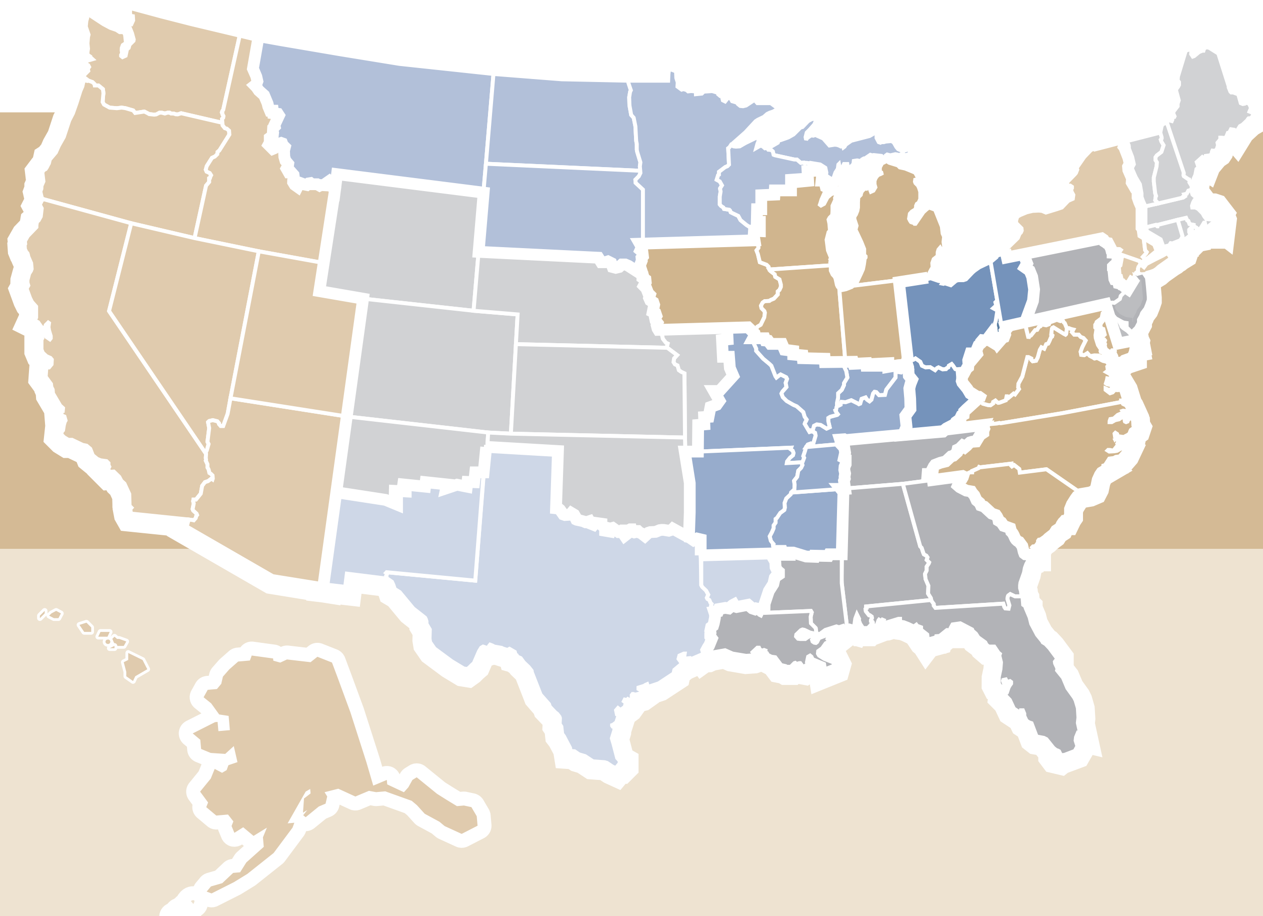
The Beige Book

Summary of Commentary on Current Economic Conditions by Federal Reserve District

November 2024



FEDERAL RESERVE SYSTEM

Contents

About This Publication

What is the Beige Book?

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

What is the purpose of the Beige Book?

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

How is the information collected?

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

How is the information used?

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

Note: The Federal Reserve officially identifies Districts by number and Reserve Bank city. In the 12th District, the Seattle Branch serves Alaska, and the San Francisco Bank serves Hawaii. The System serves commonwealths and territories as follows: the New York Bank serves the Commonwealth of Puerto Rico and the U.S. Virgin Islands; the San Francisco Bank serves American Samoa, Guam, and the Commonwealth of the Northern Mariana Islands. The Board of Governors revised the branch boundaries of the System in February 1996.

mation 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

Overall Economic Activity

Economic activity rose slightly in most Districts. Three regions exhibited modest or moderate growth that offset flat or slightly declining activity in two others. Though growth in economic activity was generally small, expectations for growth rose moderately across most geographies and sectors. Business contacts expressed optimism that demand will rise in coming months. Consumer spending was generally stable. Many consumer-oriented businesses across Districts noted further increases in price sensitivity among consumers, as well as several reports of increased sensitivity to quality. Spending on home furnishings was down, which contacts attributed to limited household mobility. Demand for mortgages was low overall, though reports on recent changes in home loan demand were mixed due to volatility in rates. Commercial real estate lending was similarly subdued. Still, contacts generally reported financing remained available. Capital spending and purchases of raw materials were flat or declining in most Districts. Sales of farm equipment were a notable headwind to overall investment activity, and several contacts expressed concerns about the future prices of equipment given ongoing weakness in the farm economy. Energy activity in the oil and gas sector was flat but demand for electricity generation continued to grow at a robust rate. The rise in electricity demand was driven by rapid expansions in data centers and was reportedly planned to be met by investments in renewable generation capacity in coming years.

Labor Markets

Employment levels were flat or up only slightly across Districts. Hiring activity was subdued as worker turnover remained low and few firms reported increasing their headcount. The level of layoffs was also reportedly low. Contacts indicated they expected employment to remain steady or rise slightly over the next year, but many were cautious in their optimism about any pickup in hiring activity. Wage growth softened to a modest pace across most Districts, as did expectations for wage growth in coming months. Job growth and wage growth for entry-level positions and skilled trades were an exception, rising robustly and expected to grow further through next year.

Note: This report was prepared at the Federal Reserve Bank of Kansas City based on information collected on or before November 22, 2024. This document summarizes comments received from contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.

Prices

Prices rose only at a modest pace across Federal Reserve Districts. Both consumer-oriented and business-oriented contacts reported greater difficulty passing costs on to customers. Input prices were said to be rising faster than selling prices for most businesses, resulting in declining profit margins. Although input prices rose generally, contacts in several Districts noted declines in certain raw materials and non-labor costs. In contrast, rising insurance prices were again reported widely as significant costs pressures for many businesses. Contacts indicated they expect the current pace of price growth to persist, but businesses in several Districts indicated tariffs pose a significant upside risk to inflation.

Highlights by Federal Reserve District

Boston

Economic activity was down a bit on balance. Prices increased at a slight pace. Employment held steady despite a slowdown in hiring demand. Consumers held back on restaurant spending. Warm, dry weather crimped demand for selected goods. Commercial real estate contacts perceived stabilization in the office sector. Expectations were mixed, marked by uncertainty among many contacts.

New York

On balance, regional economic activity expanded slightly, led by strong growth in the manufacturing sector. Employment in the region grew slightly, and wage growth remained moderate. Commercial real estate markets steadied after a period of weakness, with a pickup in demand in the New York City office market. Selling price increases remained modest.

Philadelphia

Business activity edged up in the current Beige Book period after falling slightly last period. Consumer spending was flat overall, but the broader nonmanufacturing sector edged up, and manufacturers reported modest growth. Employment, wages, and prices all rose modestly, but inflation expectations edged higher over concerns about potential tariffs. On average, firms expect moderate economic growth over the next six months.

Cleveland

District business activity grew modestly in recent weeks, and contacts expected activity to increase further in the months ahead. Demand for business services remained robust, and nonresidential construction activity increased modestly. Employment levels grew slightly. Overall, contacts indicated that wages, nonlabor input costs, and prices increased modestly.

Richmond

The regional economy grew slightly in recent weeks. Some negative impacts from Hurricane Helene and the port worker strike were reported by businesses in affected regions and segments of the economy. Employment was little changed this cycle, while wages grew moderately and price levels were little changed, leading to reports of profit margin compression for businesses.

Atlanta

Economic activity in the Sixth District grew. Employment was steady and wages grew slowly. Input costs and prices were little changed. Retail sales improved slightly. Tourism declined modestly. Demand for housing deteriorated. Transportation activity grew slightly. Loan growth was modest. Manufacturing fell, and energy activity grew modestly.

Chicago

Economic activity increased slightly. Consumer and business spending rose modestly; employment was up slightly; construction and real estate activity was flat; nonbusiness contacts saw little change in activity; and manufacturing activity decreased modestly. Prices were up modestly, wages rose moderately, and financial conditions loosened slightly. Prospects for 2024 farm income were unchanged.

St. Louis

Economic activity across the Eighth District has slightly increased since our previous report. Prices increased moderately, with greater pushback against those price increases. Consumer spending has slightly declined across the income distribution. Contacts expected slight growth in employment, particularly coming from industrial production. The outlook has modestly improved; however, contacts noted that uncertainty about future policies was slowing investment, and businesses were increasing inventories in anticipation of potential import tariffs.

Minneapolis

District economic activity increased slightly. Employment grew, but labor demand softened, and turnover was down. Wage growth was moderate, and prices increased slightly. Consumer spending was flat, but tourism increased. Energy, commercial construction, and residential real estate also saw growth while manufacturing and homebuilding decreased.

Kansas City

Economic growth was modest and balanced across sectors. Expectations for demand growth were strong and supported plans to increase hiring and capital expenditures. Most contacts indicated they do not plan to raise wages substantially over the next year. Yet, the outlook for consumer spending remained strong, even as customers became more sensitive to prices and quality.

Dallas

Economic activity rose moderately over the reporting period. Growth continued in nonfinancial services and resumed in manufacturing and retail. Employment increased, and wage growth ticked up. Outlooks improved, with widespread increases in demand expectations. Interest rate cuts have had an overall positive but mild effect, and contacts were mostly bullish on prospective business conditions under the incoming administration, though some noted worry about potential trade and immigration policy changes.

San Francisco

Economic activity was stable. Employment levels were generally unchanged, and wages and prices increased slightly. Retail sales and activity in services sectors changed little. Activity in manufacturing, residential real estate, and financial services increased somewhat, while conditions in commercial real estate were stable. Conditions in agriculture softened slightly.

Federal Reserve Bank of Boston

Summary of Economic Activity

Economic activity was down a bit on balance in this reporting period, driven in part by unusual weather patterns that delayed seasonal goods purchases. Prices increased at a slight pace. Employment held steady despite a slowdown in hiring demand, and wage increases were modest. Consumers held back on restaurant spending, leading to softer sales, and uncharacteristically warm and dry fall weather crimped purchases of apparel and snowmobiles. Manufacturing sales increased modestly, with one firm benefiting from strong AI-related demand. Revenues at staffing firms declined modestly amid slower hiring activity. Commercial real estate activity was flat, but contacts perceived that demand was stabilizing in the office sector. Home sales increased moderately on average, with recent data showing increased momentum in Massachusetts. The outlook was neutral on average, but sentiments were quite mixed, and many contacts expressed elevated uncertainty concerning the direction of the economy.

Labor Markets

Employment was flat in recent weeks. Staffing contacts noted that hiring demand weakened a bit due to a combination of election-related uncertainty and ongoing rightsizing, but no major layoffs were reported. Broadly speaking, labor demand was weaker for white-collar workers than for workers in blue-collar and personal services roles, and labor supply was seen as stable overall. Restaurants reported a welcome increase in the number of job applicants but struggled to attract those with adequate management experience, and restaurant headcounts were unchanged. Manufacturing employment was stable on average, with small increases or decreases at some firms. Wage increases were modest on average and generally lower than they had been in the preceding three years. The hiring outlook was cautious given uncertainty over the direction of the economy, and only one firm reported plans to increase hiring.

Workforce development contacts experienced weaker demand for their services, which they attributed to low unemployment rates and the recent policy of free community college in Massachusetts. A contact in the New Hampshire automotive industry was optimistic about concerted state policy efforts to increase labor participation in the skilled trades.

Prices

Prices rose at a slight pace on average, with the largest increases coming from insurance. A clothing retailer lowered prices on selected products in September to boost flagging sales. Menu and food input prices were unchanged in recent months. New and used car prices declined a bit in recent months, reflecting increased inventories and an associated rebound in consumer bargaining power. Manufacturers' output prices were largely flat, and their input prices were up slightly. Staffing services firms held their billing rates steady despite reporting modest average cost increases, but one firm experienced significant increases in health insurance costs and expected soon to raise its bill rates in response. Insurance costs increased moderately for multifamily properties. Only a few contacts said they planned to raise their prices moving forward, and increases were expected to be modest.

Retail and Tourism

Retail and restaurant sales were moderately weaker in recent months. A clothing retailer experienced a sharp decline in sales—attributed in part to the especially warm and dry autumn in New England—as sales of cold-weather apparel came in well below expectations. Automobile sales in New Hampshire were down in October but rebounded in recent weeks, landing slightly below levels from the previous quarter. Snowmobile sales were down sharply from the same period last year, with recent weather patterns again cited as a contributing factor. A discount retailer recorded modestly weaker sales from one year ago. A Massachusetts restaurant industry contact said that sales softened modestly across the state in recent weeks, extending a trend that started this past summer, and cited strained consumer budgets as the cause. Retailers were concerned about recent weakness in sales but were optimistic that more seasonable weather would contribute to firmer sales for the holiday season. Restaurants expected sales in late 2024 and early 2025 to continue to lag results from the previous year.

Manufacturing and Related Services

Manufacturing sales increased modestly from the previous quarter on average, in line with firms' expectations. One firm reported only flat sales over the quarter but posted a moderate increase from one year earlier, and another said that AI needs were their main demand driver. Capital expenditures were mixed, with half of firms revising their spending levels down slightly for the second half of the year and the other half revising them up slightly. Firms expected modest to moderate growth for the fourth quarter and into 2025. However, since last quarter, one firm revised its annual growth estimate for 2024 downward to a less bullish but still moderate pace, and another became somewhat more optimistic for fourth quarter sales.

Staffing Services

First District staffing firms experienced mixed changes in demand, and revenues decreased moderately on balance despite rising sharply for one firm. Hiring demand weakened overall but contacts reported increased demand for some roles, including light industrial, administrative, skilled manufacturing, and convention services, and weaker demand for finance, accounting, and engineering roles. Employers remained selective in their hiring decisions, to roughly the same extent as they had been in the previous quarter. Contacts expected flat to slight growth in staffing demand moving forward, and their views concerning the overall economic outlook ranged from moderately optimistic to uncertain and somewhat pessimistic.

Commercial Real Estate

Commercial real estate activity in the First District was about flat on average. Industrial leasing activity slowed somewhat, and industrial rents fell modestly. Retail leasing activity and rents held steady. Investment demand for multifamily housing remained strong, and apartment rents increased moderately. Planned multifamily construction was on the rise but contacts emphasized that many cities and towns were resistant to new buildings. Office leasing activity was mostly flat at very low levels, but one contact reported an uptick in leasing interest among high-tech firms in Boston. Some contacts perceived that the office market was hitting bottom in terms of leasing activity, although rents for lower-quality properties continued to decline. No foreclosures were reported, but contacts still expected certain underperforming office buildings to eventually default. Lending activity was stable or up slightly, but recent increases in long-term rates deterred some borrowers. One contact expressed concerns of a possible resurgence in inflation in construction costs. Some contacts adopted a more cautious outlook because of perceived uncertainty, and others saw upside potential for commercial leasing and construction activity for 2025.

Residential Real Estate

In year-over-year results through either September 2024 or October 2024, First District residential sales increased moderately on average, although sales fell in both Vermont and Rhode Island (Connecticut furnished no data). Those results were a bit stronger than those reported in August, suggesting rising demand. Indeed, home sales increased sharply in Massachusetts in October from the previous month, exceeding seasonal expectations, but no information on monthly changes was available for other parts of the District. Inventories of homes for sale rose substantially on a year-over-year basis in every reporting state except Massachusetts, where inventories were down slightly over the year. Home prices increased moderately on a year-over-year basis, although prices softened somewhat in the greater Boston area in September for the third straight month. The outlook for the remainder of 2024 was mixed, with contacts in Rhode Island expecting further weakness in sales and contacts elsewhere forecasting stable activity.

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

Federal Reserve Bank of New York

Summary of Economic Activity

Economic activity in the Second District expanded slightly this reporting period, led by strong growth in the manufacturing sector. Employment grew slightly, and wages continued to rise moderately. Selling price increases remained modest, while input prices generally increased moderately. Consumer spending increased modestly this period. The housing market remained solid, with a pickup in sales in New York City. Commercial real estate markets steadied after a period of weakness. Activity in the broad finance sector was flat. With election uncertainty resolved, some contacts expected a bump in activity. Optimism improved.

Labor Markets

On balance, employment in the region grew slightly. Job gains in the region's education and health, wholesale trade, finance, and personal services sectors were partially offset by job losses in the information and professional and business services sectors, while headcount in the manufacturing sector held steady. Although layoffs generally remained limited in the region, the abrupt closure of a large tire manufacturer in Buffalo and some downsizing in the upstate New York healthcare sector resulted in some job losses.

Demand for workers continued to soften slightly. Hesitancy surrounding the presidential election had led to a pause in decision making, though contacts anticipated hiring would pick up again. Demand for financial services workers remained steady in both New York City and upstate New York. With the cooling that has occurred in the labor market, labor supply is now greater than labor demand, and workers are available in most industries. However, there were ongoing reports of difficulty finding skilled workers, particularly in the manufacturing sector.

Wage growth has held steady at a moderate pace. With more workers available, there is less pressure on employers to raise wages. Still, comparatively high wages in the District for lower-paid workers—amplified by New York State's minimum wage increases—have been a source of pressure for some firms. A number of firms noted that competition with other parts of the country where wages were comparatively lower made it challenging to operate in the District.

Prices

Selling price increases continued at a modest pace, while input price increases generally remained moderate. Businesses reported that the pace of both selling price and input price increases have now largely returned to what prevailed before the pandemic. Still, rising insurance costs continued to put pressure on firms in the region, and the cost of some food items has been increasing. Businesses expect little change in pricing pressures in the coming months.

Consumer Spending

Consumer spending increased modestly this period. One contact in the region noted that retailers anticipated strong sales over the holiday season, on the heels of solid activity during the fall. Auto dealers in upstate New York noted that sales activity bounced back after some softness during the previous reporting period. New car inventory has remained at a healthy level, and manufacturer incentives have helped dealers make sales. Although affordability of new cars remained a concern, an upstate New York contact reported that luxury brands have been performing particularly well. Used car sales remained steady, as the gap between new and used car pricing has made used cars more appealing for budget-conscious consumers. Credit conditions for auto loans remained somewhat tight, but credit is available for qualified borrowers.

Manufacturing and Distribution

Manufacturing activity grew strongly. Contacts reported a surge in both new orders and shipments. Wholesale and distribution-related firms saw modest increases in business activity. Though supply availability continued to worsen slightly, delivery times were unchanged. A shipping contact reported that ongoing global reductions in shipping capacity due to the disruptions of Red Sea routes has affected importers' ability to quickly increase inventories to desired levels. Manufacturers and distribution-related firms were optimistic that business conditions will improve in the months ahead.

Services

Activity in the service sector held steady. While businesses in most sectors reported little change, there were modest declines reported by retail firms and those in personal services and a small rise in activity reported by firms in professional and business services. Service firms were more upbeat about the economic outlook than they have been for several months.

Tourism activity in New York City has been strong during the fall season. Contacts with expertise in the New York City tourism sector reported that occupancy rates in New York City hotels have been high, with visits at or above pre-pandemic levels. Still, the restaurant and theatre industries have lagged slightly, with hybrid work arrangements contributing to reduced attendance by suburban visitors. The tourism outlook was more muted, with some uncertainty about potential impacts stemming from a recently passed hotel safety bill as well as uncertainty about future flows of visitors from abroad.

Real Estate and Construction

The housing market remained solid. Demand was strong in and around New York City and steady in upstate New York, but sales continued to be constrained by tight inventory. While there has been a modest improvement in inventory, fluctuations in interest rates are slightly tempering borrowers' plans to buy. Still, the New York City area saw a bump up in new signed contracts in recent weeks.

The rental market firmed slightly. Demand for rental housing rose somewhat, as rising mortgage rates pushed some potential buyers back to the rental market. Rents in New York City increased after a brief plateau, and vacancy rates have remained low. Outside of New York City, rental vacancy rates have risen slightly, and rents have stabilized at a high level.

Commercial real estate markets steadied after a period of weakness. The New York City office market saw a pickup in demand. Certain corridors in Midtown Manhattan were particularly desirable, and two large lease renewals—which included substantial expansions—additionally boosted demand. Office tenants seeking new space have been particularly selective about the owners' financials: with the pressure on commercial property owners, the long-term solvency of landlords has become a concern for lease-seekers. The northern New Jersey industrial market saw a small pickup in leasing in recent weeks.

Construction activity continued to decline at a moderate pace. Multiple contacts in the District reported slowdowns in the construction industry due to higher credit costs. Additionally, a contact in upstate New York reported that the costs of building—labor, lumber, and legislation—continued to restrain homebuilding activity.

Banking and Finance

Activity in the broad finance sector was flat. Small-to-medium-sized banks in the region reported that loan demand was little changed, though there was a slight increase in demand for commercial mortgages. Credit standards continued to tighten slightly for business loans and commercial mortgages. Deposit rates continued to decline. Delinquency rates rose for all loan types, particularly commercial mortgages. Contacts reported that elevated interest rate volatility was causing some concern among potential borrowers. Still, contacts in the finance industry more broadly were noticeably more optimistic about the outlook.

Community Perspectives

Amid rising community needs among school-aged children, the homeless and unsheltered, and individuals struggling with mental health and addiction, a new Medicaid funding mechanism was introduced to address social determinants of health through the development of social care networks. Through the program, social service providers provide integrated mental health, homeless and addiction-related care and services, as well as workforce development for the healthcare workforce to the community. Funds are now flowing to a broad range of recipients, though with mixed uptake by state.

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

Federal Reserve Bank of Philadelphia

Summary of Economic Activity

On balance, business activity in the Third District seemed to edge up after declining slightly last period. Consumer spending held steady, at best, with price-conscious consumers shopping carefully for deals or shopping less overall. Nonmanufacturing activity edged up slightly, and manufacturing activity rose modestly—a reversal of trend for both broad sectors from last period. Employment, real wages, and prices all rose modestly. However, inflation expectations rose for firms' own prices and for general inflation, with many firms expressing concern about the inflationary effects of potential tariffs. On average, firms expect moderate economic growth over the next six months—optimism was far more widespread among manufacturers than nonmanufacturers, although the growing confidence did not translate into more widespread capital expenditure plans for the former.

Labor Markets

Employment appeared to rise modestly, after rising slightly last period. Based on our October and November surveys, the indexes for full-time and part-time employment broadened modestly for nonmanufacturing firms. The index for manufacturing firms turned positive in November for just the third time this year. Notably, over two-thirds of both manufacturers and nonmanufacturers reported no change in employment in November. Both broad sectors reported an increase in the average workweek.

Staffing contacts reported steady demand for their services, with little wage pressure. Contacts generally described wages of $13 to $14 an hour as an effective minimum for their client firms—depending on the industry and the location. Firms offering less typically are experiencing high turnover.

In a broad annual survey of all of our contacts, 37 percent expected employment to increase over the next four quarters, 49 percent expected no change, and 13 percent expected a decrease. The net 24 percent of the firms that hope to hire is the same as last year, is the lowest share we've recorded dating back to 2011, and compares with an average of 40 percent.

Real wage inflation appears to have steadied at a modest pace—typical of its long-run average. Several contacts noted nominal wage increases of around 3 percent in 2024 or planned for 2025. Most contacts described little or no wage pressure and noted better labor availability and retention, but some described labor quality as a problem.

On a quarterly basis, firms' expectations of the one-year-ahead change in compensation cost per worker edged down to a trimmed mean of 3.4 percent in the fourth quarter of 2024, from 3.6 percent in the third quarter (and from a peak of 5.8 percent in the third quarter of 2022). Expectations averaged 3.2 percent before the pandemic. Expected compensation growth fell to 3.4 percent for manufacturers and to 3.5 percent for nonmanufacturers.

Prices

On balance, firm prices continued to rise but at a very modest pace. Firms reported that the price increases received for their own goods and services over the past year fell significantly. The trimmed mean for reported price changes, based on responses from all firms to our fourth quarter survey, fell to 1.7 percent from 2.5 percent in the third quarter. This is the smallest price change since the fourth quarter of 2020 (at 1.4 percent). Nonmanufacturers reported price increases of 1.5 percent; manufacturers reported 1.9 percent.

In our monthly surveys, the diffusion indexes for prices paid and prices received were below nonrecession averages for nonmanufacturers and were at or above for manufacturers. However, manufacturers' expectations for future price increases over the next six months rose significantly; the diffusion indexes were much more widespread than their nonrecession averages.

Looking ahead one year, the increases that firms anticipate in the prices for their own goods rose. The trimmed mean for all firms climbed to 2.8 percent in the fourth quarter of 2024 from 2.4 percent in the third quarter. The expected rate of growth was 2.6 percent for nonmanufacturers and 3.0 percent for manufacturers. However, a significant number of firms expressed the concern that tariffs would drive prices higher. The trimmed mean for inflation expectations was 3.3 percent for all firms in the fourth quarter of 2024—up from 3.0 percent in the third quarter.

Manufacturing

Overall, manufacturing activity increased modestly, after declining modestly in the prior period. The indexes for new orders and shipments were positive in October and November. The general activity index was positive on net, although it fell modestly in November.

Manufacturers' expectations for growth over the next six months became more widespread for future activity, new orders, and shipments; however, plans for future capital expenditures did not budge.

Consumer Spending

On balance, retailers (nonauto) reported little to no change in real sales—following a modest decrease in the prior period. Some contacts noted an uptick in customer traffic after an unusual summer slowdown, but most retailers and restaurateurs continued to describe their customers as highly price sensitive.

Auto dealers reported that increasing incentives have kept sales steady in the face of lagging demand for electric and other high-priced vehicles. Despite the incentives, vehicles are accumulating on lots—raising dealers' floor plan costs and further cutting into profits.

On balance, tourism activity held steady. "In pretty good shape," according to one contact; "plodding along," according to another. Some sectors are still described as normalizing after the pandemic, while demand for budget motels continued its recent slump.

Nonfinancial Services

Nonmanufacturing activity sparked in October only to settle back to little to no growth in November. The index for new orders returned to a slightly negative reading, while the indexes for general activity and sales/revenues were slightly positive.

Nonmanufacturers' perceptions of general activity for the region flirted with a positive outlook in October before returning to a negative reading in November.

The index of expectations among nonmanufacturers for their own growth over the next six months broadened further—reaching its nonrecession average.

Financial Services

The volume of bank lending (excluding credit cards) held steady for a second consecutive period (not seasonally adjusted) – weaker than the slight growth observed in the comparable period in 2023.

District banks reported little change in commercial real estate lending, auto loans, and other consumer loans. A moderate increase in home equity lines and modest gains in mortgages and in commercial and industrial loans were offset by declines in other miscellaneous categories. Credit card volumes grew slightly following two periods of little growth—volumes grew moderately during the same period one year ago.

Banking contacts continued to report strong credit quality and low delinquency rates. However, contacts throughout the banking sector and the nonprofit development community continued to underline the growing distress caused by the ongoing housing affordability problem, now joined by increasingly unaffordable automobiles.

Real Estate and Construction

Brokers reported that existing-home sales held steady after edging higher last period. The market remains tight, with near record-low inventories and "winning" bids above the asking price.

Homebuilders continued to report steady sales on average over the past few months. Sales trends shifted as mortgage rates fell and rebounded, prompting some builders to offer rate buydowns to prospective buyers.

Contacts from the Philadelphia area describe an office market struggling to reach a new equilibrium. Meanwhile, the multiyear buildup of new multifamily apartments throughout the Third District is now fostering competition for renters with an increase in signing incentives.

Commercial real estate contacts reported modest declines in construction activity, as the pipeline of commercial projects wanes and the buildup of public infrastructure projects—many still in the design/plan phase—awaits groundbreakings. Contacts roughly outlined a one- to two-year gap before construction employment ramps up.

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

Federal Reserve Bank of Cleveland

Summary of Economic Activity

On balance, business activity in the Fourth District grew modestly in recent weeks, and contacts expected activity to increase further in the months ahead. Demand for business services remained robust, a circumstance which some contacts attributed to additional work related to possible federal policy changes. Moreover, nonresidential construction and real estate activity grew as firms committed to projects that were previously on hold. Still, consumer spending was flat, with retailers offering additional promotions to stimulate sales. Demand for manufactured goods also remained soft. Employment levels grew slightly in recent weeks. While many business services firms hired for growth, the majority of manufacturing and construction contacts held staffing levels steady. On balance, wages, nonlabor input costs, and prices increased modestly.

Labor Markets

On balance, contacts reported slight growth in employment levels in recent weeks; however, the majority of firms continued to report no change to staffing levels. Among manufacturing and construction firms reporting steady headcounts, several indicated that they were focusing on getting more work done with their existing staff by increasing hours, cross-training, or investing in automation. Other manufacturers said that margin compression prompted them to reduce headcounts by eliminating shifts or not replacing employees who left. By contrast, business services contacts indicated that they were hiring for growth, and auto dealers added mechanics to meet increased demand for vehicle repair work. Overall, contacts expected modest employment growth in the months ahead.

Wages continued to increase at a modest pace in recent weeks, though almost three-quarters of firms reported holding wages steady. Many firms reported improved labor availability, a circumstance which limited upward pressure on wages. Indeed, some contacts reported reverting back to only annual wage adjustments, as was typical prior to the pandemic. Nevertheless, other contacts reported needing to raise hourly wages to attract entry-level workers, and one restaurateur said, “[we’re] still experiencing a lot of wage pressure [and] raising hourly rates to recruit good cooking staff.”

Prices

Nonlabor input costs increased modestly on balance, though the majority of contacts continued to report that input costs were unchanged since the last reporting period. Some construction and manufacturing contacts said that costs were generally stabilizing for raw materials and commodities such as steel, fuel, and resin. By contrast, reports from contacts across sectors indicated that health care, technology, and services costs continued to increase. Overall, contacts expect costs to grow moderately in the month ahead.

Selling prices also grew modestly in recent weeks, although the majority of contacts continued to hold prices steady. Some retailers and consumer-facing goods manufacturers who indicated that they had not raised prices said they had offered promotions because of weaker demand and increased consumer price sensitivity. For instance, one manufacturer said, "[I'm] not sure [the] US consumer can handle more pricing at this point." Still, multiple firms across sectors indicated that they were raising prices to improve profit margins. One law firm contact noted that clients had not pushed back on increases in rates or fees. Some construction and manufacturing firms also noted passing along higher raw materials costs and wages.

Consumer Spending

Consumer spending was flat on balance after declining for several reporting periods, and contacts expected moderate growth in the coming months. Several restaurateurs reported higher sales, which one attributed to workers' return to the office. By contrast, several retailers continued to report flat or declining sales, a circumstance which they attributed to election-related anxiety and financial stress on lower- and middle-income consumers. One retailer reported an uptick in sales only after adding deeper discounts. Auto dealers continued to report weak sales as some customers continued to be challenged by high vehicle prices. However, one auto dealer expected high demand for parts and repairs to continue as consumers hold onto vehicles for longer.

Manufacturing

Demand for manufactured goods declined modestly in recent weeks. Contacts continued to report fewer orders from other producers because of lower consumer and commercial vehicle production and still-soft demand for agricultural equipment, the latter of which led one manufacturer to revise down its production forecast for the coming year. In addition, multiple contacts reported softer orders related to new home construction. Although most contacts expected stable demand in the coming months, multiple reports indicated uncertainty about how future changes to economic and trade policy might impact demand for their products.

Real Estate and Construction

Demand for homes increased in recent weeks, with both builders and realtors reporting an increase in inquiries. That said, some builders, including a large national builder, reported flat sales. One of these builders attributed the flat sales to mortgage rate volatility and uncertainty about inflation, while another attributed them to affordability issues. On balance, housing contacts expected moderate growth in the coming months.

Nonresidential construction and real estate activity increased modestly in the most recent reporting period. Several contacts observed that firms were committing to projects that had previously been on hold. Looking ahead, multiple contacts expected firms to move forward with capital projects following recent rate reductions and the resolution of election-related uncertainty. Consequently, contacts predicted strong growth in demand in the coming months.

Financial Services

Overall, bankers reported that loan demand remained relatively flat for both businesses and households. Looking ahead, bankers expected loan demand to improve as a result of expectations for further interest rate reductions. On balance, bankers reported that delinquencies remained relatively low since the last reporting period. Core deposits grew modestly, and one banker mentioned that balances grew despite falling deposit rates.

Nonfinancial Services

Professional services firms reported strong demand growth, a circumstance which they expected to continue in the coming months. One accounting firm reported that demand for their services increased because of tax policy uncertainty, while a law firm attributed their increase in demand to lower interest rates and an improved macroeconomic environment. Freight demand grew slowly in recent weeks, but contacts expected demand to grow moderately in the coming months. A logistics contact indicated that several customers expanded and sought more warehouse space.

Community Conditions

Several workforce development contacts reported that demand for labor, particularly skilled labor, remained elevated. One contact said that more employers were working with workforce intermediaries to resolve employee attendance issues through measures such as providing transportation for new hires. Others indicated that employers were more open to apprenticeship programs. Workforce challenges persisted in the childcare sector. One childcare provider indicated that finding and retaining quality workers was difficult. In addition, because of declining enrollment, the provider's childcare center was expected to increase its fees in January by 20 to 40 percent above the current level, as operating costs will be shared among fewer customers. Another contact explained that fewer childcare providers in rural communities contributed to lower workforce participation for women.

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

Federal Reserve Bank of Richmond

Summary of Economic Activity

Economic activity expanded slightly this cycle. Consumer spending on retail, travel, and tourism was flat to up slightly in recent weeks. Areas of the Fifth District that were impacted by Hurricane Helene saw a decline in consumer spending and leisure travel but also a pick-up in repair services and hotel occupancy from out-of-town workers. Port activity was off moderately due to disruptions that occurred during the brief worker strike and because carriers diverted cargo to the West Coast amid ongoing negotiations with the union. Employment was little changed this cycle while wages continued to rise moderately. Price levels were largely unchanged in recent weeks and prices were up moderately compared to last year.

Labor Markets

Employment was little changed in recent weeks. Many businesses reported keeping employment levels unchanged. While some firms reported hiring for select positions, others were letting total headcount decline naturally through attrition. Some firms continued to report challenges finding workers. A web design firm looked to convert part-time employees to full-time rather than try hiring external candidates. A financial services company received resistance from job candidates because they wouldn't offer fully remote work. Wages grew moderately on average. A thrift store reported lower margins due to wage increases that could not be offset with increased prices. Several health care companies reported that despite unchanged demand, profit margins have decreased due to increasing hourly wage rates.

Prices

Price levels were little changed in recent weeks. On a year-over-year basis, prices were up moderately. According to our most recent surveys, service sector firms reported moderate annual price growth. Meanwhile, prices charged by manufacturing firms grew at a modest annual rate. Many firms commented that input costs, including labor, have continued to rise while their ability to pass price increases along have been limited and therefore profit margins were declining. Some businesses were concerned that supply chain disruptions from the recent port strike would lead to further cost increases in coming weeks.

Manufacturing

Manufacturing activity declined slightly in the most recent reporting period. Hurricane Helene caused disruptions for many manufacturing firms across the Fifth District. A food manufacturer lost five production days, infrastructure, and livestock due to the hurricane and estimated six-to-nine months to become fully operational. New orders activity was mixed. A steel fabricator reported that larger projects were replaced with smaller projects, likely due to uncertainty around interest rates. A coffee manufacturer reported a slowdown in new orders from existing customers who were experiencing lower sales. A dental laboratory reported lower-than-usual incoming volume and pricing pressure that had eaten away at margins.

Ports and Transportation

Overall, ports experienced a moderate decrease in cargo volumes with some variance in magnitude across the Fifth District. Contacts reported that containerized imports were down between five and fourteen percent and exports were down as much as twenty-nine percent. While the September worker strike had little immediate effect on port operations, carriers have diverted some cargo routes to the West Coast until contract negotiations resume in January. Agricultural exports coming from the Midwest by rail were particularly impacted by the strike with delays in loading cargo and cascading imbalances in the rail car network getting empty cars back to the East Coast. Manufacturers noted considerable concern about the possibility of another strike, citing a reliance on imports of raw materials and exports of their products.

Trucking demand in the Fifth District was little changed, with some additional volume from the West Coast due to the port worker strike. While the spot rate market has shown signs of normalization, contacts described being selective about taking on more profitable jobs and holding onto older equipment due to costs affecting their margins.

Retail, Travel, and Tourism

Consumer spending increased slightly in recent weeks. A few retailers said that sales and shopper traffic were down, which they attributed to several potential factors including election uncertainty and consumers waiting for the holiday sales season to make big ticket purchases. Additionally, a thrift store said that their customers had less disposable income due to higher costs for housing and other necessities. Consumer spending on travel and tourism was flat, overall, but varied across the Fifth District. In western North Carolina and Virginia, leisure tourism was negatively impacted by the damage sustained by Hurricane Helene; however, hotel occupancy was up as the repair efforts brought workers into affected areas. A marine equipment retailer said they lost sales during a typically busy time of year, but they expected sales to bounce back as lost or damaged equipment was replaced.

Real Estate and Construction

Residential real estate activity softened slightly this cycle. Many agents attributed this to the typical fall/winter slowdown and buyers holding out for rate cuts. While online buyer traffic activity remained robust and buyers were not having issues qualifying, days on market continued to increase by single digits. Agents noted new construction continued. Multiple agents noted that developers are getting creative with designs and density to speed up the local government zoning processes. One agent in Virginia stated his fear of a growing oversaturation in the condo market.

Commercial real estate activity remained flat. Agents continued to note a decrease in vacancies in prime office spaces but rising vacancy in lower-grade markets. Since the election, an agent in South Carolina noted more chatter about selling but no moves happening yet. Two Virgina agents noted their fears of commercial loans coming to term in conjunction with sales prices going down.

Damages from Hurricane Helene were beginning to be seen in both residential and commercial real estate markets. A North Carolina agent noted residential sales being off 25 percent in the Boone area and 30 to 35 percent in the Asheville market. Longer-term impacts to commercial real estate were more uncertain as many buildings were destroyed and businesses continued to close in recent weeks.

Banking and Finance

Financial institutions continued to report a modest increase in loan demand, with the increases being seen primarily in real estate secured loans in both the commercial and consumer portfolio. This modest demand was primarily driven by the current lower rate environment. Loan pipelines were described as smaller than historical levels but were still considered healthy. Credit quality of borrowers continued to remain stable, but some respondents did note that they were experiencing a modest increase in their past due loans, mainly in the consumer portfolio. Deposit balances continued to remain stable, with competition still strong for funds in the marketplace.

Nonfinancial Services

Nonfinancial services providers continued to report little change in demand for their services and revenues remained stable. An engineering firm reported that there is a continued reluctance for clients to move forward on projects. A digital services firm, as well as other respondents, echoed a similar sentiment with an observation that clients are reducing budgets for the coming year.

Another firm reported that they were holding onto staff in hopes of an improvement in conditions, but they may have to make tough decisions if demand declines going into the new year.

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

Federal Reserve Bank of Atlanta

Summary of Economic Activity

The economy of the Sixth District grew slightly from October through mid-November. Employment was steady, but many firms cited plans to hold employment levels flat or reduce headcount via attrition. Wage growth continued to slow. Input costs and prices remained stable, on net. Workforce contacts described an excess of entry-level talent in relation to available positions, and an increase in retirees seeking work to supplement income. Consumer spending improved even amid persistent price sensitivity, and tourism declined at a modest pace. Housing demand fell, especially in Florida, and existing home inventories grew. Transportation activity increased slightly. Manufacturing declined. Loan growth was slow. Energy activity grew modestly.

Labor Markets

Employment remained steady since the previous report. The pace of hiring was slow, and firms often hired only to backfill open positions. Many firms cited plans to hold headcount flat into 2025, and some intended to slightly reduce headcount, largely through attrition. Several contacts reported combining roles or relying on automation to improve efficiencies. Though not representative of the majority of firms, some contacts said they may resort to layoffs if demand does not strengthen. However, there were also a few reports of hiring for growth, particularly in healthcare.

Firms reported that wage growth was slow, and many expect 2025 wage increases to be in line with or even below 2019 increases.

Prices

Input costs and prices were relatively unchanged over the reporting period. Construction input costs continued to stabilize, with lumber reaching a four-year low and steel returning to historical norms. Rent, food, and utilities costs were broadly reported as flat or slightly down, though concerns around weather events impacting crops and thus future supply were noted. Insurance premiums remained the most frequently cited inflationary pressure. The Atlanta Fed's Business Inflation Expectations survey showed year-over-year unit cost growth averaged 2.6 percent in October, unchanged from September. Firms' year-ahead inflation expectations for unit cost growth were 2.2 percent, on average, up slightly from 2.1 percent in September.

Community Perspectives

Despite sustained demand for affordable rental housing, developer contacts indicated recent challenges to fully financing their projects, including funding gaps that emerged late in the pre-development stage. Contacts observed that they may have to pull funds from projects earlier in the pipeline to fill these financing gaps. Workforce intermediaries and businesses reported that moderating job growth contributed to greater confidence among employers that they can obtain the labor they need. Several labor contacts noted an oversaturation of entry-level talent, at least relative to the availability of aligned positions. Other sources reported increased interest among retirees in finding work to supplement incomes.

Consumer Spending and Tourism

Retail sales improved modestly over the reporting period. Many retailers saw increased traffic and sales. Consumers across all income levels exhibited increased price sensitivity, often shifting to value brands. Merchants said promotions were effective and customers were more willing to spend if the price was right. Many firms revised up year-end expectations from a few months ago and were increasingly optimistic for a solid 2025. Several retailers noted stocking up on inventory and pulling purchases of imports forward to get ahead of any potential price increases amid uncertainty surrounding international trade policy and possible port strikes.

Tourism in the District declined modestly, as travel and hospitality contacts reported "coming down from a 2022 sugar high." Some contacts noted trends pointing to subdued spending by lower- and middle-income travelers who are more often choosing to rent a home for multiple families and stay in rather than eat out. An area of strength in tourism activity was driven by higher-income travelers and cruising. The outlook for 2025 is cautiously optimistic, though concerns around weather-related events, regulatory uncertainty, and ongoing cost pressures were mentioned.

Construction and Real Estate

Rising mortgage rates and lagging effects of recent weather events led to a moderate decline in housing demand over the reporting period. While either flat or slightly up in most of the District, year-over-year sales in Florida declined sharply in October. Existing home inventory also increased in many Florida markets, with some, most notably in southwest Florida, now considered oversupplied. Still, home prices remained stable and there was no significant downward price pressure. Mortgage rates, high home prices and insurance premiums continued to challenge affordability, especially for first-time buyers. Homebuilders still offered aggressive incentives to offset declining affordability and to sell speculative inventory.

District commercial real estate (CRE) markets experienced mixed conditions since the previous report. Multifamily properties continued to experience rising vacancy rates; however, contacts reported that demand accelerated as offers of concessions rose. The industrial sector was described as slow but stable. Non-bank lenders reported rising CRE loan delinquencies. Contacts noted an uptick in the number of banks returning to CRE lending, but increasing long-term rates and loan maturities continued to create challenges for all lender types.

Transportation

Demand for transportation services grew slightly over the reporting period. Railroads saw an uptick in total traffic along with significant increases in shipments of petroleum and petroleum products and of primary forest products, which were partially offset by notable declines in grain, food, metallic ores, coal, and coke. Intermodal activity was flat. Third-party logistics firms cited stable demand. Container volumes rose for ocean carriers and District ports. Trucking activity was flat to slightly down since the previous report, and significantly lower than year-earlier levels. Inland barge carriers characterized demand as flat to slightly improved.

Manufacturing

Manufacturing activity continued to decline at a modest pace, on net, since the previous report. Some contacts in the steel industry cited weakening demand and compressed margins; however, others noted strong sales and considerable backlogs. Makers of chemicals reported softer sales. More broadly, manufacturers experienced further declines in output, new orders, backlogs, finished goods inventories, and increased supplier delivery times. The outlook for the next 12 months was cautiously optimistic, with expectations for gradual growth.

Banking and Finance

Loan growth was modest, and financial institutions anticipate increased loan demand as short-term interest rates decline. Multifamily lending increased moderately as demand for housing exceeded supply. Asset quality was stable with low levels of nonperforming loans as a percentage of total loans. Borrowing by banks continued to decline as institutions reduced reliance on more expensive funding sources. Declining cash balances fueled diminishing cash-to-assets ratios at District institutions and across the industry more broadly over the reporting period.

Energy

On balance, activity in the energy sector grew modestly. Oil and gas production, refining, and chemical manufacturing were described as flat, and contacts noted supply and demand in these sectors were generally in balance. However, demand for electricity and renewable energy sources was described as very strong and growing, the former largely driven by data center projects. Utility company contacts reported that growing demand for electricity across the U.S. necessitated significant grid modernization, and while generation options such as higher natural gas usage, renewables, nuclear, storage, and more are in development, most contacts expect utilization to take two years or more.

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

Federal Reserve Bank of Chicago

Summary of Economic Activity

Economic activity in the Seventh District increased slightly overall during the reporting period, and contacts expected a similar increase in activity over the next year. Consumer and business spending rose modestly; employment was up slightly; construction and real estate activity was flat; nonbusiness contacts saw little change in activity; and manufacturing activity decreased modestly. Prices were up modestly, wages rose moderately, and financial conditions loosened slightly. Prospects for 2024 farm income were unchanged.

Labor Markets

Employment increased slightly over the reporting period, and contacts expected growth to continue at a similar pace over the next 12 months. Contacts continued to mention difficulty finding higher-skilled workers, including in the skilled trades and administrative fields. However, there were also reports of softening in the labor market, particularly in manufacturing. One contact at a manufacturing business group noted that hiring was slowing among their members, though layoffs were not widespread. Some manufacturing contacts facing declining orders said they were cutting hours rather than laying off workers in the hope that demand would pick up in the coming months. A staffing firm also saw less hiring by manufacturers, particularly from the auto industry. Wages and benefits costs continued to rise moderately overall. One retailer said that their wage increases reflected growth in their region's cost of living. In contrast, there were reports of forgone cost of living adjustments in manufacturing and lower holiday bonuses for workers in trucking.

Prices

Prices increased modestly overall in October and early November, and contacts expected a similar rate of increase over the next 12 months. Producer prices moved up modestly. Nonlabor input costs rose, with increases for energy, equipment, and property insurance. Shipping costs ticked up. Several contacts reported no change in prices for raw materials, though a few in construction noted higher costs for some plastic and metal components. Consumer prices again rose modestly overall.

Consumer Spending

Consumer spending increased modestly on balance over the reporting period. Nonauto retail sales moved up overall, helped by growth at discount stores and autobody shops. Price sensitivity again increased. For example, a grocery contact said consumers were now shopping around for basic items such as canned goods. Consumers also continued to selectively “trade down,” such as by shrinking the size of home improvement projects while still using high quality materials. Leisure and hospitality spending was up, with higher spending on air travel and at fast food and fast casual restaurants. Light vehicle sales increased modestly, boosted in part by higher incentives aimed at reducing inventories of some new vehicles.

Business Spending

Business spending increased modestly on balance in October and early November. Capital expenditures moved up slightly. Demand for truck transportation edged up from a low level, with one contact noting that order flow was more sporadic. Retail inventories decreased slightly and were generally at comfortable levels, while manufacturing inventories were slightly elevated. Retailers were planning to build up inventories in anticipation of higher tariffs and one construction input supplier was actively doing so. In addition, a computer retailer noted an increase in sales in recent weeks as business clients pulled ahead replacement plans to avoid expected higher prices for imported electronics.

Construction and Real Estate

Construction and real estate activity was unchanged on balance over the reporting period. Residential construction activity increased slightly. One contact shared that single-family rental construction was growing and had taken market share from single-family build-to-own. Residential real estate activity decreased modestly, as higher mortgage rates weighed on demand. Prices and rents were flat. Nonresidential construction activity was unchanged. Building continued to be focused on data centers, light advanced manufacturing facilities, and quick serve restaurants. Some contacts expressed optimism for next year, with one noting an increase in architectural inquiries at office design firms. Commercial real estate activity was unchanged, as were prices and rents. Vacancy rates increased slightly, but the availability of sublease space was unchanged.

Manufacturing

Manufacturing demand decreased modestly in October and early November. Orders for steel were down modestly from an already low level, and one contact expected demand to remain low in the coming months. Fabricated metals orders were flat overall, with contacts highlighting growth in defense but fewer orders from the auto industry. Machinery sales decreased moderately, driven by weaker demand from the construction and automotive industries. Heavy truck manufacturing demand fell modestly.

Banking and Finance

Financial conditions loosened slightly in October and early November. Though bond prices fell, equity values rose, and volatility declined some on net. Business loan demand increased modestly, led by growth in commercial and industrial volumes. Business loan rates and terms were stable, and loan quality was flat. In the consumer sector, loan demand was flat, with contacts highlighting higher home equity loan volumes but fewer loans for boats and RVs. Consumer loan rates were a little lower, and terms were stable. Consumer loan quality was unchanged.

Agriculture

Farm income expectations for 2024 continued to be for a decline from 2023, as corn and soybean prices stayed below year-ago levels. Strong corn and soybean harvests reflected good growing conditions this year, with record corn yields for the District and soybean yields up from the last two years. Crop quality was excellent, with very low moisture levels. Tomatoes grew well, resulting in a "best ever" crop according industry contacts. Over the reporting period, corn prices increased, triggering selling by some farms, while soybean prices fell. Egg, hog, and milk prices increased, while cattle prices were flat. Agriculture faced fewer logistical hurdles as rail traffic improved and recent precipitation raised water levels on the Mississippi River, easing the slowdown in barge traffic. Farm equipment sales were slow given falling prices for trade-ins and sticky high prices on new equipment.

Community Conditions

Community, nonprofit, and small business contacts saw little change in activity over the reporting period. Many contacts reflected a "wait and see" sentiment given the upcoming change in presidential administrations and uncertainty around the path of interest rates. State government officials saw flat income and sales tax revenues, though several mentioned strong growth in gambling tax revenues. Affordable housing developers welcomed slight declines in building costs, noting the potential for increased affordability for low-income, low-equity, or first-time buyers. Overall, affordable housing supply remains constrained, and contacts noted particularly limited supply in small and rural markets. Nonprofit leaders continued to be challenged to secure enough funding for high-demand programs—such as childcare—as well as for operating and overhead costs. Community contacts noted that subsidies for utility costs were more limited this year because funds had been used for high summer cooling bills.

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

Federal Reserve Bank of St. Louis

Summary of Economic Activity

Economic activity across the Eighth District has slightly increased since our previous report. Prices increased moderately, with a greater pushback against those price increases. Consumer spending has slightly declined across the income distribution. Contacts expect slight employment growth, particularly coming from industrial production. Manufacturing activity has improved slightly; however, contacts expect an uptick in new orders and production in the next quarter. Residential and commercial real estate activity have been slower than expected due to high interest rates and lower demand. Banking activity has modestly improved, with contacts observing an increase in new loans and stable delinquencies. The agriculture sector continues to show some stress due to low commodity prices and lower-than-expected yields. The outlook has modestly improved; however, contacts noted that uncertainty about future policies was restraining investment, and businesses were increasing inventories in anticipation of potential import tariffs.

Labor Markets

Employment has remained unchanged since our previous report. Contacts reported a more stable workforce with less attrition and more retention occurring. While contacts continue to report easing in hiring, skilled labor positions continue to be challenging to fill. A Louisville construction contact noted needing to expand training with employees as there are fewer skilled workers available. Several manufacturing and construction firms expect employment growth in the next quarter.

Wages have increased at a moderate pace since our previous report. Contacts expect wages to continue increasing at a similar pace in upcoming months. Manufacturing, construction, and IT services companies indicated that increases to the minimum wage in Missouri were expected to have no major impact on their wage distribution, whereas the opposite was true for workers in rural areas working in childcare, restaurants, or retail.

Prices

Prices have increased moderately since our previous report. A manufacturing contact in St. Louis noted higher costs of inputs and raw materials. A St. Louis service provider noted that some projects have continued to run over budget due to cost increases. A distributing company in Tennessee reported that they were able to increase contract prices between 2 percent and 3 percent. However, the pushback against price increases has intensified lately and contacts noted flat or declining end-user prices. Auto dealers noted that prices had fallen compared with last quarter and expect prices to continue to fall over the coming quarter. A retail contact in Missouri reported that, although materials costs had increased, the firm cannot pass those added costs onto customers. A cooking appliances manufacturer noted that materials costs had declined and that they had not raised prices on their products. Contacts expect price growth to slightly increase next quarter, citing rising insurance costs and potential import tariffs.

Consumer Spending

Consumer spending has slightly declined since our previous report. Retail spending on small items continues to be slightly below expectations as consumers seem to be more cautions and less willing to spend discretionary funds. A St. Louis retailer noted that customers seemed to be purchasing less overall; despite the closure of several companies in their industry, they were not seeing an uptick in new customers. Contacts noted that consumer spending had declined across the income distribution. An oil change business noted that clients were not buying the expensive synthetic oil but instead opting for the base oil offered. A holiday decorator noted that their wealthy clients were opting to decorate without using their services and were not purchasing new décor, as they usually do. Automotive sales have been mixed. While auto dealers in Missouri noted that the market was softer and demand was lower, Arkansas dealers noted that customers seemed to have delayed their purchase decisions until after the election and that sales had broken lose since then. Contacts expect conditions to slightly improve over the next year.

Manufacturing

Manufacturing activity has improved slightly since our previous report. Many firms reported that sales had slightly increased and had met expectations. Employment and hours per worker have remained flat relative to our previous report. In Kentucky, automobile manufacturing has increased shifts to catch up with production in the aftermath of earlier hurricane disruptions. However, manufacturing for electric vehicles has had pre-emptive layoffs, anticipating continued soft sales. Several firms expect production and new orders to pick up in the next quarter and, thus, slightly increase their employment levels and capital expenditures in the upcoming months. Overall, the outlook for this sector has improved, with many firms expecting new orders to increase.

Nonfinancial Services

Activity in the nonfinancial services sector has remained unchanged since our previous report. Most contacts indicated that sales had met expectations; however, conditions in logistics were mixed. Contacts in Kentucky noted that sales had fallen short of expectations due to continued softness in overall transportation and consumer purchasing, while in Tennessee a transportation contact reported that they were rushing to deliver goods in anticipation of a January port strike. Housing-related services such as decorations, designs, and moving companies reported that their businesses continued to struggle due to the lack of real estate sales and fewer people moving. The outlook for most businesses has slightly deteriorated due to uncertainty and changes in policy. An architecture firm noted that people were holding off starting projects because of potential changes in the underlying business dynamics. However, a professional services firm noted that, despite the uncertainty, changes in policy could lead to short-term gains.

Real Estate and Construction

Home sales have remained flat since our previous report, with several contacts noting that sales were below expectations. Contacts noted that the main factors slowing the real estate market were high interest rates and high prices. Inventories continue to be low but slightly higher than a year ago. At the same time, average days on the market has increased moderately as buyers have scaled back their desire to purchase at this time. A Kentucky realtor believes houses are still priced too high and will need to come down to generate more movement in the market. Similarly, a Little Rock contact attributed weaker sales to overall costs to purchase, low inventory levels, and elevated prices.

Commercial real estate (CRE) activity has slightly softened since our previous report. Contacts in the St. Louis area have shared that slightly lower CRE activity in general has been due to lower demand. Contacts noted that policy uncertainty, interest rate levels, volatility, and elevated insurance costs continue to be the main challenges for the sector. In Louisville, retail and office spaces have not seen enough absorption, resulting in a decrease of new construction in these sectors. Also, electric-vehicle-related facilities currently under construction have either stopped or slowed their work substantially due to the uncertainty of how future policies will affect the EV industry.

Banking and Finance

Banking conditions have improved modestly since our previous report. Contacts reported a modest increase in the demand for new loans. Although demand varied by type, demand for agriculture loans, credit cards, and commercial and industrial loans increased moderately while mortgage demand remained relatively unchanged. The share of contacts reporting higher delinquency rates has stabilized after rising over the past few quarters. Contacts noted that business customers have missed payments due to short-term cash flow issues, but they are being resolved well before reaching the point of default. Banking contacts reported substantial access to credit outside the banking sector—for households through buy-now-pay-later programs and for businesses through private equity, which has been increasing competition for loans. Contacts continue to report that funding pressures are easing, with less competition for deposits.

Agriculture and Natural Resources

Agriculture production has slightly declined since our previous report. Harvesting is complete and yields have been "all over the place" due to late planting and weather conditions. In western Kentucky the soybean yields were down as heavy rains negatively impacted crop quality. Additionally, lower corn and soybean prices continue to tighten farmers' margins. Contacts in Kentucky also shared that while cattle prices were very good, inventory was very low. Uncertainty about the passing of the next farm bill, high borrowing rates, and potential disruptions to international trade were the main concerns for farmers in the District. Contacts in this sector expect conditions to continue to deteriorate in the upcoming months.

Federal Reserve Bank of Minneapolis

Summary of Economic Activity

The Ninth District economy saw slight growth since the previous report. Employment increased slightly but was mixed across the region, and labor demand softened. Prices increased slightly and wage growth was moderate. Growth was noted in energy, residential real estate, commercial construction, and tourism. Consumer spending and commercial real estate activity were flat, while manufacturing and residential construction decreased. Agricultural conditions remained weak. Activity among minority- and women-owned business enterprises decreased.

Labor Markets

Employment grew slightly since the last report but was mixed among District states. Surveys confirmed that labor demand was positive but softened overall. Labor demand was poor among manufacturers but remained healthy in financial services and health care. Some contacts reported that staffing levels were falling due to attrition which, in some cases, substituted for layoffs. Some contacts also reported a decrease in turnover and improved labor availability, particularly in larger markets, making it easier to find and hire qualified applicants. But many rural businesses struggled for labor. The owner of a Montana grocery store reported traveling out of state to hire immigrant workers with the promise of providing housing. Surveys indicated that future labor demand was expected to increase. A Minnesota construction employer said they were "expecting quite a bit of work moving forward and are concerned about getting enough skilled labor."

Wage growth was moderate. Surveys found wage increases across the District and among different sectors. Manufacturing contacts reported continued wage increases despite comparatively soft conditions. A contact from a suburban Minnesota bakery said, "Employees want higher wages or will quit." A Montana services firm contact said that "the labor force seems to be constantly looking for the next job at higher pay." However, sources also noted that hiring bonuses and other incentive compensation have become less common.

Prices

Prices increased slightly overall, and the rate of growth remained steady since the last report. More than two-thirds of businesses responding to a monthly survey reported no change in the prices charged to customers in October compared with the previous month. Input price pressures increased somewhat, as 45 percent of firms said they were up during the same period. Results from a construction industry survey indicated a slowing rate of increase in both prices charged to customers and wholesale prices from vendors over the past three months; several contacts noted reductions in steel product prices. Contacts in multiple industries noted substantial increases to health, liability, and property insurance costs. A manufacturing contact reported a surprising increase in freight prices. Retail fuel prices in District states decreased moderately since the previous report. Prices received by farmers increased in September from a year earlier for sugar beets, chickens, eggs, milk, and cattle; prices decreased from a year earlier for corn, soybeans, wheat, barley, dry edible beans, hogs, and turkeys.

Worker Experience

Most employed individuals who responded to a recent District survey were satisfied with the flexibility and work-life balance offered by their employers. On the flipside, few were satisfied with the available opportunities for career advancement and upward mobility. A number of workers expressed that their wages were insufficient to meet their needs. A Montana services worker said they like their job but the pay was not aligned with their cost of living. Workers who were looking for other opportunities would be mostly deterred from pursuing them if pay or flexibility did not meet their needs. More than half of these workers said that having access to affordable housing and the ability to pursue more training or education would help them reach their career goals.

Consumer Spending

Consumer spending was flat overall since the last report. Retail contacts said that recent foot traffic and related spending had been slower. After strong sales in October, vehicle sales in November were “tracking a little lighter” at one dealership with multiple locations. Sales of recreational and powersport vehicles remained lower year over year, and bankers noted that related lending was soft. However, hotel occupancy was higher across much of the District, particularly in Montana, South Dakota, and Wisconsin. Airline passenger activity also rose, including by double digits in a few markets. Several bankers reported that recent interest rate cuts have started to positively influence consumer lending. Nearly 1 in 5 residential construction contacts noted at least a small increase in activity since rates were reduced.

Construction and Real Estate

Construction grew slightly overall, though activity varied across subsectors. Firms in industrial and infrastructure reported stronger activity compared with those in commercial and residential markets. A Minnesota mechanical contractor noted that very large projects skewed how busy the sector was overall. “You are in good shape if you have those projects. Companies that don’t … are struggling." Numerous firms reported that new projects out for bid, particularly private market projects, were softer for this time of year. As a result, companies were reaching into new areas for work and increasing overall competition for new projects. A South Dakota developer said the company's project backlog "has dropped off and competition is just as hungry as we are."

Commercial real estate was flat overall. New construction has been slower across most segments, which has helped non-owner-occupied landlords. Leasing rates were said to be healthy, especially for higher-quality property, but contacts said large firms continued to reduce their space needs. Smaller businesses were maintaining space and boosting lease activity, "but this has little effect when big companies give back hundreds of thousands of square feet." Residential real estate was widely higher. Closed sales in October saw single-digit increases year over year in most markets.

Manufacturing

District manufacturing activity decreased moderately on balance since the last report. More than half of manufacturing respondents to a monthly survey reported that orders decreased in October from the month prior. By contrast, a regional manufacturing index indicated increased activity in Minnesota, North Dakota, and South Dakota in October from a month earlier. Producers of agricultural equipment and its components noted a sharp decline in demand this year; demand for construction and other heavy equipment was greater but insufficient to make up for the weakness in farm equipment.

Agriculture, Energy, and Natural Resources

District agricultural conditions remained weak. In the most recent survey of agricultural credit conditions, 85 percent of respondents reported that farm incomes decreased in the third quarter from a year earlier, as productive harvests were not sufficient to offset low commodity prices and elevated operating costs. District oil and gas exploration activity increased modestly since the previous report.

Minority- and Women-Owned Business Enterprises

Activity among minority- and women-owned business enterprises was lower on balance compared with the last report. As some contacts experienced a seasonal slowdown, others were hoping for a busy winter. A Minnesota manufacturer and retailer of chocolate products was looking forward to the Christmas shopping season, and businesses that provide snow-related services were hoping for one covered in white. Staffing remained largely unchanged, but among those who experienced changes, more contacts reported lower headcounts compared with those who reported higher. Profits continued to face downward pressure. Nearly half of contacts noted increases in their nonlabor input prices. A food producer said they had reached a “breaking point” as their ability to pass on price increases to consumers had slowed.

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

Federal Reserve Bank of Kansas City

Summary of Economic Activity

Economic growth in the Tenth District was modest and balanced across sectors. Yet, contacts reported expectations for strong demand growth in coming months, which supported their plans to increase hiring and capital expenditures over the near term. Consumer spending resumed its healthy pace seen over the past year, but contacts noted consumers recently became more price-sensitive and quality-sensitive. Contacts viewed the cycle of commercial real estate delinquencies as not yet over, but also viewed the associated risks as being well distributed such that further strains would not lead to a significant decrease in the flow of credit to the sector. Still, loan demand was tepid amid volatility in longer-term rates. Renewable industry contacts reported growing commercial electricity demand from large data centers as a key driver for generation capacity additions in coming years. Conditions in the farm economy remained subdued, and many contacts cited declines in farm equipment values as a growing concern.

Labor Markets

Employment levels remained steady across the Tenth District. Hiring activity was subdued as few contacts reported adding headcount recently and nearly all businesses reported worker turnover was abnormally low. Contacts expected hiring activity to pick up over the next year due to a positive outlook on demand and, to a lesser extent, an overstretched workforce. The flow of applicants for open positions picked up mildly. Most contacts noted the typical quality of applicants for skilled positions diminished relative to last year, while others indicated they were tightening hiring standards for lower-skilled positions. Wage growth picked up in recent months driven by professional service and technology sectors, industries where compensation growth and hiring had been subdued over the past year. More broadly, most contacts indicated they do not plan to raise wages substantially over the next year.

Prices

Prices continued to grow slowly over the last month. Input prices continued to rise moderately for both services and manufacturing firms. However, reports on selling prices were mixed. Service firms noted modest growth in selling prices due to an inability to pass higher costs on to customers, while selling prices grew moderately for manufacturers as they maintained slightly more pricing power. Expectations for finished product and service prices in the coming months were also relatively higher among manufacturing firms.

Consumer Spending

Consumer spending growth returned to a modest pace, rebounding from a late-summer slump. Expectations for continued growth in consumer demand reportedly prompted firms to increase hiring and planned capital investments over the next six months. However, contacts in the leisure and hospitality sector reported softening activity. Some of the modest declines were attributed to a normalization of spending following a period of robust growth over the last few quarters. Several other contacts noted consumers became both more price- sensitive and quality-sensitive in recent months. Travel spending was more regionally focused, oriented toward bargain options. Contacts also indicated customers were more likely to discard loyalty programs and were less likely to be repeat customers due to low-quality service. Even amid the more competitive environment on price and quality, contacts indicated expectations for growing leisure and hospitality spending through the end of the year.

Community Conditions

Contacts reported job openings in low-paying occupations remained plentiful, and workers in those jobs were still finding wage gains from job hopping. However, compared to earlier in the year, contacts also reported more workers faced lost hours and income, had difficulty in finding full-time work, and were increasingly likely to take second jobs to make up the difference. The number of recently laid off workers in low-wage occupations remained very low across the District but was reportedly above the national trend, particularly in Nebraska and Oklahoma where weakness in agricultural conditions posed a headwind to labor demand.

Manufacturing and Other Business Activity

Business activity was roughly unchanged over the last month. While manufacturing contacts reported modest declines, professional and consumer services activity rebounded and grew at a moderate pace. Contacts reported a continued willingness to invest in their businesses, driven primarily by favorable expectations for demand over the next year. Several contacts also noted they had delayed some capital spending amid recent uncertainty or had expectations that prices for capital equipment will soften in coming months, both factors providing tailwinds for an acceleration in business investment in coming months. Planned capital expenditures were broad-based, growing at a modest pace for both manufacturing and services firms. Many contacts reported they are opting to self-fund capital expenditures, making those firms' investment decisions less sensitive to still-high borrowing costs.

Real Estate and Construction

Investor sentiment in commercial real estate (CRE) improved in recent months, driven by shifts in market participants' perception of the distribution of risks across the financial system. Contacts noted the cycle of rising CRE delinquencies and defaults is not over. However, the risks associated with CRE loans were viewed as being distributed across banks, trusts, private equity, and bond holders such that further delinquencies would not lead to a significant decrease in the flow of credit to the sector. Contacts indicated credit remained available but noted loan demand was relatively low due to higher interest rates on longer-dated tenors and elevated levels of volatility in interest rates that made deals difficult to complete.

Community and Regional Banking

Loan demand was unchanged across most categories, though several contacts noted lower demand for residential mortgage loans in a reversal of a pickup in demand observed previously. Overall loan quality largely was steady, with mild deterioration in consumer lending. The outlook for credit performance over the next six months was for ongoing stability, though several respondents expressed concerns about modest deterioration. While credit standards were primarily unchanged across lending categories, some contacts indicated credit standards for commercial and industrial loans tightened somewhat due to a change in expectations for the economic outlook. Deposit levels remained stable, though respondents noted a continued migration into certificate of deposit accounts due to customers anticipating rates to decline.

Energy

Renewable energy activity continued to grow at a moderate pace in the Tenth District. Electricity generation via renewables grew at a moderate pace in recent months, led by a robust growth in solar and more modest increases in wind. Generation capacity additions mirrored recent growth in actual generation between solar and wind. Renewable industry contacts reported growing commercial electricity demand from large data centers as a key driver for generation capacity additions in the coming years. However, utilities and developers are facing challenges in rapidly building new generation to meet growing demand. Contacts noted constraints in permitting and building new electricity infrastructure (particularly inter-regional transmission), elevated equipment costs, and persistent skilled labor shortages as key headwinds for new renewable energy projects. Despite these restrictions, expectations were for an increase in the pace of renewable investment next year, primarily driven by a few larger wind generation projects in the District.

Agriculture

Conditions in the Tenth District farm economy remained subdued despite a slight increase in crop prices. Corn and soybean yields were above the five-year average in all states except Oklahoma and could boost revenues, but profit opportunities stayed narrow. Despite strong production overall, pockets of drought also hindered crop production in certain areas of the region. Cattle prices climbed further in early November and kept margins for cow/calf producers strong. Many District contacts cited notable declines in farm equipment values as a growing concern and continued to note lower liquidity for crop producers and high interest rates could weigh further on farm finances in the coming months.

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

Federal Reserve Bank of Dallas

Summary of Economic Activity

The Eleventh District economy expanded moderately over the reporting period. Growth continued in nonfinancial services and resumed in manufacturing and retail. Home sales and energy activity were flat, and bank lending slid slightly. Employment rose in November and wage growth ticked up. Prices continued to increase at a fairly modest pace. Outlooks improved, with widespread increases in demand expectations. Interest rate cuts have had an overall positive but mild effect, with most industries needing additional time to see more robust impacts. A lot of uncertainty surrounding the election was resolved, and contacts were more positive than negative in their sentiment about prospective business conditions under the incoming administration, though some noted worry about potential trade and immigration policy changes.

Labor Markets

Employment was flat to down in October but increased moderately in November. Job gains were concentrated in professional and business services, healthcare, leisure and hospitality, retail, and manufacturing. An airline noted that employment has fallen in 2024, through attrition not layoffs, and will likely fall further in 2025. Energy contacts said hiring focused mostly on maintaining headcounts, and that there were some job losses due to recent merger and acquisition activity as well as weakness on the natural gas side. Contacts mostly reported an adequate labor supply, and those who were still having difficulty finding workers said they've seen an improvement in the past couple of months. Notably, restaurants said there were more applicants available. An exception was in trucking, where contacts continued to note a shortage of truck drivers and cited competition with high driver salaries in the oilfield as a key concern.

Wage growth picked up slightly overall. Increased wage pressure was reported for some entry-level positions in the service sector as companies reported trying to maintain competitive pay.

Prices

Prices continued to increase at a fairly modest pace over the reporting period, though a notable pickup was seen in manufacturing raw materials prices in November. Selling price growth remained moderate in manufacturing and below average in the service sector. Services firms reported fairly stable margins over the past six months after seeing some declines in the past two years. Margins continued to weaken in manufacturing, and remained a key concern among auto dealers, with one contact expecting profits to continue to decline for the remainder of the year and into 2025.

Manufacturing

Manufacturing activity increased over the reporting period, led by metals, transportation, and chemicals. Oil refineries and petrochemical producers reported increased activity over the past six weeks. Demand remained a weak spot for manufacturing overall, though a majority of firms expect an increase over the next six months, largely driven by an anticipated improvement in general business conditions. Outlooks improved in November, with several contacts expressing optimism under the incoming administration, though a couple noted potential tariff risks.

Retail Sales

Retail sales increased slightly in November after prolonged declines. Some contacts said demand was in good shape, though consumers were still looking for discounts. Auto dealers reported flat sales and that new vehicle inventories were too high. Overall outlooks improved notably, and demand is expected to increase somewhat. A few contacts pointed to the outcome of the election as a key driver of optimism, though some expressed concern over potential tariffs and how retaliatory tariffs could hamper their international sales.

Nonfinancial Services

Nonfinancial services activity continued to grow moderately over the reporting period. Revenue growth was led by professional and business services and leisure and hospitality. Staffing firms generally noted increased demand and said that business contacts see strong post-election potential for growth in the oil and gas sector as well as the industrial sector writ large. Transportation services firms noted slight increases in parcel volumes, and airlines reported very strong demand and, in some cases, record revenues. While business air travel has yet to fully recover from pre-pandemic levels, it is up notably from last year with more people travelling for work. Outlooks pushed more positive in November, and most firms expect an increase in demand over the next six months. Several contacts said they anticipate an improvement in business activity under the incoming administration, though some voiced concern over prospective changes to trade and immigration policy.

Construction and Real Estate

Home sales were flat to slightly down during the reporting period. Contacts noted that high prices and the recent rise in mortgage rates were tempering demand. Incentives for homebuyers remained widespread, squeezing builders' margins. A few contacts said that new development was being hindered by high land prices and the friction between municipalities and builders/developers.

Commercial real estate activity was mixed. Apartment demand continued to be solid, but rent concessions remained prevalent due to elevated supply. Office leasing picked up in some areas but was concentrated in class A space. Industrial demand was stable over the reporting period. Construction activity remained slightly elevated due to existing projects but starts continued to decline. Transaction volumes continued to be low as institutional investors remained on the sidelines.

Financial Services

Loan volume and loan price declines continued in November, as did credit tightening, with the pace of change similar to six weeks ago. Loan nonperformance accelerated, driven by an increase in delinquency for residential and commercial real estate loans. Despite this, concern for the health of commercial real estate loans ticked down over the past six weeks except for construction and land development, where concern increased slightly. Bankers' outlooks were optimistic. They expect a significant improvement in loan demand and business activity six months from now. Regulatory burden, net interest margin, and financial and economic uncertainty were the top outlook concerns over the next six months.

Energy

Oilfield activity was fairly flat over the past six weeks, and the pace of well completion held mostly steady despite a lower number of active completion crews. Contacts noted an increased risk that oil prices in 2025 might be weaker than previously expected, and that the lower price outlook and rising productivity could lead to less capital expenditures next year. Contacts expressed optimism that the pause on liquefied natural gas (LNG) export permits that has been in place most of the year would be lifted soon and enable more natural gas infrastructure and LNG export investment over the next several years.

Agriculture

Soil moisture conditions deteriorated over the reporting period, with more than half of the District now in drought. Some rainfall was received in mid-November which benefitted the emerging wheat crop. Row crop prices have fallen, straining farmers but benefitting livestock producers who purchase corn and other grains for animal feed. Cattle prices remained strong while milk and milk product prices fell and caused struggles for dairies. Contacts expressed uncertainty about the new farm bill in light of the upcoming change in administration, fearing needed farm safety net programs could be held up.

Community Perspectives

Nonprofit service providers noted continued high levels of demand for social services. Some said the families they serve were seeing lower benefits from federal and state services like food stamps, Medicaid, and housing and unemployment assistance, or are losing access to these services altogether. Lack of affordable housing, childcare, and transportation remain key impediments to work for low-to-moderate income individuals. Some contacts noted an increase in demand for social services by immigrants. One nonprofit said that Texas Executive Order GA-46, which requires hospitals to ask patients about citizenship status, has prompted fear in the immigrant community and that some families are not seeking the medical care they need because of it, even if they are in the U.S. legally. The nonprofit works to clarify to the families they serve that the order does not change patients' access to or quality of medical care.

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

Federal Reserve Bank of San Francisco

Summary of Economic Activity

Economic activity in the Twelfth District was stable on balance during the October to mid-November reporting period. Employment levels were largely unchanged, and employee turnover was stable in recent weeks. Wages and prices increased slightly overall. Retail sales and activity in the consumer and business services sectors held steady over the reporting period. Activity in the manufacturing sector increased a bit, while conditions in the agriculture and resource-related sectors softened slightly. Residential real estate conditions improved somewhat, and commercial real estate conditions were varied but stable. Activity in the financial services sector ticked up in recent weeks. Demand for assistance with affordable housing, health-care services, and food remained high from communities across the District. Looking ahead, contacts overall expressed slightly more optimism about economic conditions.

Labor Markets

Employment levels were little changed over the reporting period. Labor turnover was generally stable in recent weeks but remained notably down from pandemic highs. However, contacts in business services, community support services, retail, and finance continued to face lingering challenges with retention. Applicant pools for posted positions generally increased, but reports highlighted some quality mismatch between applications and job requirements. Some contacts in the real estate and services sectors indicated that hiring remained difficult for their entry-level positions as well as higher-skilled jobs in technology and construction. Several contacts noted filling jobs that cannot be done remotely remained particularly challenging. However, others in financial services and retail sectors reported no difficulty filling positions across experience and skill levels.

Wages were up slightly, similar to the prior reporting period. Wage growth was reportedly in line with historical rates across sectors, including manufacturing, finance, and real estate. Some employers facing issues in hiring or retaining staff offered higher pay, while others expanded benefit offerings and bonuses to remain competitive. One contact in Hawaii reported upward wage pressures in several industries from recent labor union contract negotiations. In contrast, one Nevada contact noted that recent settlements with labor unions helped stabilize wages in the region.

Prices

Prices rose slightly overall after being largely flat in the previous reporting period. Costs for business services ticked up, including those for health care, insurance, and new technology tools. Some firms reportedly traded down to lower quality services to obtain lower prices. Costs of materials used in production and construction, such as cement and wood products, were largely stable. A contact in food services reported price declines at some smaller quick service restaurants to compete with menu discounts offered by large chains.

Community Conditions

Communities across the District continued to report widespread shortages for affordable housing and associated increases in housing insecurity and homelessness. Demand for mental health services and food assistance programs remained elevated. Reports indicated that some employers cut back on coverage for mental health services due to recent large increases in medical insurance costs. Community organizations reported that demand for training and career development services picked up in several parts of the District, particularly in the Mountain West states. At the same time, some contacts highlighted weak enrollment figures in post-secondary educational institutions. Some nonprofit organizations reported a recent increase in funding from the public sector, particularly for programs related to sustainable growth and improving financial literacy and access.

Retail Trade and Services

Retail sales held steady over the reporting period. Most contacts reported no significant changes in overall demand and continued to note strong sales of necessities and discounted products but softer demand for discretionary items. Sales at home centers grew somewhat but remained below expectations. Retailers' outlooks for the holiday season were generally positive, with some contacts expecting sales growth over the prior season likely to be driven by online traffic.

Activity in the consumer and business services sectors remained largely unchanged in recent weeks. Demand for tourism travel was mixed, with contacts reporting rising tourism in Hawaii, stable numbers in Nevada, and a slowdown in Southern California. One hotel owner noted that, with Thanksgiving falling later in the year, the shorter season for holiday group events resulted in fewer bookings than is typical. Sales in the restaurant industry grew modestly, driven by higher prices rather than a rising number of customers. One contact reported that diners were particularly responsive to promotional items. Demand for insurance and legal services remained unchanged, and laboratory testing and medical services continued to run close to full capacity.

Manufacturing

Manufacturing activity rose somewhat over the reporting period. Demand for manufactured wood products improved slightly in anticipation of seasonal construction activity in the spring. Overall demand for new equipment ticked up in recent weeks, and the availability of raw materials reportedly normalized to pre-2020 levels. However, one contact in the capital equipment industry noted slightly weaker demand for machinery parts and accessories from developers and distribution centers.

Agriculture and Resource-Related Industries

Conditions in the agriculture and resource-related sectors weakened slightly. Across the District, tree crop production was down, while other crop yields were generally close to historical averages. Domestic demand from the food services sector remained unchanged over the reporting period, despite volatile pricing of fresh produce from areas impacted by weather events in California and Florida. California wine sales were reportedly dampened by lower demand from Asian markets. A stronger dollar and heightened competition from Europe dampened domestic lumber exports to Asia. Prices of forested lands remained high as demand continued to exceed a limited supply of land for sale. Reports mentioned that some landowners refrained from listing land for sale due to low log prices and government restrictions on harvesting.

Real Estate and Construction

Activity in the residential real estate market improved somewhat in recent weeks but remained weak overall. Demand for single-family homes outstripped supply, which remained limited. Supply of multifamily housing across the District expanded further as more units were completed, pushing down rents in some markets. Reports indicated that large homebuilders began preparing for a pickup in new construction starts in anticipation of lower financing costs over the coming months.

Commercial real estate activity varied by sector but was unchanged on balance. Office vacancies remained elevated, and leasing of newly completed office space was low. Demand for retail and industrial spaces was solid across the District, and retail leasing rates edged up slightly in the Mountain West. Commercial construction activity was generally stable, and project backlogs reportedly eased further.

Financial Institutions

Lending picked up slightly in recent weeks following several reporting periods of muted activity. Contacts highlighted some improvement in demand for commercial and industrial loans and consumer credit but noted continued weakness in commercial real estate lending. Credit and asset quality remained high overall, and liquidity was ample. Some contacts in insurance and reinsurance noted that continued increases in repair costs pushed them to exit the home and auto insurance markets.

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