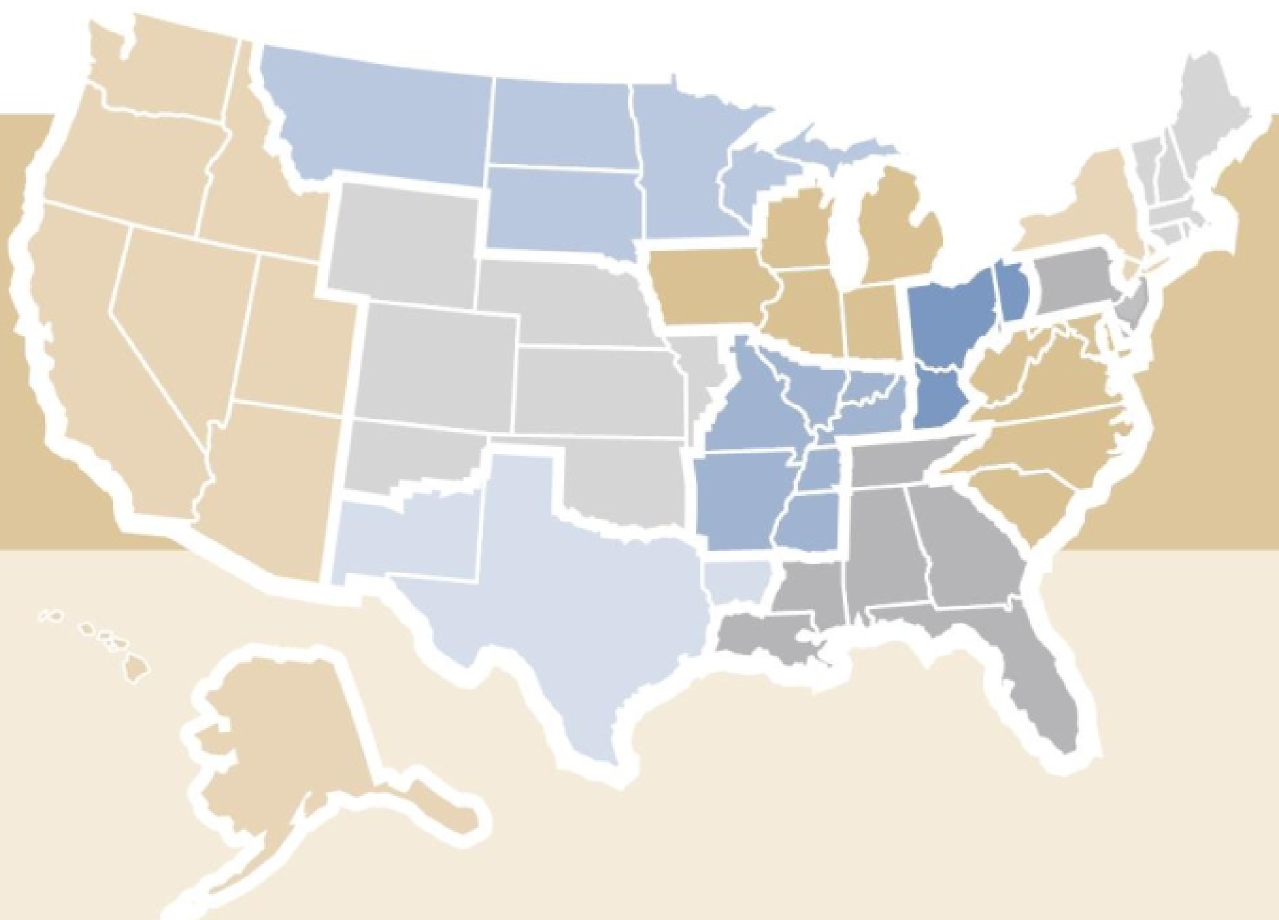
The Beige Book

Summary of Commentary on Current Economic Conditions by Federal Reserve District

January 2024



FEDERAL RESERVE SYSTEM

Contents

About This Publication

What is the Beige Book?

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

What is the purpose of the Beige Book?

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

How is the information collected?

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

How is the information used?

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

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

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

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

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

National Summary

Overall Economic Activity

A majority of the twelve Federal Reserve Districts reported little or no change in economic activity since the prior Beige Book period. Of the four Districts that differed, three reported modest growth and one reported a moderate decline. Consumers delivered some seasonal relief over the holidays by meeting expectations in most Districts and by exceeding expectations in three Districts, including in New York, which noted strong holiday spending on apparel, toys, and sporting goods. In addition, seasonal demand lifted airfreight volume from ecommerce in Richmond and credit card lending in Philadelphia. Several Districts noted increased leisure travel, and a tourism contact described New York City as bustling. Contacts from nearly all Districts reported decreases in manufacturing activity. Districts continued to note that high interest rates were limiting auto sales and real estate deals; however, the prospect of falling interest rates was cited by numerous contacts in various sectors as a source of optimism. In contrast, concerns about the office market, weakening overall demand, and the 2024 political cycle were often cited as sources of economic uncertainty. Overall, most Districts indicated that expectations of their firms for future growth were positive, had improved, or both.

Labor Markets

Seven Districts described little or no net change in overall employment levels, while the pace of job growth was described as modest to moderate in four Districts. Two Districts continued to note a tight labor market, and several described hiring challenges for firms seeking specialty skills, such as auto mechanics or experienced engineers in the Boston and San Francisco Districts, respectively. However, nearly all Districts cited one or more signs of a cooling labor market, such as larger applicant pools, lower turnover rates, more selective hiring by firms, and easing wage pressures. The pace of wage growth was characterized as moderate in Boston, Richmond, Chicago, and Dallas; as modest in New York and Philadelphia; and as slight in St. Louis. Firms from many Districts expected wage pressures to ease and wage growth to fall further over the next year.

Note: This report was prepared at the Federal Reserve Bank of Philadelphia based on information collected on or before January 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

Six Districts noted that their contacts had reported slight or modest price increases, and two noted moderate increases. Five Districts also noted that overall price increases had subsided to some degree from the prior period, while three others indicated no significant shift in price pressures. Firms in most Districts cited examples of steady or falling input prices, especially in the manufacturing and construction sectors, and more discounting by auto dealers. Districts also noted that increased consumer price sensitivity had forced retailers to narrow their profit margins and to push back in turn on their suppliers' efforts to raise prices. Premium increases for property and casualty insurance and for health insurance continue to impact most firms. Three Districts noted that their firms were expecting price increases to ease further over the next year, while four Districts' firms anticipated little change.

Highlights by Federal Reserve District

Boston

Economic activity was down slightly. Employment was stable, and wage growth was moderate. Manufacturers reported mostly weaker sales but remained cautiously optimistic for 2024. The Boston area experienced strong growth in tourism and convention activity. Home sales stayed in the doldrums, but contacts expressed optimism that the market would rebound in 2024 pending a decline in home mortgage rates.

New York

Regional economic activity declined slightly. Labor market conditions remained solid but continued to cool as the demand for labor softened. Led by a strong holiday season, consumer spending increased moderately. Manufacturing activity contracted sharply. Prices rose modestly. Businesses and households across the District expressed concern about the high cost and reduced availability of credit.

Philadelphia

Business activity held steady during the current Beige Book period—after falling for most of 2023. Employment grew slightly, and labor availability improved. Wage and price inflation subsided further, with prices rising at a slight pace as consumers pushed back more on higher prices, especially among lower-income households. Sentiment improved, but firms remained cautious and expectations for economic growth remained subdued.

Cleveland

District business activity edged up. Employment stabilized, and wage increases returned to more typical levels. Cost and price pressures changed little after easing through much of 2023, though upward price pressure persisted in certain industries. Retailers reported strong sales for discounted items, and consumers became more reliant on “buy now, pay later” payment options.

Richmond

The regional economy grew mildly in recent weeks as consumer spending was flat to increasing modestly. Nonfinancial services demand and commercial real estate activity was little changed. Meanwhile, trade and trucking volumes were down modestly and residential housing sales and mortgage lending softened. Employment and wages rose moderately and inflation moderated but remained elevated.

Atlanta

Economic activity grew at a slow pace. Labor markets cooled further, and wage pressures eased. Some nonlabor input costs moderated. Retail sales were mixed. Travel activity remained strong, but spending at hotels declined. Home sales slowed, on balance. Banking conditions were mixed. Transportation activity was sluggish. Energy demand was robust.

Chicago

Economic activity in the Seventh District was up modestly. Employment increased moderately; nonbusiness contacts saw a modest increase in activity; consumer spending was up slightly; construction and real estate and business spending were flat; and manufacturing decreased modestly. Prices and wages rose moderately, while financial conditions loosened modestly. Net farm incomes were above average in 2023.

St. Louis

Economic activity has remained unchanged since our previous report. Labor markets eased, and the rate of price increases for many firms has slowed over the past few months. Travel and hospitality firms reported strong leisure travel growth during the holiday season and an optimistic outlook for the upcoming year. Rental prices were flat and residential inventory rose slightly.

Minneapolis

District economic activity was down slightly. Hiring was positive but job postings declined. Wage pressures continued to moderate, approaching pre-pandemic conditions. Price increases were mild, with most firms reporting no change in input or final prices. Holiday sales and traffic were generally strong, but construction and manufacturing activity decreased.

Kansas City

Economic activity in the Tenth District declined moderately. Consumer spending fell, even at low-cost quick-serve restaurants. Demand for seasonal employment was low, with few workers converting to full-time. Commercial real estate transactions were suppressed, while CRE loan modification activity was inhibited by lenders' concerns about credit performance and borrower liquidity.

Dallas

Economic activity expanded at a modest pace over the reporting period, with most sectors holding steady or experiencing slight growth. Wage growth moderated and input cost and selling price growth held slightly above average overall. Business outlooks were neutral to pessimistic, with contacts citing weakening demand as the primary concern going forward.

San Francisco

Economic activity was stable overall. Labor availability improved, and wage and price pressures eased. Retail sales grew modestly, and demand for services was mixed. Demand for manufactured products weakened, while conditions in agriculture were solid. Real estate activity varied by property type. Financial sector conditions changed little.

Federal Reserve Bank of Boston

Summary of Economic Activity

Economic activity declined slightly on average, employment was roughly flat, and prices increased at a modest pace since the last reporting period. Retail revenues increased slightly, while tourism activity grew at an above-average pace. Software and IT services firms reported stable revenues, while manufacturers experienced slightly weaker sales. Residential real estate sales held steady at very low levels, although the prospect of lower interest rates in 2024 led to increased optimism for the housing market. Commercial real estate activity weakened further modestly, and the outlook in that sector remained mostly pessimistic, despite expected declines in borrowing rates. In sectors aside from real estate, the outlook for 2024 remained cautiously optimistic.

Labor Markets

Employment was flat on average, and wage growth remained moderate. Hospitality and retail headcounts increased slightly, while employment was unchanged at software and IT firms. Manufacturing employment was also mostly stable, with the exception that a drug manufacturer carried out further large layoffs based on earlier plans. Hiring became easier on balance, and attrition rates fell to below-average levels. Nonetheless, labor scarcity persisted for auto mechanics and some highly skilled manufacturing workers. A shortage of restaurant help led one Vermont establishment to reduce its hours, but restaurant worker supply rebounded on Cape Cod. Wage growth was generally moderate, but some manufacturers and IT firms enacted above-average wage increases to compensate for price inflation. Contacts were not planning for major changes in employment moving forward, and wage pressures were expected to ease somewhat.

Prices

Prices increased at a modest pace on average. Among manufacturers, output prices increased at a slight to modest pace. In contrast, their input prices were mostly flat, except that fish commodities and shipping container costs each fell moderately, and localized flooding created a cost shock in one case. An online retailer continued to shift away from heavy promotional activity in favor of more stable pricing strategies; its average output price increased moderately, while its input prices were stable. Hotel room rates in the Greater Boston area edged up further, maintaining an above-average year-over-year growth pace, while room rates on Cape Cod were down slightly. Automobile list prices were steady, although promotional activity picked up following an increase in inventories. Software and IT services firms reported mostly stable output prices. Across sectors, contacts expected prices to hold steady or face only limited upward pressure in 2024.

Retail and Tourism

First District retail and tourism contacts on balance reported a modest seasonal upswing in sales in late 2023, although reports were quite mixed. On Cape Cod, revenues at retailers and hoteliers were described as "solid" for the fall season. Nonetheless, those revenues, net of typical seasonal fluctuations, were about flat since summer and down modestly relative to the fall of 2022. An online retailer saw modest seasonal growth despite sluggish industrywide performance. New and used automobile sales in New Hampshire were flat on balance despite improvements in inventories. Airline passenger traffic through Boston increased at an above-average pace in recent months, with the result that traffic surpassed its comparable 2019 levels for the first time since the onset of the pandemic. Hotel occupancy in greater Boston also increased at a strong pace, exceeding seasonal norms, fueled in part by robust convention activity. The outlook for tourism and convention activity for Boston in 2024 remained very bullish. In contrast, retailers around the First District were only cautiously optimistic for sales in 2024.

Manufacturing and Related Services

On average, manufacturing contacts reported slightly weaker sales. In one exception, a manufacturer of consumer goods experienced strong seasonal sales growth that was buoyed by promotions. A semiconductor manufacturer attributed weaker demand for their products to a general slowdown in consumer spending on electronics and autos, while a frozen fish producer attributed flat demand to increasing price sensitivity by consumers. Consistent with previous plans, capital spending was set to slow on balance moving forward, as a few firms recently completed significant capital projects and another cited high borrowing rates as an ongoing deterrent. Despite recent softness in sales, contacts were cautiously optimistic that demand would stabilize or improve in 2024.

IT and Software Services

First District contacts in the IT and software services industry experienced stable revenue streams in recent months. Sales increased at a robust pace on a year-over-year basis to the fourth quarter, and those positive results were attributed to offering products and services that met their clients' demands for greater operational efficiency. In response to price increases and cost reductions over the past year, profit margins increased modestly on balance in 2023. Capital and technology spending was flat for most firms but fell slightly at one that cut its reliance on hardware in favor of cloud computing services. Contacts expected demand to remain strong and stable moving into

2024, reflecting increased optimism for their own results and for the economy in general, compared with their forecasts from earlier in the year.

Commercial Real Estate

Commercial real estate activity in the First District weakened further modestly in recent months. In the already-weak office market, vacancy rates increased moderately on average, and Providence in particular saw the exit of a large downtown tenant. Office rents fell noticeably in the Boston area in recent months but were reportedly stable (if low) elsewhere. Demand for life sciences space in greater Boston dwindled further to very low levels. In the retail market, rents and vacancy rates were mostly steady at moderate levels, although lower-end malls continued to see elevated vacancies. Demand for industrial space slowed further at a modest pace, but rents and occupancy rates were described as mostly stable at healthy levels. Projections for commercial real estate activity in 2024 were mixed but remained pessimistic on balance. Some contacts predicted an increase in investment activity driven by declining interest rates. Others remained concerned that office buildings would face rising foreclosure rates even with some decline in interest rates. The industrial property market faced modest downside risks, and the outlook for Boston's life sciences properties deteriorated in response to weak recent demand.

Residential Real Estate

Contacts reported weak but mostly stable home sales in November 2023, net of seasonal patterns. However, contacts from the Boston area noted slightly weaker sales in November, adding that the median home price declined modestly in recent months as a result. Considering year-over-year changes, single-family sales fell by double-digit margins in November in all First District states except Connecticut (for which no data are available); condo sales fell by moderate-to-steep margins in all states except Maine, which posted a slight increase. Nonetheless, the rate of decline in home sales moderated on average from earlier in 2023. Median sales prices increased moderately on a year-over-year basis in all reporting states, a development attributed to persistent scarcity of supply and significant pent-up demand. Changes in home inventories were mixed, and despite modest recent increases in supply in some states, inventories remained historically low. Looking ahead, contacts expressed growing optimism for a resurgence in residential sales in 2024 given the prospect of lower mortgage rates.

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

Federal Reserve Bank of New York

Summary of Economic Activity

Economic activity in the Second District declined slightly during the latest reporting period, continuing a period of sustained weakness. Labor market conditions continued to cool but remained solid. Employment growth slowed to a slight pace, as demand for labor softened with economic uncertainty inhibiting hiring plans. Inflationary pressures were little changed, with prices rising modestly. Consumer spending increased moderately, with strong holiday spending on apparel, toys, and sporting goods. Manufacturing activity fell sharply, with notable declines in orders and shipments. Tourism activity in New York City approached normal pre-pandemic holiday levels. Housing markets were mostly unchanged since the last report, with low inventory continuing to restrain sales activity in most of the District, but residential rental markets softened. Commercial real estate markets mostly held steady. Activity in the broad finance sector declined modestly, with ongoing weakening loan demand and rising delinquencies. Businesses and households across the District expressed concern about the high cost and reduced availability of credit. The outlook improved but remained subdued.

Labor Markets

Labor market conditions continued to cool since the last report but remained solid. Employment growth slowed to a slight pace, though businesses in information services, manufacturing, transportation, and construction reported declines in employment in recent weeks. Though the availability of workers has improved, contacts noted that demand for workers softened as economic uncertainty inhibited hiring plans. Indeed, many mid-sized companies have stopped hiring, while smaller companies have become more selective in who they hire. Contacts across a variety of sectors noted that attrition remains exceptionally low.

Wages grew modestly. As conditions have continued to normalize, contacts reported that labor demand and supply have come into better balance, reducing the need for outsized wage adjustments seen through the pandemic. Still, a major payroll and human resources firm reported that bonuses were up in 2023, with more employees receiving bonuses and solid increases in average bonus percentages. Looking ahead, more firms plan on increasing headcounts in the coming months than in the previous period.

Prices

Inflationary pressures were little changed, with prices rising modestly. On balance, the pace of input price increases continued to moderate. Contacts reported that prices for some goods, such as paper, ink, and construction materials have stabilized, while the cost of freight and insurance continued to rise. The pace of selling price increases rose slightly in the service sector but continued to moderate slightly for manufactured goods. However, construction firm contacts pointed to declining selling prices. Contacts do not anticipate significant shifts in the pace of selling price increases in the coming months.

Consumer Spending

Led by strong holiday sales, consumer spending was up moderately during the reporting period. Spending on apparel, toys, and sporting goods was particularly strong, while spending at restaurants and bars declined somewhat. Despite the higher cost of credit, auto dealers in upstate New York reported solid sales activity for both new and used cars at the end of 2023. With inventory continuing to improve, more buyers are able to find their vehicles of choice and ongoing declines in used car prices continued to boost sales in that segment of the market.

Manufacturing and Distribution

Manufacturing activity fell sharply, with orders and shipments declining. Transportation and distribution firms also reported declining activity. Supply availability continued to improve, with several contacts reporting that supply chains have returned to pre-pandemic norms. Moreover, an upstate auto industry contact reported that the shortage of microprocessors that stalled auto production for much of the pandemic period has largely been resolved. Still, slow delivery times remained a challenge for some industries. One local business contact reported a four-year lead time for specialty equipment delivery. Inventories increased slightly, while unfilled orders declined. Looking ahead, while manufacturers expect business conditions to improve modestly, optimism remained subdued.

Services

On balance, service sector activity declined slightly in the latest reporting period. While businesses providing education and health services reported a modest increase in activity, business services firms indicated activity declined somewhat, and personal services businesses pointed to a sharp contraction. Service firms generally expect conditions to improve somewhat in the months ahead.

A New York City tourism contact reported that the city was bustling over the holiday season, with visitor levels at normal pre-pandemic levels, busy pedestrian corridors, and long queues for entry at museums. Hotel bookings were significantly higher this year compared to the same time last year, with hotel occupancy rates notably higher than other top U.S. tourism markets. However, some inventory of hotel rooms has been set aside for emergency housing for asylum seekers, reducing the stock of available rooms. Despite economic and geopolitical concerns, contacts are optimistic about a return to normal tourism levels in 2024.

Real Estate and Construction

Housing markets were mostly unchanged since the last report, with low inventory continuing to restrain sales activity in much of the District. Demand remained solid, with buyers who have been waiting on the sidelines for a drop in mortgage rates returning to the market. Inventory remained exceptionally low in the New York City suburbs, while inventory increased slightly in upstate New York. In general, contacts reported that home prices have continued to trend up. New York City was the exception, where prices have leveled off as supply has normalized.

Notably, residential rental markets softened after a sustained period of strength. Rents fell across the District, but particularly in New York City, where new lease activity continued to decline and rents dropped below last year's level. A contact in upstate New York noted that some investors who purchased and converted homes for rental income have started to sell their properties, reducing options for renters but increasing the supply of homes for sale.

Commercial real estate markets were unchanged for most markets. New York City office vacancy rates were steady near historic highs and rents declined slightly. Upstate New York office markets saw continued increases in vacancy rates, but rents were unchanged. In the industrial market, small improvements were seen in downstate New York while conditions in upstate New York deteriorated.

Construction contacts reported that activity declined modestly since the last report. Office construction dropped, but industrial construction grew with high volumes under construction and significant deliveries set for 2024 in downstate New York and northern New Jersey.

Banking and Finance

Activity in the broad finance sector declined modestly during the latest reporting period. Contacts from a variety of sectors expressed concerns about the high cost and reduced availability of credit. Small to medium-sized banks in the region reported declining loan demand across all loan segments, including refinancing. While banking contacts reported that credit standards were unchanged for consumer loans and residential mortgages, standards continued to tighten for business loans and commercial mortgages. On balance, deposit rates were higher, loan spreads narrowed, and delinquency rates continued to rise.

Community Perspectives

Households in the District have experienced greater difficulty meeting financial obligations. Though credit has become harder to get, many families have accumulated high debt burdens. To help ease these burdens and protect households, state and city governments have responded with new policies. Notably, New York State has enacted legislation prohibiting medical providers from reporting medical debt to credit bureaus, preventing the cascading effects of adverse credit reporting on household finances. Other policies have distributed funds directly to individuals, including one providing funds to cover back rent to residents of public housing managed by the New York City Housing Authority.

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

Federal Reserve Bank of Philadelphia

Summary of Economic Activity

On balance, business activity in the Third District held steady during the holiday season after declining steadily for most of 2023. Employment grew slightly overall, although manufacturers reported fewer workers and shorter hours. Wage and price inflation appeared to subside further—to a still-modest pace for wages, but to a slight pace for prices. Contacts noted increased consumer resistance to higher prices. Consumer spending held steady across most segments, although contacts noted an increasing divergence as low-income households spent less yet paid more on credit, while affluent households continued to spend freely. Ongoing concerns centered mainly on global issues and the 2024 election, while sentiment improved with the prospect of falling interest rates. On balance, expectations for economic growth over the next six months remained mostly positive but were below historical averages.

Labor Markets

Employment slowed to a slight pace of growth—following a modest pace in the prior period. In our monthly surveys, nonmanufacturing firms reported modest increases in full-time jobs but no change in part-time employment nor in the average employee workweek. Having fulfilled most of their backlogs, manufacturing firms reported a slight decrease in employment and a modest decline in the average employee workweek.

Several contacts noted increased layoffs of midcareer professionals from finance, tech, and highly leveraged firms in other sectors but observed that most secured new jobs within months. Several contacts, including staffing firms, noted that businesses were becoming more selective when hiring. One staffing firm observed that many businesses overhired during the pandemic, then held steady in 2023—they expect job levels to increase slowly as companies begin to hire again.

One firm that had raised wages competitively in recent years noted good talent among its staff and a lower turnover rate than in 2019. In 2024 it will add nonwage benefits, including mental health coverage and an employee stock ownership plan. Nonprofits reported that significant wage increases in 2022 had steadied hiring and retention rates—now wage pressures have lessened, and hiring is easier.

Overall, wage inflation appeared to continue subsiding but remained at a modest pace. Among nonmanufacturers, the distribution of firms reporting higher (39 percent) and lower (4 percent) wage and benefit costs per employee was typical of the mid-2010s, when modest wage growth prevailed. Most reported no change.

Prices

On balance, price increases appeared to subside to a slight pace of growth after modest growth last period. Our monthly prices paid and prices received indexes declined for nonmanufacturers. Moreover, the prices paid index neared its nonrecession average, and the prices received index fell below average for the fifth time in the past seven months. Several small businesses observed that customers' resistance to higher prices increased further. For some firms, profit margins narrowed as food commodity costs remained volatile.

Most manufacturing firms noted that their input costs steadied; some fell. The manufacturers' prices paid index rebounded to its average, while the prices received index remained near its average for a fifth consecutive month; over two-thirds of the firms indicated no change.

Moreover, manufacturers' price expectations have fallen. The future prices received index fell to near its long-run average; the future prices paid index fell to half its average. Both indexes were positive, with over 35 percent of the firms expecting increases in the next six months.

Manufacturing

Overall, manufacturing activity declined moderately during the period following a slight decline in the prior period. The index for new orders fell sharply, and the shipments index declined for a second month.

Expectations among manufacturers for growth in the next six months strengthened but remained below historical averages. More than 40 percent of the firms expected increases in new orders and in shipments.

Consumer Spending

On balance, retailers (nonauto) reported little change in real sales through the holiday period—an improvement from the prior period's modest decline. However, online sales appear to have been stronger than in Third District brick-and-mortar retailers. Contacts noted continued pullback in spending from lower-income consumers.

Auto dealers reported steady sales of new cars following a slight decline in the prior period. Contacts noted that dealers maintained sound profitability but that margins have begun to erode because supply constraints have eased and inventories have risen. One contact reported that dealers were lowering margins to move product off their lots. Another observed that the higher overall price of new cars—especially given the rising mix of electric vehicles—is further bifurcating the new and used car market, with lower-income households unable to afford new cars.

Tourism continued to edge down from still strong levels. Contacts reported slower bookings and less spending by tourists, so some hotels have started to lower rates. However, contacts further observed that as hotel rates are cut, spending at local restaurants and stores has risen. Several contacts noted that warm weather and excessive rain diminished the early ski season.

Nonfinancial Services

On balance, nonmanufacturing activity appeared to grow slightly—for the first time since our February 2023 report. The index for new orders was close to zero, while the sales/revenues index increased to a modest pace. One large firm reported robust growth in the entertainment/destination sector.

Moreover, firms signaled more positive sentiment. The index of general activity for the region returned to positive territory just as the index of general activity at the firm level did in the prior month. Nevertheless, expectations among nonmanufacturers for growth in the next six months remained about the same—well below historical averages.

Financial Services

The volume of bank lending (excluding credit cards) grew moderately during the period (not seasonally adjusted)—faster than the slight pace observed last period but similar to the same period last year.

During the period, District banks reported moderate growth in home mortgages, auto loans, and other consumer loans. The volume of commercial real estate loans, home equity lines, and commercial and industrial loans grew modestly. Credit card volumes surged following no growth during the prior period—typical for the year-end holiday season.

Banking contacts continued to note generally sound credit quality even as delinquency rates ticked up from very low levels. Banks and business clients agreed that access to credit had tightened. Some small businesses reported higher usage of credit cards by customers, and that their customers noted a greater need to rely on credit cards.

Real Estate and Construction

Brokers reported that existing-home sales remained mired at historically low levels through November. Contacts are waiting until after the seasonal lull to see if consumers respond to lower mortgage rates, but overall sentiment improved. Meanwhile, the inventory of for-sale properties remained low, and prices remained high.

One new-home builder reported increased traffic during the holidays, another noted an uptick in contract signings in December, and all expressed increased optimism that 2024 would be a stronger construction year, with more closings and more new signed contracts.

In nonresidential markets, leasing activity and transaction volumes continued to decline slightly—more so in the office market in which existing tenants continued to downsize their space and upgrade their quality as their leases expired.

In contrast, current construction activity held steady, although many contacts expect that the project pipeline will shrink before the end of 2024. New projects are slowly emerging in heavy industry and infrastructure.

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

Federal Reserve Bank of Cleveland

Summary of Economic Activity

On balance, reports from contacts suggested that business activity in the Fourth District had increased slightly in recent weeks. Contacts generally expected business activity to increase slightly in the months ahead. Consumer spending increased slightly. General merchandisers said sales were strong for discounted items, and customers increased usage of “buy now, pay later” payment options. Manufacturers reported a recent increase in demand, and backlogs for 2024 were solid. Residential construction and real estate contacts said that activity was soft, while non-residential construction activity had reportedly rebounded since the prior period. On balance, staffing levels were stable, and many firms returned to offering “more typical” annual wage increases. After easing throughout 2023, nonlabor cost and price pressures changed little in recent weeks; however, there was some indication of upward price pressure in certain industries.

Labor Markets

On balance, contacts reported that employment was flat to slightly down during the recent reporting period. Many firms across industries said they were maintaining headcount or hiring only to replace departing workers or underperforming staff. Some firms reduced staff to “right size” in the face of lower demand, while others restructured by replacing select roles with automation or rotating staff among multiple locations. Contacts generally expected little change in employment in the coming months.

Wage pressures were largely unchanged in recent weeks and many firms returned to offering more typical annual increases than in the past few years. For example, one manufacturer said employees would receive an average three percent adjustment this year compared to four percent to six percent increases in the previous year. Some retail firms opted not to increase wages but offered year-end bonuses or increased paid time off. While broad wage pressures eased over the past year, they remained elevated for select workers with specialized skills such as lawyers, accountants, and auto repair technicians.

Prices

Nonlabor cost pressures were relatively unchanged in recent weeks after easing through much of 2023. Some restauranteurs reported that food costs had flattened out, and many manufacturing and construction contacts suggested that input costs were "leveling off." One construction contact noted that "Final pricing for several projects came in about 10 percent less than budget." However, several manufacturers said that a recent uptick in steel prices was likely to raise costs for some inputs as contracts renew at the start of the year. Still, many firms across industries reported continued cost increases for health and property and casualty insurance.

Price pressures changed little from those of the prior period after easing through the second half of 2023; however, there were some signs of upward price pressures in certain industries. Many retailers reported holding prices steady. Several auto dealers noted offering "significant discounts" after a long period of not doing so when inventories were severely constrained. Most manufacturers reported no change to their selling prices, though some were increasing prices to cover higher costs. Some business services firms said they will be raising rates in 2024 after a period of holding back, with one saying, "[We] held rates at 2019 levels through 2023."

Consumer Spending

Consumer spending increased slightly following a decrease during the prior reporting period. Multiple general merchandisers and one apparel retailer cited strong sales centered on discounted items, while restauranteurs and food retailers reported mostly steady sales through the holiday season. By contrast, auto dealers continued to report slow sales because of high interest rates and high vehicle prices. One large general merchandiser said that lower-income households had become more reliant on credit cards and "buy now, pay later" payment options in recent months and was skeptical that these customers could sustain their current level of spending once seasonal promotions ended. On balance, contacts expected consumer spending to soften somewhat in the coming months.

Manufacturing

Demand for manufactured goods increased from that of the prior reporting period, supported by the end of the UAW strike and ongoing federally funded projects. Contacts generally reported healthy order backlogs, and one manufacturer of machined parts said that their firm's 2024 backlog had increased by 30 percent since early November, leading to the highest single-year backlog in the firm's history. Reports from steel manufacturers were mostly positive, and one primary steel producer outlined growing confidence about general economic conditions among their firm's customers. On balance, manufacturers expected demand and orders to increase modestly in the near term.

Real Estate and Construction

Residential construction and real estate contacts reported that activity remained soft in recent weeks. However, one homebuilder reported an increase in inquiries as mortgage rates declined. Existing-home inventories remained low and below prepandemic levels, a circumstance which continued to constrain sales. Looking ahead, contacts anticipated activity would increase because they expected mortgage rates to fall further. One real estate agent expected "buyers who left the market [when rates peaked] to reenter the market."

Nonresidential construction rebounded in recent weeks. One commercial builder noted that declining interest rates and greater optimism about the economic outlook had boosted demand. Moreover, multiple general contractors reported that customers had elected to move forward with previously delayed projects. Commercial real estate and construction contacts expected demand to remain mostly stable in the near term.

Financial Services

Reports from bankers were mixed but were generally less downbeat than during recent reporting periods. While most lenders reported that consumer and commercial loan demand declined in recent weeks because of still-high interest rates, a few noted that loan activity had stabilized or even increased. Looking ahead, bankers anticipated that loan demand would stabilize if interest rates remained steady or declined. One banker said, "we're [not] building pipelines like we were before. Doesn't seem that strong, [but] doesn't seem that weak." Core deposits were flat, and a few bankers noted that clients continued to move funds into interest-bearing accounts. On balance, bankers reported that delinquency rates remained low.

Nonfinancial Services

Overall, freight activity declined again in recent weeks. However, one transportation contact indicated that year-over-year comparables had recently turned positive, and multiple haulers anticipated freight activity would stabilize in the coming months. Professional and business services contacts reported steady demand as economic activity remained resilient. One contact mentioned that an expected "pullback in discretionary marketing expenses for 2024" had not yet materialized. Another added that "interest rate stability and hopes for a soft landing" bolstered demand for the firm's services. Looking ahead, professional and business services contacts expected activity to increase in the coming months.

Community Conditions

Nonprofit childcare providers reported that funding had decreased even as demand for childcare services had increased during the past six months. Pandemic-era funding, such as that from the Child Care Stabilization Grant program that ended in September 2023, had primarily been used to pay staff salaries or bonuses. With the loss of government funding, one Cleveland-area provider said, “We are forced to increase costs for private-pay families as the funds available are not sufficient to provide a living wage to our staff. It has also put a lot of pressure on us to privately fundraise to fill the gap.”

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

Federal Reserve Bank of Richmond

Summary of Economic Activity

Economic activity in the Fifth District expanded mildly in recent weeks. Consumer spending on retail goods, travel, and tourism was steady to growing modestly. Spending on other nonfinancial services was reported to have been steady. Residential housing market activity and mortgage lending continued to soften despite some increase in housing inventory. Commercial real estate was unchanged, overall. Manufacturing activity, trade volumes, and trucking volumes were slightly to modestly lower this period. Employment and wages rose moderately amid a tight supply of labor. Price growth continued to moderate but inflation remained somewhat elevated compared to historical rates.

Labor Markets

Employment in the Fifth District grew at a moderate pace in the most recent reporting period. The tight labor market led to continued wage pressure, resulting in several contacts making operational changes. A company that manages parking garages reported likely increases in prices and reductions in services due to all-time high wages. A specialized-software company's spending on salaries increased by 15 percent of total revenue, thus, significantly decreasing margins. As a result of increased wages, this firm expects to cut investment plans in 2024 since they need to continue hiring workers at higher wages to meet customer demand. Other contacts reported expanding their talent pools to find workers. For example, an engineering firm hired engineers with no work experience and spent time training them.

Prices

Price growth continued to slow slightly in recent weeks, but year-over-year inflation remained somewhat elevated. According to our most recent surveys, growth in prices received by service providers fell by about half a percentage point to 3.8 percent. Growth in prices received by manufacturers ticked up slightly but remained moderate, overall, at a rate of 2.8 percent. Looking ahead six months, both manufacturing and non-manufacturing firms expect growth in prices received to continue to moderate.

Manufacturing

Fifth District manufacturing activity slowed somewhat in the most recent reporting period. An HVAC manufacturer reported an unexpected decline in new orders, resulting in the company curtailing expense spending to protect earnings. Contacts in some industries tied to discretionary consumer spending cited declines. A wine producer reported a 30 percent drop in sales as consumer demand dried-up. A dental laboratory reported a 10 percent drop in new orders as remaining yearly funds in FSA accounts were not used for dental work. However, some contacts reported unexpected increases in demand. An automotive fabric manufacturer, whose customers historically pull back on spending in December, experienced an uptick in new orders. Lastly, a paving equipment manufacturer saw a steady increase in demand due to a resilient housing market in their area.

Ports and Transportation

Trade volumes were down at Fifth District ports this period; imports were modestly lower year-over-year as wholesalers continued to work down high inventory levels. Loaded exports, however, were up this period. Spot shipping rates to the East Coast increased as carriers were dealing with issues at both the Panama Canal and the Red Sea. Empties were lagging but turn times were normal. Dwell times were fluid and stack occupancy remained low. Demand for airfreight was up slightly this period mostly due to ecommerce for the holiday season. Air cargo rates fell below 2019 levels due to higher capacity.

Trucking firms reported that freight volumes were slightly lower this period without the usual seasonal uptick. In the truckload segment, the greatest demand for shipping were with food, medical, automotive, and retail. In the less-than-truckload segment, firms noted some weakness in the industrial segment. Freight rates declined due to overcapacity in the system. Respondents stated that drivers were more readily available but there was still some upward wage pressure. Trucking companies stated that there were no significant backlogs on orders of new equipment but occasional issues receiving certain parts. With firms exiting the trucking sector, used equipment was more readily available.

Retail, Travel, and Tourism

Retailers reported steady to slightly increasing demand and revenues in recent weeks. One small, local retailer attributed some of their increased sales volume to customers saying that they preferred to support local businesses rather than shopping online. A few retailers said that they were looking to expand their business by opening new locations, but due to high interest rates, they were delaying construction of those sites. Food service and entertainment venues reported no change in demand but declines in revenues and higher costs were not being passed through to customers. Travel and tourism contacts reported steady to increasing sales, hotel occupancy rates, and passenger air travel.

Real Estate and Construction

In the Fifth District, residential real estate activity declined modestly this period due to the usual seasonal slowdown. However, buyer traffic increased this period as prospective purchasers were gearing up for a good spring market amid rising home inventory levels and declining mortgage rates. Home prices increased moderately and there were still multiple offers on desirable homes. Days on market increased slightly but remained below historic averages. Builders indicated that construction costs had moderated but there continued to be a shortage of some building materials and specialty sub-contractor labor. Appraisals were holding up and buyers were not having any difficulty obtaining mortgages.

Overall market activity in commercial real estate was flat this period. Retail remained strong, especially with fast casual restaurant chains. In the office sector, Class A office space was tightening with more leasing activity related to firms upgrading their space and moving away from central business districts. A lack of available financing continued to constrain new development and refinancing within the broader CRE sector. Construction projects were mainly limited to the industrial and multifamily segments. Contractors noted that due to the high cost of construction there were few new CRE projects and, as such, their backlog of work was shrinking.

Banking and Finance

Loan demand continued to modestly soften across all loan types, with residential mortgage lending seeing the biggest slowdown in demand. Respondents were generally in agreement that the higher rate environment and continued economic uncertainty were the primary drivers in this continued downward trend. One institution noted customers were “sitting on the sidelines” waiting for more clarity regarding rates and the economy. Deposit balances remained flat with still a great deal of competition for any available funds being shopped amongst institutions. Loan delinquency rates and credit quality metrics remained stable with no movement up or down.

Nonfinancial Services

Nonfinancial service providers continued to report that demand for their services and overall revenues remained stable. One firm noted they saw more of their clients comparing prices when shopping for their services and were entertaining more offers from competitors. This level of competition put pressure on pricing and maintaining current clients. Wages and workforce availability continued to be a challenge with low unemployment rates and employees continuing to ask for wage increases. Uncertainty was still a theme with both the firms surveyed and their clients, which made the industry as whole quite cautious going into the new year.

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