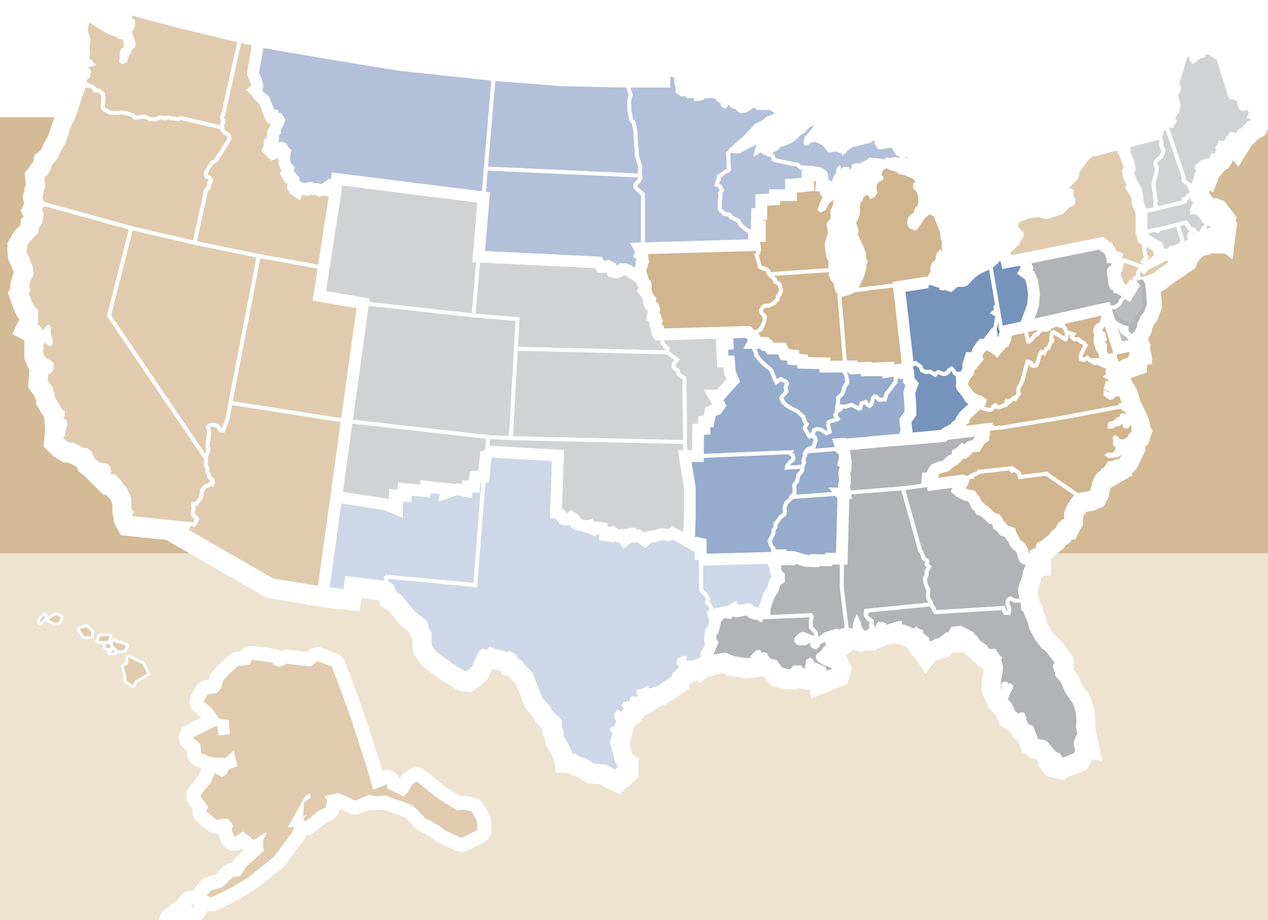
The Beige Book

Summary of Commentary on Current Economic Conditions by Federal Reserve District

April 2024



FEDERAL RESERVE SYSTEM

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About This Publication

What is the Beige Book?

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

What is the purpose of the Beige Book?

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

How is the information collected?

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

How is the information used?

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

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

mation enables comparison of economic conditions in different parts of the country, which can be helpful for assessing the outlook for the national economy.

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

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

National Summary

Overall Economic Activity

Overall economic activity expanded slightly, on balance, since late February. Ten out of twelve Districts experienced either slight or modest economic growth—up from eight in the previous report, while the other two reported no changes in activity. Consumer spending barely increased overall, but reports were quite mixed across Districts and spending categories. Several reports mentioned weakness in discretionary spending, as consumers' price sensitivity remained elevated. Auto spending was buoyed notably in some Districts by improved inventories and dealer incentives, but sales remained sluggish in other Districts. Tourism activity increased modestly, on average, but reports varied widely. Manufacturing activity declined slightly, as only three Districts reported growth in that sector. Contacts reported slight increases in nonfinancial services activity, on average, and bank lending was roughly flat overall. Residential construction increased a little, on average, and home sales strengthened in most Districts. In contrast, nonresidential construction was flat, and commercial real estate leasing fell slightly. The economic outlook among contacts was cautiously optimistic, on balance.

Labor Markets

Employment rose at a slight pace overall, with nine Districts reporting very slow to modest increases, and the remaining three Districts reporting no changes in employment. Most Districts noted increases in labor supply and in the quality of job applicants. Several Districts reported improved retention of employees, and others pointed to staff reductions at some firms. Despite the improvements in labor supply, many Districts described persistent shortages of qualified applicants for certain positions, including machinists, trades workers, and hospitality workers. Wages grew at a moderate pace in eight Districts, with the remaining four noting only slight to modest wage increases. Multiple Districts said that annual wage growth rates had recently returned to their historical averages. On balance, contacts expected that labor demand and supply would remain relatively stable, with modest further job gains and continued moderation of wage growth back to pre-pandemic levels.

Note: This report was prepared at the Federal Reserve Bank of Boston based on information collected on or before April 8, 2024. This document summarizes comments received from contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.

Prices

Price increases were modest, on average, running at about the same pace as in the last report. Disruptions in the Red Sea and the collapse of Baltimore's Key Bridge caused some shipping delays but so far did not lead to widespread price increases. Movements in raw materials prices were mixed, but six Districts noted moderate increases in energy prices. Contacts in several Districts reported sharp increases in insurance rates, for both businesses and homeowners. Another frequent comment was that firms' ability to pass cost increases on to consumers had weakened considerably in recent months, resulting in smaller profit margins. Inflation also caused strain at nonprofit entities, resulting in service reductions in some cases. On balance, contacts expected that inflation would hold steady at a slow pace moving forward. At the same time, contacts in a few Districts—mostly manufacturers—perceived upside risks to near-term inflation in both input prices and output prices.

Highlights by Federal Reserve District

Boston

Business activity expanded at a modest pace in recent weeks, and prices rose slightly. Employment was flat overall, but one retailer reported significant layoffs. Convention and tourism activity grew at a robust pace. Home sales increased on a year-over-year basis, marking a turnaround. The outlook ranged from cautiously optimistic to bullish.

New York

On balance, regional economic activity remained flat. Labor market conditions were solid and continued to normalize as labor supply and labor demand came into better balance. Consumer spending was unchanged after a weak first quarter. Housing markets strengthened, with the spring selling season picking up beyond the seasonal norm. The pace of selling price increases remained modest.

Philadelphia

On balance, business activity was flat in the current Beige Book period—after declining slightly last period. Employment edged up, despite staffing and recruitment efforts slowing to a crawl. Wage and price inflation continue to moderate; however, housing affordability continues to be a concern. Overall, the outlook is positive, as firms remained optimistic about expectations for future growth.

Cleveland

District business activity increased modestly, as did employment. Firms anticipated greater ease filling open positions, including those that have been particularly challenging, because of increased labor availability. Wage pressures continued to normalize, and some contacts reduced starting wages for new roles. Cost and price pressures changed little.

Richmond

The regional economy grew at slight pace since our previous report. Consumer spending on retail goods was mixed but spending on travel and tourism was up slightly. Fifth District port activity slowed and was impacted by the collapse of the Francis Scott Key Bridge. Employment growth slowed from a moderate to a modest rate in recent weeks, but wages continued to grow moderately. Price growth also remained moderate.

Atlanta

The Sixth District economy grew modestly. Labor markets continued to stabilize; wage pressures eased. Many nonlabor costs moderated. Retail sales were steady, but consumers remained price conscious. Tourism remained robust. Commercial real estate conditions slowed. Transportation activity was mixed. Manufacturing grew slightly. Loan demand was flat. Energy activity improved.

Chicago

Economic activity increased slightly. Employment increased modestly; business and consumer spending rose slightly; nonbusiness contacts saw no change in activity; and manufacturing and construction and real estate activity were flat. Prices and wages rose moderately, while financial conditions were stable. Prospects for 2024 farm income were unchanged.

St. Louis

Economic activity has continued to increase slightly since our previous report. Prices have increased modestly, as contacts are broadly feeling the pressures of increases in both labor and non-labor costs. The outlook was neutral to slightly optimistic, which is generally unchanged from our previous report, but better than one year ago.

Minneapolis

District economic activity grew slightly. Employment grew some, but labor demand was softer. Wage pressures were present but continued to ease, while price pressures ticked up. Consumer spending was mostly flat, and manufacturing slowed modestly. Commercial and residential construction improved slightly. Agricultural conditions were steady at low levels.

Kansas City

The District economy expanded modestly. Demand for auto loans and residential mortgages rose as borrowing rates declined. Demand for HELOC also increased as a means to consolidate or refinance household debt. Job gains were modest even as worker availability improved slightly.

Dallas

The Eleventh District economy expanded modestly. While activity in services and housing grew, manufacturing output, retail sales, and loan demand declined slightly. Employment growth slowed as wages, input costs, and selling prices grew at a moderate pace. Overall, Texas firms noted an uptick in uncertainty.

San Francisco

Economic activity continued to grow at a slight pace, employment levels were little changed, and prices and wages rose slightly. Retail sales were unchanged, and demand for services grew modestly. Demand for manufactured products changed little, and conditions in agriculture were mixed. Real estate activity was slightly down. Financial sector conditions were largely unchanged.

Federal Reserve Bank of Boston

Summary of Economic Activity

Business activity expanded at a modest pace in recent weeks, prices rose slightly, and employment was flat overall. Convention and tourism activity grew at a robust pace, but retail sales increased only modestly. Manufacturers reported slight revenue growth, while software and IT services firms had flat revenues recently despite strong year-over-year growth in sales. Residential home sales increased by moderate margins from a year earlier, the first such increase in over two years. Activity in the commercial real estate sector—including construction—picked up slightly, on balance. The sector's outlook also improved a bit, although the risk of financial distress for large office buildings remained elevated. In other sectors, contacts ranged from cautiously optimistic to bullish concerning the outlook, largely in line with the strength of their own recent results.

Labor Markets

Employment was unchanged overall, but labor market conditions were mixed. One large retailer enacted substantial layoffs in a bid to boost profitability, but no other contacts (in any sector) reported layoffs. Restaurant employment increased modestly on the strength of sustained demand and increased supply. Tourism-related employment in greater Boston was flat as firms struggled to reach desired staffing levels. Employers on Cape Cod also faced challenges filling jobs, as rising housing costs priced more workers out of the Cape. Software and IT employment increased slightly, and manufacturing employment was flat or down slightly where there was attrition. Wages increased at a moderate pace on average. Contacts did not expect major changes in labor market conditions moving forward, although tourism contacts hoped that an upcoming career fair would help attract more workers for the busy summer season.

Prices

Prices increased only slightly overall. Retailers reported modest input price increases, and one remarked that recent shipping disruptions overseas had not yet affected its suppliers. Hotel room rates in greater Boston were stable recently, net of seasonal factors, and were up moderately from a year earlier, marking a notably slower pace of growth compared with 2023. Nightly room rates on Cape Cod were flat compared with last year. Software and IT services prices were stable. Manufacturers mostly held prices steady, but some reduced their output prices (either slightly or moderately) in response to declining input prices; those experiencing cost increases, by contrast, reported that they had raised prices moderately. For the most part, the outlook called for slow further price growth moving forward. However, one manufacturing contact, having held prices steady over an extended period, was considering a significant price increase to compensate for accumulated cost pressures.

Retail and Tourism

First District retail and tourism contacts reported a moderate upswing in sales in the first quarter of 2024 from late 2023, net of seasonal factors. An online retailer boosted its market share and experienced modest revenue growth despite sluggish industrywide performance. Airline passenger traffic through Boston increased at an above-average pace in recent months, with total passengers now exceeding pre-pandemic levels. Domestic travel remained below pre-pandemic levels because of the incomplete recovery of business travel, but growth in international travel more than compensated. Hotel occupancy in greater Boston increased at a strong pace, exceeding seasonal norms, fueled in part by robust convention activity and sporting events. On Cape Cod, retailers and hoteliers said revenues were on par with one year earlier, a modest improvement from the previous report. The outlook for tourism and convention activity in 2024 remained very bullish, and Cape Cod hotel bookings for the remainder of the year looked on track to match those from 2023. In contrast, retailers were only cautiously optimistic.

Manufacturing and Related Services

Manufacturing revenues were about flat on balance, with half of contacts reporting moderate gains in sales over the cycle and the other half experiencing moderate losses. Capital expenditures were mostly unchanged but on balance exceeded typical levels, as two firms were in the process of expanding or upgrading their plants. Contacts were uniformly optimistic for the remainder of 2024, projecting steady to moderately higher sales moving forward; in one case, however, that still meant that total sales in 2024 would fall short of their 2023 levels. The positive forecasts were based largely on firms' own recent demand trends, although one contact cited the prospects of productivity gains from AI and expected cuts in the federal funds rate as additional sources of optimism.

IT and Software Services

Contacts in IT and software services said that demand and revenues were mostly stable in recent months. On a year-over-year basis, revenues increased by moderate to large margins for all firms. Those latter growth rates were about on par with those of the previous quarter and exceeded expectations in one case. Furthermore, the growth was attributed to factors that had boosted real demand, such as the transition to subscription-based business models. Capital and technology spending was unchanged, and no future changes were anticipated. Contacts expected demand to hold fairly steady at strong levels in the next quarter. One contact noted that the time required to close deals had increased of late, although the implications for their revenues were not yet clear.

Commercial Real Estate

Commercial real estate activity in the First District increased slightly on balance since February. Industrial leasing activity slowed a bit due to a lack of inventory, and industrial rents faced slight upward pressure. In the office market, leasing activity held mostly steady at a slow pace, but one Boston contact detected a modest increase in tenant demand; office rents were mostly stable but fell slightly for lower-quality spaces. Leasing activity strengthened modestly for retail properties, with deals concentrated in restaurant- and grocery-anchored centers. Construction activity picked up a bit, primarily in the industrial market but also for retail and hospitality projects. Contacts noted an uptick in refinancing activity for office properties with maturing loans, although borrowers often had to add equity. The investment sales market was nonetheless still "frozen," as investors waited for interest rates to come down, and large banks remained on the side lines. The outlook improved modestly, as contacts expected leasing activity to either hold steady or increase by late 2024, including for small-to-medium sized office buildings. Contacts remained concerned that certain office properties faced elevated foreclosure risks.

Residential Real Estate

For the first time in over two years, residential home sales increased on a year-over-year basis in all First District states that were contacted (Connecticut furnished no data). Closed single-family sales increased at a moderate pace on average (from February 2023 through February 2024), led by robust gains in Vermont, Maine, and Rhode Island. Condominium sales fared even better than single-family sales over the same period, with strong overall growth and very large increases in those same three states. Massachusetts posted only modest increases in home sales, although greater Boston had above-average results within the state. Contacts attributed the stronger sales to a combination of recent declines in mortgage rates and increases in property listings but emphasized that inventories remain well below desired levels. Home prices increased at a strong pace from one year earlier, similar to what was reported last time. Contacts were optimistic for a strong spring buying season, provided the tight inventory situation showed further improvement.

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

Federal Reserve Bank of New York

Summary of Economic Activity

On balance, economic activity in the Second District held steady in the latest reporting period. Labor market conditions remained solid with labor supply and labor demand coming into better balance. Employment continued to grow slightly, and wage growth remained moderate. The pace of selling price increases remained modest. Manufacturing activity declined modestly. Consumer spending was flat, on the heels of weak sales earlier in the year. Tourism activity in New York City continued to move slowly towards pre-pandemic levels, and the solar eclipse brought an off-season boost to parts of upstate New York. Housing markets continued to strengthen, with the spring selling season picking up beyond the seasonal norm in much of the District. Commercial real estate markets deteriorated noticeably. Activity in the finance sector continued to weaken, with sagging loan demand and rising delinquencies on business loans and commercial mortgages. Nonetheless, businesses generally remained optimistic.

Labor Markets

Labor market conditions remained solid. Labor demand and labor supply have come into better balance as conditions continued to normalize. Employment grew slightly, with modest increases in the service sector offset by reductions in the construction and information industries.

Though businesses continued to hire, there has been a slowdown in hiring among the fastest growing companies, in part due to the high cost of capital curbing expansion plans. Many businesses are hiring more selectively and deciding to make do with less rather than hiring workers who are not a good fit. Manufacturing firms cited ongoing difficulties hiring skilled machinists amid a wave of retirements, but otherwise it has become easier to find qualified workers. Outside of a few smaller businesses shutting down, layoffs remain fairly limited in the region. Businesses anticipate only modest increases in headcounts in the coming months.

Wage growth eased somewhat but remained moderate. Notably, a major payroll firm in the District noted that pay increases received by those switching jobs have returned to normal. Firms do not anticipate significant change in the pace of wage growth in the months ahead.

Prices

The pace of selling price increases remained modest, and the pace of input price increases remained moderate. Still, manufacturing firms pointed to more significant price increases for some raw materials, along with pricing volatility for electronics components. Looking ahead, input price increases are expected to pick up, with some contacts expressing concern about potential shipping route obstructions due to the Key Bridge collapse in Baltimore and obstacles in the Middle East.

Consumer Spending

Consumer spending was flat, on the heels of weak sales earlier in 2024. Spending on goods remained sluggish and declined for services such as restaurant meals and entertainment after a sustained period of strength. By contrast, auto dealers in upstate New York pointed to a pickup in auto sales, with solid increases in both new and used vehicle sales. Buyers have enjoyed greater choice with improved inventory levels. Some auto manufacturers have begun subsidizing interest rates—even offering zero percent financing—to help boost sales and manage inventories, and borrowers are turning to leasing amid the high price of new cars.

Manufacturing and Distribution

Manufacturing activity declined modestly, following pronounced weakness in early 2024. Shipments and new orders fell, and some firms have reduced employee hours. In contrast, transportation and distribution firms reported strong business activity. Supply availability continued to improve, and delivery times shortened, though some contacts noted new challenges receiving inputs in a timely manner. Manufacturers generally expect conditions to improve, though optimism has become subdued.

Services

On balance, service sector activity was flat. Though the business services and leisure and hospitality sectors grew modestly, activity in the education & health sector edged down, and activity fell noticeably in the personal services and information sectors. Nonetheless, service firms remained fairly optimistic about the outlook.

A New York City tourism contact reported that the spring travel season has been slow, and the number of visitors is only slightly above levels seen last spring. Still, business travel and international tourism have both increased, with a notable uptick in visitors from Europe and South America during the Easter holiday week boosting attendance at Broadway shows. Hotel rates in New York City have remained high, in part reflecting a compositional shift towards higher-end rooms as more modest rooms have been set aside as housing for asylum seekers, reducing options for tourists. Visitors seeking the path of totality to observe the solar eclipse provided a sizeable boost to hotel and restaurant establishments in parts of upstate New York.

Real Estate and Construction

Housing markets continued to strengthen, with the spring selling season picking up beyond the seasonal norm in much of the District. Though mortgage rate lock-in has continued to limit new listings, inventory edged up. Still, low inventory remains the key factor restraining sales, and strong demand has generally kept sales prices above ask in both upstate New York and the New York City suburbs as bidding wars increased.

Residential rental markets continued to firm, with rents increasing modestly at high levels. Contacts from across the District noted that many former homeowners have turned to renting because of limited options on the purchase market, augmenting rental demand. Bidding wars on rentals remained common.

Commercial real estate markets weakened noticeably, with a strong decline in demand for office space. Vacancy rates in Manhattan increased sharply, due in part to a decline in both lease and sublease renewals. While Manhattan saw the brunt of the decline, office markets in Brooklyn, Northern New Jersey, Westchester, and Fairfield also weakened. Although rents were unchanged, rental concessions remained historically high. Office markets in upstate New York, where supply is more limited, remained more steady. The industrial sector also weakened, with continued declines in new leasing. Northern New Jersey, the key market for the New York City metro area, saw a sharp decline in demand. Still, industrial rents have held steady. Multifamily markets held steady, but credit cost and availability remained a challenge. All in all, financial strain among property owners in New York City continued to build as debt service payments rose.

Construction contacts reported sharply declining activity. Office construction remained at low volumes. Multi-family construction starts have been low across the District. Industrial construction was solid in Northern New Jersey but declined in upstate New York.

Banking and Finance

Activity in the region’s broad finance sector continued to weaken in the latest reporting period. On balance, small- to medium-sized banks in the region reported slightly weaker loan demand, particularly for consumer loans and residential mortgages. Banking contacts indicated that credit standards continued to tighten for business loans and commercial mortgages but held steady for consumer loans and residential mortgages. Deposit rates declined slightly, and loan spreads narrowed. While delinquency rates were unchanged for consumer loans and residential mortgages, delinquencies continued to rise for business loans and commercial mortgages.

Community Perspectives

Community leaders noted that non-profit operations have been strained. Inflation has caused the cost of providing services to increase, but there has not been a corresponding increase in funding. Further, many non-profits have endured higher employee turnover and vacancies as many workers have left for more lucrative and less stressful roles in the public and private sectors. With shortfalls in funding and staffing, recipients of social services such as childcare, mental health, housing placement, and senior ambulettes have experienced increasing wait times and service reductions.

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

Federal Reserve Bank of Philadelphia

Summary of Economic Activity

Business activity in the Third District was steady this period, after a slight decline last period. Employment continued to edge up, with increases in full-time nonmanufacturing jobs offsetting a modest decline in manufacturing jobs. Wage pressures and price inflation continued to moderate, to a still-modest pace for wages and to a still-slight pace for prices. Contacts reported less ability to pass on price increases. Activity in staffing and recruitment was constrained this period, in part because of lower demand for labor. New listings and sales of existing homes improved slightly. Housing affordability remained a concern because home price appreciation and high interest rates persisted. Lower-income households were especially burdened by the high-price, high-rate environment. Expectations for economic growth over the next six months modestly improved, rising among manufacturers and holding steady among other firms.

Labor Markets

Employment continued to edge up in March. Since our February survey, nonmanufacturing firms have reported slight increases in full-time jobs and modest decreases in part-time jobs. Firms in the smaller manufacturing sector continued to report a modest decline in employment. On average, all firms responding to the survey reported little change in the average workweek.

Activity in staffing and recruitment was muted this period, after a slight increase last period. Staffing contacts have noted less demand for labor, as firms have been choosing to maintain their current labor force. Further, some firms have been more selective in the candidates they choose to hire.

Overall, wage inflation continued at a modest pace, and firms reported less competitive wage pressures. Among nonmanufacturers, the distribution of reported changes in wage and benefit costs per employee was similar to the distribution in the years before the pandemic. Most firms reported no change, 38 percent reported increases, and 3 percent reported decreases. Our contacts, including several manufacturers, reported that wage pressures continue to moderate across industries and that wage increases are now in the range of 3 to 5 percent.

Prices

On balance, inflation continued at a slight pace. In our March survey, the prices received index for nonmanufacturers rose to a level near its long-run average—associated with a period of modest increases. Over the prior two months, relatively few firms reported increases, and those increases were slight. The prices paid index remained near its long-run average. Some contacts reported being unable to pass on increasing input prices, as customers have become more price sensitive.

The prices paid and prices received indexes for manufacturing firms remained below their long-run averages. The manufacturers' prices paid index declined to its lowest reading since May 2020, while the prices received index declined slightly.

However, manufacturers continued to expect prices to increase. The future prices received index rose above its long-run average, while the future prices paid index remained near its average.

Manufacturing

Overall, manufacturing activity increased modestly during the period, after a slight decline in the prior period. The indexes for new orders and shipments were positive, at levels somewhat below their nonrecession averages.

Expectations among manufacturers for growth in the next six months were much more widespread in March. Nearly 60 percent of the firms expected increases in new orders and in shipments.

Consumer Spending

On balance, retailers (nonauto) continued to report slight declines in real sales. Despite consistent foot traffic, customers are trading down and purchasing cheaper products during store visits to offset price increases.

Auto dealers reported slightly higher sales of new cars in the current period and continued strong consumer demand. According to contacts, although the industry's patterns of production, inventory, and sales have nearly normalized following the pandemic, the emerging growth of all-electric vehicles has further disrupted the sector. Affordability continues to be a concern, with high prices and high interest rates, despite promotions from dealers and manufacturers.

Tourism continued to slow slightly from the strong recovery in recent years. Contacts reported having less pricing power and lower demand, despite offering more promotions. Leisure travel continued to fall from high levels, despite a minor uptick in March due to spring break. The recovery continued in business travel.

Nonfinancial Services

On balance, nonmanufacturing activity declined slightly, following slight growth in the prior two periods. The sales/revenues index fell to a near-zero reading, from a modest increase, while the index for new orders remained slightly negative. A building equipment contractor reported that customers are deferring projects and ordering minimum quantities because of tighter budgets.

Current sentiment of firms appeared to deteriorate again. The firms' perceptions of general activity for the region fell further into negative territory in March, and the index of general activity at the firm level turned slightly negative. In contrast to manufacturers, expectations among nonmanufacturing firms for their own growth in the next six months changed little and remained well below historical averages.

Financial Services

The volume of bank lending (excluding credit cards) continued to grow slightly during the period (not seasonally adjusted), unchanged from the last period and down from the moderate pace of one year ago.

District banks reported moderate growth in commercial real estate lending and modest growth in home mortgages. Volumes of home equity lines held steady, as did consumer lending (other than auto and credit cards). Auto lending edged lower, and commercial and industrial lending fell moderately. Credit card volumes continued to fall back—this time slightly, after significant seasonal declines last period.

Banks and business clients continued to report stringent lending criteria, which have hampered some business plans. Banking contacts continued to report good credit quality, and delinquencies remained low. However, contacts from many sectors noted that lower-income households are struggling with high prices and high interest rates. Contacts reported upticks in repossessions and delinquencies on auto loans, especially for low-income households.

Real Estate and Construction

Brokers reported that existing-home sales edged up slightly but remained at historically low levels. The inventory of for-sale properties improved slightly through February; however, contacts were uncertain whether listings would continue to rise through the spring buying season. Meanwhile, it remains a seller's market, with sales prices continuing to climb. Contacts continued to report multiple offers, cash sales, buyers paying above the asking price, and homes selling quickly, as evidenced by reduced time on the market.

New-home builders continued to report steady sales. Builders noted that the ongoing pent-up demand for housing and the historically low inventory of existing homes for sale continued to bolster market demand for new construction. Some builders are constructing more speculative houses—confident that the pent-up market demand will spur buyers when their houses are completed.

In nonresidential markets, leasing activity and transaction volumes continued to decline slightly, especially in the office subsector, where investors are waiting for discounts on distressed properties.

Nonresidential construction activity slowed slightly in the current period. One contractor noted some softening in the construction trades recently, and another noted that construction bidding is significantly lower. Many contacts noted that projects have been deferred in anticipation of lower interest rates. Some firms continued to be busy, despite lower backlogs, and have noticed some growth in the planning and engineering phases of public infrastructure projects.

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

Federal Reserve Bank of Cleveland

Summary of Economic Activity

On balance, Fourth District business activity increased modestly over the recent period, and contacts expected similar conditions to persist in the months ahead. Consumer spending firmed, though some retailers reported that discretionary spending remained soft. Demand for manufactured goods was flat, and manufacturers noted softer orders as customers rebalanced inventories. Demand for new homes strengthened, according to homebuilders; meanwhile, existing home sales were constrained by a shortage of inventory. Employment levels increased at a modest rate in recent weeks, the first notable increase in the last six months, and overall wage growth edged up to a moderate pace. Overall, nonlabor cost pressures continued to be moderate, while selling prices increased slightly. Contact reports suggested that both appeared to be stabilizing compared to prior years.

Labor Markets

Overall, employment increased at a modest pace in recent weeks after a period of stability. Some construction and manufacturing contacts reported hiring for new projects or planned expansions in 2024, with one manufacturing contact saying, “Our plan for 2024 is to increase another 30% and we have added two more production lines out of ten to accomplish this.” However, other manufacturers held staffing levels steady and increased production levels through automation. Contacts across industries continued to note an increase in worker availability, and one agricultural contact said this increase allowed them to hire permanent staff and reduce their dependence on contract workers. Contacts generally anticipated that modest growth in employment will continue in the coming months because they expect further increases in product demand and improved worker availability.

Wage pressures edged up in recent weeks to a moderate level. Many firms continued to report that wage pressures were normalizing, with many retail, construction, and manufacturing contacts saying they were offering only the standard annual cost-of-living adjustment. Moreover, some contacts across industries said they were reducing wages for current job openings, a situation which several attributed to increased worker availability. One restaurateur said, “we've seen wages stabilize and haven't had to escalate wages to hire good people.” Still, many financial services and healthcare contacts noted there were targeted wage increases to attract and retain staff who were high performing or senior level or had a specialized skillset.

Prices

On balance, nonlabor input cost pressures continued to increase moderately. However, many contacts across sectors said that some of their costs continued to stabilize and in some cases decreased. Some manufacturers noted that suppliers were adjusting prices less frequently, with one stating, “Our raw material costs have roughly held flat during first quarter of 2024.” One contact reported that efficiencies gained by automating processes lowered their per unit production costs. Still, firms across industries reported cost increases for utilities, professional services, health insurance, and property and casualty insurance.

Meanwhile, selling prices increased slightly, at a pace similar to that of the prior two reporting periods. Many retailers and restaurateurs continued to increase prices only selectively, and the majority held prices steady, with some deferring increases until later in the year. A few freight haulers continued to lower their rates, and one contact said that they are at “a point where we can barely find any profit in moving freight.” By contrast, some manufacturers had increased selling prices during annual contract adjustments to cover higher materials costs or recapture some price concessions that were made in 2023.

Consumer Spending

Consumer spending increased modestly after decreasing modestly during the prior period. One apparel retailer said that sales had increased by more than the expected seasonal trend, and several other retailers and restaurateurs reported that sales had increased amid warmer weather. Still, some retailers reported that sales of discretionary items remained stagnant, and one large general merchandiser indicated that household budgets were still tight because of persistently high food prices. Reports from auto dealers were mixed. Most dealers continued to report low sales because of high interest rates and vehicle prices. By contrast, a small share of dealers noted that better supply of new vehicles and more manufacturer incentives helped boost sales. On balance, firms expected consumer spending to increase moderately in the near term.

Manufacturing

On balance, demand for manufactured goods remained flat in recent weeks. Some manufacturers noted softer orders as their customers rebalanced inventories or because of general economic and political uncertainty. Firms selling to electric vehicle (EV) producers noted lower overall demand as automakers recalibrated for slower than anticipated EV sales. By contrast, firms selling to aerospace companies and for data center construction reported steady demand and orders. Looking forward, manufacturers generally expected activity to increase moderately in the coming months.

Real Estate and Construction

Demand for new homes strengthened again in recent weeks as the spring selling season heated up, according to homebuilders. Existing home sales were again constrained by a dearth of inventory. Contacts expect activity to increase further in the coming months, though sales may be muted by limited supply and potential homebuyers' waiting for further mortgage interest rate declines.

Reports from builders indicated that nonresidential construction increased modestly in recent weeks. One contact suggested that industrial and distribution center development was particularly strong, while another suggested that demand had increased because "[o]rganizations are beginning to truly address expansion plans." In commercial real estate, one realtor noted that lower occupancy rates in existing units caused property managers to offer incentives to tenants such as renewing leases without increasing rates. On balance, contacts expected nonresidential construction to increase in the months ahead, albeit at a somewhat slower pace.

Financial Services

On balance, bankers reported that loan demand increased moderately. One banker attributed an increase in consumer lending to lower interest rates. Another banker said that improved commercial demand was associated with increased optimism surrounding economic conditions, adding that "companies are ready to move forward with [capital expenditure] needs, expansion and growth opportunities and investments that may have been put on hold based on the uncertainty and rate environment we saw in 2023." Bankers generally expected loan demand to increase further amid anticipated rate reductions and less economic uncertainty. Core deposits were flat, and a couple of bankers expected deposit outflows to decrease. Bankers reported that consumer delinquency rates increased slightly but remained close to historically low levels.

Nonfinancial Services

Overall, professional and business services contacts reported that demand continued to increase as clients moved forward with projects and as economic uncertainty decreased. On balance, contacts expected that demand would continue to increase with improved supply chains, reshoring activity, and stable interest rates. In addition, a couple of consultants mentioned that they planned to launch new service offerings. Freight and transportation activity increased modestly in recent weeks. Looking ahead, freight and transportation contacts anticipated that demand would continue to increase.

Community Conditions

In a semiannual survey, two-thirds of District nonprofit service providers reported that low- and moderate-income households experienced a decline in financial well-being in the past six months as higher prices continued to strain budgets. Moreover, nearly three-quarters said that the availability of affordable housing decreased amid rising rents, the loss of units to blight, and insufficient unit supply. Some contacts noted that housing market dynamics were adversely affecting seniors. One mentioned that a senior housing community had a waiting list of 1,500 people. Another suggested that reassessed property values increased property taxes, straining seniors' budgets.

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

Federal Reserve Bank of Richmond

Summary of Economic Activity

The Fifth District economy grew slightly since our previous report. On balance, consumer spending was flat to up slightly this period. Reports from retailers were mixed as some shops and restaurants reported declines while others, namely furniture and hardware stores, reported increased sales. Spending on travel, on the other hand, picked up as hotel occupancy increased and future bookings were strong. Port activity declined slightly, and the collapse of the Francis Scott Key Bridge led to the shutting down of traffic coming in and out of the Baltimore harbor and main port terminal and the diversion of shipments to other East Coast ports.

Labor Markets

Employment in the Fifth District grew at a modest pace in the most recent reporting period. Contacts continued to report difficulty finding workers but mentioned some improvement. A sandwich shop reported that it was still very difficult to find labor, but the applicant pool was increasing, and they were experiencing less attrition. An office equipment wholesaler reported that "good" workers were hard to find, but when they were found, they were hired regardless of there being an open position. There was still difficulty finding workers in the trades. An HVAC company, for example, could not find skilled or trainable workers and was not optimistic about this changing due to a lack of a reliable training sources. Wage growth remained moderate.

Prices

Prices continued to grow at a moderate annual rate this reporting cycle. According to our most recent surveys, growth in prices received by service providing firms was little changed as growth has remained around four percent for several months. Growth in prices received by manufacturers remained between two and three percent. Some contacts noted that the higher cost of borrowing as well as higher energy costs have led to increased operating costs. Increasing labor costs, however, were the most cited factor leading to price growth remaining elevated.

Manufacturing

Fifth District manufacturing activity declined modestly in the most recent period. A precision sheet metal manufacturer reported that new orders barely reached a level where they didn't have to cut hours. Several contacts mentioned interest rates negatively affecting their business. For example, a cabinet manufacturer reported that clients could no longer wait for interest rates to drop, so they were cancelling projects. A pump and commercial equipment producer reported a slowdown in sales because their customers delayed capital expenditures until interest rates decline. Other contacts mentioned increased cost pressure from non-production services such as legal, medical, and other insurance services.

Ports and Transportation

Total loaded container volumes at Fifth District ports were down slightly this period. Import volumes increased mainly due to retail restock of consumer goods. Spot rates for Asia to East Coast decreased slightly this period but remained elevated compared to last year. Both imports and exports of rolling stock were down this period. Airfreight volumes remained flat and shipping rates continue to be low due to overcapacity. The March 26th collapse of the Francis Scott Key Bridge led to the temporary closure of the main Baltimore port terminal with an uncertain timeline to reopen the shipping channel. Ships that were due to come into the port were diverted to other East Coast ports. Businesses we talked to said they can manage a short-term disruption but if the effort to reopen the channel takes longer, they then expressed greater concerns about lead times and increased costs.

Trucking demand continued to increase slightly because of retail restocking but still reflected lower seasonal volumes. In the truckload segment, industry oversaturation pushed rates down, while in the less-than-truckload segment, firms were able to negotiate flat to slight increases in contract rates due to decreased capacity. Driver turnover remained at the industry average and several respondents relied on in-house training programs to augment the labor pipeline. However, positions requiring some specialized skills, such as mechanics, were still difficult to fill. There were no significant backlogs on new equipment and parts availability improved.

Retail, Travel, and Tourism

Retail spending was little changed in recent weeks. Several retail and restaurant contacts noted that customer traffic was unseasonably low. One shop owner located in a pedestrian market said that rainy weather, particularly on the weekends, hurt their sales. A furniture store and a hardware store, on the other hand, saw an increase in sales and foot traffic and attributed it to the start of the spring season when the housing market starts to pick up and people start working in and on their yards. Hotel contacts reported only a slight increase in occupancy in recent weeks but expected things to pick up soon as they were seeing strong future bookings for the next several months. An airport reported increased passenger traffic in recent months, particularly for leisure travel.

Real Estate and Construction

In residential real estate, respondents noted that so far it hasn't been a robust spring market; however, there remained pent up demand in the housing sector. Total closed sales dropped month-over-month. Days on market increased slightly but was still below the historic average; housing inventory remained tight. Listing prices were flat, but many homes were still selling above asking price. Single family homes for first time home buyers remained in short supply. Construction cost increases continued to moderate in the Fifth District. Demand for home improvement projects declined considerably from this time last year.

In the Fifth District, overall market activity in commercial real estate improved slightly this period. Retail and industrial/flex space leasing remained robust with higher rental rates and low vacancy rates. In the office sector, there was greater leasing activity related to firms looking for more efficient space and moving to suburban locations. However, an increasing number of commercial office buildings were unable to qualify for refinancing this period. Commercial real estate sales slowed, and capital markets activity was negligeable, which resulted in declining commercial real estate values. Commercial contractors cited a lack of qualified candidates to fill positions as well as rising material and labor costs.

Banking and Finance

Most financial institutions reported that they are observing a slight increase in loan demand within their business and commercial real estate loan portfolios. One banker noted that this slight increase was due to "pent up" demand and businesses were only borrowing for immediate business needs. Deposit levels continued to decline modestly with competition high for any available deposits in the marketplace. Institutions that were once reluctant to have deposit specials began offering these promotions to maintain their balances. Loan delinquency rates remained stable from the last report with no changes noted in customer credit quality.

Nonfinancial Services

Nonfinancial service providers continued to report that demand for their services as well as revenues remained stable. An engineering firm stated that they were issuing an average number of proposals for work, but less were being accepted because clients were hesitant to move on any new projects. A law firm noted that clients' anticipation of lower interest rates later in the year was slowing any new real estate transactions, or other transactions impacted by interest rates, by their clients. Wages and workforce issues were less of a challenge with both continuing to show modest stabilization.

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

Federal Reserve Bank of Atlanta

Summary of Economic Activity

Economic activity in the Sixth District grew modestly. Labor markets eased further, and wage pressures moderated. Many nonlabor cost increases stabilized, while the cost of others, like food and insurance, continued to rise. Consumer spending was steady, but sales of discretionary items slowed. Leisure and business travel remained healthy. District housing inventories grew, and affordability improved somewhat. Commercial real estate activity slowed. Transportation demand remained mixed. Manufacturing grew at a modest pace. Lending was flat, on balance. Activity in the energy sector increased somewhat since the previous report.

Labor Markets

On balance, the pace of hiring grew modestly over the reporting period. A few firms slowed hiring in response to weaker demand and were downsizing through attrition. Most contacts reported that it was easier to fill open roles but there were pockets of shortages noted across the region, varying widely by location and industry. Such shortages had firms focused on workforce training and strategically building pipelines for talent; this was especially true among businesses facing a wave of retirements. Current or expected labor shortages continued to drive the search for efficiencies and cost savings. Most firms reported investing in automation, and several said they were exploring the use of AI to drive efficiencies and free up workers for other tasks.

Most contacts indicated that wage pressures continued to ease, and wage growth was more closely aligned with historical averages.

Prices

Most nonlabor cost increases stabilized, though the stabilization was uneven across inputs. Transportation costs, along with some commodities like lumber and steel, saw prices hold or even decrease. Construction delays, however, added to the final cost of projects. Food prices continued to rise, and increases in insurance premiums were notable. Pricing power was characterized as "lumpy," with some firms maintaining the ability to pass through costs while others, particularly retailers and restaurants, struggled to preserve margins. The Atlanta Fed's Business Inflation Expectations survey showed year-over-year unit cost growth increased in March to 2.8 percent, on average, from 2.6 percent in February; firms' year-ahead inflation expectations for unit cost growth were relatively unchanged in March at 2.4 percent, on average, from 2.3 percent in February.

Consumer Spending and Tourism

Retailers continued to report a normalization of consumer demand as compared with pandemic levels; "flat is the growth in 2024 for retail." Contacts noted that consumer demand was generally healthy, but discretionary purchases declined, and sales reflected ongoing price sensitivity by shoppers. Auto dealerships described activity as stabilizing—inventory levels met demand and manufacturers offered incentives to boost sales.

Tourism and hospitality contacts reported that strong spring break travel was in line with expectations. Appetites for cruising increased, with several Florida ports reporting strong passenger counts. Business travel continued to improve. Industry contacts remain optimistic about activity for the balance of the year.

Construction and Real Estate

Though home ownership affordability improved amid lower mortgage rates, home price appreciation increased or stabilized in most markets, consistent with national trends. Rising insurance premiums and HOA fees in coastal markets remained a challenge for homeowners on fixed incomes. While still below historic norms, rising existing home inventory, new subdivision developments, and an increase in spec-home availability in the new home market led to higher inventory levels. Housing inventories in southwest Florida increased at a sharper rate than the rest of the District due to weaker demand and the lingering effects of Hurricane Ian.

Commercial real estate (CRE) conditions were mixed. Office and multifamily sectors cooled as occupancies declined. Oversupply in the multifamily and industrial sectors weighed on market conditions, as sizable amounts of new construction were delivered. Firms reported that imprecise CRE appraisals were leading to valuation accuracy challenges. Like the rest of the nation, Sixth District markets will contend with rising CRE loan maturities in 2024.

Transportation

Transportation activity remained mixed. Railroads reported significant year-over-year increases in intermodal shipments and overall traffic. Third party logistics contacts noted that both demand and shipping rates appeared to have bottomed out following what was characterized as an 18-month freight recession. Cargo volumes at District ports were generally below 2023 levels and are expected to slow further as freight normalizes down from inflated levels in 2022. Freight forwarding companies reported declines in volumes, revenue, and profits as customers worked through “bloated inventories.” Some transportation contacts expect conditions to improve in the second half of 2024.

Manufacturing

Manufacturing activity grew modestly since the previous report. Most firms reported stable to slightly growing demand, with some optimism for stronger growth later in the year. Manufacturers of products tied to government and infrastructure projects saw higher demand. However, a few producers of consumer goods reported some softening. The Manufacturing Sector Report of the Atlanta Fed’s Business Inflation Expectations Survey showed that for the majority of respondents, demand remained at or below “normal” levels but found that sales growth is mostly positive.

Banking and Finance

Lending at District financial institutions remained relatively flat amid continued contraction in most consumer loan segments. One notable exception was home equity lines of credit, which have steadily increased in originations and utilization. Commercial real estate loan originations, including multifamily, experienced minor upticks since the previous report. The allowance for loan and lease losses continued its slow but steady increase as economic uncertainty drove banks to adjust reserves. Cash balances at financial institutions also increased slightly, consistent with broader industry trends. Large time deposits experienced continued growth but may be showing early signs of flattening as institutions start to lock-in anticipated interest rate cuts by the Federal Reserve. Borrowings declined over the period as banks paid down this more expensive source of funding.

Energy

Most energy contacts described an uptick in activity since the previous report, when weather-induced outages had reduced oil and gas production, refining, and chemical manufacturing capacity. Since then, oil and gas production climbed, a trend that is expected to continue over the medium term as global demand grows. Additionally, refiners reported very strong demand and utilization rates, while chemical manufacturing contacts noted flat to steady demand. Utilities contacts noted continued investment of billions of dollars over the next several years, largely attributed to power infrastructure for emissions reduction, computing capacity, and data center projects across the southeast.

Agriculture

Agricultural conditions showed modest improvement in recent weeks. The cattle market saw continued resilience as limited supply kept prices high. Record inventories of milk depressed prices, but demand for dairy was strong and growing. Some increase in demand for poultry led to more optimism in the market, but many producers struggled as significant export restrictions remained in place. There was a modest increase in demand for lumber, and expectations are for steady sales going forward. Florida growers reported high demand for citrus, but some softness in the row crop market.

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

Federal Reserve Bank of Chicago

Summary of Economic Activity

Economic activity in the Seventh District increased slightly overall in late February and March, and contacts generally expected a similar rate of increase over the next year. Employment increased modestly; business and consumer spending rose slightly; nonbusiness contacts saw no change in activity; and manufacturing and construction and real estate activity were flat. Prices and wages rose moderately, while financial conditions were stable. Prospects for 2024 farm income were unchanged, with expectations continuing to be for income to fall below 2023 levels.

Labor Markets

Employment increased modestly over the reporting period and contacts expected a similar rate of increase over the next 12 months. Contacts noted a small rise in hours per worker on balance, with cuts in manufacturing offset by higher workweeks in other sectors. Contacts across sectors indicated labor market conditions continued to cool. Several noted higher numbers of job applications per posting and improved applicant quality. Wages and the cost of benefits both increased moderately. Several contacts noted that wage pressures had eased some.

Prices

Prices rose moderately overall in late February and March and contacts expected a similar rate of increase over the next 12 months. Producer prices moved up moderately. Nonlabor input costs continued to rise, with contacts noting higher prices for raw materials and energy. Shipping costs were up on net: While ground freight rates moved down, one contact said ocean freight charges were up some after the collapse of the Francis Scott Key Bridge in Baltimore. Several manufacturers indicated that raising prices had become more difficult in recent months and that their margins had shrunk. Consumer prices were up moderately overall.

Consumer Spending

Consumer spending increased slightly over the reporting period. Nonauto retail spending was up a bit, with contacts noting greater sales of laptops and big screen TVs as well as a rise in window and door installations. One contact cautioned, however, that the increase in sales in March could be related to an early Easter rather than growth in underlying demand. Spending on discretionary items was down, while spending at discount stores and membership clubs was up. Leisure and hospitality activity dipped, most notably at hotels, tourist attractions, and airlines. Vehicle sales rose in recent weeks, with larger growth in new cars and light trucks than in the used vehicle market. Consumers gravitated further toward more affordable models, particularly compact and subcompact crossover and sport utility vehicles.

Business Spending

Business spending increased slightly in late February and March. Capital expenditures ticked up with contacts noting purchases of software. One contact said that his firm had substantially cut costs by switching from an external provider of marketing materials to generating materials using AI with no impact on sales. Demand for truck transportation services decreased slightly, contributing to a decline in ground freight rates. Inventories for consumer goods were somewhat elevated. Auto dealers reported higher-than-desired inventories of new vehicles, but lower-than-desired inventories of used vehicles. Manufacturing stocks were slightly above comfortable levels. There were few reports of input shortages, though some contacts noted shortages of electrical components, and a heavy machinery contact said some inputs were in short supply because of reduced shipping volumes through the Suez Canal.

Construction and Real Estate

Construction and real estate activity was little changed on balance over the reporting period. Residential construction activity was flat. Residential real estate activity increased slightly overall, with growth concentrated in the starter and luxury segments. In Iowa, multiple contacts indicated that the pace of new home sales was notably slower than last year. Home inventories remained low, and prices and rents were up slightly. Realtors continued to hear from prospective buyers that affordability is their top concern. Nonresidential construction activity increased slightly, as some projects were still moving ahead despite high building and financing costs, notably for healthcare facilities and retail renovations. One contact said that quoting for potential new projects was at a healthy level. Commercial real estate activity was unchanged, as were prices and rents. Activity in the office segment was very limited, and contacts noted buyers and sellers were struggling to agree on valuations. In other segments, contacts said asking prices had come down by even more than offer prices, leading to more deals going through. Contacts noted that for the financing of deals to work, buyers were often having to put down large amounts of equity.

Manufacturing

Manufacturing demand was flat on balance in late February and March. Both auto and heavy truck sales were unchanged, and heavy truck contacts expected little or no growth over the next

12 months. Machinery sales were down modestly, with contacts highlighting slower demand for agricultural equipment. Demand for steel was flat on balance. Activity in fabricated metals was also steady, with higher demand from defense offset by lower demand from aerospace.

Banking and Finance

Overall, financial conditions were unchanged in late February and March. Bond market values increased slightly, equity markets rose modestly, and volatility edged down. Business loan demand declined modestly. One contact noted that small trucking companies were struggling because of a slowdown in demand and high debt loads following recent fleet expansions. Business loan rates were slightly higher, terms tightened some, and loan quality was unchanged. Consumer loan demand decreased on balance, with one contact noting a slowdown in auto lending. However, there was also a report of higher credit card usage. Consumer rates rose slightly, terms tightened a bit, and quality edged down.

Agriculture

Prospects for 2024 farm income were little changed overall for crop and livestock producers with contacts continuing to expect incomes in 2024 to fall below 2023 levels. Field work in preparation for planting was well ahead of the usual pace given warmer-than-usual temperatures. Precipitation across the District improved water levels, though some areas remained in drought. Corn and soybean prices increased slightly amid expectations that farmers would plant fewer of these crops than earlier anticipated. Wheat prices were generally lower. Egg prices fell, most dairy prices were down, and hog prices were higher. Cattle prices rose despite a decline toward the end of the period after news of an avian flu outbreak in cattle raised concerns that beef demand would weaken.

Community Conditions

Community, nonprofit, and small business contacts saw little change in economic activity over the reporting period. State government officials reported a slight decrease in sales tax revenues compared with a year ago. Small business intermediaries, including Community Development Finance Institutions, noted increased loan demand and said clients continued to mention that challenges in finding workers were holding back growth. Social service organizations, philanthropies, and municipal leaders said that the end of COVID-era federal government financial support would soon result in budget gaps for state and local governments. For low-income consumers, elevated price levels, particularly housing costs, remained a challenge for household budgets. Efforts to increase the supply of affordable housing continued to run up against high costs for materials and labor.

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

Federal Reserve Bank of St. Louis

Summary of Economic Activity

Economic activity across the Eighth District has continued to increase slightly since our previous report. Labor market conditions were generally unchanged. Inflation pressures increased modestly, although firms continue to note higher costs are compressing profit margins as they are unable or unwilling to increase prices to customers. Reports on consumer spending indicate a modest uptick, with some contacts attributing stronger-than-expected activity to an earlier Easter holiday. The outlook among contacts was neutral to slightly optimistic, which is generally unchanged from our previous report, but better than one year ago.

Labor Markets

Employment has remained unchanged since our previous report. The labor market continues to be tight, particularly in rural areas and in the manufacturing and construction sectors. In contrast, banking and professional services contacts have seen upticks in applicants and less turnover from a year ago. Multiple contacts reported adjusting operating hours to reduce their overall wage bill and/or total headcount.

Wages have risen slightly since our previous report, with most contacts reporting a small increase in labor costs. In rural areas of the District, wage disparities between smaller businesses and national firms are an ongoing challenge as smaller firms are struggling to match the higher wages. For example, a food processing firm increased their labor budget by 6 percent to cover merit-based increases to prevent labor turnover. Large District employers continue to reach contract agreements with unions. A large St. Louis distributor reached a contract agreement with its union employees, and St. Louis school district employees were able to secure the largest wage increase in twenty years. However, a pilot union took steps toward a strike.

Prices

Prices have increased modestly since our previous report, as contacts are broadly feeling the pressures of increases in both labor and nonlabor costs. Small business contacts reported profit margins compressing on higher costs and an inability to raise final prices for consumers. A restaurant contact reported that even though food and labor costs have risen recently, final prices have not yet been adjusted. A textiles contact echoed this sentiment, but indicated the firm still lacks pricing power over brands and retailers; so, increases in final prices have not kept up with increases in costs. A retail contact reported that her small business insurance costs have doubled. In a similar vein, an insurance agent reported that homeowners are seeing increases in annual insurance premiums of 20 to 25 percent.

Consumer Spending

Consumer spending has risen modestly since our previous report. Restaurant and hospitality contacts have generally seen stronger-than-expected business activity, while automotive and retail contacts have generally reported that sales did not meet expectations. A District restaurant contact noted that consumer spending is increasing marginally as delivery services are boosting sales. A fast-food contact noted customers were showing preferences for specialty products, increasing dollar sales per customer. A St. Louis hotel contact reported that, while overall activity is higher relative to last month, activity in the business travel segment has fallen short of expectations. A small clothing retailer reported strong growth in sales, which they attributed to an earlier Easter holiday. A Little Rock boat retailer stated they are cutting profit margins to sell their products due to a lack of demand and plentiful inventory. A Kentucky auto dealer noted that so far this year both new and used car sales have been low. However, they're optimistic activity will increase in the later spring and summer months on expectation of lower auto loan rates.

Manufacturing

Manufacturing activity has slightly increased since our previous report. Firms in Arkansas and Missouri reported a modest increase in inventories and delivery lead times. Reports of supply chain disruptions increased slightly. One contact noted the Red Sea shipping disruptions have resulted in higher prices, and another firm noted a 2-week delay on a large equipment order due to the bridge collapse in Baltimore. A brewery contact noted that their suppliers have excess capacity and are waiving some fees to attract new business. A food manufacturer reported revenues and volumes were down in the first quarter due to smaller orders from restaurants, but private label grocery store orders remain strong.

Nonfinancial Services

Activity in the nonfinancial services sector has improved slightly since our previous report. The transportation outlook was largely unchanged. Airports across the District remain optimistic that business and leisure travel will remain strong during the remainder of the year. Smaller trucking firms reported financial challenges stemming from lower prices and volumes, which has made it harder to compete with larger firms. Across the District, healthcare contacts spoke about persistent shortages of medical supplies and drugs. An Arkansas funeral services contact reported fewer traditional funerals and more cremations. They attributed this switch to lower-cost services to a growing number of uninsured or underinsured individuals at time of death.

Real Estate and Construction

Residential real estate activity has increased at a moderate pace. Real estate contacts noted signs of an early start to the spring homebuying season. District bankers reported that mortgage loan volumes in February and March were higher than the same period last year. A renovation and remodel contact noted a strong pipeline of projects, although with some shift toward lower-cost improvements.

Commercial construction activity has been relatively unchanged. An architect in the Little Rock area reported their firm is busier than ever, with projects coming from public funds. In contrast, traditional commercial work has slowed significantly. A construction contact noted demand for transportation, municipal, and lodging projects remains high, while demand for retail and higher education construction projects has slowed. Similarly, an engineering contact noted that so far this year is shaping up to be stronger than expected and the outlook is improving.

Banking and Finance

Banking conditions have been generally unchanged since our previous report. Contacts reported little change in deposits, but the market remains competitive. Total loan growth has decreased slightly as banking contacts reported being more selective and focused on maintaining existing relationships. Commercial and industrial loans have decreased. However, the pace of consumer lending growth continues to accelerate. A large retailer noted a considerable uptick in credit card usage, and banking contacts noted customers continue to open new lines of credit. Delinquency rates remain low, but some contacts noted higher delinquencies on auto and small business loans.

Agriculture and Natural Resources

District agriculture conditions have remained unchanged since our previous report. Total acres planted as of the end of March are about the same as this time last year. However, contacts in Arkansas said they're closely watching weather over the next few weeks; if conditions remain wet, that will limit future plantings and may force producers to plant later than is ideal. The distribution of crops is expected to shift: The number of acres of corn planted decreased, especially in Arkansas and Mississippi, while plantings of cotton, rice, and soy increased. For corn and cotton, this marks a return to 2022 acreage. Several District contacts reported feeling price pressures due to higher travel costs of bringing in H2A visa labor. Contacts also noted difficulties accessing farming equipment due to high costs and delays, particularly for repairs.

Federal Reserve Bank of Minneapolis

Summary of Economic Activity

The Ninth District economy grew slightly since the previous report. Employment grew slightly, and labor demand was softer. Price pressures increased, while wage pressures were moderate and continued to ease. Business survey respondents reported that demand increased on balance. Commercial and residential construction improved slightly, consumer spending was mostly flat, while manufacturing slowed modestly. Agricultural conditions were steady at low levels. Activity among minority- and women-owned business enterprises was mixed.

Labor Markets

Employment grew slightly since the last report. Recent surveys suggested that hiring sentiment continued to soften modestly but remained positive overall. Staffing contacts reported slower, but variable, demand for workers; demand for entry-level, low-skill jobs had softened in North Dakota, but demand for skilled and professional workers was still healthy. In Montana, job orders from manufacturers were lower. In Michigan's Upper Peninsula, demand for permanent, full-time jobs slowed, but rose for temporary and seasonal positions. A Wisconsin staffing contact said the current job market was more unpredictable than it ever has been, with some businesses slowing while others were "ramping up out of nowhere." Labor availability continued to improve. A Minnesota contact said businesses were "reporting less ghosting and more applicants following through with the hiring process." Traffic was also higher at job fairs and workforce offices.

Wage increases were moderate overall, but were easing compared with previous levels, according to recent surveys. Staffing contacts said wage pressures were easing, but still evident in high-demand jobs. In Montana, trade workers saw strong wage increases in recent contract settlements, while public unions saw 2 to 4 percent raises. A Wisconsin manufacturer said that "wage competition has moved from a hard boil to a gentle simmer. It's not the factor that it was 12 to 18 months ago."

Prices

Prices increased moderately since the last report, which was a slight uptick in the pace of growth. While most respondents to a District business conditions survey reported no change to prices charged in March from a month earlier, more than a third said prices increased. Input price pressures remained greater than final price pressures. A professional services firm indicated that it was approaching a limit in its ability to pass on labor cost increases because customers were pushing back on pricing. Retail fuel prices in District states increased briskly since the previous report. Prices received by farmers increased in February from a year earlier for chickpeas, lentils, chickens, eggs, milk, hogs, and cattle; prices decreased from a year earlier for corn, wheat, soybeans, potatoes, canola, and turkeys.

Worker Experience

Respondents to a recent survey of workers, most of whom were employed in social services, were overall satisfied with their work schedule flexibility. About one-third expressed dissatisfaction with their pay. Some were advocating for better pay, working toward a promotion, or looking for another job. Most of those looking for jobs were likely to reject an offer if the pay was insufficient to meet their needs. Many respondents reported experiencing notably high prices in groceries, food away from home, rent, fuel, and electricity. As the health care industry continued to add jobs across most of the District, traveling nurses were reportedly becoming less common, but their “optimism in the job market remains high,” said a labor contact. They were said to be receiving attractive sign-on bonus offers from nursing homes, a trend that was categorized as unusual for their budgets.

Consumer Spending

Consumer spending was flat overall since the last report, with some variability among sectors. Unseasonably warm weather devastated firms catering to winter tourism. Hotel occupancy in February fell significantly across the District for a second consecutive month. Firms serving other retail segments reported better activity. Many South Dakota retailers reported healthy traffic and customer spending in the first quarter, though many individual owners reported challenges. Still, a contact there said, “the outlook for most seems better than a year ago.” A contact with a large retail center in Minnesota said that customer traffic was increasing but “consumers are not spending quite as much per visit.” Contacts also reported that consumers were trading down on purchases, particularly in groceries. “Lots of staples and fewer splurges, and more store-brand or generics. Some trading down in apparel as well,” said one contact. Vehicle sales saw continued growth. One dealership with multiple locations saw recent sales rise by 14 percent over last year. Airline traffic continued to improve, rising across the board in February at District airports year over year, with some increases of 10 percent or more.

Construction and Real Estate

Construction activity improved since the last report. Construction starts in the District rose over year-ago levels, according to industry data. A majority of contacts also reported increased project activity, and future sentiment was even more optimistic. Local permitting across the District suggested some lumpiness in activity, even in the same state. Residential construction increased overall, though growth was not seen everywhere. Certain markets, like Minneapolis-St. Paul and Sioux Falls saw sizable increases, while other markets were flat. Multifamily activity slowed in many markets; in March, Minneapolis-St. Paul saw just six permitted units.

Commercial real estate improved slightly. Industrial vacancy rose slightly in the first quarter, but sources suggested that demand remained healthy, particularly in light of an expected slowdown in new construction. The office sector has "stabilized," according to one source; subleasing fell modestly, and workers were gradually returning to the office. Other commercial markets were mostly steady. Residential real estate continued to improve overall from low levels, with many markets seeing increases in monthly year-over-year sales.

Manufacturing

District manufacturing activity slowed modestly from the previous report. Manufacturing contacts who responded to a monthly District survey indicated that their sales decreased on balance in March from the previous month. A regional manufacturing index indicated decreased activity in Minnesota and North Dakota in March from a month earlier, while activity increased in South Dakota. A metal fabricator reported, "We are in the midst of the deepest slow-down in my 35 years with our company."

Agriculture, Energy, and Natural Resources

District agricultural conditions were stable at low levels. Contacts expected decreased farm incomes in the region for the 2024 growing season. Warm weather along with widespread mild drought conditions led to a mixed outlook heading into spring planting. District oil and gas exploration activity was unchanged since the previous report.

Minority- and Women-Owned Business Enterprises

Activity among minority- and women-owned business enterprises (MWBE) was mixed. An equal share of contacts reported lower, unchanged, or higher sales. More contacts reported increases in employee headcount over the last four weeks than those who reported reductions. Almost half reported strong hiring demand. A Minnesota contact in the construction industry said they were struggling with high turnover, labor availability, applicant qualifications, and training costs. Nonlabor input prices and average selling prices were mostly flat. Similar shares of contacts expected business activity to increase and decrease in the coming weeks. Unseasonably warm temperatures also affected MWBEs whose businesses depend on winter tourism. The owner of a restaurant in Minnesota shared having to close for the season due to the lack of snow.

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

Federal Reserve Bank of Kansas City

Summary of Economic Activity

The Tenth District economy expanded slightly over the past month. Job gains were modest and concentrated in service sectors. Employers reported that both wage and non-wage labor costs rose, but more slowly than in past years. Although worker availability continued to improve, employers indicated the performance of new low-skill hires was below their expectations and past experiences. The number of foreign-born workers available for hire rose in the District, yet only a few contacts indicated that a greater number of immigrants translated to more hiring activity. Consumer spending increased modestly, with long-subdued auto sales picking up as borrowing rates moderated. Many contacts noted an increase in demand for home equity lines of credit as a means to cash-out equity and pay off debt. The supply of housing was reported to have increased, slowing the pace of housing price growth. Business activity expanded slightly according to most contacts, with notable gains in productivity reported across sectors. However, high credit costs and staffing issues suppressed hiring and capital reinvestment plans among small, minority- and women-owned businesses. Energy activity continued to decline due to low price expectations. Agricultural bankers reported mild deterioration in farm borrower liquidity and gradual softening in farm loan repayment rates.

Labor Markets

Overall hiring activity rose slightly across the District, as moderate job growth among service companies was offset by mild decreases in employment at manufacturing firms. Business contacts reported wide differences in their satisfaction with recent hires across job and skill types. Most contacts reported lower levels of satisfaction and worker performance among new low-skilled hires as compared to higher-skilled workers. The number of foreign-born workers available for hire rose in the District. However, few contacts indicated that immigrant workers were a notable source of new labor supply, as barriers to hiring were difficult to overcome. Non-wage benefit costs grew at a modest pace. Most employers indicated increases in healthcare benefit costs were smaller than in recent years. However, several contacts noted that recent enhancements to non-wage benefits—such as, subsidized childcare, higher contributions to retirement plans, and expanded coverage for healthcare—were “sticky” labor expenses, not likely to be reduced. As labor market tightness continued to ease, business contacts reported little willingness to provide mid-year wage increases for employees. Still, wages continued to rise at a moderate pace.

Prices

Manufacturing businesses reported the price of finished goods grew at a modest pace over the last month. However, contacts reported that price pass-through remains a challenge as the price of raw materials continued to grow at a robust pace. Both manufacturing and services contacts indicated they expect moderate price pressures over the next six months. Several business contacts reported a significant increase in their operating expenses, highlighting notable growth in business insurance costs. Contacts anticipate greater difficulty passing along those operating costs to customers, thus further compressing profit margins.

Consumer Spending

Consumer spending increased modestly, but reports were mixed across categories of spending. Retail spending softened slightly, but spending on non-discretionary essential items was reportedly strong. Restaurants indicated spending increased notably from previous declines, but hotel bookings and recreation spending was mostly unchanged. Auto dealers reported a moderate increase in sales following a prolonged period of declines over the past year. Businesses expected slight declines in revenue growth over the next six months due to ongoing price sensitivity among consumers.

Community Conditions

High credit costs and staffing issues suppressed hiring and capital investment plans among small, minority- and women-owned businesses. Despite some broader easing of labor market tightness, the limited availability of workers led to heightened business uncertainty and reduced operating hours among smaller businesses. One contact reported it was not unusual for them to hear of small businesses hiring five people, having three show up on the first day, and only one remaining by the end of the week. There were also reports of increasing small-business owner burnout from trying to make up for staffing and revenue shortages. While many contacts reported businesses have had success in obtaining grants, the help has often been temporary with those businesses either coming back for more assistance or closing after the funding ran out.

Manufacturing and Other Business Activity

Business activity expanded slightly over the last month, with manufacturing contacts reporting a modest contraction, offset by slight expansion reported among service contacts. Businesses across most sectors reported notable gains in productivity in recent quarters, driven by several factors: lower worker turnover, greater utilization of technology, and enhanced worker training efforts. Most manufacturing contacts indicated a continued, or growing, interest in investing in labor-saving or productivity-enhancing technologies. Specifically, manufacturing firms expressed an elevated interest in automating costly labor-intensive skills like welding and metal fabrication. In services, consumer-oriented businesses expressed limited ability to invest in labor-saving technologies. In contrast, contacts in professional business services sectors highlighted the use of artificial intelligence (AI) as a strategy for improving business productivity. Specifically, contacts in the marketing industry reported notable productivity gains for rudimentary time-intensive tasks and technology contacts report AI is replacing entire teams of software engineers, resulting in lower costs and greater profitability.

Real Estate and Construction

In residential real estate, the inventory of single-family homes for sale was significantly higher in most District states. Ongoing construction of multi-family housing also moderately increased the availability of housing. However, contacts indicated development activity for new multi-family housing remains at a multi-year low due to subdued expectations for rent growth that challenge the profitability of new construction. Though growth in housing prices slowed, reports of robust growth in property insurance premiums were widespread. Many contacts noted a modest increase in demand for home equity lines of credit (HELOC) as a means to cash-out equity in order to pay off auto debt, credit card debt, and other non-bank loans.

Community and Regional Banking

Loan demand at District banks was unchanged from the previous month. While high interest rates muted demand for commercial deals in recent months, residential mortgage demand increased slightly as prospective borrowers have become more accustomed to the prospect of higher interest rates compared to past years. Demand for mortgages was further buoyed by slight declines in mortgage rates in recent months. Credit standards were unchanged across loan types. More contacts expected credit quality to remain stable over the coming six months, but concerns about the performance of maturing commercial real estate deals remained. Bankers reported moderately stronger deposit levels and noted that deposit rates stabilized.

Energy

Tenth District energy activity continued to decline slightly. The number of active rigs in the District fell only modestly, but firms do not expect a rebound in drilling activity as near-term price expectations are lower than the price needed for a substantial drilling increase. Revenues, profits, and capital expenditures continued to fall as drilling for oil remains profitable for the average District firm, but drilling for gas is still unprofitable. Despite the subdued outlook for production, firms continued to increase employment to make up for past shortfalls in headcount and expect the number of jobs and employee hours to increase somewhat in the next six months.

Agriculture

Agricultural economic conditions in the Tenth District continued to moderate through the end of March. Agricultural bankers reported a mild deterioration in farm borrower liquidity and a gradual softening in farm loan repayment rates. Crop prices were subdued, and some contacts reported slightly higher instances of carryover debt than a year ago. Cattle prices remained strong, however, and provided ongoing support to the sector. Elevated production expenses and high financing costs remained ongoing concerns for all types of operations. Drought was also cited as an issue in some areas of the region. Farm real estate values increased at a slower pace compared to recent months, but valuations were strong despite the moderation in the farm economy.

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

Federal Reserve Bank of Dallas

Summary of Economic Activity

The Eleventh District economy expanded modestly. While activity in services and housing grew, manufacturing output, retail sales, and loan demand declined slightly. Employment growth slowed as wages, input costs, and selling prices grew at a moderate pace. Demand for nonprofit services remained elevated. Overall, Texas firms noted an uptick in uncertainty, particularly among manufacturing firms. Weakening demand and domestic political uncertainty were top outlook concerns.

Labor Markets

Employment growth slowed over the past six weeks Labor availability improved and contacts noted higher retention rates. A few contacts continued to cite difficulty hiring, particularly for positions such as truck drivers and engineers. Staffing firms mentioned that despite a slow-down in hiring, there is an increased preference for permanent employees over temporary or contract workers.

Wage growth was moderate over the past six weeks. Staffing firms noted continued declines in wage pressure, while a technology firm stated that wage increases were now in line with historical averages. A manufacturer mentioned not having to increase wages at all due to plentiful job applicants and higher retention. A Dallas Fed survey of about 350 Texas business executives in March showed that wage growth was 4.9 percent over the past 12 months, on average, and is expected to slow to 3.6 percent over the next 12 months.

Prices

Prices rose moderately over the past six weeks. Growth in prices for manufactured goods resumed and raw materials price growth ticked up. Meanwhile, price growth in the service sector held steady at a moderate pace. Auto dealers reported that while increased car inventories placed downward pressure on vehicle prices, they increased inventory costs. Airlines noted input prices rose due to elevated labor costs, fuel prices, and maintenance. Retail motor fuel prices were slightly higher as refineries on the Gulf Coast were coming online again after both unplanned and annual maintenance outages. Manufacturers expect selling price growth to pick up over the next 12 months but remain moderate, while service sector executives expect price growth to moderate further.

Manufacturing

Overall manufacturing activity declined slightly over the past six weeks. The decline was overwhelmingly due to weakness in durables good production, particularly metals, machinery, and computer and electronics manufacturing. Nondurable goods production increased moderately, driven by food and chemical manufacturing. Chemical plant utilization ticked up, and contacts noted rising new orders, better pricing and margins, and a return of capacity after unplanned winter outages and early spring maintenance. Weakening demand, domestic political uncertainty, and elevated input costs were the top three outlook concerns for the manufacturing sector.

Retail Sales

Retail sales declined modestly over the past six weeks. Auto dealers noted higher sales volume but declining margins and increasing inventory. Some contacts including a health store retailer and a nondurable goods wholesaler reported consumers pulling-back in purchases because of higher prices. Meanwhile, another nondurable wholesaler commented that consumers are returning, and sales picked up because consumers have baked-in higher prices into their budgets. Retail outlooks remained pessimistic, weighed down by weakening demand and elevated input costs.

Nonfinancial Services

Service sector activity continued to rise modestly in the reporting period. Revenue growth was led by professional and business services and leisure and hospitality. Airline travel in the District remained strong with continued robust demand for leisure travel and growing demand for business travel. Transportation and warehousing activity declined overall; however, activity at Gulf Coast ports was up, particularly driven by resin exports. Health care reported weakening activity while staffing firms noted an unexpected slowdown in demand, but expect a pick-up in the second quarter, particularly for white-collar jobs. Weakening demand, domestic political uncertainty, and higher labor costs are the top three outlook concerns for the service sector.

Construction and Real Estate

Home sales rose during the reporting period. Some contacts noted that sales so far this year were ahead of plan. Builders’ margins strengthened and backlogs increased. Outlooks were positive, though affordability remained a key concern.

Commercial real estate market conditions were little changed from the previous reporting period. Apartment leasing was moderate, but there continued to be downward pressure on occupancy and rents, and concessions were becoming more widespread. In the office market, leasing activity stayed sluggish, and vacancy was high. Industrial demand was solid, though vacancy continued to rise due to an elevated level of supply. Outlooks were mixed, with some commercial market segments expected to remain challenging either due to weak demand or the sizeable amount of new construction slated for delivery in the near term.

Financial Services

Loan volumes declined after having largely stabilized over the past three months. Credit standards continued to tighten, and loan pricing continued to rise. While the pace of credit tightening picked-up for commercial and industrial loans and commercial mortgages, it slowed for residential mortgages and consumer loans. Overall loan nonperformance rose slightly, with commercial real estate experiencing a significant increase in past-due loans. Bankers' outlooks remained mixed: they expect an increase in loan demand six months from now but a deterioration in loan performance and overall business activity.

Energy

Oilfield activity was flat over the reporting period. Contacts expect oil prices to orbit $80 per barrel for the remainder of the year, well above breakeven levels, and oil production growth to slow. Meanwhile, natural gas pricing is expected to remain "below cost" barring any severe weather-driven demand. As a result, contacts noted reduced activity and decreased capital investment in natural gas.

Agriculture

Drought conditions remained prevalent in West Texas and southern New Mexico, while the rest of the District received ample rainfall over the reporting period. Texas experienced the largest wildfire in state history, burning over a million acres in the Texas Panhandle in late February and early March. Several thousand cattle were lost, and the fire destroyed infrastructure and pastures used for grazing. An illness recently identified as avian influenza has been afflicting chickens and dairy cows in the Texas Panhandle, leading to lower milk production. The extent of the impact to dairy product supply, if any, is unknown at this point, but contacts noted that there is not a food safety issue. More cotton acres are expected this year as prices are relatively strong compared with corn and sorghum prices, which are at three-year lows. Contacts were optimistic about crop production prospects this year. On the livestock side, cattle prices pushed to record highs and beef demand has held up well.

Community Perspectives

Nonprofits reported sustained high demand for services as more individuals discover the resources they offer. While demand for food pantry services was stable at an elevated level, there was an increased demand for assistance with health insurance and basic clothing. Cost-of-living was an ongoing concern, and more people were looking for second jobs to make ends meet. The tax season provided low-income families with a temporary income boost with many planning to spend tax refunds on used cars, household appliances, and cell phones.

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

Federal Reserve Bank of San Francisco

Summary of Economic Activity

Economic activity in the Twelfth District continued to grow at a slight pace during the mid-February through March reporting period. Employment levels were little changed, and labor was more available. Wages and prices continued to rise at a slight pace on net. Retail sales were largely unchanged, while activity in the services sectors grew modestly. Demand for manufactured products remained flat on balance, and conditions in the agriculture and resource-related sectors were mixed. Both residential and commercial real estate activity weakened slightly. Activity in the financial services sector remained largely unchanged. Communities across the Twelfth District continued to report housing affordability issues and elevated demand for support services. Looking ahead, contacts expect slightly weaker economic conditions overall.

Labor Markets

Employment continued to rise at a slight pace this reporting period. Employers across the District generally reported holding their head counts steady or increasing it marginally, although some technology, financial industry, and real estate firms reduced the size of their workforce through layoffs and attrition. Some of the layoffs, particularly in the mortgage lending sector, were the result of bank mergers and acquisitions. Hiring was strong in agriculture and for some nonprofit community services but remained muted in the entertainment sector due to lower production volumes. The aviation and hospitality sectors increased their hiring pace because of higher staff turnover. Some firms reported that it was generally easier to fill open positions due to a larger pool of qualified candidates, while others still found it difficult to attract workers for on-site positions, particularly those located in high-cost areas. Many contacts highlighted deploying generative artificial intelligence (GenAI) tools to augment rather than replace workers. Nonetheless, a contact in the Pacific Northwest noted that several technology firms began using GenAI tools to replace some staff working in mid-level positions.

Wages continued to rise at a slight pace, as labor availability continued to improve. Annual pay increases moved closer to historical averages and in line with moderating inflation. Some contacts reported employees' willingness to take a pay cut in exchange for work flexibility and remote work. Wage pressures persisted in agriculture, as larger crop yields expanded the demand for workers.

Prices

Prices increased slightly on net for most products and services over the reporting period. Price levels were stable in retail, higher education, and health services and reportedly fell in the agriculture and lodging sectors. Input costs were generally stable, although some reports indicated higher costs for utilities, energy products, electrical supplies, lumber, and insurance. In some instances, the higher costs were passed through to prices, but some firms in food and beverages and consulting services observed resistance to price hikes from their increasingly price-sensitive consumers.

Community Conditions

Demand for community support and services remained high amid limited funding and strained resources. Households and community members sought assistance as they faced challenges with the cost of housing, utilities, food, and health services. Some contacts reported that government funding partially compensated for a decline in financial support from private-sector grants and individual donors. In some cases, public-sector funding was restricted to address specific issues, such as housing security, which limited their ability to address multiple issues facing community members. Small businesses across the District continued to face high borrowing costs, which limited access to funding and loans.

Retail Trade and Services

Consumer spending on retail goods remained largely unchanged. Demand for durable goods was strong, and sales at home improvement stores picked up. However, reports from across the District indicated that consumers have become more price sensitive in recent weeks, particularly for groceries and fresh produce, as they favored discounted products and focused on necessities. The prevalence of hybrid work arrangements continued to limit retail sales in downtown urban areas.

Activity in the consumer and business services sectors continued to grow modestly in recent weeks. Several contacts highlighted that demand for leisure and hospitality services improved in March following weak activity earlier this year. Business travel was up moderately as more conventions and conferences showed preference for in-person attendance. Restaurant activity was mixed during the reporting period as more consumers exhibited price-sensitive behavior. Demand for janitorial and security services remained robust, while demand for consulting services was muted.

Manufacturing

Manufacturing activity remained flat in recent weeks, on balance. Contacts generally pointed at slightly lower demand for manufacturing products, although capital equipment and heavy machinery demand improved with a stronger orders pipeline. Several manufacturers highlighted ongoing investments in productivity-enhancing technologies, with a focus on GenAI tools. Inventory levels were generally lean and close to historical levels. Nevertheless, an automation equipment manufacturer noted that they have been holding a large order of custom-built industrial robots for a customer that put all automation projects on hold due to elevated costs and inflationary pressures experienced over the past few years.

Agriculture and Resource-Related Industries

Conditions in the agriculture and resource-related sectors were mixed, similar to the previous reporting period. Logging activity rose slightly on account of stronger domestic demand and more limited supply from international producers of lumber and plywood. Seafood stocks and yield crops, such as those of nuts and apples, remained high and exceeded domestic demand, leading producers to export excess supply. Retail and food service demand for agricultural products was flat to down. Transportation and packaging costs were stable to down, and growers noted that recent rainfall, while providing much-needed water for crops, caused flooding and damage. One contact in the Pacific Northwest noted that more growers have utilized temporary foreign worker programs to address domestic labor shortages in hiring for this year's harvest season.

Real Estate and Construction

Conditions in the residential real estate market softened a bit relative to the prior reporting period. Demand for single-family homes was subdued amid elevated mortgage rates and limited inventory. Demand for multifamily housing softened in recent weeks while supply grew further as more construction projects were completed. As a result, vacancies rose, rents fell, and landlords offered more concessions to renters. Single-family construction activity was slow as construction costs rose somewhat. However, in Hawaii, rebuilding efforts and government-supported projects bolstered construction activity. Materials and components were largely available, though delays persisted for electrical equipment.

Conditions in the commercial real estate market weakened slightly overall. Office leasing activity was weak, in part due to the elevated costs of renovating old spaces to meet prospective tenants' needs. Demand for industrial space eased somewhat but still remained above pre-pandemic levels. Transaction volumes of commercial property sales fell somewhat. Commercial construction was stable overall, though a contact in California observed some slowing due to high financing costs. A contact in the food services sector reported a shift away from construction of new food service establishments towards renovations of existing properties.

Financial Institutions

Activity in the financial services sector remained largely unchanged. Loan demand was weak across business and consumer categories, with the exception of credit cards. Deposit growth was muted during the reporting period, and competition for deposits was strong. Credit and asset quality were reportedly high, although delinquencies for credit cards and auto loans continued to tick up.

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