook concerns.

### San Francisco

Economic activity softened modestly. Labor availability improved across sectors. Wage growth slowed notably while price increases persisted. Retail sales moderated, and activity in the services sectors eased somewhat. Manufacturing activity was solid but weakened slightly, while conditions in the agriculture and residential real estate sectors were mixed. Commercial real estate activity fell, and financial sector activity was largely unchanged.



## Summary of Economic Activity

Business activity expanded at a slight pace in recent weeks, with modest increases in employment and roughly even prices. Consumer spending increased by a small margin, as retail sales increased modestly and tourism was flat. Manufacturers reported mixed results but sales growth was moderate on average. Software and IT services firms enjoyed stable demand and modest revenue gains. Residential home sales increased slightly in May from the previous month but remained below seasonal norms. Commercial real estate markets weakened further, with abrupt declines in life sciences leasing and financial distress showing up for office properties. The outlook was mostly optimistic among contacts outside of real estate. Residential real estate contacts expected sales to remain muted and commercial real estate contacts braced for declines in activity and property values moving forward.

### Labor Markets

Employment increased modestly and wage growth continued to moderate as labor market imbalances eased further. Among retail and tourism contacts, labor demand remained healthy but showed signs of moderating, and there were modest improvements in the available labor supply. Some airline contacts continued to struggle to fill positions but said that hiring and training were underway to improve the situation. A clothing retailer noted that it had taken several months to fill 200 warehouse jobs, but they were nonetheless able to fill all positions. Following two summers of worker shortages on Cape Cod, some restaurant and hotel owners there have achieved efficiencies enabling them to operate with a smaller staff. In manufacturing, the labor market remained tight, although contacts said that it had improved over last year, and headcounts increased modestly. Headcounts at software and IT firms were up slightly, and hiring plans were mixed. Contacts noted that turnover had either stabilized (albeit at above-average rates) or decreased in recent months, and reductions in turnover and absenteeism reduced the need for hiring at some firms. Wage pressures were described as stable or, in most cases, declining, as wage growth rates continued to fall back to more moderate levels.

### Prices

Prices were mostly stable, with some exceptions, as cost pressures abated further. A clothing retailer said that input cost growth had ceased altogether and that their

output prices were flat. Manufacturing contacts reported a very benign pricing environment, with one even mentioning the possibility of deflation. Prices were slightly higher among IT contacts, but with no further price increases anticipated. Hotel room rates in Greater Boston increased in excess of seasonal patterns, rising 12 percent on a year-over-year basis. Cape Cod rental prices increased yet again, but at a much more modest pace than in recent years. The outlook called for further moderation of pricing pressures moving forward.

### Retail and Tourism

First District retail contacts reported a modest uptick in sales relative to earlier this year, while tourism contacts saw mixed results that were about flat on average. A clothing retailer enjoyed a slight uptick in demand this spring after a soft first quarter. Mainstreet retailers on Cape Cod experienced a strong start to the high season, but hospitality contacts on the Cape said that occupancy rates for hotels and especially short-term rentals were down by modest to large margins from their record highs of the past two years, though still above 2019 levels. Airline passenger traffic through Boston further increased in recent months, reaching 96 percent of pre-pandemic levels in the first quarter of 2023, and international passenger traffic alone reached 99 percent of pre-pandemic levels, although travel to and from Asian markets remained depressed. The Greater Boston hotel occupancy rate increased relative to seasonal trends,

with occupancy climbing ever closer to 2019 levels. Scheduled convention activity and cruise bookings for the remainder of the year are set to increase further, exceeding 2019 levels.

### **Manufacturing and Related Services**

Manufacturing contacts were generally positive, reporting moderate gains in sales on balance. A pharmaceutical company reported lower sales that were nonetheless in line with their expectations, owing to increased competition from generics. A frozen fish producer said that sales were down year-on-year due to higher prices. Other contacts reported very strong sales. A furniture producer recorded its best second-quarter results ever, up markedly from a weak first quarter. A semiconductor manufacturer said that, despite an industrywide slump, their own sales were up 12 percent from a year earlier, an outcome attributed to the firm's heavy exposure to the automotive industry and the transition to electric cars. One contact said they had revised their capital expenditure plans to take advantage of tax credits, although this mostly involved moving existing projects forward rather than adding investments. The outlook was positive across the board. The semiconductor manufacturer in particular expected that 2024 would bring demand increases linked to upgrades of phones and PCs as well as from the diffusion of AI products.

### **IT and Software Services**

Contacts in IT and software services posted modest revenue gains on average, and demand was steady over the first two quarters of 2023. Profits and margins were up slightly, although Q2 expenses increased above expectations at one firm. Capital and technology spending was unchanged or down somewhat. One firm expected to slow its capital spending further moving forward amidst an ongoing transition to the cloud. Outlooks were generally optimistic, with expectations of ongoing stability in demand. One contact expressed confidence that their business would hold up well moving forward even if the broader economy turned down. However, one contact was concerned the presidential election might disrupt the stability of the business environment.

### **Commercial Real Estate**

Commercial real estate activity in the First District was moderately weaker in recent months. Office leasing was stable or down slightly, with very few leases signed. Office rents were roughly stable and vacancy rates were said to be either flat or rising slowly. A contact in Connecticut reported a high-quality urban office building being forced into foreclosure due to tenants giving back space upon lease expiration. Life sciences leasing activity slowed dramatically, a fact attributed to the drying up

of venture capital and other funding sources to would-be tenants. Contacts reported a somewhat quieter industrial market than in the past two years, although industrial rents remained high and vacancy rates historically low. Grocery-anchored retail continued to perform well, but other retail vacancies ticked up due to the failure of some non-grocery chains. Across sectors, contacts' expectations turned more pessimistic. High borrowing costs are expected to continue to deter investment, sales, and construction. Multiple contacts expected the market to fare better in New England than in other regions of the country, but nonetheless expected activity in the region to slow and property valuations to fall accordingly.

### **Residential Real Estate**

First District home sales increased a bit in May from the previous month on average, and some areas reported a healthy uptick in activity, but May's sales were nonetheless described as weak relative to historical norms. Across markets, home sales continued to post very steep declines on a year-over-year basis, for single-family dwelling as well as condos. According to contacts, activity was held back yet again by further declines in inventory (on a year-over-year basis) and persistently high mortgage interest rates. High rates also exacerbated the low-inventory problem, as current homeowners were reluctant to swap their existing, low-rate mortgages for higher-rate loans, leading to fewer homes going up for sale. Despite tepid sales, the dearth of inventories relative to demand meant that prices continued to rise, even as the pace of appreciation slowed gradually in recent months. Median prices for single-family homes rose modestly relative to May 2022, by six percent or less depending on the area. However, median condo prices increased by double-digit margins in some states, as buyers priced out of the single-family market looked increasingly to condos. Contacts expected no meaningful changes in market dynamics until interest rates declined. ■

For more information about District economic conditions visit:  
[www.bostonfed.org/regional-economy](http://www.bostonfed.org/regional-economy)



## Summary of Economic Activity

Economic activity in the Second District stabilized in recent weeks following a period of moderate weakness. Labor market conditions were strong, with ongoing modest employment gains and steady wage growth. Inflationary pressures eased as both input and selling price increases slowed noticeably. Supply availability continued to improve, particularly for manufacturers, and manufacturing activity edged slightly higher. Consumer spending grew steadily and tourism in New York City remained strong. While housing markets were solid, exceptionally low inventory remained a challenge and there were some signs of a pullback in demand in parts of the District. Commercial real estate markets remained mostly unchanged, with persistently high office vacancies. Conditions in the broad finance sector continued to deteriorate, though at a more subdued pace than in recent months. Regional banks reported ongoing declines in loan demand, tighter credit conditions, and narrowing loan spreads. Looking ahead, businesses expect economic conditions to improve, though optimism remained muted.

### Labor Markets

Labor market conditions were strong, with several contacts pointing to some firming in recent weeks. On balance, employment increased modestly, though there were stronger gains reported by personal service providers and wholesalers. While firms in the construction sector reportedly shed workers, layoffs generally remained concentrated in large firms outside of the region. A contact from the Adirondacks reported that J-1 visa seasonal workers have arrived following a pandemic pause, providing a much-needed seasonal boost to the strained workforce as the tourism season gets into full swing. Though it has become slightly easier to hire, finding skilled workers remains a major challenge.

While hiring plans remained solid, a few employers pointed to scattered signs of easing in labor demand. Contacts reported that the use of temporary workers has declined noticeably. Further, attrition rates have continued to fall at many businesses and are in some cases below normal levels, reducing the need to hire replacements. With signs that the labor market may start to cool, some employers are beginning to require workers to come to the office more often. Indeed, a New York City employment agency focused on financial services noted that roughly half of open roles were now fully in-person.

Wage growth has remained modest and steady since the last report. Several contacts noted that candidates' wage demands have become more reasonable and are now in-line with pre-pandemic expectations.

### Prices

Inflationary pressures eased noticeably in recent weeks. Businesses reported that the pace of input price increases has slowed considerably, and one construction contact noted softening in the prices of inputs, such as doors and windows. Still, the high cost of many inputs remains a major challenge for businesses in the region. The pace of selling price increases also moderated, especially among goods producers and retailers, though businesses in leisure & hospitality noted growing price pressures in travel services and entertainment. Manufacturers generally expect continued easing in price increases in the months ahead, while firms in the broader service sector anticipated more persistence.

### Consumer Spending

Consumer spending grew steadily in the latest reporting period. Consumers have continued to shift their spending away from goods toward experiences, such as travel, entertainment, and restaurants. Indeed, amid higher prices and changing preferences, department store contacts reported sagging sales. Increasingly discerning shoppers eschewed purchases of seasonal items in favor of high-quality basics during a cool spring season, leaving an inventory surplus of certain summer wear. Still, auto dealers in upstate New York reported that new car sales have been strong as pent-up demand has been satisfied by ongoing improvements in inventory, while used car sales remained subdued.

### **Manufacturing and Distribution**

Manufacturing activity edged higher. Supply availability improved, delivery times held steady, and inventories moved lower. Businesses in transportation & warehousing reported modestly increasing activity, but activity for wholesalers was unchanged. Manufacturing and distribution firms have become more optimistic about the six-month outlook.

### **Services**

Service sector activity generally edged lower in the latest reporting period, though businesses in the information and professional services sectors reported increasing activity. Looking ahead, businesses in the service sector anticipated some improvement in the coming months.

Tourism activity remained strong in New York City and is on track to reach pre-pandemic levels this summer. The recent air quality problems from wildfire smoke had only minor effects on tourism, with the biggest blows to outdoor attractions. The recovery of business travel has been slower, hindered by a shift to virtual events and a budget-driven reduction in attendance at in-person meetings.

### **Real Estate and Construction**

While the home sales market has remained solid, there has been some cooling in parts of the District. In particular, demand softened in much of upstate New York as discouraged buyers frustrated by low inventory increasingly stepped aside. Meanwhile, home sales markets in and around New York City remained resilient as potential buyers were undeterred by low inventory. Home prices were steady to up slightly; bidding wars were common across the District, though at reduced intensity.

Residential rental markets have continued to firm, as a strong economy and relatively high mortgage rates have continued to boost demand by pushing some potential homeowners into the rental market. In New York City, vacancy rates were below historic norms and rents reached new highs, and rents also edged up in much of upstate New York.

Commercial real estate markets were mostly unchanged. Office vacancy rates held steady at elevated levels across the District and rents were mostly flat, though some businesses reduced their footprints and opted for higher-quality office space. Of note, the prolonged weakness in office markets has begun to spillover to architecture and engineering firms, who noted negative impacts

on business activity. New York City's retail market was flat, with no change in vacancy rates, rents, or leasing activity in recent weeks. By contrast, vacancy rates remained at low levels in the industrial market and rents trended up modestly, except in northern New Jersey, where vacancy rates increased somewhat.

Overall, construction contacts reported that conditions continued to weaken since the last report. Office construction remained steady at a low level in most of the District, though there were some new starts in northern New Jersey and upstate New York. Industrial construction activity was little changed across most of the District. Multi-family residential starts increased in Long Island and Westchester but were flat elsewhere.

### **Banking and Finance**

Conditions in the broad finance sector continued to deteriorate, though at a more subdued pace than in recent months. Small to medium-sized banks in the District reported ongoing declines in loan demand across all loan segments. Credit standards continued to tighten for all loan types, loan spreads narrowed, and deposit rates moved higher. Delinquency rates edged up. Contacts cautioned that the average loan-to-value ratio on outstanding used car loans has risen to about 120 percent, presenting potential risks to the auto finance market.

### **Community Perspectives**

Contacts noted that shortfalls in community services are worsening food insecurity, homelessness, and public safety. Community leaders expressed concerns about the inadequacy of the region's mental health care system. Contacts expressed the need for supportive housing units that are integrated with social services and medical support for addiction treatment and mental health care. Non-profits reported working with hospitals that own large real estate portfolios to develop sites for middle-income and supportive housing, though elevated construction costs and strained supply chains have hindered progress on this front. ■

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



## Summary of Economic Activity

On balance, business activity in the Third District continued to decline slightly. Consumer demand appeared to tick down as contacts detailed more cautious spending habits by consumers, including fewer visits and smaller purchases. High interest rates are continuing to limit listings of existing homes for sale, which has helped new home builders. Employment fell slightly despite improving labor availability. Wages and prices continued to grow at a modest pace. Firms also continued to indicate that wage and price pressures were subsiding. Overall, contacts reported relatively few supply chain disruptions – instead noting that the costs of many of their supplies had stabilized. Contacts continued to note tighter credit standards, although credit quality remained good. On balance, expectations for economic growth over the next six months remained subdued, as both manufacturing and nonmanufacturing firms expected slight growth.

### Labor Markets

Employment appeared to decline slightly after rising slightly during the prior period. Although contacts noted relatively few cases of broad-based layoffs, they detailed targeted layoffs, more selective hiring practices, and fewer hours for employees. Of the firms looking to hire, most reported that hiring continued to be easier as labor availability improved. However, firms noted that shortages remained for certain positions, especially housekeeping staff and cooks in the leisure and hospitality industry and skilled trade workers in the construction and manufacturing industries.

In our monthly surveys, nonmanufacturing firms reported decreases in both full-time and part-time employment. The index for full-time employment in the nonmanufacturing sector turned negative and fell to its lowest level since June 2020. The share of nonmanufacturing firms that reported a decrease in the number of full-time jobs rose to over 25 percent. Manufacturing firms reported mostly steady levels of employment as nearly three-quarters of the firms reported no change in jobs. Staffing firms confirmed that the demand for labor declined from the prior period and that clients were no longer looking to immediately fill all open positions.

Firms reported that wage inflation continued at a modest pace overall but is slowly subsiding. Multiple contacts

across sectors indicated that year-over-year wage increases were back to pre-pandemic levels. Construction and manufacturing contacts noted wage pressures had not eased as much for specialty trades.

In our monthly surveys, the distribution of nonmanufacturing firms reporting higher or lower wage and benefit costs per employee was typical of the pre-pandemic era, when modest wage growth prevailed.

### Prices

On balance, firms reported that prices continued to rise modestly; however, they noted that the rate of price increases appears to be slowly abating. Contacts continued to report fewer supply chain disruptions but indicated that their firms were trying to maintain high profit margins for as long as possible.

In our monthly surveys, reported increases in prices paid and received were significantly less widespread than one year ago and were well below their historical averages. The prices paid and prices received indexes declined for nonmanufacturers, with the prices received index turning negative. Among manufacturers, the prices paid index was little changed, and the prices received index rose.

The indexes for future prices paid and future prices received continued to suggest that firms expect price increases over the next six months. However, both indexes edged lower and were below their long-run averages.

## Manufacturing

Manufacturing activity continued to decline modestly in the current period. The index for new orders was little changed from the last period and was negative for the 13th consecutive month. The shipments index rose for the third consecutive month and turned positive for the first time since February.

Despite the decline in manufacturing activity from the prior period, nearly half of the firms estimated increased total production growth for the second quarter of 2023 compared with the first quarter. Most firms reported labor supply and supply chains as slight or moderate constraints to capacity utilization.

Expectations among manufacturers for growth in the next six months rose but remained tempered compared with historical averages. The indexes for future activity and future new orders turned positive, and the index for future shipments also rose. All three indexes improved to their highest level in over a year.

## Consumer Spending

On balance, consumer spending declined slightly in the current period – after holding steady, at best, in the prior period. Contacts indicated consumers became more careful in their spending. One retail contact reported a decline in the volume of goods sold but noted that year-over-year sales figures were buoyed by higher prices than last year.

Auto dealers reported little change in sales from the prior period despite the continued growth of car inventories. Contacts reported that rising affordability concerns appeared to weigh on demand, keeping year-to-date auto sales in line with last year when sales were constrained by low inventories. Softening demand led some dealers to decrease prices and most dealers to increase incentives.

Tourism contacts continued to report slight growth – noting that the recovery was slowing. Business travel continued to recover, but leisure travel was flattening. Multiple contacts reported that the amount of money guests spend at their leisure destinations declined modestly in recent months. Despite the slowing recovery in tourism in the region overall, one contact highlighted that May was the strongest month for hotel revenue in Philadelphia since the onset of the pandemic, in large part due to an influx of guests for the Taylor Swift concerts in the city.

## Nonfinancial Services

On balance, nonmanufacturing activity continued to decline modestly. However, the decline appeared more widespread than in the prior period. The indexes for new orders and sales both turned negative, as the share of

firms reporting decreases exceeded the share reporting increases for both categories. Expectations for growth over the next six months remained subdued.

## Financial Services

The volume of bank lending (excluding credit cards) grew modestly during the period (not seasonally adjusted) – slower than the moderate growth observed in both the prior period and the same period last year.

During the period, District banks reported strong growth in home mortgages and moderate growth in auto loans, other consumer lending, and commercial real estate loans. Home equity loans were flat. Credit card volumes grew at a moderate to strong pace after rising modestly last period, but the growth was slower than during the same period last year.

Banks reported a moderate decline in commercial and industrial loan volumes after strong growth in the prior period. Most contacts continued to report tightening credit conditions following recent bank failures and described an environment of elevated caution in which most banks want to extend credit only to customers with whom they already have a relationship. Contacts also continued to report good credit quality.

## Real Estate and Construction

Real estate brokers reported that inventories of existing homes for sale remained very low because homeowners have been reluctant to give up their low mortgage rates. Existing-home sales rose slightly in the current period but remained well below the sales observed in prior years during the normally busy spring housing market. Homebuilders once again described their modest sales as better than expected, and noted the industry continued to benefit from the dynamics of the existing-home market.

Housing affordability remained low, and rents remained high in the current period. Requests for assistance with housing and utility bills rose slightly and continued to dominate the share of 211 requests in New Jersey and Pennsylvania. Over 30 percent of all requests in the two states were related to housing, while 28 percent of the requests involved utility bills.

According to contacts, construction activity for commercial real estate held steady, but financing conditions for new projects became more difficult. Leasing activity continued to fall moderately as weakness in the office market continued to materialize. ■

For more information about District economic conditions visit:  
[www.philadelphiafed.org/regional-economy](http://www.philadelphiafed.org/regional-economy)



## Summary of Economic Activity

Overall, Fourth District business activity changed little since the prior reporting period. While consumer spending on services remained solid, higher interest rates continued to constrain households' big-ticket purchases. Meanwhile, several contacts suggested that higher interest rates led many businesses to delay projects. Accordingly, bankers reported lower loan volumes for both household and business loans. Manufacturers reported little growth in orders, but many continued to work through solid backlogs. Contacts have recently become more optimistic about the near-term outlook for their firms, and many have lowered their expectations for a US recession in 2023. Still, uncertainty remained elevated and was likely reflected in cautious capital spending plans and slower employment growth. Wage pressures continued to ease somewhat as labor demand lessened and labor availability improved for many firms. Input cost pressures also eased, and the share of firms reporting increased selling prices dipped to its lowest level since late 2020.

### Labor Markets

Contact reports suggested modest employment growth in the Fourth District during the most recent reporting period, with demand for labor varying by industry segment. Demand was particularly strong among manufacturers that continued to report solid backlogs for their goods. Still, a few manufacturers (and contacts in other industries) reported that they were only hiring to fill key production positions while leaving others unfilled (such as those in support). The hesitance to fill support roles was mainly a function of general economic uncertainty or expectations for weaker demand for goods and services.

On balance, wage pressures eased slightly during this reporting period, with the share of contacts holding wages steady (67 percent) at its highest in more than two years. Some bankers, transportation firms, and restauranters reported that they did not need to increase wages because workers were more readily available. By contrast, several manufacturing and construction firms reported that wage pressures remained high amid continued difficulty filling key openings.

### Prices

Nonlabor input costs pressures eased since the previous report. About a third of contacts said that costs had increased in the prior two months, the smallest share since September 2020. Construction contacts noted that steel and lumber prices were falling but concrete prices

were rising. On balance, these contacts suggested that costs were "stabilizing." Manufacturers reported meaningful relief from input cost increases, as well, with one plastics manufacturer stating that suppliers were raising prices less often and by a smaller percentage than in the past. Looking forward, contacts expected further relief from nonlabor input cost pressures.

Price pressures eased, as well. Less than 40 percent of firms recently raised selling prices, the lowest share recorded since the end of 2020. Several goods producers raised prices to maintain margins or to "catch up" to past cost increases. However, many also said they did so cautiously. One manufacturer said it couldn't raise prices "without hurting demand or damaging customer relationships." Similarly, a logistics contact noted that customers were increasingly resistant to any price increases and that freight prices fell further. Consumer prices continued to increase on balance, but one discount retailer said that its prices eased somewhat as it passed along "the disinflation...seen from some suppliers."

### Consumer Spending

Consumer spending was mostly unchanged. Warmer weather and resilient consumers bolstered sales for restauranters and some non-auto retailers. Still, one large general merchandiser noted that household budgets had tightened because of reduced SNAP benefits and high inflation. He added that sales for discretionary

items, such as televisions and video game systems, had declined and that some customers had begun to choose less expensive store-brand food items over national brands. Some auto dealers said that sales rebounded despite higher interest rates, while others stressed that interest rates and elevated vehicle prices remained the primary deterrents for potential customers. Contacts generally expected consumer demand to hold steady in the coming months.

### **Manufacturing**

On balance, demand for manufactured goods was stable. Orders remained strong for aerospace-related products and for heavy trucks and trailers, and strengthening international markets continued to bolster activity for some firms. However, orders softened or remained weak for some firms tied to consumer products as inventory corrections continued. Steel manufacturers said that orders were steady or slightly lower compared to those in recent months, and industry contacts generally expected demand for their products to pick up in the second half of July following an expected seasonal slowdown earlier in the month. Likewise, manufacturers across industry segments were notably optimistic and expected demand for their products to increase in the coming months.

### **Real Estate and Construction**

Demand for residential construction and real estate changed little in recent weeks. Contacts reported that higher interest rates and elevated home prices continued to hinder demand. One homebuilder noted, “we’re getting sales, but on the slow side.” Going forward, contacts were optimistic that demand would improve. One homebuilder noted that the limited supply of existing homes would help to boost demand for new home construction.

Nonresidential construction and real estate activity remained soft. Several general contractors indicated that high borrowing costs were dampening demand for construction, and several commercial real estate contacts noted slowing in the commercial real estate investment market.

### **Financial Services**

Lenders reported weaker activity amid economic uncertainty and higher interest rates. Loan demand decreased, with declines noted for both household and business lending. One banker said that many businesses were putting projects on hold because of economic uncertainty unless the project is being subsidized by the government. On the funding side, deposits were generally flat to down as banks continued to face competition for deposits, particularly from entities such as money market

funds. On balance, delinquency rates remained low by historical standards and were little changed in recent weeks, with one lender describing the delinquency rate environment as “benign.” Looking forward, lenders expected further declines in loan volumes and little change in deposits.

### **Nonfinancial Services**

Demand for nonfinancial business services generally declined recently. Contacts in professional and business services noted that demand had flattened. Transportation services firms reported declines in activity, in large part because firms continued to work down inventories, some of which had been built up as a hedge against supply chain disruptions earlier in the recovery. Looking forward, firms in professional and business services generally expected demand to rebound in the months ahead. By contrast, logistics and freight contacts anticipated further declines, though one freight contact was optimistic that “the bottom is in the not-too-distant future.”

### **Community Conditions**

Community organizations reported a sharp increase in the number of families seeking food assistance recently, with one noting that it had seen a 35 percent jump since March. Multiple contacts said that the loss of pandemic-era Supplemental Nutrition Assistance Program (SNAP) benefits in March, along with elevated food prices, contributed to the increase. One food pantry operator said, “people are experiencing food insecurity more now than I have seen in my seven years with the organization.” Some organizations were forced to limit the frequency of visits and quantity of food provided to households, exacerbating the strain on struggling families. Looking forward, some contacts expected food insecurity to rise further during the summer as families whose children received free and reduced lunches during the school year seek additional support. ■

For more information about District economic conditions visit:  
[www.clevelandfed.org/en/region/regional-analysis](http://www.clevelandfed.org/en/region/regional-analysis)



## Summary of Economic Activity

The Fifth District economy grew slightly in recent weeks. Retailers and food service companies saw steady to increasing consumer spending, particularly for seasonal goods. Auto sales, however, were down slightly and inventory levels remained very low. Travel and tourism picked up, but travel shifted more towards larger city and international travel. Nonfinancial services firms reported stable demand, but some noted that clients were holding back capital due to economic uncertainties. Manufacturing activity slowed as new orders declined. District ports echoed that sentiment and noted that imports slowed as retailers and manufacturers still had elevated inventory levels. Loaded exports, particularly agriculture products, remained strong. Trucking firms also reported lower freight volumes this cycle. Residential real estate conditions softened as activity was still being restrained by a lack of available inventory. Commercial real estate markets were mixed as retail and industrial segments remained strong but multifamily activity leveled off and office vacancy rates rose. Commercial loan demand softened while consumer loan demand was little changed. Employment picked up moderately and wage growth eased slightly but wage pressures remained elevated amid a continued tight labor market. Price growth continued to ease but remained elevated compared to pre-pandemic inflation rates.

### Labor Markets

Employment grew moderately over the most recent reporting period. Businesses continued to face challenges finding workers, but those challenges were more isolated to specific industries and skill-levels. A software company reported that finding IT workers at reasonable rates has become easier. Conversely, a company that offers tour bus vacations struggled to find drivers and mechanical technicians, which was keeping them from operating at a higher level. Wage growth eased somewhat but there were some reports that wage pressures remained high. One contact, for example, reported that they were closely monitoring inflation and trying to adjust wages to ensure they were providing a living wage for their staff while remaining competitive in the market.

### Prices

Price growth continued to moderate in recent weeks, particularly for services. According to our most recent surveys, prices received by manufacturers declined sharply in June, falling below four percent year-over-year growth. Services firms also saw price growth moderate slightly in June, but the annual growth rate remained just above five percent. A few businesses remarked that the increased cost of capital was driving up their expenses and they were increasing their prices as a result. However, some added that they were not able to push the full cost through to customers, so margins were tightening.

### Manufacturing

Fifth District manufacturing firms reported some slowdown in business activity during the most recent reporting period. Firms reported that rising interest rates and a pullback in consumer spending on goods led to declines in new orders. A dental laboratory reported not meeting their numbers for the past six months due to a significant slowdown in the dental market. A furniture manufacturer reported that they were having layoffs for only the second time in their forty-two-year history due to declining business conditions. Several contacts reported imbalances in inventory levels as finished goods inventories were creeping upwards. This is especially true in the retail manufacturing sector as retailers pulled back on new orders.

### Ports and Transportation

Fifth District ports stated that loaded import volume was down this period, but that volume was close to pre-pandemic levels. Many big retailers still have elevated inventory levels causing a decrease in imports of consumer goods. However, there was a slight increase in imports of machinery and parts. Loaded export volumes were strong mainly driven by agricultural products and lower value commodities. Spot prices remained low though still slightly higher than in 2019. Container dwell times shortened dramatically, and gate turn times were

not an issue. In the last month, airfreight was soft compared to recent years but still above 2019 levels and was driven primarily by imports as exports were down drastically.

Trucking firms reported that shipping demand remained soft this period as customers were still dealing with elevated inventories and reduced orders. However, food and pharmaceuticals shipping volumes were holding up well. Spot shipping rates were at low levels as there was a lot of excess capacity in the truck load segment. However, respondents indicated that they were able to get moderate increases with their contract rates despite customers being very price sensitive. Companies stated that drivers were more readily available. Trucking firms also remarked that the higher labor costs, as well as dramatically higher costs of parts and new equipment, were impacting profitability.

### **Retail, Travel, and Tourism**

Retailers reported steady to modest growth in sales in recent weeks. Several of the businesses that saw increased sales noted that it was partly due to typical seasonal patterns as they were geared towards summer shopping. Restaurants and novelty food services reported strong sales and steady demand. Auto sales, on the other hand, declined slightly and dealers commented that limited inventory and elevated interest rates were impeding sales volumes.

Travel and tourism increased slightly, on balance, but several contacts saw some shifts in consumer behavior. For example, travel picked up in Baltimore and Washington, D.C. while coastal areas of the district reported slightly lower occupancy and revenues in recent months; however, the expectation was for beach travel to pick up going into the summer months. An airport contact said that consumer travel was steady and saw more people taking international flights than in recent years.

### **Real Estate and Construction**

Residential real estate respondents indicated that the inventory of homes for sale remained constrained with contract prices continuing to appreciate slightly. Overall, the number of sales decreased primarily due to the low housing inventory as well as the usual seasonal slowdown. In the last month, buyer traffic was steady and days on market continued to be low. Prospective buyers were not having any difficulties obtaining mortgages but there were some issues with appraisals not coming in at the escalated sales price. Residential construction firms noted a decrease in demand for their services as homeowners were less willing to plan for large remodeling or construction projects.

Overall market activity in the commercial real estate sector was mixed in the last month. Leasing remained strong for retail and industrial properties with rents escalating this period. In the office market, vacancy rates and space available for sublease increased due to companies downsizing. Rental rates in the office segment remained flat; however, landlords were offering more discounts and/or concessions to potential credit tenants. In multifamily, lease rates were starting to flatten out. Respondents stated that tighter credit availability was starting to negatively impact investments into new projects. Commercial contractors noted a continued lack of skilled labor, and also that the amount of work out to bid has slowed substantially.

### **Banking and Finance**

Loan demand slowed slightly across most loan types, most notably in the commercial real estate and business loan portfolios. This slowing of demand continued to be attributed to rising interest rates and uncertain economic conditions. Consumer loan demand remained stable, with home equity loans showing moderate growth. Some banks reported declines in deposits as customers moved funds to higher yield products. Institutions also noted a slight degrading of borrower's credit quality due to their increased costs of conducting business. Loan delinquency rates remain stable, but institutions have been closely monitoring their portfolios.

### **Nonfinancial Services**

Nonfinancial service providers continued to report that demand for their services as well as revenues had remained stable. One respondent noted they felt demand was still being driven by a pent-up demand for commercial printing services held over from Covid. Others noted that they have observed more clients preserving capital in anticipation of economic uncertainty. Labor shortages have begun to ease in certain industries, but wage pressures remained high. Respondents also noted a renewed focus on expense control at all levels of their businesses in light of higher wages, higher interest costs, and economic uncertainty. ■

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



## Summary of Economic Activity

The Sixth District economy grew at a measured pace from mid-May through June. Labor availability and retention improved, and wage pressures eased. On balance, nonlabor costs continued to moderate and pricing power was mixed. Retail sales softened for discretionary items, but consumer spending on essentials remained solid. Auto sales were strong. Domestic leisure travel declined while business and international travel rose; cruise demand was robust. Housing demand remained durable; home inventories fell, and house prices rose. Commercial real estate conditions were mixed. Transportation activity slowed. Manufacturing experienced strong demand. Loan volume continued to rise, but deposit growth slowed. Activity in the energy sector was stable. Agriculture demand slowed.

### Labor Markets

The majority of Sixth District contacts reported that labor availability and retention improved, and most firms continued to hire. However, challenges filling corporate roles, skilled construction, and healthcare positions were noted while, for some firms, entry-level hourly service roles were easier to fill. A number of manufacturers remained extremely short-staffed and utilized overtime to run at capacity, while other manufacturing firms reported stabilized employment levels and reduced overtime to align with softer demand. Among those firms experiencing weaker demand, most remained reluctant to lay off staff that they had endeavored to attract and retain, but several slowed the pace of hiring except for exceptional candidates or relied on attrition to shrink their workforce.

Overall, wage growth remained higher than pre-pandemic levels. Most contacts reported that wage pressures continued to ease, and the majority said the pace of increases had begun to moderate, in line with expectations.

### Prices

Nonlabor costs continued to stabilize over the reporting period. However, several Florida contacts noted significant increases in insurance costs. The cost of food products moderated, aided by decreases in freight and overland delivery costs. Construction input costs also declined, with commodities like steel and lumber falling to or near pre-pandemic levels. While wholesalers increasingly reported pushback from clients on price increases, consumer prices remained elevated as retailers saw minimal impact to demand. The Atlanta Fed's Business Inflation Expectations survey showed year-over-year unit cost growth was 3.1 percent, on average, in June, down significantly from 3.5 percent in May. Firms'

year-ahead inflation expectations also decreased in June to 2.7 percent, on average, from 2.9 percent in May.

### Consumer Spending and Tourism

Retailers described consumers as more value conscious since the previous report. Discretionary spending on items such as clothing, electronics, and recreation has moderated amid a behavior shift to fewer store visits and less impulse buying. However, spending on food and beverages, household essentials and healthcare necessities rose. Retailers expect that demand will stabilize in the second half of 2023. Automobile dealers reported that sales remained resilient, although consumers have begun to trade down to lower price-point models.

Tourism and hospitality contacts reported further softening demand for domestic leisure travel, while international, group, and business travel strengthened year over year. Hotel occupancy across most destination beach resorts fell since the previous report and those hoteliers reported some diminished pricing power. Demand for cruise travel and on-board spending remained robust.

### Construction and Real Estate

Housing demand remained strong throughout the District amid declining existing home inventories. Home sales in many metro areas rose to near seasonal norms, creating persistent supply shortages. Home prices experienced steady upward pressure on a monthly basis as a result of low supply. Limited existing home inventories drove demand for new home construction. Though down from last year, the share of builders offering incentives to attract homebuyers, such as interest rate buydowns, remained high. Home ownership affordability throughout most markets in the District worsened as home prices and mortgage rates trended higher.

Contacts reported mixed conditions in the commercial real estate (CRE) sector. While modestly decelerating, general retail and industrial activity remained at healthy levels. The multifamily sector cooled as demand for luxury/higher-priced units deteriorated. While declining overall, office sector conditions were mixed; activity in newer buildings was solid, while occupancy in older buildings declined as tenants vacated to newer structures. Additionally, some older buildings have incurred sizeable declines in value. More contacts reported concerns regarding financing, as some banks heightened underwriting standards and reduced funding commitments. Contacts also noted more uncertainty amid declining CRE values.

### Transportation

Transportation activity slowed further over the reporting period. Ocean carriers and ports reported declines in container traffic, owing to inventory destocking by retailers and weaker global demand. District railroads reported significant decreases in year-over-year freight volumes, including double-digit decreases in intermodal shipments. Logistics firms reported revenues from warehousing were flat compared with 2022; higher prices helped to offset volume declines.

### Manufacturing

Many manufacturers reported healthy business conditions over the reporting period. Some contacts noted a slight decrease in demand, which many characterized as a normalization, and most firms reported robust pipelines of orders. While lead times and availability of many inputs have improved, firms noted lingering shortages of some inputs, particularly electrical switchgears. Auto manufacturers saw strong demand but noted signs of trade-downs to less expensive vehicles and expect to see some slowing in the coming months.

### Banking and Finance

On balance, growth slowed at District financial institutions, led by a slight decline in the deposit base in recent months as interest rate increases continued to encourage customers to move deposits into higher-yielding alternatives. To help offset slowing deposit growth on a year-over-year basis, institutions steadily increased interest rates on deposits. Institutions reported continued loan growth, primarily residential, construction, and development, which was offset by a decline in securities portfolios. Many of the financial institutions have yet to report significant increases in delinquencies, though performance varied widely. Contacts expect asset quality to normalize over the coming quarters.

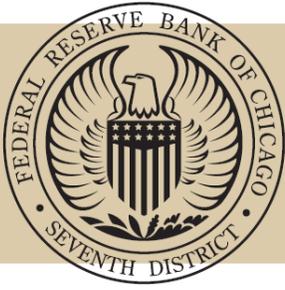
### Energy

Contacts reported that most energy segments were flat

or up over the reporting period. While oil and gas production continued, regional output was generally unchanged. Refiners described high utilization to meet summer demand for gasoline. Chemical producers noted strong demand for products that support the renewables sector, which continued to experience considerable growth in the manufacturing of batteries, solar cells, turbines, renewable fuels, and more. Utility providers reported commercial segment growth across the District, although industrial segment growth was concentrated in regions that experienced gains from commodity production.

### Agriculture

Agricultural conditions were soft over the reporting period. Oversupplies of cheese kept demand for milk low. With fewer avian flu outbreaks, chicken exports increased somewhat, but overall demand for chicken remained down. Citrus growers experienced good returns on sales but weak profits because of low yields. Row crops were generally healthy, although severe storms damaged crops in some parts of Mississippi and Alabama. Demand for cotton continued to fall. The cattle market remained strong as demand for beef remained high amid low supply. ■



## Summary of Economic Activity

Economic activity in the Seventh District was little changed overall in late May and June. Contacts generally expected a small decline in demand over the next year and many expressed concerns about the potential for a recession. Employment increased moderately; nonbusiness contacts saw little change in activity; consumer spending was flat; business spending and construction and real estate activity declined slightly; and manufacturing decreased modestly. Prices and wages rose moderately, while financial conditions tightened slightly further. Expectations for farm incomes in 2023 decreased some.

### Labor Markets

Employment rose moderately in late May and June and contacts expected a similar rate of increase over the next 12 months. Many contacts continued to have difficulty finding workers, particularly higher skilled labor, though many also said that hiring had become easier, and several noted they were fully staffed. One program administrator observed that some manufacturers were managing changing labor needs by briefly laying off workers and then rehiring them, sometimes repeatedly. Wage and benefit costs rose moderately. A few contacts noted wage increases in the 3 to 5 percent range in recent labor union contract agreements. Some indicated healthcare costs had risen significantly.

### Prices

Prices rose moderately over the reporting period and contacts expected a similar rate of increase over the next 12 months. Nonlabor costs were up modestly, with rising raw materials and energy costs contributing to the increase. Contacts continued to note that growth in shipping costs had slowed noticeably. One contact in finance reported improved margins for his manufacturing clients, who saw input costs come down but were able to maintain higher selling prices. Consumer prices generally increased moderately due to the continued elevated level of demand and the passthrough of higher costs.

### Consumer Spending

Consumer spending was little changed in late May and June. Nonauto retail spending was flat overall, with contacts highlighting increased sales of furniture and lawn and garden products but declining sales at convenience stores and in the electronics and building materials segments. Spending further shifted toward essential items and away from discretionary ones, and for many products, consumers continued to trade down in quality or convenience. Light vehicle sales were unchanged but at a higher level than had been expected earlier in the year. Leisure and hospitality spending was also flat but at a strong level, with contacts reporting a small increase in spending at amusement parks and tourist attractions but less air travel. Contacts indicated that consumers were less likely to trade down in their leisure and hospitality purchases compared with other spending categories.

### Business Spending

Business spending declined slightly in late May and June. Capital expenditures were unchanged on balance, with several contacts reporting purchases of new equipment or software. Freight volumes declined further. Demand for industrial, commercial, and residential energy increased slightly. Inventories for most retailers were a little higher than desired, with one contact noting ele-

vated stocks of apparel, beauty items, and sporting and outdoor goods. Auto inventories rose slightly but remained below pre-pandemic levels, with contacts noting that railcar shortages were slowing deliveries of vehicles to dealers. In manufacturing, inventories increased modestly, and contacts said that supply chain issues, while still arising at times, had returned to pre-pandemic norms.

### **Construction and Real Estate**

Construction and real estate activity decreased slightly over the reporting period. Residential construction ticked down, reflecting a slowdown in single-family development. New home sales decreased slightly, while new home prices increased slightly. Residential real estate activity was little changed. An Iowa contact said that cash transactions continued to be a larger proportion of sales than they have been historically as high interest rates were pushing borrowers out of the market. Existing home prices were down some, while rents were flat. Nonresidential construction activity slowed overall as high interest rates, elevated cost pressures, and shortages of key inputs such as electrical components weighed on activity. Nonresidential construction prices remained at elevated levels. Commercial real estate activity decreased modestly. Prices decreased slightly, rents fell modestly, and vacancy rates were up slightly.

### **Manufacturing**

Manufacturing demand decreased modestly in late May and June and backlogs were down moderately. Steel orders were up slightly, supported by solid demand from the auto and construction industries. Fabricated metals orders decreased slightly, in part due to weaker demand in the aerospace sector. Machinery sales also decreased slightly, with contacts highlighting less demand from the auto industry. In contrast, auto industry contacts said production was steady on balance. Heavy truck orders increased slightly amidst very low inventories.

### **Banking and Finance**

Financial conditions tightened slightly further on balance during the reporting period. Bond and equity market values edged up, while volatility edged down. Business loan demand decreased modestly, as borrowing rates rose and standards tightened some. One contact said weak demand was concentrated among clients in the consumer discretionary, durable goods, and retail sectors, which were seeing slowing sales. Business loan quality deteriorated a bit. Consumer loan demand decreased slightly overall, but several contacts noted greater credit card usage. Consumer loan quality decreased slightly, while borrowing rates rose modestly and lending standards were somewhat tighter.

### **Agriculture**

Expectations for Seventh District farm incomes for 2023 deteriorated some as drought expanded throughout the District. One contact said, "It is time to be concerned, but too soon to panic." Crops were behind normal growing progress. Expectations for this year's corn crop worsened more than for soybeans because corn is more sensitive to drought at this growth stage. Crop prices were volatile during the reporting period; while corn prices ended down, soybean prices were up, and wheat prices were about the same. Some input costs were lower. Prices for milk were down once again, extending losses for dairy farms. Although hog prices moved up some, producers continued to struggle to turn a profit. Egg prices edged up. Cattle prices made further gains, as drought limited water and forage availability, forcing farmers to trim their herd sizes.

### **Community Conditions**

Community, nonprofit, and small business support contacts reported little change in activity, which was at a robust level. That said, there were signs the economy was cooling. State government officials saw slowing growth in tax revenues and a small increase in demand for unemployment insurance. High interest rates were challenging Community Development Finance Institutions' efforts to lend at affordable rates to low- and moderate-income borrowers, including small businesses and prospective homeowners. Contacts offering small business services, in particular to small manufacturers, reported that a lack of workers remained an important issue and was holding back production. At the same time, contacts engaged with low wage workers stressed that wages were too low to meet daily needs in the face of rising costs, particularly for housing. ■

For more information about District economic conditions visit:  
[chicagofed.org/cfsec](http://chicagofed.org/cfsec)



## Summary of Economic Activity

Economic conditions have remained unchanged since our previous report. Although employers reported better employee retention, they continued to have difficulties finding workers, especially skilled ones. Wage pressures lessened slightly. Consumer spending was largely steady, though contacts reported a shift away from discretionary goods and declining demand for big-ticket purchases that require financing. The residential real estate sector saw activity increase, but the commercial real estate sector reported worsening conditions at non-premium office and retail spaces. Banking contacts reported moderate declines in loan demand and compressed net interest margins. Agriculture conditions declined moderately, and contacts expressed concern about commodity prices falling while input costs remain high. The overall outlook remains pessimistic but has improved slightly.

### Labor Markets

Employment has remained unchanged since our previous report. Employers continue to report tight labor markets. Unemployment rates remain low and hiring workers has remained a burden for several industries. Many contacts have reported using technology improvements to deal with labor shortages. A healthcare contact in Little Rock reported they have begun to examine how AI can help with paperwork to offset persistent labor shortages. A Louisville transportation contact noted that while companies are still competing for workers, there is less job switching than in previous months. A northwest Arkansas food service company reported receiving unsolicited resumes which hadn't happened in "quite some time."

Wages have grown slightly since our previous report. Most contacts across the region reported either slight or no wage increases. Retail contacts in Little Rock have reported increasing their minimum wages in the past month to help fill labor shortages. A workforce contact noted that wage growth is still strong in construction trades due to high demand and a shortage of skilled workers.

### Prices

Prices have increased modestly since our previous report. Although respondents' plans for future price increases varied, two comments were consistent. First, nearly all respondents reported higher labor costs. Second, many contacts reported an inability to fully pass on increased costs to consumers, which has compressed margins. A contact in the grocery industry reported that they would pass about 25-33% of higher costs to consumers. The same contact reported decreasing consumer demand and increasing consumer price sensitivity. A contact in the car industry plans to increase prices, but at a slower rate than before in order to maintain competition in the market. Other contacts reported little to no increase in non-labor cost pressures. A contact in the furniture industry reported that prices may decrease in the future after recouping previous losses from excess freight costs.

### Consumer Spending

District general retailers, auto dealers, and hospitality contacts reported mixed business activity and a slightly negative outlook. Retailers in St. Louis noted that business activity was mixed over the past month, and they are expecting interest rates to be a primary factor affecting consumer demand over the next quarter. An Arkansas retailer noted that profit margins had fallen in recent

weeks due to consumers spending more on grocery essentials and less on higher-margin merchandise. A Little Rock auto dealer reported that business activity was down slightly as bank financing continues to tighten. An Arkansas contact reported that sales of high-end boats are steady and low-end boats are down slightly, but sales for middle-market boats have collapsed. Restaurants in Memphis expressed concern that crime might lead to faltering consumer demand. District hospitality contacts noted mixed business activity over the past month but expect to have a typical busy summer.

### **Manufacturing**

Manufacturing activity has increased slightly since our previous report. Firms in Missouri and Arkansas have reported slight upticks in new orders and production. Congestion with supply chains and transportation continues to ease, while production schedules also remain steady. A new glass bottle manufacturing facility broke ground in Bowling Green, Kentucky, creating 140 new jobs and a capital investment of \$240 million. Two furniture manufacturers in Lee County, Tennessee, added 130 new employees, with an increased payroll of \$4.5 million. Firms remain optimistic that demand will remain consistent at least in the near term.

### **Nonfinancial Services**

Conditions in the nonfinancial services sector have been largely unchanged since our previous report. Air traffic rose slightly across the District. Contacts reported that labor shortages have constrained public transit in St. Louis, leading workers to look for alternative transportation options. A Louisville contact reported continually improving conditions in the transportation sector. Little Rock contacts reported that rising healthcare costs and labor shortages have put a strain on the industry. The Little Rock bicycling industry has seen significant growth in recent quarters, generating more than \$150 million in total economic impact from jobs to tourism to taxes. A St. Louis workforce contact reported an increase in informal childcare providers offering small-scale services.

### **Real Estate and Construction**

Residential real estate has seen slightly increased activity since our previous report. Median sale prices for residential real estate in the Little Rock, Louisville, and Memphis MSAs rose slightly in May, while median sale prices remained unchanged in the St. Louis MSA. Inventory dropped slightly in the Little Rock, Louisville, and Memphis MSAs in the past month. In the Louisville and Memphis MSAs, pending sales have jumped by 20% since our previous report. In the four major District MSAs, rental rates for residential real estate have seen small increases since our previous report. A northwest

Arkansas contact noted that home price growth has decelerated in recent weeks.

Memphis-area real estate and construction contacts reported spillover effects from a major EV manufacturing project. Public construction elsewhere in the District has remained busy since our previous report, while private projects are starting to press pause for the moment. A Louisville commercial construction contact reported having 12-18 months of existing projects to complete but that some are aging out or being put on hold due to increased costs. A Louisville commercial real estate contact reported a trend of tenants moving from class “B” office spaces to class “A” spaces at reduced rates and noted that this shows no signs of slowing down in the future.

### **Banking and Finance**

Banking conditions in the District have remained stable since our previous report, even as lending activity continues to soften. Year-over-year loan volume declined moderately. Contacts reported that small business lending in particular has been slow, due to higher interest rates. Total deposits growth, on the other hand, has seen a strong increase since the past quarter. Rising deposit interest rates continue to create a very competitive market for deposits, which is compressing net interest margins. Customer concerns regarding deposit safety remain relatively low in the aftermath of the Silicon Valley Bank and Signature Bank failures. Although delinquency rates have continued to rise toward pre-pandemic levels, contacts maintain a positive near-term outlook on credit quality. A retailer reported that credit card usage has risen sharply over the past few months, bringing credit utilization to its highest levels since 2019.

### **Agriculture and Natural Resources**

District agriculture conditions declined moderately relative to the previous reporting period. Between the end of May and end of June, the percentages of corn, cotton, rice, and soybeans rated fair or better saw slight to moderate decreases across the board. Compared with this time last year, overall crop conditions have declined moderately. Crop conditions both began lower and decreased more over the period when compared with this time last year. With the exception of cotton, which increased modestly, all other individual crop conditions were worse compared with last year. Contacts in the Little Rock region reported some anxiety about the expiring farm bill later this year. While commodity prices remain high generally, some have begun retreating while input and fuel costs remain high, leading to profitability concerns as we enter the second half of the year. ■



## Summary of Economic Activity

Economic activity in the Ninth District increased slightly since the previous report. Employment grew moderately, helped by summer demand. Wage pressures remained moderate, while price pressures were mild. Growth was noted in services, commercial construction, and manufacturing, while consumer spending was flat. Residential construction and real estate activity remained low, and agriculture weakened due to drought conditions. Energy exploration also fell slightly. Minority- and women-owned businesses reported steady activity and a positive outlook.

### Labor Markets

Employment grew moderately since the last report. Labor demand remained high overall, in part because of normal seasonal increases, according to internal surveys and most contacts. Labor availability remained tight, but improved according to some contacts, which had upsides for both employers and workers. A Minneapolis workforce development contact noted an increase in layoffs, but so far they “haven’t seen these layoffs turn into dislocated workers” because the workers “are doing OK finding new jobs on their own.” Employers also continued adjusting their business and labor models. A restaurant in central Minnesota reported that it bought an apartment building to provide workers with nearby housing. A North Dakota staffing firm noted that demand for contingent work had fallen because “most clients just want full-time help,” and available workers preferred full-time jobs to temporary work. Counter-intuitively, he said, “if the economy softens, we expect demand for temp staffing assignments to increase.”

Wage pressures were moderate overall. A monthly survey of District firms showed persistent but moderate wage pressures. In Montana, temp jobs in office support and transportation have seen significant wage increases so far this year, while wages for construction and manufacturing temp jobs have been flat. A Minneapolis tech staffing firm reported that technical positions have “completely reversed” from a candidate market to a client market, with job seekers “jumping at the first offer.”

### Prices

Price pressures were mild overall since the previous report. Half of firms responding to the Minneapolis Fed’s annual professional services survey reported that the prices they charged to customers had increased from a year ago, and nearly two-thirds said their nonlabor input costs increased. Manufacturing and other contacts reported that freight rates had declined substantially from a year ago. “It feels like our vendors are squeezing the last increases out of us,” said a manufacturer. Retail fuel prices in District states were little changed since the previous report. Prices received by farmers increased in May from a year earlier for barley, chickpeas, potatoes, hay, cattle, and turkeys; prices decreased from a year earlier for corn, wheat, soybeans, milk, hogs, chickens, eggs, dry edible beans, lentils, and canola.

### Worker Experience

Most workers who responded to a recent Minneapolis Fed survey reported job stability. About a fifth were looking for a different job in hopes of increased income but were facing difficulties in hearing back from employers or finding a job that paid enough. A few professional workers in the Minneapolis-St. Paul area said they were considering a temporary move out of state to work remotely while their company’s work-from-home flexibility was still in place. According to a Minnesota union contact, recently certified nursing assistants were choosing to work in retail instead of health care, where wages were similar but stress was

much higher. A significant number of nurses were reportedly pulling back from traveling jobs as federal funding abated, and some hospitals offered up to \$15,000 after taxes for an 18-month commitment to permanent positions.

## Consumer Spending

Consumer spending was flat overall since the last report. Gross sales in South Dakota and Wisconsin have softened for several consecutive months year over year, and retail contacts have also reported lower sales. Tourism contacts were generally upbeat about overall activity levels but noted some pullback in travelers' average spending. Accommodations and lodging tax collections in Montana remained strong, and lodging sources reported strong bookings for the summer. Airline travel has continued to grow, though monthly increases have moderated a bit at some airports after steady double-digit gains. Recent new-vehicle sales have increased notably at some dealerships, thanks to stronger inventory from vehicle makers. Used car sales, however, have fallen. Sales of recreational and powersport vehicles improved with warmer weather but remained soft year over year.

## Services

Activity in the professional services sector increased modestly. Respondents to the annual services survey reported increased sales and productivity over last year, while profits declined slightly. Firms' expectations were mildly positive for the coming 12 months.

## Construction and Real Estate

Construction activity was slightly higher since the last report. Construction firms overall reported growth in recent revenues, with expectations of further growth this summer. Industry data and contacts suggested that infrastructure and energy sectors were seeing stronger activity than other subsectors. But inflated material costs continue to be a drag. A pavement source in Minnesota noted that the sector was slower than expected; public funding for construction projects has been "eaten up by inflation." Reports of project cancellations also continued across different subsectors. A general contractor in northeastern Minnesota said, "We are busy but there appears to be less opportunities than usual for this time of year." Several contacts noted that subcontractors remained busy, but projects tended to be smaller jobs. Residential construction remained low but there were modest signs of improvement in single-family permitting in some markets.

Commercial real estate was down since the last report. Most subsectors showed little change. However, office

property continued to struggle. Increased subleasing was compounding already-higher vacancy rates. Two Minneapolis office towers reportedly sold at steep discounts from their previous sale prices. Residential real estate sales remained stalled. A few regional markets showed modest improvement, but most continued to see much lower monthly sales compared with last year.

## Manufacturing

District manufacturing activity increased slightly since the previous report. A regional manufacturing index indicated increased activity in Minnesota, North Dakota, and South Dakota in May from a month earlier. Sentiment among manufacturing contacts was more mixed. A metal fabricator reported that recent activity was strong and could be stronger if they could secure adequate workers. Reports from heavy equipment producers indicated orders had slowed significantly as more customers were choosing to repair rather than replace equipment due to higher financing costs.

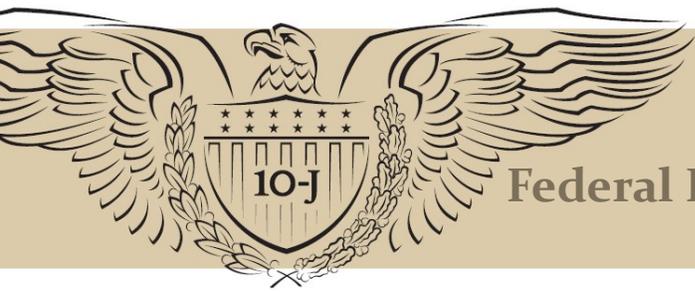
## Agriculture, Energy, and Natural Resources

District agricultural conditions weakened slightly since the last report. Most of the District's corn and soybean crop was reportedly in good or excellent condition; however, wheat crops were in worse shape as the harvest approached. Persistent drought conditions in the eastern portion of the District, particularly in South Dakota, improved slightly with recent precipitation. District oil and gas exploration activity decreased slightly since the previous report.

## Minority- and Women-Owned Business Enterprises

Activity among minority- and women-owned business contacts remained steady, and their outlook for the following months was positive overall. While contacts still perceived prices as being high, they expected prices would remain flat in the coming months. Hospitality and retail business owners were still able to pass higher costs down to consumers but were skeptical of their ability to continue doing so. Demand for workers was strong, and the ability to hire remained challenging. While some contacts were making downward revisions to their planned capital expenditures because of higher interest rates, many others were reportedly moving forward with investing. A supplier of restaurant equipment shared that demand was even higher this year among minority-owned restaurants because they tend to rely less on financing. ■

For more information about District economic conditions visit: [minneapolisfed.org/region-and-community](https://minneapolisfed.org/region-and-community)



## Summary of Economic Activity

The level of economic activity across the Tenth District changed little during June, with a mix in performance across segments. Although hiring remained flat generally, expected employment levels at most businesses continued to point downward. Businesses predominantly reported relying on natural turnover and attrition to reduce their headcounts, rather than layoffs. Consumer spending rose, but at a more moderate pace after surging in recent months. Homeowners in several District states indicated that recent changes to tax assessments of their homes increased their monthly housing expenses, which could persistently impair their ability to spend on more discretionary items. Concerns about the adverse effects of higher financing costs on credit quality were pervasive, spanning consumer segments, commercial real estate, and small businesses. Energy activity in the District decreased significantly as weak oil and gas prices continued to squeeze profitability. Oil and gas contacts noted that capital expenditures are down from this time last year and further declines are expected, despite steady access to credit. Expectations that dry conditions will reduce crop yields pushed several commodity prices higher, but contacts noted that lower production could still limit revenues for many producers.

### Labor Markets

Labor conditions remained mostly unchanged in the Tenth District during June, with noticeable differences across sectors. Manufacturing contacts reported modest declines in employment amid slowing orders and weakening demand. In contrast, services contacts reported a slight increase in hiring driven by steady consumer spending. Despite the more sluggish pace of hiring recently, wages continued to grow moderately driven largely by still-tight labor conditions for services firms.

Although the level of hiring was mostly unchanged, expectations for job growth and labor utilization over the next 6 months continued to soften. In fact, contacts generally expected a slight decline in their employment levels over the coming months and are reportedly already reducing hours worked. When asked, the overwhelming majority of contacts indicated they are not yet planning to layoff workers to reach a lower headcount. Instead, they indicated plans to post fewer positions and pause hiring activity in lieu of laying off employees. For example, one contact expressed that “pausing hiring now and relying on attrition helps to avoid harder decisions later.”

### Prices

The pace of price growth was mixed across the regional economy. Manufacturing contacts reported prices grew at a slight pace, continuing to moderate from historically high growth. Most non-durable manufacturers even reported declines in prices for finished products. But services businesses reported steady price growth at a moderate pace for inputs and selling prices, and some expansion of profit margins. Particularly, retail trade and leisure and hospitality businesses demonstrated improved ability to pass price increases to customers. Most businesses expected prices to continue to increase moderately over the next six months.

### Consumer Spending

Following a surge in spending in recent months, the pace of spending growth slowed to a moderate pace in June. Contacts at restaurants and retail establishments reported ongoing strength, but consumers were reportedly much more sensitive to hotel rates in recent weeks. Several contacts noted a pickup in business travel during the weekdays partially offset the moderate decline in weekend hotel stays by leisure travelers, and that occupancy declined last month after rising steadily for over a year. Auto purchases remained subdued in most District states.

### **Community Conditions**

Small and micro businesses continued to experience financial difficulties due to the rising cost of inputs and hiring constraints. Contacts reported recent financial challenges caused them to increasingly access non-traditional forms of credit with higher interest rates, such as credit cards and online lending platforms. Moreover, a growing number of businesses reported paying only their minimum credit card payment, or missing payments completely, which has negatively impacted their credit reports. While distressed financial conditions limited access to loans from traditional lenders, community development financial institutions reported strength in the ability to provide loans with rates below 10% for qualified borrowers.

### **Manufacturing and Other Business Activity**

Manufacturing activity declined at a moderate pace, but service contacts reported a moderate increase in activity. Manufacturing contacts reported broad based declines, including reduced order demand and shorter order backlogs. Furthermore, manufacturing contacts expect business conditions will soften in coming months, noting continued weakening in order back logs and a further deterioration in demand. Despite softening in business conditions for manufacturing firms, business contacts expressed a continued willingness invest through capital improvement projects, albeit at a much slower pace than a year ago. Service contacts generally indicated much healthier business conditions with a moderate expansion in the demand for their services. Despite current favorable business conditions, service contacts expect a softening in activity in the coming months driven by expectations for weakening demand. Contacts in advertising and marketing were an exception, already feeling a stark pullback in customer demand. Moreover, advertising contacts indicated the onset of AI was accelerating the declines in demand for out-of-house service providers.

### **Real Estate and Construction**

Several home builders indicated activity picked up over the past couple of months. Construction was supported both by promotional deals offered by builders that mitigated the effects of higher mortgage rates and by a stabilization in the costs of building materials. Some contacts suggested that slowing commercial real estate construction could further boost growth in the supply of housing over coming months because workers may be more available and materials prices somewhat lower. Homeowners in several District states indicated recent changes to tax assessments of their homes increased monthly expenses, which may persistently impair their spending power.

### **Community and Regional Banking**

Contacts' views on loan demand were mixed across the District last month, but concerns about the effects of rising credit costs, particularly on consumer loan types, were ubiquitous. Contacts also noted concerns for commercial real estate (CRE) credit quality, particularly credits backed by office properties, and expected credit quality to worsen across all loan types over the next six months. Credit standards remained unchanged, though some respondents highlighted reduced risk appetite for CRE deals. Deposit balances declined in June as customers moved to competitors offering higher yields or invested in U.S. Treasuries after the resolution of the debt ceiling. Deposit insurance coverage and the desire for diversification also drove movement of large customer balances and contributed to continued tightening in banking system liquidity.

### **Energy**

Tenth District energy activity declined moderately last month. The number of active rigs decreased significantly as weak oil and gas prices continued to squeeze profitability. District firms reported a substantial decline in revenues, profits, and supplier delivery times since the last report. Profits and supplier delivery times are expected to continue declining over the next six months. Accordingly, District firms anticipate further reduction in activity in the near term. The average price needed for a substantial increase in drilling to occur remains above long-term price expectations for oil and gas, indicating that future production growth may be constrained for a while. Contacts noted that capital expenditures are down from this time last year and further declines were expected, despite steady access to credit.

### **Agriculture**

Agricultural economic conditions in the Tenth District were steady through June. The price of most major commodities increased moderately from the previous month as drought intensified in many major crop production areas across the nation. Expectations for dry conditions to reduce yields pushed prices higher, but lower production could limit revenues for some producers. Through mid-June, an average of about 15% of corn and soybean acres and nearly 30% of winter wheat acres were in poor or very poor condition across all District states. Dry weather also continued to limit grass and feed supplies, resulting in higher costs for many cattle producers. Despite concerns about the potential for reduced profitability ahead, agricultural lenders continued to report strong credit conditions. ■

For more information about District economic conditions visit:  
[www.KansasCityFed.org/research/regional-research](http://www.KansasCityFed.org/research/regional-research)



## Summary of Economic Activity

The Eleventh District economy continued to expand modestly buoyed by gains in the service sector and single-family housing. Manufacturing output and retail sales fell. Credit conditions tightened further, and loan demand continued to decline. Drilling activity dipped due to lower oil and gas prices, while recent rains boosted district agricultural conditions. Local nonprofits continued to cite higher demand for assistance. Employment rose moderately, and wage growth remained high. Input cost and selling price pressures were elevated in the service sector but largely subsided in manufacturing. Perceptions of business conditions continued to worsen as uncertainty rose, and contacts noted that diminishing demand, higher labor costs, the rising cost of credit, and inflation were weighing on outlooks.

### Labor Markets

Employment grew moderately over the reporting period. Hiring slowed to a crawl in manufacturing, while service sector firms added to payrolls at an average pace. While oilfield services firms were still hiring and noted significant challenges in recruiting workers, more layoffs were seen in natural gas regions due to weak outlooks. Scattered reports of layoffs also came from transportation services and manufacturing. Recruitment remained a challenge for several firms. Reports of labor supply constraints continued in the health care sector and there were mentions of worker shortages in some other sectors as well, including transportation and retail. In a June Dallas Fed survey of more than 350 executives, 44 percent of firms noted being understaffed and looking to hire while 12 percent said they were opting not to hire despite being shorthanded.

Wage pressures were little changed, remaining elevated. Higher labor costs continued to be a primary concern for many firms including nonprofits, though there were some mentions of easing in IT wages.

### Prices

Price pressures were mixed; still elevated in the service sector but fully subsided in manufacturing. Fuel and construction materials prices were flat to down over the reporting period. Oilfield services firms reported declines in day rates for drilling rigs but stable frac fleet costs. Several contacts cited higher borrowing costs. Airlines

reported high ticket prices amid strong demand and constrained capacity.

### Manufacturing

Texas manufacturing output contracted slightly in June, following several months of largely flat activity. Output was flat to down in many industries, though increases were seen in fabricated metals, machinery and transportation equipment manufacturing. New orders fell at a fairly similar pace as in the prior reporting period, which a few manufacturers attributed to customer destocking and slowing construction activity. Reports from refineries and chemical producers were mixed. Overall, manufacturing outlooks worsened further, and uncertainty continued to climb.

### Retail Sales

Retail sales dipped modestly in May and June after increasing in April. Auto dealers noted mixed activity, with some reporting strong demand for new vehicles and others noting declines. Pharmacies and building material and garden supply retailers continued to cite higher sales, while clothing, food and beverage, and nonstore retailers saw declines. Inventories increased on net. Overall outlooks were little changed but weak, and some contacts said it remained challenging to plan for the next six to 12 months.

### Nonfinancial Services

Service sector activity continued to expand albeit at a

rather modest pace in June. Revenue growth was led by transportation and warehousing services followed by miscellaneous service and professional, scientific, and technical service firms. Healthcare revenues declined, and demand for health services, though improving, remained below pre-pandemic levels. Accommodation and food services firms said revenues continued to weaken which they attributed to a slowdown in leisure spending stemming from economic uncertainty. Staffing firms noted mixed demand, with flat activity in manufacturing but persistent strong placements of white-collar workers in the service sector, particularly healthcare. Airlines continued to report strong demand, mostly for leisure travel. Business travel activity remained uneven, with solid demand from the public sector but declining activity from the technology and energy industries. Overall outlooks were flat, but several contacts said that heightened business uncertainty had put buying decisions and projects on hold.

### Construction and Real Estate

Housing demand rose during the reporting period. Existing-home sales increased, and builders noted solid demand, particularly of quick move-in or inventory homes, as buyers were hesitant to deal with the uncertainty surrounding mortgage rates. Dallas–Fort Worth and Houston were characterized as the strongest markets. Incentives such as rate buydowns remained in place, and prices were largely stable, though there were reports of increases in selected areas. Construction cycle times have improved, though a shortage of transformers was dampening completions. Builders have reaccumulated their backlogs of build-to-suit homes, and housing starts are expected to increase in the second half of the year. Outlooks remained cautious, and contacts noted tighter lending for construction and development loans.

Activity in commercial real estate was little changed since the last report. Apartment rents were flat to up, and leasing activity picked up moderately. Office markets continued to face headwinds, while industrial markets generally remained solid. Investment sales activity stayed subdued, and contacts said banks were raising the loan-to-value ratios on loans. Outlooks were mixed.

### Financial Services

Loan demand declined for the seventh period in a row, and most bankers expect a further deterioration over the next six months. Overall loan volumes continued to fall, with particular weakness seen in consumer lending. While commercial real estate and commercial and industrial loan volumes continued to see marked volume declines, residential real estate lending remained stable.

Loan nonperformance increased, with the rise led by commercial real estate loans. Credit standards and terms continued to tighten, and loan pricing continued to rise. Bankers' outlooks remained pessimistic, with contacts expecting a further contraction in business activity and an increase in nonperforming loans over the next six months.

### Energy

Drilling activity for oil and gas wells declined over the past six weeks. The Eleventh District rig count fell moderately as lower prices for crude and natural gas made some projects uneconomical. Well completions were holding up better than drilling activity. Most contacts reported that tighter credit conditions since February have had slight to no impact on their firms, though a few independent producers said it had considerably reduced their ability to invest in new projects. Outlooks varied. The industry is still largely expected to increase oil-directed drilling and completion activities modestly through year end, while prospects on the natural gas side remained weak due to subdued prices.

### Agriculture

Drought conditions eased substantially over the past six weeks, with now less than a quarter of the district in drought. Increased soil moisture broadly improved crop and pasture conditions, though heavy rains caused significant disruption to cotton planting in the Texas High Plains. A sizeable portion of cotton acreage in that area may not be harvestable this year, either because of prevented planting or crop flooding. Row crop prices generally moved up over the reporting period, and cattle prices increased dramatically, driven by steady demand for meat but reduced supplies of both cattle and beef.

### Community Perspectives

Nonprofits noted increased demand for their services. Housing instability and affordability remained a top concern, and several contacts said that inflation and gentrification of neighborhoods has made housing costs, including property taxes, unaffordable for low to moderate income households. As a result, some are doubling up and living with other families in the same home. Fundraising was a challenge for some nonprofits, and a contact noted that the American Rescue Plan Act (ARPA) funds were running low. A nonprofit said age restrictions on certain program funding was making it challenging to provide services to other age groups. House Bill 8 recently passed by the Texas legislature will add about \$680 million in the state budget for community colleges. ■

For more information about District economic conditions visit: [www.dallasfed.org/research/texas](http://www.dallasfed.org/research/texas)



## Summary of Economic Activity

Economic activity in the Twelfth District softened modestly during the mid-May through June reporting period. Labor availability improved and overall labor market conditions eased moderately. Price increases persisted, while wage growth slowed notably across several sectors. Retail sales moderated, and activity in the services sectors eased somewhat. Demand for manufacturing goods was solid but weakened slightly, while conditions in agriculture and resource-related sectors were mixed. Residential real estate activity was mixed while that of commercial real estate eased further. Conditions in the financial sector remained generally unchanged over the reporting period and lending standards continued to tighten. Communities across the Twelfth District were challenged by a lack of affordable housing and small businesses' limited access to credit. Contacts expressed concern over a weaker outlook for the economy and increased overall uncertainty.

### Labor Markets

Labor market conditions eased moderately during the reporting period. Labor availability improved, and employers across sectors reported receiving more job applications in recent weeks. Contacts highlighted that hiring for permanent, full-time positions was reportedly easier than for contract-based or part-time roles. In addition, hiring challenges persisted in health care and hospitality, where demand for workers continued to outstrip supply. Employee turnover generally improved but remained above pre-pandemic levels in retail and consumer services. Layoffs continued, albeit at a slower pace, in the financial services and technology sectors. Staffing levels in other sectors were generally steady, but employers adjusted their future hiring plans in response to overall economic uncertainty. Employers facing moderating demand favored reducing staff hours over layoffs.

Wage growth slowed notably across several sectors. Improved labor availability led to wage increases closer in line with historical rates, particularly for entry-level positions, in construction, manufacturing, retail, financial services, and technology. In contrast, contacts continued to report paying above-average salaries for experienced and skilled workers in consumer and business services. In addition to higher pay, some employers offered expanded benefits, training, and advancement opportunities to attract and retain workers.

### Prices

Price increases persisted at a steady pace relative to the last reporting period. Reports noted elevated inflation across several industries and products, including utilities,

insurance, used vehicles, health care, pet care, and some construction materials, such as aluminum, concrete, and electrical equipment. However, prices of some goods and services were reportedly stable or down in recent weeks, including those for gasoline, fabricated materials, and banking services. One manufacturer reported significant reductions in input costs in recent weeks but also noted not planning to lower final prices because of the cumulative cost pressures incurred over the past three years.

### Community Conditions

Conditions in the community support and services sector remained mixed. Some contacts in education, housing services, and community support reported stable or improving conditions for funding and hiring. At the same time, representatives from small businesses and community banks mentioned more limited availability of funds. Contacts across the District reiterated difficulties meeting the demand for support services, and several continued to report the persistence of housing insecurity and homelessness. Contacts in Alaska highlighted ongoing shortages of police services and childcare providers.

### Retail Trade and Services

Overall retail sales moderated in recent weeks. Fading fiscal stimulus at the state level and reduced excess savings reportedly weakened retail spending. Consumers continued to trade down to lower cost items and reduced their spending on nonessential goods. Contacts from Hawaii and Utah indicated strong demand for retail and services supported by robust growth in tourism and population levels. Additionally, online retail demand

picked up with higher sales to consumer markets in Asia.

Activity in the consumer and business services sectors eased somewhat. Demand for business and leisure travel in the District moderated despite the number of visitors and conventions remaining largely unchanged in recent weeks. Spending on legal and insurance services declined. Production activity in the entertainment and media industries remained strained by ongoing collective agreement negotiations between the writers' unions and major studios. Additionally, art galleries and institutions reported facing significant headwinds due to smaller audiences and declining donations.

### **Manufacturing**

Manufacturing activity weakened slightly but remained solid overall. New manufacturing orders for apparel, electronics, and furniture softened, while demand for capital equipment, aerospace, and wood products strengthened. Conditions in metal production and the recycling industry remained largely unchanged. Capacity utilization inched down, consistent with overall lower demand. Shipping and some input costs decreased over the past few weeks as supply chains and availability of raw materials continued to improve.

### **Agriculture and Resource-Related Industries**

Conditions in agriculture and resource-related sectors were mixed. Expanded ocean freight capacity and lower shipping costs supported exports, but lingering backlogs, the war in Ukraine, and a strong dollar limited access to some international markets. Domestic retail demand for agricultural products softened and demand from the food services sector plateaued. Demand for timber rose. Produce yields across the District were broadly up, recovering from the wet winter and spring. However, inventories of some foods such as raisins and nuts declined. Major seafood stocks edged up. Rising labor and insurance costs put upward pressure on production expenses, while past rains somewhat offset irrigation costs. One contact noted that ongoing capital investments helped boost productivity and curtail labor costs in the agriculture sector.

### **Real Estate and Construction**

Residential real estate activity was mixed in recent weeks. Demand for single-family homes was reportedly strong, but low inventories and high mortgage rates limited sales. Demand for multifamily housing remained solid, though a contact in Southern California noted that it has recently taken longer to rent out apartments. Rental rates edged up. Contacts across the district reported a slowdown in new construction, particularly for single-family homes, citing uncertainty over the economic outlook and high financing costs. The availability of materials continued to improve somewhat, though shortages persisted.

Activity in the commercial real estate market was down on balance. Limited credit availability reduced demand for commercial space and curtailed construction slightly. However, contacts in Utah reported strong construction activity for industrial and retail spaces. Rental rates for industrial space reportedly plateaued, largely due to weaker demand amid ongoing economic uncertainty, while rents for retail space edged up. The office sector remained weak. One Northern California contact noted that muted brick-and-mortar sales, high operating costs, and safety concerns limited leasing demand for downtown office space.

### **Financial Institutions**

Conditions in the financial sector remained generally unchanged over the reporting period. Loan demand was largely stable but some contacts at regional institutions reported slower loan origination in recent weeks, especially those focused on the residential and commercial real estate markets. Banks have reportedly faced less variance in deposit flows compared to the previous reporting period despite strong competition for deposits. Lending standards tightened, and credit quality remained strong despite some observed increase in delinquency rates. Reports also noted lingering liquidity concerns and general uncertainty both over the economic outlook and within the sector. ■



