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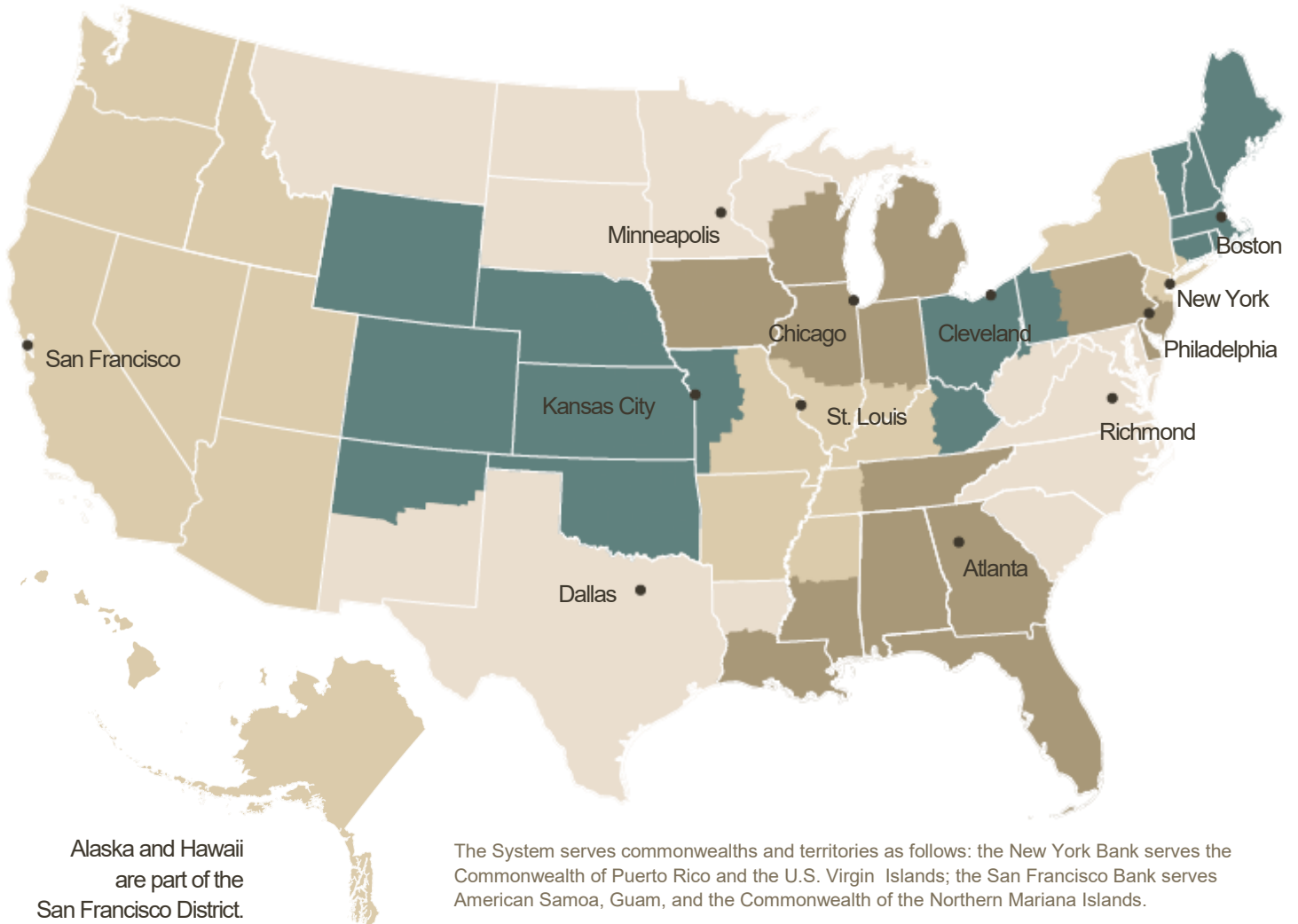
The Beige Book

Summary of Commentary on Current Economic Conditions

By Federal Reserve District

January 2023

Federal Reserve Districts



This report was prepared at the Federal Reserve Bank of Cleveland based on information collected on or before January 9, 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 ■ January 2023

Overall Economic Activity

Overall economic activity was relatively unchanged since the previous report. Five Districts reported slight or modest increases in overall activity, six noted no change or slight declines, and one cited a significant decline. On balance, contacts generally expected little growth in the months ahead. Consumer spending increased slightly, with some retailers reporting more robust sales over the holidays. Other retailers noted that high inflation continued to reduce consumers' purchasing power, particularly among low- and moderate-income households. Auto sales were flat on average, but some dealers noted that increased vehicle availability had boosted sales. Tourism contacts reported moderate to robust activity augmented by strong holiday travel. Manufacturers indicated that activity declined modestly on average, and, in many Districts, reported that supply chain disruptions had eased. Housing markets continued to weaken, with sales and construction declining across Districts. Commercial real estate activity slowed slightly, on average, with more notable weakening in the office market. Nonfinancial services firms experienced stable demand on balance. Most bankers reported that residential mortgage demand remained weak, and some said higher borrowing costs had begun to dampen commercial lending. Energy activity continued to increase moderately, and agriculture conditions were generally unchanged or improving.

Labor Markets

Employment continued to grow at a modest to moderate pace for most Districts. Only one District reported a slight decline in employment, and one other reported no change in employment levels. While some Districts noted that labor availability had increased, firms continued to report difficulty in filling open positions. Many firms hesitated to lay off employees even as demand for their goods and services slowed and planned to reduce headcount through attrition if needed. With persistently tight labor markets, wage pressures remained elevated across Districts, though five Reserve Banks reported that these pressures had eased somewhat. Some employers noted they have continued to offer bonuses and enhanced benefits to attract and retain workers.

Prices

Selling prices increased at a modest or moderate pace in most Districts, though many said that the pace of increases had slowed from that of recent reporting periods. Manufacturers in many Districts reported continued easing in freight costs and prices for commodities, including steel and lumber, though some said input costs remained elevated. Many retailers noted increased difficulty in passing through cost increases, suggesting greater price sensitivity on the part of consumers. In addition, some retailers offered more discounts and promotions than they had a year ago in order to move merchandise and clear out excess inventories. On balance, contacts across Districts said they expected future price growth to moderate further in the year ahead.

Highlights by Federal Reserve District

Boston

Business activity was roughly flat, and employment increased moderately amid seasonal hiring. Prices increased modestly as nonlabor cost pressures eased. Wage growth was above average despite easier hiring conditions. Tourism activity posted strong gains, while home sales continued to fall. The outlook was mostly stable but worsened slightly amid real estate contacts.

New York

Economic activity contracted, led by an especially sharp decline in the manufacturing sector. Job growth slowed and labor shortages eased somewhat, but hiring plans remained fairly solid. Wage growth remained modest, while the pace of input and selling price increases slowed. Housing markets continued to cool, and loan demand fell.

Philadelphia

Business activity appeared to decline slightly during the current Beige Book period after holding steady for six months. Wage and price inflation continued to subside but still grew at a moderate pace. Employment continued to rise slightly, although hiring plans grew more cautious. Current sentiment fell, but expectations improved.

Cleveland

The District's economy slowed slightly as 2022 drew to a close amid high interest rates and elevated costs and selling prices. However, the share of contacts reporting higher costs or selling prices declined noticeably from the middle of 2022. Looking ahead, firms expect softer conditions to persist in the near term but still plan to add workers to meet existing and expected demand for their goods and services.

Richmond

The regional economy continued to grow at a slight pace, due in large part to moderate growth in consumer spending as manufacturing, transportation, real estate, and lending activity slowed. Employment rose more modestly this period compared to recent months and some firms noted hitting limits on wage increases. Price growth remained elevated in recent weeks.

Atlanta

Economic activity grew at a gradual pace. Labor market tightness eased, but wage pressures persisted. Most nonlabor costs moderated. Retailers reported healthy holiday sales. Auto sales rose. Leisure travel was robust. Housing demand fell. Transportation conditions weakened. Overall loan growth was steady, but deposit growth slowed. Agriculture remained mixed.

Chicago

Economic activity decreased slightly. Employment increased moderately; consumer and business spending were unchanged; nonbusiness contacts saw little change in activity; manufacturing decreased modestly; and construction and real estate decreased moderately. Prices and wages rose moderately, while financial conditions tightened some. Agriculture incomes were strong in 2022.

St. Louis

Economic conditions have remained unchanged since our previous report. Labor shortages remained a key issue, though more contacts reported a slightly easier time hiring and retaining workers. The rate of input price increases slowed, and contacts reported improvements in shipping costs and delivery times. Consumer spending and travel were both mixed during the holiday season.

Minneapolis

Economic activity in the region expanded slightly in recent weeks. Employment grew modestly, with labor demand softening but still healthy. Wage and price pressures remained high but lessened slightly. Holiday shopping was good overall but stymied somewhat by severe winter weather. Construction and real estate sectors continued to struggle. Inflation and high labor costs were hurting minority- and women-owned firms.

Kansas City

Economic activity in the Tenth District continued to decline slightly through the end of 2022. Though labor demand cooled further, contacts reported ongoing tightness and persistent wage pressures. Consumer spending declined recently, particularly for retailers and restaurants. Across goods and services, price growth slowed to a moderate, yet still-brisk, pace. Energy activity slowed modestly, facing headwinds from falling oil and gas prices.

Dallas

Modest economic growth continued, with an acceleration in the manufacturing sector but an abatement in the service sector. Retail sales and home sales fell further, while oil and gas activity expanded. Employment growth continued and wage and price growth stayed elevated. Outlooks were mostly pessimistic except for the energy sector, and many contacts voiced concern about weakened demand, a potential recession, and inflation.

San Francisco

Economic activity expanded modestly. Employment levels grew at a modest pace as labor supply improved. Wages and prices remained elevated but rose at a slower pace relative to the previous reporting period. Demand for retail goods and services was stable. Manufacturing activity was mixed, while conditions in the agriculture sector remained weak. Residential real estate activity weakened, and lending activity rose slightly.



Summary of Economic Activity

Business activity in the First District was roughly flat on balance, with continued strength in tourism and further declines in home sales. Prices increased modestly, and many contacts reported that nonlabor cost pressures had eased considerably. Employment rose moderately, spurred by seasonal hiring in retail and hospitality. Wage pressures remained substantial. Some firms sought ways to boost productivity and profitability. Home sales fell sharply, and commercial leasing and investment activity were flat. Software and IT services firms enjoyed mostly strong and stable demand. Outside of real estate markets, where the outlook weakened slightly, most contacts remained optimistic for their own prospects, even though some deemed a recession as likely for 2023. No firms planned to make significant layoffs and most expected price increases to moderate moving forward.

Labor Markets

Employment increased moderately on balance, spurred by a seasonal uptick in demand and easier hiring conditions. Wage growth proceeded at an above-average pace. A clothing retailer found it easier than expected to hire seasonal workers, especially positions involving remote work, but had to offer hiring bonuses to attract warehouse workers. Robust convention activity and holiday parties gave a moderate boost to food and beverage staffing at Boston-area hotels. In contrast, airline industry contacts found it very hard to fill positions and some restaurants cut hours in response to persistent staffing shortages. Firms in diverse sectors commented that wage growth was above average (if mostly stable) and that employment costs continued to eat into profit margins. Many contacts planned to focus increasingly on raising labor productivity and cutting costs. No firms planned to undertake significant staffing reductions, not even those that had experienced weak results recently.

Prices

Prices increased modestly on balance. Most contacts said that their output prices were flat since the previous report and that nonlabor cost pressures had retreated substantially. However, hotel room rates in the Greater Boston area increased sharply since the summer, in part for seasonal reasons, and landed well above their year-earlier levels. Cape Cod lodging prices posted a modest seasonal decline, but easily exceeded their comparable 2019 levels. A clothing retailer posted high single-digit

markups earlier this fall but offered promotional discounts during the holiday shopping season. Retailers and manufacturers alike commented that nonlabor cost pressures had eased considerably in recent months, as the price of container shipments in particular fell sharply and supply chains improved. Prices at software and IT firms were up modestly on average, although one contact enacted “more aggressive” price increases in the second half of 2022. Moving forward, some contacts expected to hold prices firm or even to offer promotions to retain business, and others expected to face ongoing cost pressures—linked largely to employment—that could necessitate further price hikes. On balance, price increases were expected to moderate, however.

Retail and Tourism

First District retail contacts reported mixed sales, while tourism contacts saw strong increases in activity. A clothing retailer experienced softer demand throughout most of the fall, but sales rebounded during the holiday season, surpassing expectations for that period. Cape Cod retailers experienced strong fourth quarter sales, which a contact attributed to the fact that remote work arrangements have boosted the number of visitors to the Cape during the post-summer months. Accordingly, hospitality contacts on the Cape enjoyed a record-setting fourth quarter for occupancy and room rates. Airline passenger traffic through Boston increased steadily in recent months, reaching 93 percent of pre-pandemic

levels, and cruise ship activity through Boston and into Maine accelerated during the same period. The Greater Boston hotel occupancy rate increased further, returning to pre-pandemic levels. Convention activity also increased sharply, and bookings into 2023 are in line to exceed 2019 levels. Three tourism contacts expressed concerns that inflation could crimp leisure spending in 2023, but none had seen any actual signs of a slowdown yet.

Manufacturing and Related Services

Recent results were mixed across First District manufacturing contacts. A toy manufacturer reported a sharp decline in revenues in the third quarter, citing inflation's impact on lower-income consumers as one cause. A chemical manufacturer faced weaker demand from clients in the construction and automobile industries, and as competitor firms sought to shed excess inventories. Two consumer goods manufacturers had flat and moderately stronger sales in December, respectively, after each had seen slumping sales earlier in the fall; recent sales beat seasonal expectations in both cases. A frozen food producer experienced steady demand despite the fact that it had posted three large price increases in the last 18 months. One contact made a significant downward revision to its capital spending plans, and others held plans steady. Most contacts were more optimistic for 2023 than they had been earlier in the year. The toy manufacturer, however, expected a recession in 2023 and accordingly weaker sales.

IT and Software Services

Demand was strong and stable in the fourth quarter among most contacts. However, one firm experienced a moderate decline in bookings that was not unexpected, and that was attributed to a weakening macroeconomic environment. Contacts reported year-over-year revenue increases that ranged from moderate to very large. Where recent demand was strong, contacts attributed their results to the post-pandemic rebound of client firms and to the essential nature of certain IT services. Two firms said that higher employee-related expenditures had pinched their profit margins somewhat. Capital and technology spending was flat or, in one case, experienced a modest decline that was attributed to the rise of cloud-based computing. Contacts expected to see steady or slightly softer demand in the near term, but cited a variety of downside risks to activity, such as a seasonal spike in respiratory illnesses, ongoing inflation, and stock market volatility. Nonetheless, contacts expressed a high degree of confidence in their firms' prospects for longer-term success.

Commercial Real Estate

The First District's commercial real estate market was relatively unchanged in recent weeks. The industrial market softened slightly, as rent growth slowed a bit but vacancy rates remained very low. The office sector continued to experience high vacancy rates and flat rents. Conditions were stable in the retail property market, with food and beverage establishments experiencing the strongest demand. No significant acquisitions were reported for any property class, and new deals were said to be on hold until late in the first quarter of 2023. High interest rates continued to curtail borrowing activity, and refinancing occurred only out of absolute necessity. Concerning the outlook, contacts expected activity to be flat or to slow slightly on balance, but expectations differed by property type. While the industrial market was expected to continue to perform relatively well, the prospects for the office market weakened further, as some contacts feared that pending lease maturations would result in added vacancies. The outlook for the retail market was uncertain, as it was seen to depend heavily on the extent of any economic slowdown in 2023.

Residential Real Estate

Home sales posted substantial further declines in November, and closed sales were down by 20 to 30 percent on a year-over-year basis. For single-family homes, recent results represented a sharp slowdown in sales from the previous report, whereas for condos the recent sales declines were slight-to-moderate. A Boston contact attributed weak demand for homes as a response to persistent inflation and higher mortgage rates. The same contact added that some would-be buyers have left the market entirely and that the buyers who remain are searching for homes at a more careful pace, as the bidding wars and waived inspections that characterized the market in recent years have become quite rare. Inventories remained down on an over-the-year basis in Rhode Island, Massachusetts, and Vermont, but by a much smaller margin than in the previous report. In other markets, inventory growth accelerated substantially from the previous report. Prices increased slightly over-the-year, at about the same pace as reported last time. Contacts expected home prices to continue to level off in the near term, and stressed that, despite cooling demand, further inventory growth was still needed in order to achieve a more balanced market. ■

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



Summary of Economic Activity

Economic activity in the Second District declined significantly in the latest reporting period and most business contacts do not expect activity to increase in the coming months. Input prices continued to increase but have decelerated noticeably, and selling price increases have moderated somewhat. Hiring has slowed, wage growth has remained modest, and businesses reported that they plan to add staff, on balance, in the months ahead. Manufacturing activity weakened substantially in the final weeks of 2022. Consumer spending was mixed but somewhat weaker overall, while tourism has remained strong. The home sales and rental markets showed further signs of cooling, though concerns about housing affordability remain widespread. Commercial real estate markets stabilized, and construction activity has remained sluggish. Conditions in the broad finance sector were generally steady, but regional banks reported widespread declines in loan demand, ongoing tightening in credit, and rising delinquency rates.

Labor Markets

Employment continued to expand, though at a more subdued pace than in recent months. A number of business contacts reported that it has become somewhat easier to attract and retain workers. A large upstate New York employer noted that turnover has slowed noticeably in recent weeks and that attrition rates have now fallen below pre-pandemic levels. Still, there continues to be strong demand for skilled workers—particularly in IT, finance, and sales occupations. A New York City employment agency remarked that, despite recent layoff announcements, layoffs do not seem unusually high and job postings remain plentiful. Hiring plans for the first half of 2023 remained solid.

Business contacts reported steady and modest wage growth, though one upstate employment agency noted some slowing. The steepest wage growth over the past month was reported from financial services firms. Businesses across all major industry sectors plan to raise wages in the months ahead—particularly in wholesale trade, transportation, and leisure & hospitality.

Prices

Price pressures, both current and projected, have eased noticeably. Business contacts reported that the prices they pay have continued to increase but to a much lesser degree than in recent months. Price pressures have

abated most significantly in the trade, transportation, and manufacturing sectors. Looking ahead, fewer contacts foresee future escalation in prices paid than at any point since early 2021.

Selling price increases were reported to be somewhat less widespread than in the last report. Notably, retailers reported modestly declining prices, and transportation firms indicated that their prices were flat. Retailers and wholesalers indicated that they planned to keep prices mostly steady in the months ahead, while businesses in most other sectors anticipate moderate price hikes.

Consumer Spending

Consumer spending has been little changed in recent weeks. Nonauto retailers reported that business was relatively sluggish over the holiday season, with some of the weakness attributed to difficulties in procuring supplies and staff. Auto dealers in upstate New York reported that sales of new vehicles were steady to modestly higher, helped by improvement in the supply chain. However, sales of used vehicles have softened further. Consumer confidence across New York State surged to its highest level in more than three years in December.

Manufacturing and Distribution

Manufacturers wound up 2022 on a bleak note, reporting the most widespread decline in activity since early in the

pandemic. Contacts in the transportation & warehousing sector also noted declining activity, while wholesale distributors indicated flat activity. On a positive note, a number of businesses indicated that supply disruptions had eased. Looking ahead, manufacturers do not expect much improvement, while transportation, warehousing, and wholesale trade firms were more optimistic.

Services

Service sector activity continued to weaken in the latest reporting period. Providers of professional & business services and education & health services reported ongoing declines in activity, while information firms noted a pickup in business. Contacts in the leisure & hospitality sector indicated some leveling off in activity, following weakening in the prior report. Looking ahead, information sector businesses expressed increased optimism about the outlook, but contacts in other service industries anticipated flat to modestly declining activity.

Tourism activity in New York City strengthened further in December. Hotel occupancy rates climbed above 80 percent, versus 60 percent a year earlier, and average room tariffs were up roughly 20 percent over the year. Moreover, visits to major tourist attractions, such as the Statue of Liberty, have rebounded to pre-pandemic levels. While attendance at Broadway shows has been mixed, high-profile musicals targeted towards visitors have reportedly fared quite well. Despite a dearth of visitors from Asia—especially China—the overall flow of international visitors has been fairly strong, though visitors are spending less, on average, due in part to the strong dollar.

Real Estate and Construction

The residential sales and rental markets showed further signs of cooling in late 2022. Real estate contacts in upstate New York reported that prices have flattened out, and that sales volume and buyer traffic have continued to wane—in part attributed to unusually harsh winter weather. In and around New York City, sales of both single-family homes and apartments fell fairly sharply, while prices were flat to down modestly. Still, throughout the District, the inventory of available homes remains quite low, as many sellers have decided not to list.

Residential rental markets weakened further, though the high end of the market has shown some resilience. In New York City, rents have trended down modestly since peaking last summer, though they remain higher than a year ago; landlord concessions have also increased

somewhat. Elsewhere, rents have generally been steady, though one contact in upstate New York noted that already high rents continued to trend up. Rental vacancy rates, though still quite low, have risen modestly.

Commercial real estate markets generally appear to have stabilized, though at weak levels. Office vacancy and availability rates leveled off in New York City, edged up in northern New Jersey, but declined modestly across upstate New York. Office rents were steady to up slightly across the District; aside from New York City, office rents are near or above pre-pandemic levels. The industrial market has been steady as well, with vacancy rates little changed and rents trending up modestly.

Construction contacts reported continued weakening in business conditions and were fairly pessimistic about the near-term outlook. New office construction starts remained at depressed levels throughout the District, though there was some pickup in New York City and Long Island. New industrial construction has largely dried up. Multi-family residential starts weakened across most of the District but picked up modestly in New York City, though from low levels. A sizable volume of new apartment development is due to be completed in 2023.

Banking and Finance

Contacts in the broad finance sector reported little change in business conditions. However, small to medium sized banks in the District reported widespread declines in loan demand across all segments—especially residential mortgages. Credit standards continued to tighten, and loan spreads were little changed except on business loans, where they widened. Almost all bankers reported higher deposit rates. Finally, delinquency rates rose modestly, particularly on commercial mortgages.

Community Perspectives

With pandemic assistance no longer available, there have been growing requests for local governments and nonprofits to provide emergency support for low-income households. Demand for mental health services also continued to increase. These challenges have been compounded by widespread staffing shortages. A dearth of affordable housing also remains a major concern. Finally, to support digital equity in the District, new infrastructure funds are expected to expand high-speed Internet access to those with more moderate means. ■

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 appears to have declined slightly after holding steady since the first of July. Inflation and higher interest rates have dampened consumer demand for big-ticket items, including homes and autos. Employment continued to grow slightly even as labor demand eased; business contacts noted an increased willingness to work. Wage growth and inflation continued to subside (and reported price increases were less widespread), but both continued at a moderate pace. Overall, firms continued to note less difficulty in hiring and fewer supply chain disruptions. On balance, expectations for economic growth over the next six months improved slightly among all firms; however, expectations remained well below their nonrecessionary historical averages.

Labor Markets

Employment continued to grow slightly, with small net increases among nonmanufacturers outweighing small net decreases among manufacturers. Some firms reported that they will reduce their temporary staffing first as their own production slows. Staffing firms have also noted some softness in demand for temporary workers. Contacts, including staffing firms, also noted that hiring has become easier, with some suggesting that workers are beginning to feel the need to be employed full time.

Still, nearly all firms continued to describe staffing as their primary challenge. Many firms noted a high degree of job churn, which results in workers being hired into new industries for which they have no prior experience. Several contacts noted that some professional staff had left for higher salaries but then sought to return after experiencing their new firm's work environment.

Firms continued to report that wage growth had subsided but remained in a moderate range. Wage inflation remained pervasive. In our monthly surveys, the share of nonmanufacturing firms reporting higher wage and benefit costs per employee remained at a little over 40 percent, while just over half of the firms reported no change and a few reported lower compensation levels. Most contacts expect future wage growth to return to near pre-pandemic rates.

Prices

On balance, inflation continued to rise moderately, although reported increases were less widespread. Two-thirds of manufacturers reported no change in prices paid (for factor inputs) and almost two-thirds of nonmanufacturers reported no change in prices received (often from consumers). Moreover, the share of firms reporting increases less the share reporting decreases was at or below its nonrecessionary average for the difference between these two categories. Price increases were more commonly seen in the exchanges between firms for intermediate goods.

Most contacts noted that prices were easing overall; however, most could also cite examples of price spikes for one or more production inputs. On balance, contacts also noted fewer supply chain disruptions, although some persist.

About half the manufacturing contacts expected to pay higher prices over the next six months, and slightly less than that expected to receive higher prices for their own goods.

Manufacturing

Manufacturing activity declined moderately – after having declined modestly in the prior period. The index for new orders fell further and was negative for the seventh

consecutive month. In addition, the shipments index turned negative, suggesting that firms have begun to work through their backlogs. Many contacts confirmed that demand was slowing, backlogs are being fulfilled, and companies are reducing their inventories. One firm that reported strong sales indicated that it was gaining market share from failing competitors, not economic growth.

Manufacturers expect the current slowdown to be relatively brief. The indexes for future activity and new orders trended higher and turned positive; the index for future shipments remained positive and trended higher. Moreover, expectations of increased employment and capital spending over the next six months became more widespread.

Consumer Spending

Retailers (nonauto) and restaurateurs offered mixed reports: A low-cost retailer reported that falling gas prices had driven stronger sales in December, but a high-end retailer exclaimed that “December is not happening!” A restaurant operator noted progressively weaker traffic from diners (on a year-over-year basis) each month this autumn into December.

Low-income households expressed challenges in making their incomes stretch through the month. After requests for housing and utility bills, assistance with employment and income was the third-highest overall request for help on 211 calls in the three-state region. This was also true for New Jersey, individually, but in Delaware and Pennsylvania, food assistance rose to the third-highest request at 10 percent of all requests.

Auto dealers reported modest declines in sales – noting that high prices, rising interest rates, and smaller year-end bonuses had dampened demand. New car prices had begun falling as inventory levels improved; however, a contact reported that most car manufacturers are scaling back production again as chip shortages are expected to continue through the first quarter, or later.

Tourism contacts reported that demand for lodging was falling slightly in most of the region. Consumers are still taking trips but are booking shorter stays, resulting in softness during the week. According to one contact, the pipeline for new hotel construction “has fallen precipitously.” With an expectation of little new supply over the next three to five years, room rates are expected to increase, while upward pressure on labor compensation is expected to ease.

Nonfinancial Services

On balance, nonmanufacturing activity appeared to hold steady for the second consecutive period; however, the

share of firms reporting decreases in sales and new orders slightly edged out the share reporting increases.

Financial Services

The volume of bank lending (excluding credit cards) grew moderately during the period (not seasonally adjusted) – comparable with growth in the prior period and faster than in the same period last year. However, growth was less widespread, especially among some consumer segments. Inflationary effects on home prices and other big-ticket items continued to boost loan volume growth during the current year relative to past years.

During the period, District banks reported strong loan volume growth in home mortgages and commercial and industrial lending and modest growth in commercial real estate lending. Home equity lines, auto loans, and other consumer lending were essentially flat. Credit card volumes grew robustly – typical of the holiday season.

Real Estate and Construction

Homebuilders continued to report weak demand and a modest decline in contract signings for new homes. Some smaller builders are able to maintain steady work by offering price concessions or by offering new lower-priced products with a smaller footprint and less costly features.

Existing home sales fell modestly in most markets – following a steep decline in the prior period. Brokers noted that the softer market is shifting (slowly) back toward a balance between buyer and seller. Days on the market are lengthening, and home inspections are becoming the norm again. However, housing affordability worsened.

Requests for assistance with housing and utility bills continued to dominate the share of 211 requests in the three-state region, at 32 percent and 23 percent, respectively. In turn, 42 percent of the housing requests were for rental assistance.

Market participants in commercial real estate continued to report steady current construction activity, although the pipeline is less full. Many contacts noted that higher interest rates, tighter credit, and current market uncertainty have delayed many deals, especially for land development. Demand remains strong for new space to serve industrial, warehousing, and the life sciences sector. Multifamily housing has begun to slow, and sentiment toward office space is turning increasingly dour. Leasing activity for office space has slowed modestly, and renewals are often seeking less space. ■

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



Summary of Economic Activity

Business activity in the Fourth District slowed slightly since the previous report, though activity varied considerably by industry sector. District retailers indicated that sales over the holiday shopping season did not meet their growth expectations because inflation led households to spend more on necessities and less on discretionary items. Auto dealers, homebuilders, and residential realtors said that higher interest rates, along with persistent inventory shortages, constrained sales. Bankers reported that loan volumes declined further. By contrast, manufacturers said that demand increased slightly in recent months, particularly in goods categories with longer lead times. Looking forward, contacts are generally more pessimistic about the near-term outlook for demand. However, contacts' near-term hiring plans remained little changed, which suggests they will continue to hire. Upward wage pressures appeared to ease, as did the pressure on nonlabor input costs and selling prices.

Labor Markets

Employment increased moderately in recent weeks despite slightly softer current business activity. Firms in manufacturing and professional and business services were most likely to report staff increases, while those in construction and freight were most likely to report staffing reductions. Reports of layoffs remained rare, and most contacts preferred to reduce employment through attrition when needed. One staffing services firm reported that demand had slowed noticeably in November and December, though the contact was "hoping" that it was a seasonal decline and would pick up in January. On balance, contacts expected to add more workers at a relatively steady pace in coming months.

Wage pressures eased over the past year, though they did not change meaningfully in recent weeks. There were a few new reports of increased worker availability, but most contacts suggested that labor markets remained very competitive, keeping wage pressures from easing further. While fewer firms raised pay compared to those that did a year previous, some offered their employees more generous yearend bonuses or accelerated the timeline for merit increases to help employees mitigate the impact of higher inflation.

Prices

Cost and price pressures have also eased over the past several reporting cycles, though they changed little in recent weeks. Roughly half of contacts reported higher

input costs recently compared to about three-quarters of them who reported the same this time last year. Manufacturers and nonresidential builders were most likely to report relief from rising input costs, often citing lower prices for steel, lumber, and freight. By contrast, costs were said to be rising for concrete, electronics, and electrical components. In many cases in which prices continued to rise, contacts pointed out that the rate of increase had declined noticeably. Looking forward, the share of firms expecting cost increases in the months ahead fell to 54 percent, its lowest since early 2021.

The share of firms raising selling prices was unchanged in recent weeks, at 45 percent, but well below the peak of 73 percent in the spring of 2022. Some contacts noted that they were not increasing prices to remain competitive, while others said they were waiting to see if input costs increase further. However, weaker demand led homebuilders to use more incentives and discounts to close sales, while general merchandisers and apparel retailers used more promotions over the holiday shopping season to move goods and reduce inventories.

Consumer Spending

Retailers reported further softening in demand as consumers faced continued pressure from inflation and increased interest rates. Multiple retail contacts said that holiday sales had fallen short of expectations, with one large general merchandiser noting that his customers continued to focus spending on everyday essentials

while minimizing discretionary purchases. Reports from restaurateurs were mixed. While one fast food contact said her sales had increased as consumers “dined down” because of inflation, sit-down restaurants reported unchanged or decreased sales. Auto dealers continued to report flat or decreasing sales amid increased interest rates, higher vehicle prices, and limited inventory.

Manufacturing

Demand for manufactured goods moved slightly higher in recent weeks. However, reports varied by industry segment. Demand increased for firms whose products have longer lead times, such as those producing parts used in commercial aircraft, and for manufacturers tied to the ongoing creation of new electric vehicle production capacity. By contrast, softer consumer spending led to a decline in orders for some firms as their customers re-balanced inventories. One packaging producer said that customer destocking had reduced demand for its cardboard-related products, leading to “historically high downtime” in production. While reports of supply chain disruptions were less frequent than in recent reporting periods, one HVAC producer said that her firm’s sales had declined slightly because of customers’ inability to secure necessary components. Manufacturers generally expected demand to change little in the coming months.

Real Estate and Construction

Residential construction and real estate activity declined further. Contacts continued to cite elevated interest rates as the main factor hindering demand. One real estate agent said that the housing market was in a recession and stated that the only reason that there had not been significant declines in home prices was because of extremely low inventory levels.

Demand for nonresidential construction and real estate remained weak. Real estate brokers indicated that sales had dried up amid elevated interest rates. Despite tepid demand for new construction, nonresidential construction contacts were slightly less pessimistic about demand going forward. One general contractor was hopeful that funds from the Infrastructure Investment and Jobs Act would begin to result in more projects available for bid.

Financial Services

Overall, lending continued to decline during the reporting period, a situation which bankers attributed to higher interest rates that are increasing borrowing costs. Bankers noted moderate slowing in commercial lending, and some contacts reported weaker loan pipelines. On the household side, lenders said that residential and auto loan volumes continued to decline as higher interest

rates and selling prices dampened activity. Bankers indicated that delinquency rates for commercial and consumer loans remained low. Core deposits declined, and some lenders attributed this decline to customers’ seeking higher-yielding alternatives and to increased deposit rate competition among banks. Looking ahead, bankers expected that loan volumes would continue to decline through the first quarter because of a decrease in applications in the pipeline.

Nonfinancial Services

Freight activity continued to decline. One contact attributed the softening demand to the slowdown in home purchases and a decline in shipments of consumer goods as households shifted more of their spending to services. Another freight contact noted that demand had been diminished because of a reduction in imports. Demand for professional and business services increased on balance. One accounting firm noted that activity had increased in recent weeks because of yearend planning work, and another firm that provides digital authentication services noted that demand for its services remained strong as households continued to shift spending from brick-and-mortar stores to online businesses.

Community Conditions

Nonprofit contacts suggested that job opportunities for lower-wage workers increased in recent months. Several noted that jobs in hospitality and retail were particularly plentiful, likely boosted by seasonal hiring. Contacts cited the largest barriers to lower-wage workers’ participating in the labor force continued to be a lack of affordable childcare and transportation followed by flexible scheduling, wages, and whether those wages would make up for any loss of government benefits (the “benefits cliff”). Regarding affordable housing, a plurality of contacts was concerned about rising rents and the exhaustion of programs such as emergency rental assistance in 2022. Several contacts said these factors are likely to exacerbate a trend toward homelessness and overcrowding, and individuals might “double up” and move in with family or friends. ■

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



Summary of Economic Activity

On balance, the Fifth District economy continued to expand slightly in recent weeks as consumer spending grew modestly but activity in other sectors declined. Manufacturing activity softened slightly and new orders declined. District ports reported a moderate decline in activity, particularly for loaded import volumes. Trucking activity also slowed, partially due to a typical seasonal slowdown, and spot shipping rates decreased moderately. Overall, retail spending grew moderately as strong holiday sales helped lift revenues. Travel and tourism venues also reported moderate growth. Vehicle sales, however, remained low as higher interest rates deterred purchases. Residential real estate activity also softened due to elevated mortgage rates leading to lower sales volume with more seller concessions. Commercial real estate activity slowed moderately across all market segments and some commercial construction projects were cancelled or put on hold. Lending volumes reflected the pull back in borrowing demand and some banks reported increasing delinquency rates in their consumer portfolios. Nonfinancial services reported steady demand and revenues. Total employment increased only modestly with some employers noting being more cautious about hiring and others saying they couldn't raise wages any further. Overall, prices continued to grow strongly in recent weeks; however, some input prices eased.

Labor Markets

Employment in the Fifth District increased modestly in recent weeks. A packaging firm reported that while they have not started layoffs, they have gotten much more selective in who they interview. Several contacts reported that retaining employees continued to be a major issue. One quick service restaurant stated that their company has great culture, but new hires don't stick around long enough to find out. Several contacts reported being at a breaking point on increasing wages as they cannot pass through costs anymore to consumers. Inflation has been a major drain on margins as firms raised wages multiple times to keep up with increased wage expectations for current and potential employees.

Prices

Prices continue to grow strongly in recent weeks. According to our most recent surveys, manufacturing and service sector businesses experienced robust year-over-year growth in prices received. Overall, input price growth remained strong; however, some manufacturers reported paying lower prices for freight and energy. There were several reports, on the other hand, that construction costs continued to rise reflecting higher materials prices and borrowing costs.

Manufacturing

Manufacturing activity in the Fifth District softened further in recent weeks. Shipments of finished products picked up slightly but contacts reported a modest decline in new orders. One fabric manufacturer reported that some of their customers are reducing inventory levels due to a fear of decreased demand, resulting in a decline in orders. A furniture manufacturer saw a slowing of consumer purchases and expected this trend to continue in the next few months as fewer consumers remodel their homes. Supply chain disruptions showed signs of improvements as backlogs and vendor lead times both declined.

Ports and Transportation

Fifth District ports reported a moderate slowdown in volume this period. Loaded imports were significantly down led by a decline in retail inventory, but loaded exports were flat or slightly up. The volume of empty containers leaving the ports continued to be strong. Dwell time at the ports shortened leading to less congestion and lower storage fees. As shipping lines had some freed-up capacity, spot rates continued to decline back to pre-pandemic price levels and were significantly under current contract rates. Due in part to an earlier and longer Chinese New Year, the ports were anticipating significantly lower import volumes in the first quarter of 2023.

Trucking firms reported a usual seasonal slowdown in freight volume this period. Overall, retail shipping volumes declined slightly this period while commercial and industrial loads held up as some firms were still suffering from inventory shortages. Spot market rates decreased moderately this period and there were few increases in contract rates. Trucking firms indicated no difficulty hiring drivers and a few companies actually had scaled back hours and were not backfilling positions in response to the lower volumes. Maintenance remained an issue, which had caused trucking companies to have to maintain bigger fleets. Prices for new tractors and trailers have increased substantially and new equipment orders were back ordered about six months.

Retail, Travel, and Tourism

Retailers reported moderate growth in sales and revenues due, in part, to the holiday shopping season. A few contacts said that customers were still not as price sensitive as they would have expected and were not only interested in discounted items. One contact added that revenues were up because sales volumes were unchanged while their selling prices had increased. A car dealer said that rising interest rates have slowed vehicle sales but that was helping to get more inventory back on the lot.

Travel and tourism increased moderately in recent weeks. Hotels reported that strong occupancy levels and higher room rates led to higher revenue. A hotel in South Carolina added that bookings were up for both leisure and business travel, particularly for small and mid-sized corporate events. Some hotels continued to limit services due to labor shortages, but one contact said they were able to use contract or temporary employment agencies to fill some food service and house-keeping positions.

Real Estate and Construction

There was reduced market activity this period, partially due to usual seasonality, with a decline in the number of listings, decreased buyer traffic, and increased days on market. Respondents indicated that there were fewer closed and pending home sales as elevated mortgage rates and low housing inventory impacted volume. Sales prices have decreased modestly from their peak in the spring; however, sellers were offering more concessions to complete transactions. New home builders also were doing more discounting and/or providing incentives to sell their remaining housing inventory. New home construction costs were lower than their recent peak but still above pre-pandemic levels. There also was a significant pullback in investor activity in the single home market.

Overall commercial real estate activity slowed moderately this period with reduced construction as well as lower leasing activity, investment volume, and asset values. Additionally, as companies consolidated their office space there was an increase in sublease inventory and vacancy rates. Most new commercial construction projects have been put on hold due to elevated construction costs and higher funding rates. There was decreased demand for office and retail space particularly in central business districts. Property owners were offering bigger concessions rather than lowering asking rents on new leases for both multifamily and retail. Capital market sales activity was down significantly due to higher interest rates.

Banking and Finance

Loan demand continued to be weak across all commercial and consumer loan types. This weakness was being attributed mainly to increasing rates and borrower apprehension about the overall economy. Some institutions noticed an increase in existing credit card line usage as well as home equity lines of credit. Deposit levels continue to drop although rates were increasing in line with treasury securities. Institutions continued to see a modest increase in loan delinquencies, especially in the consumer portfolio. Overall, institutions anticipated a moderate decrease in both loans and deposits in 2023.

Nonfinancial Services

Nonfinancial service providers reported stable demand for their services as well as revenue growth. Contacts expected to moderately increase wages in the coming year to maintain and grow their workforces. One professional services firm was budgeting for technology upgrades to remain efficient during this time of workforce uncertainty. Supply chain issues were improving, but this improvement was being offset by a decrease in demand from clients. Inflation and rising interest rates were still a concern for firms' customers, which added uncertainty to making business decisions. ■

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



Summary of Economic Activity

Sixth District economic activity grew at a gradual pace from mid-November through December. Labor market pressures eased somewhat, but wage pressures persisted. Most nonlabor cost increases moderated; however, food prices climbed, and freight costs remained elevated. Some firms' pricing power diminished. Holiday sales at District retailers were strong, and auto sales rose. Leisure travel activity was robust, and bookings for the first half of 2023 were strong. Housing inventory levels rose as home sales declined. Commercial real estate conditions weakened. Transportation activity continued to decline. Manufacturing demand remained steady. Deposit growth at financial institutions slowed, but loan growth was steady. Energy production remained strong, but winter weather caused storm-related outages and damage to powerlines. Agricultural conditions were mixed.

Labor Markets

Labor market pressures eased further since the previous report, but firms continued to describe labor markets as tight. Several contacts noted that entry-level roles were easier to fill; hiring for skilled positions remained challenging. Staffing was still a top concern and firms were largely intent on keeping talent even if demand slows; most indicated that they would strongly resist layoffs and would instead right size via attrition. Several employers required employees to return to the office and have become less flexible with remote work arrangements.

Most employers reported persistent upward wage pressures. Many anticipate wage growth will remain elevated in 2023 but will ease somewhat. Several noted that they would be creating more equitable pay across their organization based on market survey results. Some contacts indicated that overall pay raises would be modest, but bonuses would be used to retain and recruit specific talent.

Prices

Sixth District contacts noted most nonlabor input cost increases moderated over the reporting period, though price levels remained historically elevated. While domestic freight cost increases persisted, largely due to higher energy and labor costs, shipping container rates returned to near-"normal" pricing. Food prices rose significantly. Many firms described diminished pricing power due to elevated inventories and/or increased price sensitivity from customers. The Atlanta Fed's Business Inflation Expectations survey showed year-

over-year unit cost growth decreased in December to 3.8 percent, on average, down from 4 percent in November. Firms' year-ahead inflation expectations also decreased from 3.3 percent in November to 3.1 percent in December, on average.

Consumer Spending and Tourism

Retailers reported solid and healthier-than-expected holiday sales; however, many offered heavy discounts as consumers looked for deals. Some contacts noted that lower-income consumers continued to trade down and shifted to non-discretionary spending. Those stores catering to higher-income customers noted ongoing strength in demand. Auto dealers saw an increase in sales volumes compared to the last report as new and used car inventories improved.

Tourism and hospitality contacts reported strong demand for leisure travel throughout the holiday season. Hotel occupancy and attendance at tourism venues were greater than 2019 levels. Although bookings were strong through the second quarter of 2023, contacts expressed uncertainty over the second half of the year.

Construction and Real Estate

Despite more moderate price growth and a recent drop in mortgage interest rates, housing demand in the Sixth District continued to deteriorate. Sales fell sharply across the region and inventory levels rose. Most homes sold for below the asking price and the number of days on market reached near pre-pandemic levels. Builders continued to reduce new home construction in response to declining demand. According to builder

contacts, demand in the entry-level and second home markets was the weakest and cancellation rates remained high. A significant share of builders cut prices and increased incentives to attract buyers.

Commercial real estate (CRE) contacts reported weakening market conditions in lower-tier office, luxury multifamily and owner-operator retail segments. The industrial sector was robust; however, contacts voiced concerns over future activity levels. The downward trend in the office sector has eased some as more employers require their staff to return to the office; however, heightened levels of sublease space remained an impediment to market recovery. A greater number of contacts shared concerns over declining CRE values as the bid-ask spread remained wide. More instances were noted of slowing or negative net operating income and rent growth. Contacts continued to report occurrences of declining asset prices and buyers seeking greater concessions.

Transportation

Transportation activity continued to slow from unsustainable pandemic levels. While some southeastern ports reported that breakbulk cargo volumes rose as shippers sought alternative ways to move cargo amid supply chain disruptions, container traffic decreased and was characterized as a return to more sustainable growth. Trucking tonnage also fell, and housing-related freight was noted as particularly weak. Railroads experienced declines in intermodal shipments of packaging materials, chemicals, and metals. Logistics firms involved in moving and relocation, “big and bulky” delivery services, and warehousing saw year-over-year volume declines as consumer and housing demand softened and firms reduced inventory levels. Most transportation contacts expect additional weakening of demand in 2023.

Manufacturing

District manufacturers noted steady demand and positive revenue growth, driven primarily by the ability to raise prices to offset higher input costs; however, margins were described as remaining pressured or even declining. Some firms reported plans to right size inventory levels, reverting back to “just-in-time” inventory management compared to pandemic-era “just-in-case” inventory approaches. Several manufacturers cited inflation and a strong dollar as headwinds in the coming year.

Banking and Finance

Banking contacts reported steady loan growth for a majority of portfolios, except for farmland and consu-

mer loan growth remained positive. Yet, institutions cut investments in mortgage-backed securities as unrealized losses in securities portfolios increased. Deposit growth shifted primarily to time deposits as growth in all other deposits declined in recent weeks and institutions increased short-term borrowing to fund ongoing loan growth. Asset quality metrics showed a steady increase in the level of nonperforming assets.

Energy

Oil and gas contacts continued to report strong activity and increased production, although the pace of growth slowed over the reporting period. Gulf Coast refining was impacted by the winter storm that swept across the U.S. in late December, causing regional utilization to fall approximately 20 percent, though long-term damage to infrastructure was minimal. Utility providers across Sixth District states reported winter storm-related outages from damage to powerlines and surging demand. Energy contacts continued to describe ongoing investments in renewable projects, particularly hydrogen, carbon capture and storage, and offshore wind-energy development projects.

Agriculture

Agricultural conditions were little changed from the previous report. Demand for poultry dropped slightly but remained strong; demand for cattle and timber, as well as for some row crops, such as corn and soybeans, held steady. Florida citrus yields were down notably due to damage from Hurricane Ian. The cotton market continued to soften amid decreased demand from textile mills. Supply chain disruptions persisted, with several contacts reporting delays in receiving machinery and parts. ■



Summary of Economic Activity

Economic activity in the Seventh District decreased slightly overall in late November and December. Contacts generally expected slow growth in the coming months, though many expressed concerns about the potential for a recession this year. Employment increased moderately; consumer and business spending were unchanged; nonbusiness contacts saw little change in activity; manufacturing decreased modestly; and construction and real estate decreased moderately. Many contacts indicated they were no longer facing supply chain disruptions. Prices and wages rose moderately, though at a slower pace than last report, while financial conditions tightened some. Agriculture incomes were strong in 2022.

Labor Markets

Employment increased moderately in late November and December, and contacts expected a modest increase in employment over the next 12 months. Many contacts continued to report difficulty finding workers, though others said they were able to meet their hiring needs. One contact noted that worker attrition had slowed. Another said that offering longer but fewer shifts had attracted workers and helped those with childcare needs. Wage and benefit costs continued to increase, though at a slower pace than in the prior reporting period. Compensation increases were aimed both at attracting new workers and retaining existing talent.

Prices

Prices rose moderately in late November and December, which was a slower pace of increase than in the last report. Contacts expected a similar rate of price increases over the next 12 months. Producer prices rose moderately, with reports of higher overall energy and raw materials costs. One contact noted that shipping costs had largely stabilized, and another reported that declining fuel prices were lowering production costs. Consumer prices generally moved up due to solid demand and passthrough of higher costs, though there was growing consumer resistance to paying higher prices.

Consumer Spending

Consumer spending was little changed on balance. Nonauto retail sales for the holiday season edged up, slightly exceeding expectations. Categories that registered growth included consumer electronics, grocery, discount stores, cell phone plans, and specialized goods such as formal apparel and small kitchen appliances. Weaker spending categories included furniture and toys. Retailers increased promotions prior to Christmas and boosted them further after Christmas to sell off excess inventories. New vehicle sales were little changed, and dealers were concerned that rising inventories and financing rates would hurt profitability. Used vehicle sales decreased slightly, and prices continued their fall from peak levels earlier in 2022. Overall, leisure and hospitality spending was up a bit, while some airlines and cruise lines noted that the level of spending was well above last year's. Movie ticket sales were also up.

Business Spending

Business spending was little changed overall in late November and December. Capital expenditures remained stable on balance, with contacts highlighting purchases aimed at greater automation. Demand for commercial and industrial energy decreased slightly while residential energy consumption rose. Retail inventories remained elevated overall, and contacts said

retailers were reducing orders and ramping up promotions to help pare them down. Vehicle inventory levels continued their slow and steady climb. In manufacturing, inventories were somewhat elevated, as supply issues continued to lead firms to hold unfinished products. That said, many contacts indicated they were no longer experiencing supply chain disruptions.

Construction and Real Estate

Construction and real estate activity decreased moderately over the reporting period. Residential construction activity declined modestly overall, led by a pullback in single family homebuilding. Contacts reported that multi-family construction and remodeling activity were stable. Residential real estate activity fell moderately. Home prices moved down modestly, but rents were up modestly. Nonresidential construction declined slightly. One contact said that while there is still work in the pipeline for the next 6 to 12 months, high interest rates were weighing on new projects, leading to worries that work will dry up later in 2023. Commercial real estate activity decreased moderately, with contacts reporting that obtaining financing for deals was very difficult. Prices were down moderately, while rents decreased modestly. Both vacancy rates and the availability of sublease space increased modestly.

Manufacturing

Manufacturing demand decreased modestly in late November and December. Contacts reported improvements in the availability of inputs, which helped them further reduce order backlogs. Steel production declined slightly in November as demand slowed. Fabricated metals demand was flat on balance, with contacts highlighting growth in defense industry sales but declining orders from the housing and automotive sectors. Several fabricated metals contacts noted long lead times for copper. Auto production decreased slightly, while heavy truck demand increased slightly. Heavy machinery orders were steady.

Banking and Finance

Financial conditions tightened some over the reporting period. Participants in the equity and bond markets reported lower asset values and increased volatility. Business loan demand fell moderately, with contacts pointing to declines in commercial real estate lending. Business loan quality decreased slightly, though one contact noted that loan quality remained strong in multi-family housing as rents stayed high. Business loan standards tightened slightly. Consumer loan volumes fell modestly, with contacts continuing to note declines in mortgage lending in the face of higher rates. Consumer loan quality and standards remained the same.

Agriculture

After a strong year for District agricultural income, contacts expected lower but still solid returns in 2023. A contact suggested that many farmers will spend their gains on equipment and trucks, especially as availability at dealers had improved. With rivers rising, barge shipments returned closer to normal levels, easing shipping costs some. Furthermore, prices for inputs such as fertilizers, chemicals, and energy all moved down during the reporting period, and there was less concern about the availability of inputs. However, some contacts expressed worries about higher interest rates on farm loans. Soybean prices were higher, whereas corn prices were little changed. Egg and cattle prices continued moving up, while dairy and hog prices generally continued to move down. Most major agricultural prices ended 2022 higher than they were at the end of 2021.

Community Conditions

Community development organizations and public administrators reported little change in overall economic activity in late November and December. State government officials saw healthy growth in tax revenues over the reporting period. Demand for unemployment insurance remained low. Small business support organizations said clients continued to face margin pressures due to rising input costs, leading to increased loan delinquencies. In addition, higher interest rates were making small businesses reluctant to take on working capital loans. Nonprofit organizations said that uncertainty about the employment outlook was complicating low- and moderate-income households' long-term financial decisions, such as whether to pursue homeownership. Philanthropic organizations continued to face the challenge of balancing increased requests to address basic needs—such as food insecurity—with lower revenues. ■

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



Summary of Economic Activity

Economic conditions have remained unchanged since our previous report. Contacts reported tight labor markets but continued improvement in their ability to hire and retain workers of all skill levels. Firms continued to report input price increases, but the rate of increases has slowed as supply chain bottlenecks have eased slightly; manufacturing and healthcare firms reported that lead times for key inputs have improved over the past month. Consumer spending was mixed during the holiday season; some retail and hospitality contacts noted that activity was hampered by winter storms across most of the region during the holidays. Homebuying activity has slowed even beyond normal seasonal trends, and banks reported that loan demand slowed moderately.

Labor Markets

Employment has remained unchanged since our previous report. The unemployment rate in the region has remained low, and many companies still reported being understaffed. Organized labor and staffing contacts reported high demand for workers who could fill positions immediately. A retail contact in Memphis noted difficulty in filling open positions and retaining employees. However, several firms reported slightly higher staffing levels and more applicants for open positions.

Wages have grown slightly since our previous report. Staffing shortages persist, and companies are continuing to raise wages to attract and retain new workers. One Arkansas brewery offered loans to employees to help with housing costs and considered buying property to rent apartments to employees. Other firms reported slowing the rate of wage increases. An education contact in Tennessee reported having to find other ways of retaining employees since salaries could be raised only minimally.

Prices

Prices have increased modestly since our previous report. Despite continued increases in nonlabor input costs for businesses, multiple contacts reported an inability to fully pass these higher costs on to consumers.

Additionally, some manufacturing contacts reported lower nonlabor input costs, stemming from increased inventory availability. A contact in the auto industry reported lower prices for used and new vehicles as inventories grow. Multiple contacts cited higher interest rates as a driver for weaker demand, which in turn caused them to maintain or lower their prices. For businesses that reported increasing prices, the rate at which they were able to do so varied widely, with some contacts passing on only 5% of their costs increases and others passing on 75%. A contact in the home building industry cited labor costs as placing upward pressure on prices.

Consumer Spending

District general retailers, auto dealers, and hospitality contacts reported generally lower business activity and a mixed outlook. A Louisville retail contact reported that Black Friday sales were spread out over a longer time period, which caused buyers to delay purchasing and wait for further discounts. In Memphis, consumer spending on holiday gifts lagged compared with other MSAs throughout the country. Memphis retailers reported weaker than expected sales.

Auto dealers in Little Rock noted that inventories remain too low to meet demand at current prices, especially in used cars, and that they had a surprising surge in foot traffic shortly after Thanksgiving. The winter storm at the

end of December forced restaurants in Memphis to close fully or partially, which negatively affected sales on one of the busiest days of the year. St. Louis hospitality contacts noted that business activity was lower in December compared with November, although banquet business exceeded expectations. Hospitality contacts have lower expectations for the upcoming months due to the increase in sicknesses, higher-than-average inflation, and staff shortages.

Manufacturing

Manufacturing activity has slightly decreased since our previous report. Firms have reported small increases in production but moderate decreases in new orders. A survey of manufacturing supply managers conducted by Creighton University hints at the early signs of a recession, with 60% expecting such an outcome. Manufacturing indicators have exhibited below-neutral growth in seven of the past nine months. Supply chain congestion has also started to improve for some companies, which is beginning to lower the price growth of manufacturing inputs and return inventories to normal levels. Firms remain optimistic that input prices and delivery times will continue to revert toward pre-pandemic levels in the coming year.

Nonfinancial Services

Activity in the nonfinancial services sector remains stable since our previous report. Air freight and passenger traffic has slightly increased, while public transportation services continued to experience driver shortages and, consequently, route cancellations. A job-matching service in the St. Louis area is expanding services that match disabled job candidates with employers, and a housing-insecurity nonprofit built new homes and secured contracts to expand services.

Public sector reports were mixed. Public safety services are expected to decrease with the elimination of vacant positions in response to budget deficits in the St. Louis area, and water distribution services struggled to provide necessary maintenance and repairs due to revenue concerns. In northern Arkansas, parks and recreation services are expected to increase with staffing additions and a new proposal for expanded services.

Real Estate and Construction

Activity in the residential real estate market has continued to slow since our previous report. In November, month-over-month median rental rates on new leases fell in all four major District MSAs for both one- and two-bedroom apartments. Rates continued to slow or remained the same in all four major District MSAs during December. Building permits in the Midwest and South

have continued to fall sharply since our previous report, even after accounting for seasonal factors. However, construction contacts continue to work through backlogs. Across the District, total home sales have dropped 4.2% since our previous report, and inventory has slowly started to increase—up 2.75%—during that time. Average time on the market for residential housing has also increased during the fourth quarter.

Banking and Finance

Banking conditions and lending activities in the District continued to soften but remained strong. Total loan growth saw only an uptick since our previous report, showing signs of slowing down from its steady and relatively fast increase between late 2021 and mid-2022. This is in line with the cooldown in loan demand that banking contacts observed toward the end of 2022. Commercial and industrial loan growth increased slightly, while consumer loan growth decreased moderately. Commercial real estate loans, however, still showed moderate growth compared with our previous report. Total deposits growth decreased moderately, but a Memphis contact noted that deposit rate competition has picked up among banks. Credit quality remains strong despite interest rate hikes, and the number of past-due loans is still low.

Agriculture and Natural Resources

District agriculture conditions are favorable and have remained largely unchanged since our previous report. The percentage of winter wheat in the District rated fair or better decreased slightly from the end of November to the end of December. Rising commodity prices have pushed inflation-adjusted farm incomes to a near 50-year high, leading to an optimistic outlook for the upcoming year. However, input costs are on the rise as well, raising uncertainty on the overall effect on farmers' margins for 2023. ■



Summary of Economic Activity

The Ninth District economy grew slightly overall since the previous report. Employment grew modestly and the labor market remained healthy, although there were some signs that labor demand was softening. Wage pressures remained high but also appeared to lessen slightly. Prices increased modestly overall, and high food prices were negatively affecting low-wage workers. Activity increased in consumer spending, manufacturing, and energy. District agricultural conditions remained strong. Commercial and residential construction and real estate sectors were either flat or declined. Activity among minority- and women-owned businesses slowed slightly.

Labor Markets

Employment grew modestly since the last report, with most District states seeing increasing payrolls. A December survey found that 44 percent of hospitality and tourism firms in Minnesota reported that they were hiring in some capacity, with more than half looking to increase year-round head count; 14 percent cut seasonal staff, but almost no one cut year-round staff. However, other smaller surveys of businesses across the District showed softer hiring sentiment in both November and December, and future hiring expectations were similarly flat. Job postings and other signs of hiring demand also continued to soften somewhat but remained healthy overall. Contacts reported small improvements in labor availability, but continued difficulty in hiring. Many businesses continued to adapt as a result. Said one contact, “Retail and manufacturing are getting good at operating with less than a full crew.”

Wage pressures fell slightly but remained at high levels. Firms reported minor softening in the pace of wage growth, more so for salaried than hourly workers. But overall pressure was still well above average. Nearly half of hospitality and tourism firms reported wage increases of 5 percent or more, but future wage expectations were notably lower. A Minnesota contact said that more employers were offering sign-up or retention bonuses rather than higher wages.

Prices

Prices increased modestly overall since the previous report. Two-thirds of respondents to a District business conditions poll reported no change to the prices they charged for their products and services in December from a month earlier; about half of firms said their nonlabor input prices were unchanged. The wholesale prices component of a regional manufacturing index decreased to a level just above neutral in December, its lowest reading since the early months of the pandemic. A producer of home furnishing products noted that raw materials prices have come down less than 10 percent, but “we have had to reduce pricing by around 20 percent to get additional business.” Despite reductions in many construction materials costs, a road construction contractor expected a 13 percent increase in concrete prices in 2023. Retail fuel prices in District states declined rapidly since the last report. Prices received by farmers in November increased from a year earlier for corn, wheat, soybeans, sugar beets, potatoes, hay, hogs, cattle, turkeys, chickens, and eggs; prices for chickpeas and canola decreased from a year ago.

Worker Experience

Low-wage workers in the Minneapolis–St. Paul area reported continued pressures from higher food prices. Some said they found it increasingly difficult to pay their bills and were therefore accumulating credit card debt. A Minnesota labor contact said that the number of traveling

nurses had declined but remained high. Many nursing program graduates were reportedly rethinking their choice to pursue a career in health care, as shortages have resulted in higher stress for existing workers. A workforce development contact reported that some former housekeepers had decided to start their own businesses rather than getting paid \$5 per cleaned room by a hotel chain. Other workers were said to have left their jobs to start businesses in food, landscaping, and snow removal.

Consumer Spending

Consumer spending grew modestly since the last report, remaining at high levels. Retailers overall reported a decent holiday shopping season, with good initial traffic interrupted by severe winter weather. A South Dakota contact said that the shopping season started strong but ended “somewhat weaker than many businesses anticipated” because of poor weather that impacted not only customer traffic but also product inventories. A Minnesota mall reported December foot traffic was up over last year despite weather events, and anecdotal evidence indicated that shoppers spent more. Another mall contact reported that sales were up 8 percent over last year and that new leasing activity was encouraging. A suburban Minnesota mall estimated that sales rose by 5 to 10 percent, with high traffic volumes even during the week. “Restaurants continue to knock it out of the park, with waiting periods from the time they open.” A vehicle dealership with multiple locations saw sales of both new and used vehicles rise in December, year over year.

Construction and Real Estate

Commercial construction fell slightly since the last report. Industry data suggested that revenue levels across the sector have not declined significantly. But firms reported slowing activity and that high project costs were propping up revenues. A contact in southeast Minnesota said that companies and their clients were “choosing between delaying projects at normal prices or getting done on time at inflated prices.” Sources also suggested that the pipeline of new projects out for bid was shrinking, though industrial and multifamily construction was still healthy. Single-family residential construction continued to decline. December permitting activity was much lower than a year ago in most of the District’s larger markets. For example, single-family permits in the Minneapolis–St. Paul region in December were less than half their levels from a year earlier.

Commercial real estate was flat since the last report. Vacancy rates remained favorable in multifamily and industrial sectors even with new construction, but

unfavorable in office space despite little new construction. Property sales were subdued due to higher interest rates and economic uncertainty. Residential real estate continued to decline for similar reasons. Closed sales in November and December were widely lower compared with last year. In Sioux Falls, South Dakota, December sales dropped by 48 percent year over year. In some markets, new listings declined as sellers waited for better market conditions, yet inventories of homes for sale increased with the large drop in sales.

Manufacturing

District manufacturing activity decreased slightly since the last report. Results from the Minneapolis Fed’s annual survey of manufacturers indicated that firms overall saw increased orders, production, capital expenditures, and employment in 2022, with stable expectations for their firms in the year ahead. However, a regional index of manufacturing conditions indicated a mild contraction in activity in Minnesota and North Dakota in December from a month earlier, while activity expanded in South Dakota. Manufacturing contacts generally reported no change or a slight decrease in new orders. However, a producer of homebuilding inputs reported a drastic decline in new orders, and a custom manufacturer in Minnesota reported they have canceled all capital expenditures for the first quarter of 2023.

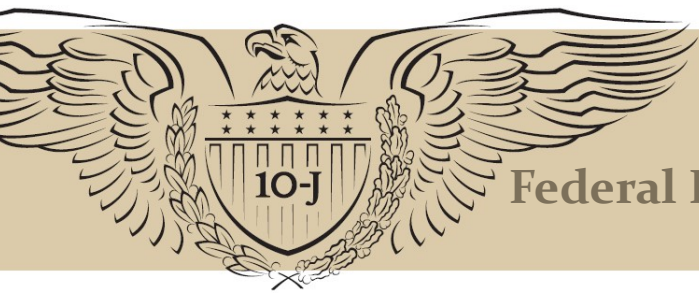
Agriculture, Energy, and Natural Resources

District agricultural conditions were stable at high levels. Sector contacts reported that farm incomes and working capital remained strong heading into 2023. District oil and gas exploration activity increased slightly since the last report.

Minority- and Women-Owned Business Enterprises

Activity among minority- and women-owned businesses slowed slightly in recent weeks according to reports from contacts. Input and labor costs were reportedly diminishing profits for many. A small steel manufacturer reported success in doubling their workforce after offering health insurance for the first time, a move they made at the expense of profitability. Contractors reported that uncertainty due to ongoing material shortages and price increases was making it difficult to meet existing bids. “We never know what we’ll end up paying for materials,” shared a Minnesota contact. “Bids do not move with those changes and we cannot walk away.” Food service businesses were said to be losing the hiring race to restaurant chains and other more established businesses. ■

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



Summary of Economic Activity

Economic activity in the Tenth District continued to decline slightly through the end of 2022. Hiring activity slowed further, but the labor market remained very tight. Several segments of the service sector had modest declines in employment, but job openings remained elevated. Given the ongoing tightness in the labor market, wage pressures remained high overall, and businesses noted that wage growth still has momentum. Manufacturing activity continued to decline at a modest pace, but expectations firmed somewhat. Consumer spending declined recently, particularly at retailers and restaurants. Given the amount of leisure travel, contacts noted that retail spending was lower than expected. Additionally, retailers indicated they are dealing with a glut of inventories resulting from loosening supply bottlenecks. Those previously delayed retail goods now in inventories are reportedly not well aligned with current consumer demand, and so are being sold at steep discounts. Cost pressures for service businesses remained elevated, but the pass through to customers became more difficult recently. Across goods and services, price growth slowed to a moderate, yet still-brisk, pace. Growth in overall energy activity slowed across the District, as falling oil and gas prices were a headwind to new drilling and production.

Labor Markets

Hiring continued to slow in the Tenth District as labor demand cooled, though the number of job openings and overall tightness of the labor market remained high. Employment remained mostly unchanged for manufacturing businesses, while employers in the service sector reduced their payrolls slightly. Reductions in employment were broad-based across service sectors but varied in scale across segments. Many restaurants and retail businesses reported modest declines in jobs, while a small number of technology and financial service businesses reported more substantial job losses. More contacts reported they reduced hours worked by employees in recent weeks, another indication of cooling labor demand.

While hiring slowed, wages grew moderately. District contacts broadly indicated that wage growth continues to have momentum due to ongoing imbalances in the labor market. In particular, wage growth in the lodging sector, where employment shortfalls remain pronounced, increased robustly. Most contacts reported they expect wages to increase at either the same rate, or a pace that is slightly faster, than wage growth over the past year.

Prices

Prices increased at a moderate pace. Most manufacturing businesses reported that input price growth continued to slow in recent weeks, and most of those contacts reported that they are able to pass over 80 percent of higher costs to their customers. Conversely, businesses in the services sector indicated input price growth remains elevated, and less than 20 percent of cost growth is passed to consumers. Service businesses noted they are struggling to strike a balance between retaining customers and maintaining profitability. Most contacts report that their expectations for future price growth are moderating compared to last year but remain elevated above historical norms.

Consumer Spending

Consumer spending fell moderately over the past month, despite robust leisure travel activity. Restauranters and retailers reported that “travelers just aren’t spending like they used to.” The lower propensity for travelers to dine out or shop, combined with adverse weather events and waning demand more broadly, led contacts to report a softer-than-expected beginning of the winter season. Travel and accommodation spending was elevated, driven by higher prices rather than higher volumes, as total occupancy remained subdued.

Community Conditions

Many non-profit organizations reported expanding their capacity recently in response to higher levels of household financial stress and food insecurity over the past year. One food bank in Kansas City reported that the number of sack lunches they provided tripled in 2022, with similar reports of heightened demand in other District cities. However, food bank contacts noted the increases in food and fuel costs earlier in the year coincided with declining donations, which depleted financial reserves and inhibited their ability to provide services in recent months. Difficulty meeting an increased demand for services was broad-based in the non-profit sector, with many organizations also citing difficulty recruiting volunteers and the health of their employees as major challenges to their operations.

Manufacturing and Other Business Activity

Manufacturing activity declined modestly with production levels, the length of backlogs and the volume of new orders all continuing to fall over the past few weeks. Changes in service sector business activity were mixed across segments. Sales were down broadly, however, tourism businesses noted sales growth remained moderate due to ongoing price growth. Although overall activity softened over the past few weeks, expectations for growth over the next 6 months increased moderately.

Demand for goods at retail businesses fell slightly. The lower demand coincided with a glut in inventories after shipping bottlenecks loosened. Retailers reported they are now dealing with a mismatch between final goods held in inventories and the type of goods consumers are demanding, forcing businesses to heavily discount misaligned merchandise. Although international freight conditions have reportedly recovered, broad disruptions across various modes of inland domestic transportation remain.

Real Estate and Construction

Subleasing activity in commercial real estate increased rapidly in recent weeks. Commercial space previously occupied by tech sector businesses became increasingly available. Contacts reported they expect further acceleration in the amount of office space that will be offered on secondary markets in coming months. Accordingly, prices of subleased space dropped, and terms became more favorable for incoming tenants. In residential real estate, builders of new single-family homes noted an uptick in the number of buyer cancellations for projects underway. In recent weeks, those cancelled purchases were backfilled by secondary buyers seeking homes. However, contacts indicated they expect “a bigger cliff of cancellations will hit builders in the spring.”

Community and Regional Banking

Loan demand remained stable in the past month, except for residential mortgages, which continued to decline swiftly. Bankers experienced steady interest from borrowers across the Commercial and Industrial and Commercial Real Estate segments of their loan portfolios, despite higher interest rates on new originations. Although credit quality remained stable in recent weeks, contacts expected deterioration in the next six months as higher interest rates impair property valuations and borrowers’ ability to generate sufficient cash flow for debt service, particularly in the CRE space. Deposits declined moderately this month as competitive rate pressures and inflationary dynamics eroded deposit balances. Nonbank financial institutions and firms with reduced liquidity drove deposit rates higher over the month.

Energy

Growth in overall energy activity slowed modestly in the Tenth District, as falling oil and gas prices were a headwind to new drilling and production. Contacts in the service segments of the sector reported little change in business activity. Despite several notable developments during the past month – in particular, G7 price caps and European sanctions on Russian oil exports and production cuts by OPEC – the overwhelming majority of contacts reported no changes to their production plans resulting from these events thus far. Looking ahead to later this year, most businesses indicated they expect oil and gas production to increase by less than 5 percent, as they expected prices to be slightly below levels necessary for more significant production increases. Several contacts also noted that ongoing delays in industry supply chains are expected to constrain production growth in 2023.

Agriculture

Agricultural economic conditions in the Tenth District were generally strong through the end of 2022 alongside elevated commodity prices. Prices of some key crops and livestock declined slightly during December but remained at a profitable level. Most contacts in the District reported gradual improvement in farm income and credit conditions, but others noted that drought had weakened conditions for some producers. Strong real estate values continued to bolster farm finances, but increased interest rates, high production costs, challenging weather conditions, and the outlook for commodity prices remained key concerns. ■

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



Summary of Economic Activity

Modest growth continued in the Eleventh District economy overall. Growth accelerated in manufacturing but abated in the service sector. Retail sales and home sales fell further, while oil and gas activity expanded. Rising interest rates prompted further deterioration in loan demand. Local nonprofits cited higher demand for assistance amid rising household costs. Rainfall improved agricultural conditions. Employment growth remained moderate overall and wage growth stayed elevated. Prices climbed further although firms expect pressures to moderate somewhat next year but remain elevated. Outlooks were mostly pessimistic except for the energy sector, and many contacts voiced concern about weakened demand, a potential recession, and inflation.

Labor Markets

Employment growth remained moderate overall. Hiring was robust in manufacturing and energy but slowed slightly in the service sector and stalled out in retail. Hiring difficulty remained a top business concern, particularly in energy, hospitality, education, and healthcare, though there are some signs of easing in other sectors. A restaurant said they turned away business in December due to staffing shortages.

Wage growth remained elevated. In a Dallas Fed survey of 265 executives in the service sector, average wage growth in 2022 was 7.4 percent. Reported wage growth was even higher in manufacturing and retail—averaging 8.5 and 8.2 percent, respectively. Multiple manufacturing contacts mentioned investing in automation due to high labor costs. Looking ahead to next year, contacts overall expect to raise wages 5.6 percent, on average.

Prices

Input costs remained elevated, though upward pressure eased slightly in December, continuing the trend seen throughout most of 2022. Contacts reported input price increases of 9.6 percent last year, on average, and expect a 5.9 percent increase this year. In the energy sector, cost growth remained high but eased in the fourth quarter. Manufacturers noted cost increases in excess of

20 percent on certain items last year. Meanwhile, growth in selling prices did not ease in the latter part of 2022 but instead remained stubbornly high. Contacts said they raised prices by 7.4 percent last year and expect to push through price increases this year on the order of 4.7 percent amid increased consumer price sensitivity.

Manufacturing

Texas factory output increased in December after stalling in November. New orders for manufactured goods continued to decline, however. Production growth was led by durable goods—in particular fabricated metals and machinery, with some contacts noting increased demand from the oil industry as a driving force. Weakness continued in chemical manufacturing, and contacts noted slowing global demand for PVC and other materials used in interest-rate-sensitive sectors like construction and automobiles. Supply-chain issues continued to improve. Overall, outlooks weakened, with more than half of contacts noting waning demand and/or recession concerns. Other headwinds cited were elevated input costs, labor shortages, and higher labor costs.

Retail Sales

Retail sales continued to decline over the past six weeks. A clothing store noted both less traffic and lower average sales per transaction, while wholesalers of

nondurable goods reported an increase in sales in December. Auto sales stabilized after declining last fall, though auto dealers continued to note that higher interest rates were hampering business. Outlooks worsened, with concern about a potential recession, rising interest rates, and inflation.

Nonfinancial Services

Service sector activity was flat in December, with growth abating amid reports of a slowdown in consumer spending. Business services and education and health saw a contraction in revenue while transportation services posted continued revenue gains, citing increased cargo volumes. Airlines reported unseasonably strong leisure demand but noted business travel had yet to fully recover from the pandemic. Activity in the leisure and hospitality sector held steady. Staffing firms reported solid demand for their services, though one noted a slowdown in some manufacturing and construction sectors. Outlooks deteriorated overall, with a majority of contacts citing weakening demand and/or potential recession as a primary concern going forward.

Construction and Real Estate

Activity in the single-family housing market continued to decline. Home sales and prices fell further, and cancellations stayed elevated. In homebuilding, buyer incentives were widespread and construction costs were generally high, putting downward pressure on builders' margins. Outlooks weakened. Apartment leasing softened beyond seasonality, with occupancy and rents slipping modestly.

Demand for office space remained somewhat weak, pushing up sublease space availability. Fundamentals in the industrial market stayed solid, but contacts expressed concern about the pipeline of new construction. Investment sales activity has slowed noticeably, as investors take a wait-and-see approach partly due to the higher cost of capital and economic uncertainty.

Financial Services

Loan volumes declined for the third reporting period in a row, and loan demand fell further. Volume declines were across all loan categories but led by residential real estate, while commercial real estate and commercial and industrial loans experienced an accelerated decline from the prior period. Loan nonperformance increased slightly overall, with the rise stemming from residential real estate and consumer loans. Contacts again overwhelmingly reported loan price increases, and credit standards and terms continued to tighten. Business activity experienced a significant decline, and expectations for the next six months are for loan demand and business activity to decline further and loan nonperformance to increase.

Energy

Energy activity continued to expand during the reporting period, with a slight increase in the Eleventh District rig count over the past six weeks and sizeable increases in both oil and natural gas production in fourth quarter 2022. Contacts seemed confident that crude oil markets will remain tight for the next several years, keeping oil prices in the \$80 to \$90 per barrel range, which is high enough for most District producers to profitably drill new wells. Due to high demand for oilfield services and supply chain issues, the industry remained constrained on equipment and labor, and expectations were for activity to expand at a slow, steady pace this year. Outlooks improved overall, and most contacts expect increases in capital spending this year.

Agriculture

Rainfall continued to improve soil moisture conditions, setting a good foundation for winter wheat and spring crops. Cotton exports declined, and contacts cited weak mill demand prompted by low consumer demand. Relatively high grain prices and promising soil moisture will likely favor an increase in grain acreage and reduction in cotton acreage next year.

Community Perspectives

Nonprofits reported higher demand for their services during the reporting period. Housing affordability remained a key concern amid higher rents, and some struggling households have moved further away from urban cores, leaving them without public transportation access and further away from nonprofit resources. Evictions have risen notably in some areas. Food insecurity was another primary issue, as lower-income individuals faced challenges in deciding to pay for rent versus groceries when there was not enough money for both. Contacts said a lack of affordable childcare was stunting economic mobility for lower-income women, with one nonprofit noting some improvement in daycare availability but no relief yet in pricing. Community colleges report continued growth in career and technical program enrollment, and numbers are up from pre-pandemic levels. Overall community college enrollment is still down, but rebounding. ■

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



Summary of Economic Activity

Economic activity in the Twelfth District expanded modestly during the mid-November through December reporting period. Labor supply improved somewhat, and employment levels grew at a modest pace. Wages and prices rose at a slower pace relative to the previous reporting period. Demand for retail goods was stable, and activity in the consumer and business services sectors was strong. Demand for manufactured products was mixed, while conditions in the agriculture and resource-related sectors remained weak. Activity in residential real estate markets weakened further, while commercial real estate activity was flat overall. Lending activity rose slightly over the reporting period. Communities across the Twelfth District were challenged by elevated living costs and lack of affordable housing. Contacts expressed concern over a weaker outlook for the economy and increased overall uncertainty.

Labor Markets

Employment levels grew at a modest pace during the reporting period as labor availability improved across the District. Job turnover and voluntary quits reportedly fell in recent weeks, and hiring difficulties eased in consumer services sectors such as retail, food services, and hospitality. Contacts reported strong competition for labor and difficulties attracting experienced talent in health care, legal services, manufacturing, and skilled trades. Several real estate firms and mortgage providers reported reducing the number of open positions in response to moderating demand and noted that recent hiring freezes and layoffs in the technology sector improved the size and quality of the applicant pool. Contacts in Alaska and Hawaii continued to report challenges filling entry-level positions, partly due to elevated shelter costs. Several employers noted that, despite overall economic uncertainty, they plan to maintain current employment levels to avoid the hiring challenges they have experienced throughout the pandemic.

Wages grew further, albeit at a slower pace. Workers continued to ask for higher pay and end-of-year bonuses in response to elevated living costs. Employers continued to use bonuses and comprehensive benefits packages to attract and retain talent and reported more willingness to push back against flexible work arrangement requests.

Prices

Prices rose at a slower pace relative to the previous reporting period, but overall price levels remained very elevated. Contacts cited wage pressures as the primary driver of the price inflation they have experienced in

recent weeks. Several contacts, particularly in manufacturing and construction, reported plans to pass through last year's cost increases to their customers when annual contracts are renegotiated. Several sectors reported higher prices, including health care, food services, hospitality, insurance, and air travel. Conversely, gradually improving supply chains and cooling overall demand have resulted in stable or lower prices for many goods, including energy products, medical equipment, electronics, office supplies, and manufacturing inputs such as steel and lumber.

Community Conditions

Communities across the District continued to highlight key issues such as high inflation, lack of affordable housing, and lower enrollment rates at community colleges and higher education institutions. Reports indicated people are working "side hustles" or multiple jobs to afford the elevated living costs, and concerns of evictions have increased of late as rent inflation further strained household budgets. Donation-dependent non-profit and philanthropic organizations noted that tighter financial markets have resulted in significant drops in fundraising inflows. This reduction was partially offset by government funding in some areas, including parts of California and Nevada. Contacts also highlighted that the recent uptick in respiratory infections, including influenza, intensified worker and volunteer shortages at many community and social support organizations.

Retail Trade and Services

Retail sales were stable over the reporting period. Reports on holiday season sales were mixed, and retailers

noted higher prices and healthier inventory levels compared with last year. Contacts also highlighted a continued shift in spending behavior away from in-store shopping to e-commerce. Sales for some consumer durables, such as automobiles, were reportedly up in recent weeks, and demand for wood products strengthened as consumers favored renovation projects over new home purchases. Labor availability eased somewhat but remained tight, and some contacts reported continued adoption of labor-saving technology to address worker shortages.

Activity in the consumer and business services sectors was unchanged but remained strong on balance. Demand for health-care services picked up in recent weeks, in line with seasonal trends. Activity in the leisure and hospitality sector remained robust, although a Southern California contact reported a notable softening in demand for hotel stays. Demand for insurance and legal services was strong. A Southern California contact reported increased demand for marketing products recently as companies aimed to bolster brand recognition and employee engagement. Labor costs remained elevated and increased slightly in some sectors, such as health care and hospitality, but contacts noted that higher wages improved employee retention.

Manufacturing

Activity in the manufacturing sector was mixed over the reporting period. Demand strengthened for capital equipment and manufactured intermediate goods in the packaging, logistics, and aviation industries. Conversely, demand for manufactured metal products, renewable energy equipment, and intermediate construction goods softened, partially due to slower activity in the residential real estate market. Capacity utilization in food manufacturing improved, although labor shortages continued to constrain production. Manufacturers reported that disruptions in labor markets and supply chains had eased but input costs remained elevated. Contacts in Utah highlighted strong overall conditions for local manufacturers, noting increased business migration to the state.

Agriculture and Resource-Related Industries

Conditions in the agriculture and resource-related sectors remained generally weak. Overall domestic agricultural sales were up in terms of dollars but down in volume. Sales abroad varied by export market, with demand from Asian and European markets declining or remaining unchanged, while demand from the Middle East increased significantly. Global economic uncertainty and a generally strong dollar continued to put downward pressure on international demand. Adverse weather conditions negatively impacted agricultural yields across

the District, including for cherries, grapes, and nuts. Seafood production was also down, partially due to closures of crab fisheries in Alaska. Contacts noted that supply chain bottlenecks ameliorated further, but transportation and materials costs remained elevated. One producer in the Pacific Northwest noted that demand for timberland remained high, partially due to growing private interest in opportunities for carbon offset investment.

Real Estate and Construction

Residential real estate activity weakened further in recent weeks. Demand for new and existing single-family housing fell modestly across the District, primarily driven by high prices and mortgage costs. Contacts reported that selling prices began to come down and rental rates were stable on balance. Construction of single-family housing dropped moderately as existing projects reached completion and starts fell modestly. Construction activity for multifamily housing varied across the District as activity was solid in Northern California and Washington but down in Oregon. Contacts noted some construction materials prices, such as wallboard, fell substantially, while other materials prices remained stable but high.

Conditions in the commercial real estate market were stable on net. Office leasing activity was weak, and vacancies remained elevated. Demand for industrial, medical, and retail space was generally strong, particularly in Nevada. Several contacts in the Pacific Northwest and California noted that overall commercial real estate activity softened in recent weeks due to higher interest rates. Construction of new commercial space remained strong in segments other than office space, although contacts commented that the shortage of construction workers continued to constrain new development.

Financial Institutions

Lending activity rose slightly across the District. Many contacts noted that demand for consumer loans, including for credit cards, home equity, and vehicles, has picked up in recent weeks. Conversely, residential and business lending activity slowed further, reflecting high interest rates and rising economic uncertainty. Competition for deposits tightened as deposit growth slowed, with one credit union financier mentioning the need to borrow funds to match loan demand. Credit quality remained strong, but bankers observed some general deterioration of late. Some business contacts reported pausing large borrowing and investment plans given the current economic uncertainty. ■



