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# The Beige Book

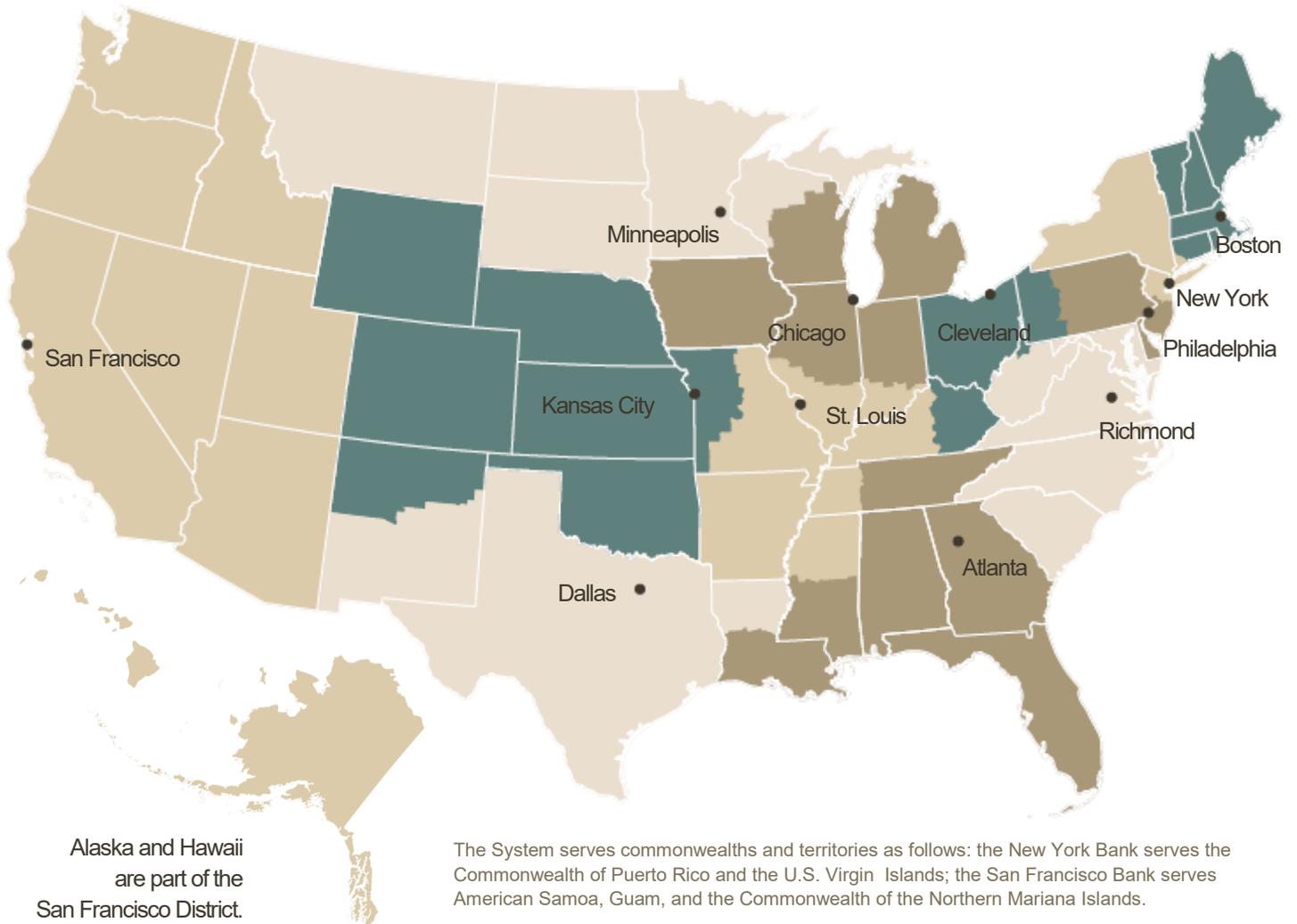
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Summary of Commentary on Current Economic Conditions

By Federal Reserve District

February 2023

## Federal Reserve Districts



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This report was prepared at the Federal Reserve Bank of New York based on information collected on or before February 27, 2023. This document summarizes comments received from contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.

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## What is the Beige Book?

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

## What is the purpose of the Beige Book?

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

## How is the information collected?

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

## How is the information used?

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

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

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



# National Summary

The Beige Book ■ February 2023

## Overall Economic Activity

Overall economic activity increased slightly in early 2023. Six Districts reported little or no change in economic activity since the last report, while six indicated economic activity expanded at a modest pace. On balance, supply chain disruptions continued to ease. Consumer spending generally held steady, though a few Districts reported moderate to strong growth in retail sales during what is typically a slow period. Auto sales were little changed, on balance, though inventory levels continued to improve. Several Districts indicated that high inflation and higher interest rates continued to reduce consumers' discretionary income and purchasing power, and some concern was expressed about rising credit card debt. Travel and tourism activity remained fairly strong in most Districts. Manufacturing activity stabilized following a period of contraction. While housing markets remained subdued, restrained by exceptionally low inventory, an unexpected uptick in activity beyond the seasonal norm was seen in some Districts along the eastern seaboard. Commercial real estate activity was steady, with some growth in the industrial market but ongoing weakness in the office market. Demand for nonfinancial services was steady overall but picked up in a few Districts. On balance, loan demand declined, credit standards tightened, and delinquency rates edged up. Energy activity was flat to down slightly, and agricultural conditions were mixed. Amid heightened uncertainty, contacts did not expect economic conditions to improve much in the months ahead.

## Labor Markets

Labor market conditions remained solid. Employment continued to increase at a modest to moderate pace in most Districts despite hiring freezes by some firms and scattered reports of layoffs. Labor availability improved slightly, though finding workers with desired skills or experience remained challenging. Several Districts indicated that a lack of available childcare continued to impede labor force participation. While labor markets generally remained tight, a few Districts noted that firms are becoming less flexible with employees and beginning to reduce remote work options. Wages generally increased at a moderate pace, though some Districts noted that wage pressures had eased somewhat. Wage increases are expected to moderate further in the coming year.

## Prices

Inflationary pressures remained widespread, though price increases moderated in many Districts. Several Districts reported input costs rose further, particularly for energy and raw materials, though there was some relief reported for freight and shipping costs. Some Districts noted that firms were finding it more difficult to pass on cost increases to their consumers. Selling prices increased moderately in most Districts, with several Districts noting a deceleration. Home prices were generally flat or down slightly, while rents were reported to be steady or higher. Still, home prices and rents remained high, contributing to ongoing concerns about housing affordability. Looking ahead, contacts expected price increases to continue to moderate over the year.

## Highlights by Federal Reserve District

### Boston

Business activity increased slightly on average. Retailers and restaurant owners reported modestly higher sales, and manufacturers reported a slightly slower pace of activity. Employment was about flat as wage growth remained above average. Prices increased slightly as nonlabor costs continued to ease. Contacts expected at least modest price increases in 2023.

### New York

After a sharp contraction, regional economic activity leveled off. The labor market has remained strong, with ongoing slight job gains and a pickup in wage growth. Inflationary pressures remained persistent as price increases picked up. Housing markets remained subdued but showed signs of picking up beyond the seasonal norm.

### Philadelphia

Business activity appeared to increase slightly during the current Beige Book period after declining last period. In the absence of a definitive COVID-19 wave, consumers responded positively. Employment rose modestly. Wage growth and price inflation continued to subside but still grew at moderate paces. Expectations improved despite continued cautious sentiment.

### Cleveland

The District's economy contracted slightly early in 2023, in large part because higher interest rates and prices continued to weigh on household spending. Contacts in other sectors, including freight and manufacturing, often cited the weakness in household spending as contributing to softer demand in their own industries. Firms added workers at a slower pace as many expected softer business conditions to persist in the months ahead.

### Richmond

The regional economy grew at a modest rate in recent weeks. Retail spending, travel, and tourism picked up moderately while nonfinancial service and residential real estate activity picked up modestly. Manufacturing and commercial real estate activity was unchanged. Lending volumes and transportation contracted modestly. Employment and wages grew modestly. Price growth slowed slightly but remained elevated.

### Atlanta

Economic activity grew modestly. Labor markets improved slightly, but wage pressures persisted. Some nonlabor costs rose while others moderated. Retail sales were healthy. Auto sales were strong. Leisure travel was robust and business travel grew. Housing demand improved somewhat. Transportation was mixed. Loan growth was solid. Energy demand was strong. Agriculture activity remained mixed.

### Chicago

Economic activity increased. Employment increased moderately; consumer spending increased modestly; business spending and manufacturing increased slightly; nonbusiness contacts saw little change in activity; and construction and real estate activity decreased modestly. Prices and wages rose moderately, while financial conditions were unchanged. Agricultural incomes were expected to be lower in 2023 than in 2022.

### St. Louis

Economic conditions have remained unchanged since our previous report. Firms reported tight labor markets but slowing wage growth. Consumer demand was mixed but came in slightly above expectations. Homebuying activity slowed, but demand for commercial and industrial space grew.

### Minneapolis

Economic activity in the region grew modestly in recent weeks. Employment gains were moderate, and recruitment improved some. Price increases were modest and wage pressures were flat. Consumer spending declined, and struggles for construction and real estate firms continued. Minority- and women-owned firms reported steady activity but struggled with hiring.

### Kansas City

Economic activity in the Tenth District declined slightly in February. Employment levels remained high and labor markets tight. Yet, overtime hours, hiring of temp workers, and job postings declined. Consumer spending continued to fall, primarily due to reduced discretionary spending, as spending on food, energy, and healthcare continued to rise. Prices rose broadly at a moderate pace, but rental rates for housing continued to increase at a robust pace.

### Dallas

Modest economic growth continued, with a pickup in home sales and service sector activity but a slight contraction in manufacturing output. Job growth was moderate, and labor market tightness eased. The pace of input and selling price increases generally remained elevated. Outlooks were mostly negative, and contacts voiced concern about weakened demand, inflation, and higher interest rates.

### San Francisco

District economic activity expanded modestly. Labor supply ameliorated, while wage and price growth moderated further. Demand for retail goods and services was strong. Manufacturing activity was unchanged on net, while conditions in the agriculture sector softened slightly. Residential real estate activity eased further, while demand for commercial spaces changed little. Lending activity rose slightly.



## Summary of Economic Activity

Business activity in the First District increased slightly on average amid modest growth in retail and restaurant activity. Manufacturers reported a slightly slower pace of activity, especially for semiconductor sales, but remained upbeat. Residential real estate sales fell modestly, while commercial real estate markets were stable but the outlook weakened. Employment was flat as wage growth remained above average and labor shortages persisted for many positions. No contacts planned to enact significant layoffs in the near term, even if recent sales had slowed. Some firms expected to offer above-average wage increases in 2023 to stave off still-high attrition rates, while others were planning for average wage growth. Prices increased slightly overall, as a variety of nonlabor costs continued to ease. Contacts expected to enact at least modest further price increases in 2023.

### Labor Markets

Wage growth was steady at an above-average pace, and headcounts were roughly flat on balance. Retailers reported a modest decline in headcounts on average, with significant layoffs at one firm and elevated attrition at others, while restaurant employment rose slightly since the last report but remained somewhat below its pre-pandemic benchmark. One manufacturer noted strong hiring, while other manufacturing contacts reported flat or slightly lower headcounts. Retailers said that wage pressures remained strong (if stable) in the face of elevated attrition, and manufacturers said that hiring remained a challenge or got slightly easier. A workforce development contact faced difficulties keeping candidates engaged in their degree and placement programs (for technical roles) despite abundant job openings; the contact noted that high childcare costs deterred some candidates but that other cases of disinterest were harder to explain. According to staffing services contacts, welders, carpenters, and mechanics were highly sought after by construction employers and remained very hard to find. Wage growth for construction workers remained well above average. Light industrial roles were also hard to fill despite employers' having enacted large hourly wage increases for such positions in recent years. Some firms hesitated to make direct hires given fears of a recession, but hiring from temporary roles became more common. Labor market power was seen as shifting slightly more in favor of employers, as employees lost

some leverage in demanding hybrid work and flexible schedules. Contacts in the semiconductor industry said that they had no plans to lay off workers despite slowing sales, although one paused plans to expand headcounts. Otherwise, hiring plans among manufacturers were unchanged, and retail headcounts were expected to hold steady moving forward. The outlook for wage growth was mixed, as staffing contacts expected the pace of wage growth to soften, while retailers expected to have to raise wages (and other compensation) at an above-average pace in 2023 to stave off attrition, and manufacturers planned for average merit increases despite some larger gains in starting pay for hard-to-fill positions.

### Prices

Prices were up slightly on average, as nonlabor pricing pressures continued to abate but with some noteworthy exceptions. Retail and restaurant contacts reported further declines in freight and shipping costs. Nonetheless, restaurants faced new pressure on profit margins from rising rents and rising health insurance costs, in addition to still-elevated (if relatively stable) food prices and credit card processing fees. One retailer posted moderate price increases to pass on increased propane and labor costs, as other retailers held prices steady. Manufacturing contacts said that nonlabor cost pressures had moderated recently. Lumber costs stabilized, but overall construction costs remained elevated due to

lingering supply chain issues and scarce labor. Although none had significantly changed their output prices since the last report, manufacturers perceived that further price increases were likely for 2023.

### **Retail and Tourism**

Among First District contacts, retail and restaurant sales increased modestly in recent weeks. An online retailer experienced a slight uptick in sales volume relative to seasonal expectations following the holidays. A salvage store similarly enjoyed a small increase in sales, which the contact attributed to a strong inventory of high-quality goods and the recovery of cross-border commerce with Canada to above pre-pandemic levels. A Massachusetts restaurant industry contact said that sales increased modestly throughout the state, contrary to typical seasonal dips after the holidays, although business at downtown Boston establishments continued to substantially trail pre-pandemic levels. Despite growth in sales volume, profits were hurt by increases in ancillary costs. A discount furniture retailer experienced minor improvements in sales volume so far this year, noting that new product lines at lower price points were a particular source of strength. Contacts were optimistic on balance, but several pointed to an increased focus on cost containment strategies to maintain profits and minimize the need for further price increases.

### **Manufacturing and Related Services**

News from our manufacturing contacts was largely positive. Contacts reported generally high levels of economic activity, but sales growth slowed to a modest pace on average. Reports from the cost side showed a similar pattern: prices and wages remained high, but price and wage inflation moderated significantly compared with 2022, and supply chain issues improved. Contacts in the semiconductor industry said that the boom of the last few years has cooled. Although booms and busts are typical in that industry, our contacts expected this bust cycle to be mild and possibly short-lived (less than one year). A furniture maker, who had recently been somewhat pessimistic about the direction of consumer spending, became more optimistic after their sales responded very positively to recent promotions. Otherwise, contacts were generally optimistic about 2023, expecting growth to revert to sustainable levels after a period of exceptional performance.

### **Commercial Real Estate**

The commercial real estate market in the First District has been relatively stable since the beginning of 2023. The industrial market continued to see low vacancy rates and high leasing demand, but nonetheless rents have levelled off recently. Though the office market remained

weak—a Hartford contact described the market as “abysmal”—another contact noted a slight increase in leasing interest for larger spaces in downtown Boston, and leasing was stable in Providence. In the retail market, food and beverage establishments experienced relatively strong leasing demand, while vacancies continued to pile up for department stores and big-box retail. Credit conditions tightened further, for example, as construction loans faced increased capital requirements. The only significant construction activity pertained to industrial properties. Most contacts expected commercial real estate activity to weaken moving forward, with the industrial market outperforming other sectors. The office class was predicted to weaken further, mainly as the result of pending lease maturations and the likelihood of high-profile loan defaults, and downward pressure on rents was expected.

### **Residential Real Estate**

In First District residential real estate markets, weak sales activity persisted even as inventory continued to improve in recent months. Boston and Vermont reported year-over-year changes for December 2022 while all other areas reported year-over-year changes for January 2023. Connecticut data were unavailable. Closed sales fell modestly in most markets since the last report and were down 30 percent from a year earlier, although sales of Maine condos improved slightly and were off by just 4 percent year-over-year. Inventories increased substantially in Rhode Island from the previous report and were stable elsewhere. Price growth slowed slightly from the previous report on balance, as median sales prices increased modestly over the year in most markets and were flat in Massachusetts (for single-family homes) and down slightly in Boston (for both single-family and condos). The Boston, Rhode Island, and Maine contacts attributed the slow sales activity to higher mortgage rates. That same set of contacts continued to express concerns about low inventories, stressing that even with recent increases in supply, the market remains unbalanced. ■

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



## Summary of Economic Activity

Economic activity in the Second District leveled off in early 2023 following a period of significant contraction. Supply availability continued to improve and is expected to improve further in the months ahead. Inflationary pressures remained persistent as the pace of both input and selling price increases picked up in recent weeks after a sustained period of moderation. The labor market has remained strong: employment increased slightly, wage growth picked up, and hiring plans remained solid. Consumer spending was steady to up slightly, and tourism has continued to strengthen. The home sales market has remained subdued but showed signs of picking up beyond the seasonal norm, while the rental market has firmed. On balance, commercial real estate markets were steady. Conditions in the broad finance sector improved somewhat, though regional banks continued to report widespread declines in loan demand, ongoing tightening in credit, and rising delinquency rates. Businesses expect economic conditions to improve modestly in the coming months.

### Labor Markets

Labor market conditions have remained strong. On balance, employment increased slightly in recent weeks, with the strongest gains reported by businesses in the information and wholesale trade sectors. However, manufacturers indicated that employment declined for the first time since early in the pandemic. Still, job openings remained widespread and contacts at two major employment agencies indicated that concerns about a broader weakening in the labor market have not materialized. While it has become easier to attract and retain workers, finding workers with desired skills or experience remains a significant challenge. A New York City employment agency attributed some of the recent churn in the labor market to more workers looking for full or hybrid remote work options as many businesses have started to require more time onsite from their employees. Overall, hiring plans generally remain solid.

Wage growth picked up in early 2023, in part due to an increase in the minimum wage across the District. In the coming year, businesses expect wage increases to moderate to rates observed before the pandemic.

### Prices

Inflationary pressures remained persistent. After a sustained period of moderation, business contacts reported that the pace of input price increases picked up in recent weeks. Of note, shipping charges, energy costs, and the prices of raw materials rose noticeably. Selling price increases also picked up after slowing for much of last year. Retailers and leisure & hospitality firms reported modest increases in their selling prices. Businesses expect both input and selling price increases to remain fairly widespread in the months ahead.

### Consumer Spending

Consumer spending was steady to up slightly in early 2023. Nonauto retailers indicated that business steadied but remained sluggish in recent weeks, while spending on travel-related services and in restaurants and bars was up moderately. Auto dealers in upstate New York reported that sales of new vehicles were up modestly as inventory levels continued to improve. However, sales of used vehicles have remained soft. Consumer confidence edged down but remained high.

## Manufacturing and Distribution

Manufacturing activity declined further in early 2023, following a period of sharp contraction. Contacts in wholesale distribution also reported declining activity, while businesses in the transportation & warehousing sector reported that activity steadied. A growing number of businesses indicated that supply disruptions continued to ease, and delivery times shortened for the first time since the pandemic began. Looking ahead, businesses in manufacturing and distribution expect conditions to improve somewhat in the coming months.

## Services

Service sector activity continued to weaken in the new year, though at a slower pace than in the previous reporting period. Information sector businesses noted widespread weakening, while providers of professional & business and leisure & hospitality services reported modest declines in activity, and contacts in the education & health sector indicated some leveling off in activity after a sustained period of weakness. For the first time since last Fall, businesses in the service sector expect economic conditions to improve in the months ahead.

Tourism activity in New York City strengthened further in early 2023. Demand for hotel rooms continued to trend up, with hotel occupancy rates now just slightly below and average room rates modestly above pre-pandemic levels despite new hotels opening in the city. Attendance at Broadway shows has continued to improve, and a substantial number of shows are scheduled to open. Though business travel has yet to bounce back, domestic leisure travel has been strong, buoyed by the ability to work remotely. International travel continues to improve but has not returned to pre-pandemic levels.

## Real Estate and Construction

The residential sales market remained subdued in early 2023, though there are signs that activity has begun to pick up beyond the seasonal norm. Real estate contacts in upstate New York reported that prices have been flat to down slightly, and that sales volume and buyer traffic remain sluggish. By contrast, sales of both single-family homes and apartments picked up in and around New York City, and prices held steady. The inventory of available homes has declined in Manhattan and has remained exceptionally low elsewhere. Bidding wars are still occurring for desirable properties in upstate New York and remain fairly widespread in and around New York City outside of Manhattan.

Residential rental markets have firmed. In Manhattan, rents remained high and have been little changed in recent weeks, even when taking landlord concessions into account. Already low rental vacancy rates in Manhattan edged down slightly. However, rents increased sharply in Brooklyn and Queens to start the year. Rents also remain high and continue to rise in upstate New York.

Commercial real estate markets were little changed in early 2023. Office vacancy and availability rates edged up in New York City and northern New Jersey and were steady across upstate New York. Office rents were flat across the District. Retail vacancy and availability rates held steady, though retail rents fell slightly. Vacancy and availability rates edged up from low levels in the industrial market and rents trended up modestly.

Construction contacts reported some stabilization in business conditions but remained pessimistic about the near-term outlook. New office construction starts remained at low levels in most of the District, though there was some pickup in northern New Jersey. New industrial construction starts were up in and around New York City but were little changed elsewhere. Multi-family residential starts remained weak across the District.

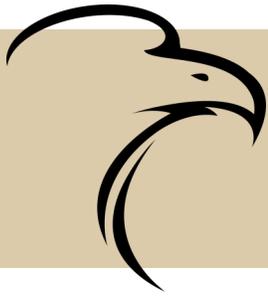
## Banking and Finance

Contacts in the broad finance sector reported some improvement in business conditions. However, with rising interest rates, small to medium-sized banks in the District continued to report widespread declines in loan demand across all segments—especially residential mortgages. Already low levels of refinancing activity decreased further. Credit standards continued to tighten on all loan types except consumer loans. Loan spreads narrowed. Nearly all bankers reported higher deposit rates. Finally, delinquency rates rose noticeably on all types of loans.

## Community Perspectives

Community leaders highlighted the pressures faced by many households from a lack of availability of childcare and preschool. Such services are operating at a reduced capacity because of teacher shortages, the decline in childcare centers, and the expiration of pandemic-era funding. Housing affordability remains a significant challenge, despite efforts to improve affordability through changes in zoning and regional collaborations to build more housing. A rise in homelessness and large influx of asylum seekers have increased demands on the region's shelter and transitional housing sector. ■

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



## Summary of Economic Activity

On balance, business activity in the Third District appears to have increased slightly after declining slightly last period. Consumer demand appeared to tick up, but contacts cautioned against comparisons with year-ago sales that were dampened by the Omicron wave. Moreover, bankers and nonprofit agencies warned that lower-income households were buying food and other necessities on credit. Employment resumed a modest pace of growth despite the tight labor market. Wage growth and inflation continued to subside, but both remained moderate. Overall, firms continued to report less difficulty in hiring and fewer supply chain disruptions. On balance, expectations for economic growth over the next six months improved slightly among all firms; however, expectations remained well below their nonrecessionary historical averages.

### Labor Markets

Employment growth resumed a modest pace after having maintained a slight pace since July 2022. About one-fifth of the firms reported increased employment; one-tenth reported less employment. Contacts, including staffing firms, noted that hiring continued to be easier, with more applicants, lower turnover, and less wage pressure. One staffing contact commented that billboards advertising jobs were no longer seen in the area.

However, firms continued to describe a very tight labor market in which staffing remained their primary challenge. Contacts pointed to a lack of childcare, baby boomer retirements, disconnected youth, the national immigration policy, and lingering effects of the pandemic as critical underlying factors.

Firms again reported that wage inflation had subsided since the prior month but remained pervasive and moderate. In our monthly surveys, the share of nonmanufacturing firms reporting higher wage and benefit costs per employee was nearly equal to the share reporting no change (at a little under 50 percent); the share reporting lower compensation levels was just over 4 percent.

On a quarterly basis, firms' expectations of the one-year-ahead change in compensation cost per worker essentially held steady, with a trimmed mean of 5.2 percent in the first quarter of 2023 versus 5.1 percent in the fourth

quarter of 2022. However, these recent expectations were lower than the 5.8 percent in the third quarter of 2022. Manufacturers expected wage increases of 5.0 percent; nonmanufacturers expected 5.5 percent.

### Prices

On balance, inflation continued at a moderate pace – comparable with the prior period. However, reports of price increases were generally less widespread, and expectations of future price hikes continued to fall.

Contacts reported that increases in prices received for their own goods and services over the past year held steady at a moderate pace in the first quarter of 2023. The trimmed mean for reported price changes in our quarterly survey questions remained at 6.0 percent for all firms. Price increases rose to 8.1 percent from 7.9 percent for manufacturers but fell to 4.4 percent from 4.6 percent among nonmanufacturers.

Likewise, reported increases in prices paid and received were significantly less widespread than one year ago. Since year-end, reported increases for prices paid for inputs were also less widespread among all firms; however, increases in prices received for their own goods were more widespread, especially for nonmanufacturers.

Looking ahead one year, the increases that firms anticipated in prices for their own goods subsided further to a

modest rate – the trimmed mean for all firms fell to 4.0 percent in the first quarter of 2023, from 4.3 percent over the past two quarters. Previously, it had fallen steadily from 5.9 percent in the fourth quarter of 2021. The expected rate of growth edged down to 3.9 percent from 4.0 percent for nonmanufacturers and fell to 4.1 percent from 4.8 percent for manufacturers.

## Manufacturing

Manufacturing activity declined modestly – after declining moderately in the prior period. The index for new orders was negative for the ninth straight month but was not as deep as last period. Moreover, the shipments index turned positive after dipping negative at year-end.

Contacts confirmed that demand slowed and backlogs fell. Demand tended to be slower for firms supplying construction-related sectors; however, one contact noted an early pickup in orders in anticipation of future infrastructure spending.

Expectations among manufacturers for growth in six months remained muted. The index for future activity turned slightly positive, and the new orders index changed little since year-end. However, expectations for increases in shipments, employment, and capital spending over the next six months were less pervasive.

## Consumer Spending

Nonauto retailers and restaurateurs tended to report slight growth because of several positive factors: good weather, early tax refunds, and an easy comparison against year-ago sales, which were dampened by the Omicron wave. Tourism contacts reported steady activity but also noted that comparisons with the first quarter of 2022 “may provide false hope.” Auto dealers reported a slight uptick in sales in the new year as manufacturers began delivering more new cars. However, a builder noted that dozens of small businesses in its community neighborhoods were struggling, as their customers became increasingly budget conscious.

## Nonfinancial Services

On balance, nonmanufacturing activity appeared to resume a slight pace of growth after two periods of little change. Growth was more widespread, as the share of firms reporting increases in sales and new orders edged out the share of firms reporting decreases. However, the difference was smaller than normal for nonrecessionary periods.

## Financial Services

The volume of bank lending (excluding credit cards) grew modestly during the period (not seasonally adjusted) – slower than the prior period but faster than in the

same period last year. Inflationary effects on home prices and other big-ticket items continued to boost loan volume growth during the current year relative to past years.

During the period, District banks reported strong growth in home mortgages and other consumer lending, moderate growth in auto loans, and modest growth in commercial and industrial lending. Home equity lines declined modestly, and commercial real estate lending was essentially flat. Banks reported strong declines in credit card volumes – typical of the postholiday season.

Nonprofit contacts noted that some of their clients have begun charging basic food and utility expenses to credit cards and are using “buy now, pay later” online services for movies and dinners. Several contacts noted that as of the end of February, low-income households in our three states will lose significant supplemental SNAP benefits that were made available during the pandemic. Moreover, local food banks are contending with falling levels of donations, higher food prices, and staffing challenges.

## Real Estate and Construction

Homebuilders reported an unexpected uptick in sales in early 2023. Contacts attributed the improvement to incentives, discounts on older inventory, and new homes built with smaller footprints and lower-cost features. Builders also noted that homebuyers may have resigned themselves to the current mortgage rate environment.

Existing home sales fell moderately in most markets – following a modest decline in the prior period. Brokers noted that a sellers’ market persists as new listings remain scarce. Housing affordability continued to decline.

Requests for assistance with housing and utility bills continued to dominate the share of 211 requests in the three-state region, at 36 percent and 18 percent, respectively. In turn, 39 percent of the housing requests were for rental assistance.

Market participants in commercial real estate continued to report steady current construction activity but noted additional softening of the pipeline as more projects are delayed, canceled, or redesigned. Leasing activity continued to slow modestly. While demand for warehousing and life sciences space remained strong, concerns about other commercial real estate prompted at least one large law firm to gear up for handling distressed properties. ■

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



## Summary of Economic Activity

The Fourth District economy contracted slightly in recent weeks amid persistent softness in household spending, particularly goods spending. Several retailers and restaurateurs reported a typical post-holiday sales slump, but some said that sales fell short of their expectations as inflation continued to weigh on discretionary spending. In addition, higher interest rates contributed to ongoing weakness in light vehicle and home sales. Freight and manufacturing firms suggested that softer household spending dampened demand in their own industries, while bankers noted that higher interest rates curbed overall loan demand. Contacts generally expected business activity to soften further in coming months. Employment rose slightly, and while reports of layoffs remained few, a larger share of contacts noted that they had paused hiring. Increased labor availability, particularly among lower-paid workers, was accompanied by some further relief in wage pressures. Nonlabor input cost pressures changed little in recent weeks, while selling price pressures edged higher.

### Labor Markets

District employment increased slightly, though a larger share of contacts indicated that they had held staffing steady. Firms that were hiring often cited ongoing turnover and persistently high job vacancies as the main drivers. For instance, one manufacturer stated, "We still need about 10 percent [more] staff ... to reach pre-COVID levels." On balance, contacts' hiring expectations suggest employment growth will slow further in coming weeks. Looking forward, several contacts suggested that they were less likely to lay off workers in the event of an economic downturn because they were focused on retaining enough staff to meet longer term production goals.

Wage pressures continued to ease, and the share of contacts reporting increased pay was one of the lowest in the past 12 months. However, the relief was spotty. Notably, food and hospitality firms reported declining wage pressures related to increased labor availability. Meanwhile, contacts in the financial services and non-residential construction sectors reported that sustained competition for skilled workers was still leading to large pay increases. Similarly, manufacturing contacts often offered wage increases that exceeded prepandemic norms to help employees offset the effects of inflation.

### Prices

On balance, nonlabor input cost pressures changed little in recent weeks but were down meaningfully from a year

earlier. Moreover, an increased share of contacts reported that their costs had stabilized recently. In addition, even when costs were said to be rising, contacts reported that they were increasing at a slower pace. Looking forward, contacts expect nonlabor input cost pressures to ease slightly further in the months ahead.

The share of contacts reporting increased selling prices was up slightly from that in the previous cycle but still down considerably compared to a year ago. Many contacts raised prices to offset high input costs. However, some firms reported increased pressure to not raise prices even as their costs remained elevated. For example, one freight hauler noted, "We have lost some of our normal business because we were not willing to reduce rates as much as our customers demanded. Our costs are not decreasing, so our margins are getting squeezed."

### Consumer Spending

On balance, contacts' reports suggest consumer spending was down somewhat as households faced continued pressure from high prices and increased interest rates. One general merchandiser noted that slower than normal holiday sales had been followed by further declines to start the new year, while another reported that high prices had led to a "pretty dramatic bias toward food and consumables over discretionary purchases. If there's money left over, customers will spend some on general merchandise." Auto dealers continued to report that

higher vehicle prices and increased interest rates had resulted in softer customer demand. One industry contact said that his returning lease customers were often “shocked by the increase in monthly payments.” On balance, contacts expected consumer spending to remain soft in coming months.

### **Manufacturing**

Overall demand for manufactured goods changed little from the prior reporting period. However, reports continued to vary by industry segment. Demand increased for firms in aerospace and in heavy trucks and trailers. By contrast, softer demand was reported by firms associated with interest rate-sensitive sectors, including residential real estate and light vehicles. Multiple contacts said that softer consumer spending had reduced demand for their customers’ products. Broadly, manufacturers expected demand for their products to remain steady or increase slightly in the coming months and they frequently cited improved supply chains and stabilizing inventories as contributing to their relatively optimistic expectations.

### **Real Estate and Construction**

Residential construction and real estate contacts reported that elevated interest rates continued to constrain demand, though the pace of contraction slowed somewhat. In fact, one homebuilder noted that demand had increased in recent weeks, a situation which he attributed to stabilizing mortgage interest rates and slower increases in materials costs (and home prices) compared to the prior two years. Still, contacts anticipated demand overall would remain below typical levels into the near future.

Nonresidential construction contacts reported that demand softened further because of high interest rates for commercial projects. One general contractor noted that the projects that are moving forward have often been self-funded. Real estate developers also cited weaker demand as customers have become increasingly concerned about high interest rates and general economic uncertainty. Contacts said that these same factors would lead to further softening in demand in coming months.

### **Financial Services**

Overall, loan demand continued to decline this reporting period. Bankers noted a slowdown in lending to both businesses and households, which they attributed to high interest rates. Some lenders also suggested that perceived economic uncertainty was causing borrowers to be more cautious. Overall, delinquency rates have remained low, though a few bankers noted a slight increase in credit card delinquencies. Core deposits con-

tinued to decrease slightly, and bankers suggested that deposit rate competition and a shift to higher-yield alternatives contributed to the decline. Looking ahead, lenders anticipated that loan demand would weaken further as borrowing costs are expected to remain elevated.

### **Nonfinancial Services**

Freight activity remained weak, which contacts attributed to a variety of factors including weaker demand in construction and consumer goods, as well as an ongoing inventory correction cycle. Contacts expected freight demand to remain soft in the months ahead. Demand for professional and business services grew at a relatively steady pace this period. One firm that provides transaction authentication services indicated that the continued upward trend of internet shopping will ensure growth in demand for his services.

### **Community Conditions**

Workforce development contacts indicated that the number of individuals seeking their services remained below prepandemic levels, though a few reported an uptick in recent months. Contacts noted that individuals were more likely to seek their services for training opportunities than for job placement. One contact mentioned that every worker who recently completed a manufacturing training program had at least two job offers. The difficulty manufacturers are having attracting and retaining workers led some to explore apprenticeships to meet their staffing needs. According to multiple contacts, lower-wage workers have greater options for employment and have become more selective in their job choices, prioritizing flexible work schedules in addition to pay. An eastern Kentucky contact reported increased demand for skilled trade workers as the region continued to rebuild from the July 2022 floods. ■

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



## Summary of Economic Activity

The Fifth District economy grew modestly since our previous report. Manufacturing activity was unchanged, on balance, as some segments continued to grow while others contracted. District ports reported a net decline in total volumes as import activity slowed while loaded exports picked up moderately. Trucking companies also saw a decline in total volumes leading to lower spot market rates. Retailers experienced solid growth in sales and most said that consumer confidence was strong. Travel and tourism grew moderately, and hotels reported strong growth in revenues as occupancy was solid and average room rates were up. Residential real estate activity picked up in recent weeks, but the low inventory of houses continued to restrict sales volumes. Commercial real estate activity was unchanged since our previous report. Financial institutions reported weakening loan demand and a decline in deposit levels. Nonfinancial services demand held up while revenues flattened out due to rising costs. Employment grew modestly and employers continued to struggle to find qualified workers. The pace of wage growth slowed somewhat but was still elevated, overall. Prices continued to rise strongly on a year-over-year basis.

### Labor Markets

Employment grew modestly in recent weeks. Contacts continued to report significant issues with finding qualified workers. A motorcoach company cited a lack of applicants, even after offering to train candidates on how to drive their buses. An ice cream chain put expansion plans on hold so they could focus on hiring and retaining employees. Conversely, a staffing agency reported that they were able to fill numerous data mining openings, as the position attracted a good supply of quality candidates. The growth rate of wages was beginning to slow; however, wages were still above what employers were expecting to offer. An air compressor supplier reported that the wage for a replacement worker was significantly higher than the employee they were replacing.

### Prices

Year-over-year price growth remained elevated, however the pace of growth eased slightly in recent months. According to our most recent surveys, prices received by manufacturers grew around six percent over the prior year, but that was down from around ten percent growth reported in November 2022. Prices received by services firms, on the other hand, remained elevated and have yet to ease significantly from their recent peak. These trends largely reflected price growth for firms' inputs, with manufacturers seeing input price growth slowing more than services firms reported.

### Manufacturing

Manufacturing activity in the Fifth District was little changed in recent weeks. Sentiment about business conditions reflected the industries manufacturers serve. For instance, a steel manufacturer reported a "siloeing" of demand, as growing industries – like electric vehicle plants – was making-up for declining parts of their business, like shopping centers. On balance, supply chains continued to improve as order backlogs and vendor lead times declined. Hiring was growing at a slower pace than previous periods. A cabinet manufacturer was forgoing layoffs amid expected declines in new orders, allowing attrition to naturally happen without replacing departing workers.

### Ports and Transportation

Fifth District ports reported a continued slowdown in total volume this period. Loaded import containers were down, primarily for furniture and retail goods, while loaded export volumes increased moderately, led by an increase in auto parts, agricultural products, and paper-board. Rolling stock exports grew modestly this period. Spot rates for trans-Asia containers declined to below pre-pandemic pricing and were significantly under current contract rates; Transatlantic rates were slightly lower this period. With reduced import volumes, the ports were anticipating carriers doing more blank sailings and/

or taking ships out of rotation in the first quarter of 2023.

Trucking firms reported a decrease in freight volume this period, and contacts indicated that capacity is no longer an issue. Some customers were seeking to bid out their existing contracts now in order to take advantage of lower freight rates. Spot market rates have decreased moderately this period. Despite higher fuel costs, a contact stated that it's hard to maintain existing rates in this environment. In the Less-than-Truckload segment, both volumes and shipping rates held steadier this period. Trucking firms indicated little difficulty retaining drivers and have been slower to backfill open positions due to the lower freight volumes.

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

Retailers reported solid growth in sales in recent weeks with several business reporting sales figures at or above pre-COVID levels. Most retailers said that consumer confidence was strong and that customers were willing to accept price increases. A grocery store, on the other hand, saw more customers trading down by buying store brands or less expensive proteins due to elevated food prices.

Travel and tourism grew moderately since our previous report. Hotels reported that 2023 was off to a good start with solid growth in bookings and average daily rates leading to strong revenue growth. A hotelier in South Carolina said that occupancy rates were slightly below pre-COVID but that was only because the inventory of hotel rooms increased at a faster rate than bookings. An airport contact said that passenger traffic was up at the start of this year but compared to pre-COVID, traffic was still down for lack of available planes and pilots.

### **Real Estate and Construction**

Most residential real estate professionals and builders noted a surprising uptick in new home sales activity since the beginning of the year. Housing inventory increased moderately, nevertheless it had a long way to go to reach market equilibrium. One respondent indicated that buyers were out looking again but it would be a better scenario if there were more homes available for sale. The low housing inventory also has resulted in fewer closed and pending home sales this period. Sales prices decreased modestly from their peak last spring; however, terms were more beneficial to the buyers. Lumber prices were down but overall construction costs remained high; the average base cost of a new home was up 33% in the last 2 years.

Commercial real estate activity remained unchanged since the last period. However, rent costs were moderating in certain sectors. Leasing rates for multifamily were

starting to decrease, particularly for mid-priced units; high end apartment rents were unchanged. Retail leasing was strong this period especially for service and food businesses. New retail centers continued to be built and most were pre-leased, leading to lower vacancy rates. The industrial market continued to be strong with higher rental rates and good absorption levels. The supply of Class A space tightened, particularly in suburban markets. Commercial contractors noted that a general shortage of key components, including labor, remained a significant factor. Overall, commercial buyers remained hesitant to commit due to market uncertainty.

### **Banking and Finance**

Financial institutions noted a continued weakening of loan demand across all loan types, especially in the commercial portfolio. Increasing interest rates were mentioned as the primary driver of this weakening, along with borrower uncertainty about the strength of the overall economy. Deposit levels continued to decrease, with competition for deposits beginning to rise. Moderate deposit interest rate increases were noted as institutions work to maintain their base. Institutions are observing a stabilization of delinquencies within their loan portfolios with no increases reported. Financial institutions expected moderate decreases in loan and deposit levels for the remainder of the year.

### **Nonfinancial Services**

Nonfinancial service providers reported stable demand for their services but a flattening of revenue. Contacts expressed a general feeling of concern that their clients had with inflation and recession fears, which was impacting the level of work being performed by their firms. They were also seeing less non-mandatory engagements being performed, with clients sticking to only what is necessary for their businesses. Contacts were also seeing a slight change in the mix of sectors that were utilizing their services. Attracting labor was still a concern with contacts, and they were looking for ways to maintain and grow their workforces. ■

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



## Summary of Economic Activity

The Sixth District economy grew at a modest pace from January through mid-February. Labor markets improved somewhat amid persistent wage pressures. Many nonlabor costs increased, particularly food, utilities, and insurance; however, freight and shipping costs moderated. Low-income families continued to face barriers to full-time employment opportunities, and rising food and gas prices further strained household budgets. District retail sales exceeded expectations, and auto sales remained solid. Leisure travel activity showed continued strength, and business travel grew. Housing demand improved slightly as mortgage rates fell. Commercial real estate activity slowed. Transportation activity was mixed. Loan growth at financial institutions was solid, but delinquency rates rose slightly. On balance, energy demand was strong. Agricultural conditions remained mixed.

### Labor Markets

Labor market pressures continued to ease since the previous report; however, contacts still described conditions as tight, especially among front-line, skilled trades, and IT positions. Most firms continued to hire. Layoffs or hiring freezes were noted by a few contacts, but they were largely limited in scope. Restaurants continued to close dining rooms and other firms noted postponing planned projects due to lack of available labor. To combat labor shortages, firms reported investments in training to upskill employees and capital expenditures in technology to reduce reliance on labor. Overall turnover has eased somewhat but not among hourly paid staff, who continued to change jobs for higher pay. Several employers also noted that affordable housing and child-care availability and costs further restrained the supply of workers at all levels.

Wage pressure remained persistent, though some easing was noted. Several contacts indicated that the wage levels for various positions, especially lower wage jobs, jumped significantly over the last year. Upward wage pressure is expected to persist this year, but many firms are targeting more modest increases than last year.

### Prices

District contacts noted moderation in freight and shipping costs along with improvements in supply chain imbalances over the reporting period. Some construction inputs, like lumber, saw prices decline, while concrete prices rose, increasing building project costs, on balance. Food and utilities costs also rose, further straining businesses' balance sheets. Rising insurance costs and wages were cited most often as risks to the business outlook over the coming year. The Atlanta Fed's Business Inflation Expectations survey showed year-over-year unit cost

growth at 3.5 percent, on average, in February, down from 4.3 percent in January. Firms' year-ahead inflation expectations were relatively unchanged at 2.9 percent in February, on average.

### Community Perspectives

District nonprofits serving low-income households noted that rising wages have not yet offset obstacles (e.g., access to childcare and transportation, affordable housing) challenging their ability to hold traditional full-time employment. Some workers have chosen part-time jobs, self-employment, and participation in the gig economy to maintain needed flexibility. Elevated food and gasoline prices continued to impact household cash flow. Consumer-facing contacts noted that rising prices resulted in increased use of credit for routine purchases.

### Consumer Spending and Tourism

District retailers reported higher-than-expected sales levels over the reporting period. Pent-up demand continued to fuel solid automobile sales. Despite ongoing inflationary pressures and rising interest rates, retail and auto contacts cite cautious optimism for the first half of the year.

Travel and tourism contacts noted continued strong demand, on balance, for leisure travel accompanied by positive growth in business travel and conventions. Hotel occupancies and average daily rates were above pre-pandemic levels, although there was a slight softening in on-premises spending, such as for spa services and gift shop purchases. Hotel bookings for spring break were reported as healthy.

### Construction and Real Estate

Although purchase transactions remained substantially

below year ago levels, housing demand improved slightly since the previous report as mortgage rates edged lower. Contacts indicated marginal increases in buyer traffic and sales in January as mortgage rates moderated from the highs experienced in October 2022. Though down from peak levels, year-over-year home price appreciation throughout the District was slightly stronger than the nation as a whole. Affordability remained a significant headwind primarily for entry-level buyers, and a larger share of homes sold at a discount from the asking price. New home builders continued to experience a high rate of cancellations and the majority offered incentives to attract buyers.

Commercial real estate (CRE) contacts reported slowing market conditions in lower-tier office, multifamily, and certain segments of retail. The downward trend in the office sector eased further as more employers required staff to return to the office; however, heightened levels of sublease space remained an impediment to market recovery. Concerns regarding declining CRE values accelerated. Contacts reported increases in operating expenses and slowing or negative net operating income and rent growth. Additionally, firms continued to report instances of declining asset prices and buyers seeking greater concessions.

### Transportation

Transportation activity was mixed over the reporting period. Railroads experienced significant declines in shipments of farm products, pulp and paper, non-metallic minerals, and pet coke, which were offset by increased carloads of coal, metallic ores, aggregates, and primary metal and forest products; intermodal freight volumes fell significantly. Air cargo contacts reported stable demand. Freight brokerages noted that revenue per load declined as trucking capacity rose. District ports saw increases in exports, vehicle imports, and heavy machinery exports amid slowing container volumes.

### Banking and Finance

District financial institutions reported solid loan growth across all portfolios, particularly in construction and development loans. The level of unrealized losses in securities portfolios improved marginally but remained high compared to year-earlier levels. Financial institutions reported placing additional reliance on higher cost alternatives as a source of funding amid slow deposit growth and elevated unrealized losses. Delinquency rates rose slightly, especially for loans past due 90 days or more, though the levels remain below historical norms.

### Energy

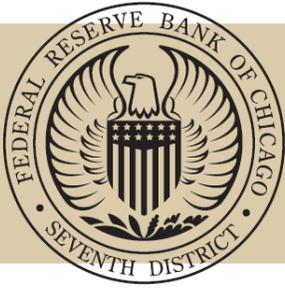
Crude oil refining and petrochemical manufacturing

contacts continued to report strong demand, although contacts noted that demand for chemicals related to adhesives and steel manufacturing fell. A few contacts described reduced investment in the gasoline industry as demand for gasoline slowed amid improvements in fuel efficiency and growing demand for electric vehicles. The ongoing trend in renewable energy investments remained robust. Utility providers reported strong demand across segments and continued infrastructure investment.

### Agriculture

Agricultural conditions remained mixed. Demand for beef increased, especially for calves, following the downsizing of Texas herds during the recent drought. Demand for milk declined amid reduced exports of powdered milk to China, and demand for butter fell from high levels. Cotton demand remained weak. While Florida's production of citrus fruits was limited by tree damage, demand remained strong. The Avian flu continued to limit the supply of eggs, which are generally sold domestically, and to drive prices upward. However, Avian flu-related restrictions on exports substantially softened global demand for poultry meat, thus increasing domestic supply; poultry companies reported losing money amid high costs and falling prices. ■

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



## Summary of Economic Activity

Economic activity in the Seventh District increased modestly overall in January and early February. Contacts generally expected slow growth in the coming months, though many expressed concerns about the potential for a recession this year. Employment increased moderately; consumer spending increased modestly; business spending and manufacturing increased slightly; nonbusiness contacts saw little change in activity; and construction and real estate activity decreased modestly. Prices and wages rose moderately, while financial conditions were unchanged. Agricultural incomes were expected to be lower in 2023 than in 2022.

### Labor Markets

Employment increased moderately in January and early February, and contacts expected a somewhat slower increase in employment over the next 12 months. Many contacts continued to report difficulty finding workers, though the number of applicants for open positions increased. There were also more contacts reporting they were not looking to hire or were reducing their workforce. Wage and benefit costs continued to increase, with several contacts noting higher health insurance costs.

### Prices

Prices rose moderately over the reporting period, and contacts expected a similar rate of increase over the next 12 months. Producer prices rose moderately, with contacts highlighting higher costs for raw materials and energy. Several contacts noted that growth in shipping costs had slowed noticeably, particularly for long distance shipping. One contact indicated that there was a noticeable increase in wholesale used vehicle prices as dealers stocked up in anticipation of strong demand. Consumer prices generally moved up with the continued elevated level of demand and the passthrough of higher costs, though there was growing customer resistance to paying higher prices.

### Consumer Spending

Consumer spending increased modestly over the reporting period. Nonauto retail sales were up slightly, helped by promotional offerings. There was strong sales growth in the personal care and sporting goods sectors, but weaker growth in the grocery, electronics, and apparel sector. Contacts noted softer discretionary spending by consumers, especially for lower-end products. New and used light vehicle sales were unchanged, and low inventories continued to support high prices. Leisure and hospitality activity continued to expand.

### Business Spending

Business spending increased slightly in January and early February. Capital expenditures remained stable on balance, with contacts reporting purchases of new software and replacing old equipment. Demand for transportation services was little changed as activity remained at a high level. Shipping backlogs declined but remained elevated. Retail inventories moved down closer to comfortable levels, and contacts said promotions had been successful in helping pare stocks. Auto inventories continued to slowly recover from low levels and were most limited for the most popular models. In manufacturing, inventories remained slightly elevated, though wait times for raw materials improved. Many contacts indicated they were no longer experiencing supply chain disruptions.

## Construction and Real Estate

Construction and real estate activity decreased modestly over the reporting period. Residential construction was down modestly. Home remodeling activity was steady, though one contact saw a decrease in quoting. Residential real estate activity decreased moderately. Sales volumes were down across all segments, but one contact noted an increase in leasing of multifamily units. Home prices were little changed overall, while rents increased slightly. Nonresidential construction was unchanged over the reporting period, with contacts noting solid demand from health care and the public sector but weaker demand for distribution center construction. High interest rates and input costs continued to hold back activity, while lead times remained long for critical products such as HVAC and power generation equipment. Commercial real estate activity was little changed over the reporting period. Demand for high quality space remained solid, with one contact highlighting strong interest in retail space previously occupied by big box tenants. Overall, prices and rents decreased modestly, while vacancies and the availability of sublease space were up moderately.

## Manufacturing

Manufacturing demand increased slightly in January and early February. Manufacturing backlogs were down slightly as contacts continued to struggle with short supplies of certain inputs, though overall, wait times improved. Steel demand rose, with contacts noting growth in sales to other manufacturing sectors and the energy industry (both for renewable and nonrenewable production). Fabricated metals demand decreased slightly across a range of sectors. Auto production ticked up but remained constrained by semiconductor and labor availability. Heavy truck orders increased slightly. Heavy machinery production moved down some but remained at a high level, supported by large backlogs and solid spending from the agriculture and infrastructure construction sectors.

## Banking and Finance

Financial conditions were little changed over the reporting period. Bond and equity markets saw a slight increase in asset values and flat volatility. There was a small decline in business loan demand across a range of sectors. Business loan quality edged down, and standards tightened slightly. In consumer markets, loan volumes decreased moderately, with contacts pointing to declines in residential mortgage lending and unsecured consumer loans. Consumer loan quality slightly decreased overall, and one contact noted that credit card and auto loan delinquency rates had edged up and were

approaching pre-pandemic levels. Consumer loan standards tightened slightly.

## Agriculture

Contacts' forecasts for District agricultural income for 2023 were mostly for near average returns, down from an above average 2022. Wheat prices were up, in part because of longer Russian inspection times for Ukrainian grain shipments and buyers' greater reluctance to enter purchase agreements given uncertainty about whether the shipping deal with Russia would continue. Corn and soybean prices were also higher, spurred by uncertainty about the size of South American harvests. Contacts noted that lower costs for some inputs would help farm incomes but rising feed costs were a continuing concern for livestock producers. Egg prices dropped from extremely high levels, and dairy prices were generally lower. There were reports of closures of smaller dairy operations, for which higher interest rates on loans were making it more expensive to expand to a more profitable scale. Cattle and hog prices moved higher during the reporting period.

## Community Conditions

Community development organizations and public administrators reported little change in overall economic activity in January and early February. State government officials again saw healthy growth in tax revenues and low demand for unemployment insurance. Small business support organizations reported rising costs for their clients, highlighting higher insurance premiums. Affordable housing developers said they were facing double-digit percentage increases in materials and labor costs, which were stressing the financing structures of projects. As financial supports associated with COVID-19 are coming to an end, nonprofit organizations reported greater demand for job search support as well as challenges to their own revenue streams. ■

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



## Summary of Economic Activity

Economic conditions have remained unchanged since our previous report. Employers continue to report tight labor markets, although the pace of wage growth has slowed. Contacts reported slowing price increases and plans to accept tighter profit margins in order to maintain prices. Consumer spending was mixed, with reports of continued price sensitivity but demand slightly outstripping expectations. The real estate sector saw rent growth flatten and homebuying demand slow, but demand for industrial and retail space rose. Manufacturing growth declined, and lending conditions remained stable. The overall outlook rose slightly thanks to expected improvements in input prices, labor costs, and demand.

### Labor Markets

Employment remains unchanged since our previous report, with contacts reporting tight labor markets but varying turnover rates. Several contacts reported challenges in hiring enough workers to meet demand, but an increased share reported more success in retaining employees. A restaurant contact in Memphis estimated 60% of restaurants in the area are understaffed and 80% have reported difficulty filling jobs. A logistics contact in Little Rock saw more rotation in and out of the company, while an employment contact in Memphis reported that more clients are staying at their current jobs. An agriculture contact reported a sharp increase in the number of firms using temporary visa worker programs for the first time.

Wages have grown slightly since our previous report. In contrast with the past few reports, contacts have reported minimal increases in wages. A healthcare contact in Louisville reported labor costs have been lowering reimbursements and pushing profit margins to just above break-even, while a retail contact in St. Louis has not been able to pass labor costs on to customers, which threatens the viability of their business. A construction contact in St. Louis reported that higher labor costs coupled with declining demand have placed a strain on the company.

### Prices

Prices have increased modestly since our previous report. Overall, contacts reported slowing price increases and projected lower rates of price growth in the year ahead. This year, 63% of respondents reported an ability to pass on costs, down from 82% a year ago. Some industries expect to see the pace of price increases slow more than others, with retail respondents projecting a 4% increase this year, compared with 14% a year ago. However, some industries expect to see prices increase by more than the previous year, with tourism respondents projecting increased prices of 5.2% this year, compared with 0.3% a year ago. A contact in the hotel industry estimated they would pass on 60-70% of costs to consumers. A contact in the automobile sales industry reported that increased inventory levels led to more competitive market pricing, keeping prices lower. Firms, especially smaller ones, reported accepting tighter profit margins instead of increasing prices.

### Consumer Spending

District general retailers, auto dealers, and hospitality contacts reported mixed business activity and a mixed outlook. January real sales tax collections increased in Kentucky, Missouri, and Arkansas relative to December and decreased in West Tennessee. Retailers in St. Louis noted generally lower business activity due to customers

cutting back on spending because of higher prices. District auto dealers reported generally steady business activity due to increased inventory, though they expected business activity may slow in the upcoming months due to higher interest rates. An auto dealer in Louisville reported they have been seeing new vehicle sales rates slowing. A restaurant in Memphis noted that demand continues to be steady even with food costs surging. District hospitality contacts noted that business activity was generally mixed, with demand moderated by rising costs.

### **Manufacturing**

Manufacturing activity growth has modestly declined since our previous report. Firms have reported modest decreases in new orders and production. Contacts reported that international shipping costs are returning to their pre-pandemic levels. Similarly, prices for raw materials are falling but have yet to return to pre-pandemic levels. The labor market for manufacturing remains tight as firms look to hire more workers. On average, firms reported they expect slight increases in production, capacity utilization, and new orders in the coming quarter.

### **Nonfinancial Services**

Activity in the nonfinancial services sector has remained stable since our previous report. Air freight and passenger traffic has remained stable, but trucking services in the Memphis and St. Louis areas reported decreased pay per load, increased fuel costs, and parts shortages. In the Louisville area, investment in infrastructure sparked investment opportunities in freight transportation. A Memphis-area wedding planner reported a decline in spending on 2023 weddings, noting that couples are choosing less expensive options and spending wedding funds on honeymoons and house purchases instead.

Nonprofit firms that provide housing experienced steady funding and scaled up construction in the Memphis area. In the St. Louis area, nonprofit contacts in arts and public policy faced competition for volunteer labor. Rural healthcare in the Memphis area continued to face funding challenges and reduced the number of services and beds in response. While education contacts in the Louisville area reported depressed university enrollment, enrollment in community college increased due to new programs that reduced tuition costs.

### **Real Estate and Construction**

Residential real estate rental rates have continued to stagnate since our previous report. Multiple residential real estate contacts reported that the rate increases of the past year are being met by resistance and families

are staying in their current rentals. Residential real estate inventory has continued to increase since the previous report, as homebuyer demand slows. Some real estate contacts reported signs of increased demand in recent weeks due to some relative stabilization in mortgage rates.

The commercial real estate sector has been mixed. Office demand remains low, but industrial demand remains high despite increased rents. Retail real estate has improved since the previous report, and one contact reported retail projects are back in demand for the first time since before the pandemic. Construction demand has slowed, with contacts reporting that many projects are on hold as investors wait out market uncertainty about rate hikes. One St. Louis contact reported increased construction activity as interest rates flattened.

### **Banking and Finance**

Banking conditions in the District remain stable since our previous report. Overall loan demand remains largely unchanged from the past quarter. Commercial and industrial loan demand saw a small decline, while demand for mortgage loans moderately increased with the dip in the 30-year fixed mortgage rate. Despite this recent growth, Memphis banking contacts expect mortgage lending to slow down in the coming month. Contacts also expect margins on interest-bearing deposits to contract as federal funds rate increases ease up and the resulting pressure from competition requires banks to pay higher interest rates. Credit and asset quality remain strong, and delinquency rates showed no significant change from the past quarter.

### **Agriculture and Natural Resources**

District agriculture conditions have declined moderately since our previous report. The number of acres of winter wheat planted in the District this season has increased by 27% compared with this period a year ago. These increases range from 15-55% across District states with the lone exception of Arkansas, which saw a moderate decrease of 14%. District contacts are no longer optimistic on the outlook for the rest of the year, due to concern about the increased cost of inputs, especially labor. Additionally, contacts noted sales were either at or below expectations, and some contacts expressed concern that higher interest rates were putting additional strain on their balance sheets.

Natural resource extraction conditions increased moderately from December to January, with seasonally adjusted coal production rising just under 10%. However, January production decreased moderately by 11% compared with the previous year. ■



## Summary of Economic Activity

The Ninth District economy grew modestly since the previous report. Employment gains were moderate, and large firms were having more recruiting success. Wages were unchanged overall but remained at high levels. Price increases were modest overall, with input prices expected to increase in coming months. Consumer spending as well as commercial and residential construction fell. Residential real estate decreased significantly. Manufacturing activity increased modestly, and agricultural conditions remained strong. Activity among minority- and women-owned businesses was steady.

### Labor Markets

Employment grew moderately since the last report. A survey of District firms in early February found a large majority hiring in some capacity. Less than 30 percent of employers said they were not hiring, and only 5 percent reported cutting workers. Other contacts also noted that firms were overhiring to ensure operational coverage or to create more attractive schedules that avoid overtime. Survey respondents from large firms reported notably better success at adding workers. Some contacts said that labor availability improved slightly, but overall it remained problematic. A recent Minneapolis-area job fair with more than 20 employers and hundreds of job openings attracted only 20 people. A Montana construction firm has found it economical to rent a jet to fly workers in to one of its plants to fill operational needs. Hiring local employees “would be our first choice, but we had to adjust when we could not staff that way.”

Wage pressures were flat but remained high. A Montana contact said hospitality and recreation employers “are paying stupid amounts of money for entry-level employees just to get them for short seasons.” Thirty percent of surveyed District firms reported annual wage increases of more than 5 percent, roughly in line with earlier surveys. A Minnesota contact reported that he was seeing “restaurants and hotels balk at moving any higher with wages. They feel they just can’t adjust their prices any higher.”

### Prices

Price increases were modest overall since the last report amid some signs of easing inflationary pressures. Half of respondents to a monthly District business conditions poll reported no change to the prices they charged for their products and services in January from a month earlier, but a slight majority said their nonlabor input prices increased. Two-thirds of respondents either expected not to change their selling prices or to decrease them slightly in the coming month, though the outlook for input price increases remained elevated. According to a semiannual survey of businesses, about 2 in 5 firms reported “little or no change” in prices charged to customers over the past month. About half said wholesale prices from suppliers were modestly higher. Retail fuel prices in District states increased moderately since the last report.

### Worker Experience

Some workers formerly in food and hospitality said they quit their jobs in recent months to start their own businesses and have more control over their lives. “At the beginning, I was afraid to leave a job I had done for 15 years,” shared a former cook. “I have been cleaning houses for a few months now, and I am much happier.” More electrical engineering graduates from a District college were reportedly applying for jobs in smaller companies with competitive wages, a move they had snubbed in the past, according to a contact. In Minnesota, workforce development contacts said more

people were applying for jobs but “ghosting” prospective employers. A labor contact in Minnesota said that the narrow workplace flexibility in education was pushing people out of the profession and into other fields. Many were leaving within the first five years, and fewer were entering preparation programs in the field.

### **Consumer Spending**

Consumer spending fell slightly overall since the last report. More than 100 firms in retail, hospitality, and entertainment reported that recent revenues and profits were lower overall compared with the previous quarter and year over year. A western Wisconsin restaurant owner noted that “costs are much higher while guests are tightening their purse strings and not as willing to accept price increases.” January gross sales in South Dakota grew compared with last year, but at the lowest monthly rate in over two years. A dealership with multiple locations reported that January vehicle sales rose 2 percent year over year, but new-vehicle sales dropped by 15 percent. Car and truck sales were also lower in Wisconsin, and sales of powersport and recreational vehicles remained lower across the District. Airline travel through District airports in January was higher year over year, with most seeing double-digit increases; Minneapolis-St. Paul International traffic rose 6 percent.

### **Construction and Real Estate**

Commercial construction fell slightly since the last report. Some of that slowdown was seasonal. A manufacturer of building products said that “November through January are our weakest months. But the trend is down.” A Montana architecture firm said that large corporate clients have delayed project starts. Other contacts reported a smaller pipeline of future projects. A contractor in Minneapolis-St. Paul said, “Interest rate hikes have put a considerable damper on new construction projects....Projects aren’t penciling out.” Residential construction was lower. Single-family units permitted in December and January fell by half compared with a year earlier in Minneapolis-St. Paul. Billings, Montana, and Sioux Falls, South Dakota saw larger declines. Most other major markets were flat.

Commercial real estate was flat since the last report. Office space continued to struggle overall despite a slow but ongoing return of workers to downtown offices. But overall vacancy rates grew as some large tenants downsized and space available for sublease increased. Industrial property remained strong, though higher financing costs reportedly had some developers reevaluating speculative projects. Residential real estate continued to crater. Most large markets in the District saw closed sales fall between 25 and 50 percent in

December and January year over year.

### **Manufacturing**

District manufacturing activity increased modestly since the previous report. Manufacturing respondents to surveys generally reported increased or steady orders and revenues, and positive near-term outlooks. However, about a quarter of firms said recent sales had declined. A regional index of manufacturing conditions indicated an expansion in activity in Minnesota and South Dakota in January from a month earlier, while activity contracted in North Dakota. A firm that supplies fabricated metal inputs to industrial customers noted strong demand for robotics and automation.

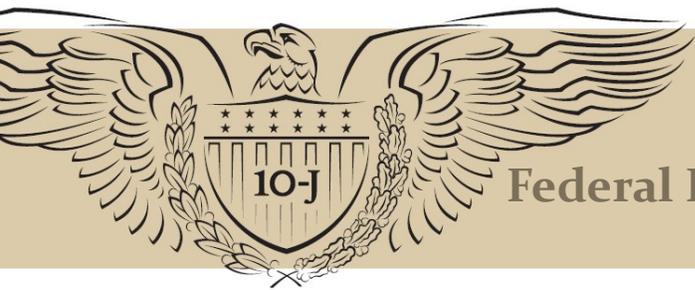
### **Agriculture, Energy, and Natural Resources**

District agricultural conditions remained strong heading into the end of winter. According to the Minneapolis Fed’s fourth quarter (January) agricultural credit conditions survey, nearly three-quarters of lenders reported farm incomes increased from October through December compared with the same period a year earlier. Farm household spending, capital spending, and loan repayment rates also increased on balance, while demand for loans fell. A forestry contact noted that prices that sawmills were paying for logs had increased recently, leading to operating losses and production cuts at mills. Production at District iron ore mines was expected to increase slightly in 2023; one facility was making a large investment into producing a higher grade of ore. District oil and gas exploration activity was unchanged since the previous report.

### **Minority- and Women-Owned Business Enterprises**

Minority- and women-owned businesses reported steady activity in recent weeks. Labor market tightness continued to put uneven pressure on minority and women entrepreneurs. A childcare provider said that despite higher demand for services, they cannot find qualified staff to maximize their licensed capacity: “Parents want their children to learn Spanish, they look for that added value in our services, but finding staff is a big challenge.” Electricians, plumbers, framers, cosmetologists, and other workers requiring certifications were also said to be in short supply. Contacts highlighted that while more people were looking at entrepreneurship as an alternative to employment, many faced challenges like access to capital, lack of credit history, lack of understanding of business processes, and lack of management and marketing skill. ■

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



## Summary of Economic Activity

Total economic activity across the Tenth District fell slightly in February. Consumer spending continued to decline, primarily due to reduced discretionary spending on leisure and retail, while non-discretionary spending on food, energy, and healthcare continued to rise. Several contacts noted declines in workers' overtime hours, less hiring of temp workers, and fewer new job openings. However, employment levels remained high and labor market conditions continued to be tight. Contacts reported labor costs were elevated and indicated more difficulty in passing these costs to customers in recent weeks. In the housing sector, contacts highlighted the elevated levels of mobility of residents as an opportunity for rental property managers to raise rents more frequently, leading to faster rent growth on an annual basis. The recent surge in rent prices was reportedly a headwind to financing for new multifamily housing development, as the uncertainty about how to estimate future revenue growth from housing properties squelched new projects. Community bankers reported low past due and problem loan levels. Although some bankers highlighted concerns regarding future consumer credit performance, most respondents expected credit quality to remain largely unchanged over the next six months.

### Labor Markets

Tenth District contacts reported that employment increased moderately over the past few weeks, though the pace of hiring has significantly slowed from its recent elevated level. Businesses continue to report difficulty finding qualified workers to fill open positions, reflecting ongoing tightness in the labor market. Labor force participation declined in most District states over the last few months, further constraining labor supply for businesses seeking to fill open positions. Business contacts continued to report difficulty hiring for entry-level positions, but in recent weeks indicated they are focused on hiring for both entry-level and mid-level positions over the next six months.

While most contacts reported that they currently do not have plans to lay off workers, a greater number of businesses reported they are reducing employee hours, use of overtime, and their hiring of temporary employees. Wages continued to grow moderately for manufacturing and services businesses with expectations for robust growth over the next six months.

### Prices

Prices rose at a moderate pace across most sectors of the District economy. Contacts in the service sector noted that labor cost pressures continue to rise at a robust pace, but indicated these pressures were increasingly difficult to pass on. In the housing sector, several contacts suggested that elevated levels of residents' mobility are allowing rental property managers to adjust rents more frequently, leading to faster rent growth on an annual basis. Expected price growth over the next several months remained elevated across most sectors.

### Consumer Spending

Consumer spending fell slightly over the past month, held down primarily by softer leisure and hospitality spending. Contacts reported the return of international travelers this year partially offset recent declines in spending by domestic travelers. Though overall consumer spending declined, businesses noted a bifurcation in spending patterns. Discretionary and more interest rate sensitive consumption categories – such as travel and car purchases – declined at a rapid pace, while spending on non-discretionary consumption categories – such as food, energy, and healthcare – increased modestly.

## Community Conditions

Low to moderate income (LMI) households in the Tenth District reported greater difficulty securing adequate childcare over the past few months. Contacts cited both a lack of availability and rising costs at childcare facilities as the major barriers faced by households seeking care. Insufficient childcare availability and unaffordability continued to hinder workforce participation among LMI households. Recent policy efforts to improve childcare availability – for example, a recent zoning reform in Wichita, Kansas increased maximum home daycare capacity from 10 to 12 children – have reportedly been more than offset by an acceleration of closures of childcare facilities.

## Manufacturing and Other Business Activity

Manufacturing businesses reported that overall activity remained mostly unchanged over the past few weeks. Higher prices supported revenues, but measures of real activity, including production, backlogs, and new orders, declined moderately. Durable goods manufacturers reported more severe declines in production and expectations. Growth among services businesses was mixed across sectors. While retail and tourism businesses reported moderate declines in activity, professional businesses services, transportation, and healthcare businesses reported greater levels of activity.

Across manufacturing and service sectors, businesses indicated tighter financial conditions reduced demand for their products significantly. However, most businesses revised their plans for capital expenditures downward only slightly, which they attributed more to softening demand than to the higher interest expenses from tighter financial conditions.

## Real Estate and Construction

Developers of multifamily housing indicated further deterioration of conditions from already depressed levels. Rising interest rates continue to be a challenge to financing multifamily housing projects, but contacts also highlighted recent volatility in rental rates as an additional headwind. Uncertainty about projected rent growth is reportedly very high, further hindering financing activities for new projects. Builders of single-family homes reported costs associated with higher interest rates are exacerbated by ongoing delays related to delivery of materials, inspections, and worker shortages. Such delays raise the effective cost of higher rates for builders because that interest expense must be carried over a longer period.

## Community and Regional Banking

Loan demand weakened modestly in the past month as rising interest rates and continued economic uncertainty weighed on borrower sentiment. Contacts reported weaker demand across all key portfolios but highlighted stable credit quality last month amid low past due and problem loan levels. Although some contacts highlighted concerns regarding future retail credit performance, respondents expected credit quality to remain largely unchanged over the next six months. Deposit levels declined moderately again this month as banks experienced strong rate pressure from other bank and non-bank competitors amidst increases in short-term interest rates. Further, deposits rotated from checking and noninterest-bearing accounts into time deposits and high-yield savings products as customers demanded additional yield on cash.

## Energy

Tenth District energy activity fell slightly over the last month. The number of newly drilled and completed wells declined, as profitability for drillers began to fall for the first time in two years. Oil prices were roughly flat over the last month and crude oil stocks increased due to unscheduled refinery maintenance, contributing to the recent declines in District rig counts. On average, natural gas rig counts across District states are expected to decline over coming months, driven by generally lower domestic natural gas prices. However, there were some differences among District states. The number of gas rigs ticked up in Wyoming, as regional (western) natural gas prices were elevated. Additionally, Wyoming coal miners saw strong production growth related to higher coal prices in recent months.

## Agriculture

The farm economy in the Tenth District remained strong, but risks to the outlook lingered. In the livestock sector, cattle prices increased slightly in February and reached multi-year highs alongside lower inventories. In the crop sector, prices of corn, soybeans and wheat remained high and continued to support profitability. Despite strong market conditions, District contacts reported that elevated production costs, higher interest rates, and ongoing drought in some areas have put downward pressures on profit margins for many producers. Cost pressures have been particularly challenging for livestock operations, with several reports of early calf sales and herd liquidation as a result of intense drought and high feed costs, which could reduce revenues going forward. ■

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



## Summary of Economic Activity

The Eleventh District economy continued to expand modestly. Manufacturing output and demand declined, but growth picked up slightly in the service sector. Retail sales fell again, and energy activity eased slightly. Rising interest rates further weakened loan demand. Agricultural conditions and housing market activity improved. Local nonprofits cited higher demand for assistance. Overall payrolls rose moderately, though job growth stalled out in manufacturing. Wage and cost pressures were little changed and generally remained above average. Outlooks were mostly negative, and uncertainty remained high, with contacts voicing concern about weakening demand, inflation, and high interest rates.

### Labor Markets

Employment increased moderately during the reporting period. The pace of hiring slowed in the service and energy sectors, and employment growth stalled out in manufacturing. While several firms continued to cite difficulty recruiting for open positions, many others reported an improvement in both the quality and quantity of applicants. Airlines cited capacity constraints due to pilot staffing issues, and one health care contact said they were lowering education and licensing requirements for several hundred job openings to expand the applicant pool. Some small or rural school districts in Texas have transitioned to a four-day school week in part due to staffing shortages and the need to attract teachers. In contrast, several firms noted hiring to cover turnover rather than to expand payrolls, and contacts in the education sector said there were less job opportunities for graduating students, particularly in high tech. There were reports of hiring freezes or layoffs in construction, manufacturing, financial services, and professional and business services.

Wage pressures remained elevated, though they have stabilized or eased recently in some industries. A staffing firm said that candidates were realizing they can't keep demanding higher wages. Downstream energy firms said wage pressures softened slightly, and construction contacts noted some easing in pricing for certain trades.

### Prices

Input cost pressures generally remained elevated but there were some reports of easing in raw material pricing due to improving supply chains. Construction and land development costs were generally stable but high, and prices rose for concrete. Apartment operators noted a sizable increase in operating costs, particularly for insurance. Selling price pressures accelerated in manufacturing but were little changed in energy and services. Homebuilders continued to use incentives and discounts to close sales. Airlines expect ticket prices to stay elevated.

### Manufacturing

Texas factory output dipped slightly during the reporting period after increasing modestly in December. New orders for manufactured goods continued to decline for both durables and nondurables in part due to falling backlogs, inventory realignment, economic uncertainty, and slowing construction activity. Weakness in demand was most pronounced in construction-related manufacturing, though computer and electronic product and food manufacturers cited declines as well. Refinery utilization rates slipped, but margins remained healthy. Overall, economic uncertainty remained elevated, and outlooks weakened.

### Retail Sales

Retail sales declined broadly over the past six weeks.

Clothing, food and beverage, furniture, and electronics store retailers cited a decrease in revenues on net. A few retailers reported less traffic, and auto dealers continued to note that higher interest rates and economic uncertainty were hampering sales. Outlooks worsened, with continued concern about affordability, high interest rates, and inflation.

### **Nonfinancial Services**

Service sector activity expanded modestly during the reporting period. Activity in business services, information, and leisure and hospitality sectors increased, and transportation services firms generally noted higher revenues and cargo volumes. Airlines saw continued strong leisure demand and said that business travel was steadily recovering. Staffing firms cited mixed demand for their services, with a few noting declines in temp hiring.

### **Construction and Real Estate**

Activity in the single-family housing market improved during the reporting period following dreadfully slow activity in prior months. Buyer traffic picked up, and sales, particularly for new homes, were exceeding expectations. Contract cancellations were coming down as well, though they remained slightly elevated. Buyer incentives on new homes, including rate buydowns and discounting continued to be widespread. Prices have dipped but were holding up relatively well due to tight inventories. Outlooks improved since the last report. Apartment leasing remained sluggish, and occupancy and rents were flat.

Demand for office space remained lackluster. Activity in the industrial market continued to be solid, but contacts were concerned about the elevated construction pipeline. The higher cost of capital, tighter lending standards, and economic uncertainty has made it difficult to price deals, diminishing investment sales activity.

### **Financial Services**

Loan demand declined further, with more than half of bankers reporting a decrease over the past six weeks. Nonperformance increased notably, particularly for consumer loans, and a financial services contact said that higher interest rates had boosted inbound call volumes. Loan price growth moderated somewhat but remained highly elevated, and credit standards and terms continued to tighten. Business activity declined significantly, and expectations are for loan demand and business activity to fall further and loan performance to worsen. Contacts cited rising interest rates and inflation as headwinds and voiced concern over deposit outflows.

### **Energy**

Oilfield activity eased slightly during the reporting period largely due to winter weather-related disruptions. Overall, energy sector activity has levelled off as labor and supply chain challenges have weighed on activity. Contacts expect spending on drilling and well completions to increase steadily this year. Outlooks remained positive, but contacts said there was still considerable uncertainty regarding the impact of sanctions on Russian refined products and of Chinese demand on energy markets.

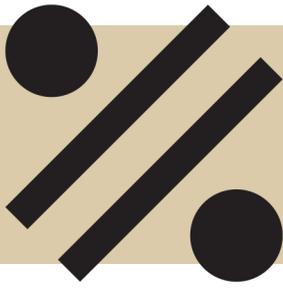
### **Agriculture**

Agricultural conditions improved slightly over the reporting period. Though much of the district remained in some level of drought, the winter wheat crop was faring better this year than last. Spring row crop planting was on the horizon, and contacts expect an increase in grain acres and a decrease in cotton acreage in 2023. Agricultural commodity prices were relatively high, and some improvement was seen in input costs, particularly fertilizer. Cattle prices rose amid solid beef demand, while egg prices have declined after surging at the beginning of the year.

### **Community Perspectives**

Nonprofits continued to report higher demand for their services. Housing affordability remained a key concern amid high rents and housing costs. Evictions ticked up, and contacts said that higher interest rates and home prices were eroding the impact of down payment assistance programs. Lack of affordable childcare was another primary issue, impeding employment for lower-income women. Nonprofits expressed concern that high operating costs together with the recent decline in public funding would limit their capacity to provide services. A contact at a public university reported that enrollment was solid but the cost of attendance and the ability to pay tuition remained a challenge for students from low to moderate income households, particularly in light of the depletion of the Higher Education Emergency Relief Funds (HEERF). Notwithstanding, a community college contact noted increased enrollment in career and technical education. ■

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



## Summary of Economic Activity

Economic activity in the Twelfth District expanded modestly during the January through mid-February reporting period. Hiring activity grew modestly and labor supply improved somewhat. Wage and price growth moderated further, although overall levels remained elevated. Demand for retail goods was strong, and activity in the consumer and business services sectors was robust. Demand for manufactured products remained unchanged on net, while conditions in the agriculture and resource-related sectors softened slightly. Activity in residential real estate markets eased further, while commercial real estate activity was little changed. Lending activity declined modestly over the reporting period. Communities across the Twelfth District sought more workforce development and childcare services and continued to experience price pressures due to high inflation. Contacts expected a weaker outlook for the economy going forward as well as increased overall uncertainty.

### Labor Markets

Hiring activity grew modestly during the reporting period. Labor supply improved somewhat across most sectors, allowing employers to fill long-standing job vacancies. Firms reported higher applicant counts and lower staff turnover rates in many sectors, including finance, tourism, and agriculture. Despite improved labor availability, competition remained tight across skill levels, including for positions in food services, hospitality, construction, health care, and manufacturing. In fact, labor market tightness continued to be an issue for many providers for consumer services, except for those in the technology industry. Additionally, contacts in both health care and business services reported an increased demand for part-time positions in recent weeks. Many financial firms either slowed their hiring or contracted somewhat their employee head counts due to fewer real estate loan originations in an elevated interest rate environment. Other contacts reported stable employment levels, reduced job postings, or hiring freezes due to slowing demand and increased uncertainty. Contacts in the technology, entertainment, and transportation sectors mentioned that layoffs have either continued or are being considered as firms seek cost-cutting strategies amid lower demand.

Wage growth moderated somewhat across most sectors. Strong competition for workers and elevated living costs continued to drive wages upward, but increased labor availability lessened wage pressures overall. Some employers reported that pay for entry- and mid-level positions increased at somewhat faster rates than for those at management and executive levels. Workers

continued to demand flexible work arrangements where applicable but were faced with firms' mixed appetites for remote work.

### Prices

Price levels remained elevated and rose further, albeit at a slightly slower pace. Firms generally reiterated their ability to continue passing higher costs through to clients, although the degree of which varied by sector. Contacts noted higher prices for natural gas, produce, eggs, electrical components, ferrous metals, packaging, food services, and hotel rooms. Conversely, some products and services saw stable or lower prices, including those for transportation, rents in certain areas, advertisements, cardboard, lumber, and other building materials.

### Community Conditions

Demand for community and workforce development services remained high as elevated prices, interest rates, and uncertainty continued to challenge low-income households and rural communities across the District. In particular, households and community members sought support for childcare, food assistance, rental assistance, house affordability, mental health services, and financial literacy programs. Reports highlighted a recent increase in the number of new small businesses, especially those with diverse leadership, despite strong competition for labor. Some small business financiers raised concerns about capital access and increasing delinquency rates. Educators highlighted efforts to improve compatibility between their community college programs and local workforce needs.

**Retail Trade and Services**

Retail sales were strong overall but started to show signs of softening in recent weeks, in part due to consumers' rising credit card debt. Shopping centers experienced softer retail sales despite strong foot traffic. Reports also indicated that more consumers substituted usual purchases with lower quality or less expensive products, when possible, to compensate for higher prices. One retailer noticed that elevated energy prices led to moderated spending at the gas pump in recent weeks. These customers reportedly spent the freed-up funds at convenience stores located at the fuel stations. A specialty retailer with a national presence highlighted that inventory levels were stable.

Activity in the consumer and business services sectors was robust. Demand for health-care services was high. Activity in the food services sector trended up, supported by good weather and more people returning to on-site work and to school campuses. Demand for leisure travel and accommodations started to moderate somewhat. A contact from Southern California noted that demand for accommodations during spring break was strong but lower than anticipated. Demand for business travel continued to modestly improve as conference and convention attendance remained strong. A contact from the Pacific Northwest highlighted the negative impact of technology firm layoffs on local retail and services sectors.

**Manufacturing**

Demand for manufactured products remained unchanged on net. The metal production and recycling industries reported favorable conditions supported by inventory investment by domestic firms and demand from South Asia. However, offsetting factors arose from a softening of the construction industry and global macro concerns. Food manufacturing and capital equipment sectors reported robust demand, although a contact from the Pacific Northwest noted a slowdown in local manufacturing activity. Availability of raw materials normalized further as most contacts reported improvements in supply chain disruptions, except for inputs dependent on semiconductors. Demand for manufactured building supplies and home heating equipment weakened, although a contact from Southern California noted an increase in demand for specific building products, such as steel tubing and line pipes.

**Agriculture and Resource-Related Industries**

Conditions in agriculture and resource-related sectors softened slightly. While international transportation bottlenecks eased further, demand from abroad continued

to be hampered by the strong dollar. One contact observed that producers continued to shift sales to domestic markets, and another commented that domestic demand has been high enough to largely absorb available supply. However, demand for produce from retailers and food services providers was reportedly either stable or down in recent weeks. Contacts continued to report low crop yields due to drought conditions, while a contact in Alaska noted continued stability in some major seafood stocks. Input costs, such as labor, energy, water, and fertilizer, increased, though one contact in the Pacific Northwest noted that food transportation costs fell substantially.

**Real Estate and Construction**

Activity in residential real estate eased further over the reporting period. Demand for single-family homes continued to soften. Properties took longer to sell, and prices were lowered. Multifamily housing demand remained steady, though contacts reported that asking rents or the rate of rent increases declined. One contact in Oregon noted strong demand for larger rental units as renters shared spaces to keep shelter costs down. New residential construction fell moderately or remained steady across the District, with contacts citing financing costs and concerns about future demand. Price pressures for raw materials were reportedly mixed, rising in some areas, such as Northern California, and falling in others, such as the Mountain West.

Activity in the commercial real estate market was little changed on net. Demand for office space showed continued weakness with low rents and high vacancies. A contact in Oregon reported slowing demand for warehouse and industrial space, though other contacts reported continued strength in these sectors. One contact in Nevada observed that businesses expressed interest in purchasing commercial spaces, rather than renting them.

**Financial Institutions**

Lending activity declined modestly in recent weeks. Contacts reported that overall economic uncertainty and higher interest rates led to a drop in demand for most commercial and personal loans, with notable softness in residential and commercial real estate lending. Deposits moderated, and in some cases fell, but liquidity remained elevated overall. According to reports, credit quality was generally healthy, but financial institutions continued to tighten lending standards in response to increased economic uncertainty. ■



