Summary of Economic Activity

Economic activity in the Tenth District declined slightly in recent weeks. Consumers were increasingly likely to “share a roof and share meals” to manage household budget challenges. Demand for rental housing reportedly shifted away from single-bedroom units toward multi-bedroom housing where rent expenses could be shared with a roommate. Similarly, restauranteurs noted that revenues fell as more customers split dishes and eschewed expensive items. Manufacturing businesses reported little change in activity, though some contacts noted a decline in their expectations of demand over the medium term. Reports of planned capital expenditures were mixed depending on how directly businesses were supported by fiscal spending and municipal projects. Renewable energy activity in the Tenth District continued to expand at a moderate pace, driven by modest growth in wind generation and robust growth in solar installations. The outlook for renewable energy remained positive, but contacts noted skilled labor shortages and limitations on inter-regional electricity transmission as challenges. The agricultural economy and farm credit conditions in the District softened moderately.

Labor conditions in the Tenth District remained mostly unchanged over the past month. Hiring activity in the service sector was mixed across segments. Transportation contacts reported robust employment growth while most hotel contacts reported contractions in employment. Most contacts expected to increase hiring or maintain the size their workforce over the next year, citing expected sales growth, overworked staff, and an ongoing need for workers with specific skills. Few businesses laid off workers, but many contacts report reducing their workforce through natural attrition.

To attract skilled workers, contacts noted raising wages for new hires, upskilling less-qualified workers, and making increased efforts to retain existing employees. Wages continued to grow at a moderate pace. Contacts highlighted raising wages as central to their retention of existing employees and attracting new hires over the past few years. However, some contacts noted an increased number of potential hires have refused the compensation packages offered, indicative of ongoing tightness in the labor market.
Prices grew at a moderate pace. While manufacturing contacts witnessed a moderation in price pressures, service firms are still facing higher prices due to tight labor market conditions. Most firms reported plans to raise prices in coming months. Contacts reported concerns about risks of higher commodity and energy prices. While higher interest rates are raising financing costs for some companies, most District firms reported a majority of their funding coming from cash financing, insulating many District firms from the higher rate environment.

Consumer spending declined slightly in recent weeks. Contacts suggested consumers were increasingly likely to “share a roof and share meals” to manage household budget challenges. Specifically, contacts in multifamily housing reported demand for single-bedroom units softened, shifting toward demand for multiple bedrooms as more renters sought to share rent expenses with roommates. Restaurant owners similarly reported that, while patronage was steady, revenues fell as more customers shared plates and avoided higher cost items. Leisure travelers accounted for a smaller share of hotel stays.

Organizations serving low- and moderate-income (LMI) populations reported LMI households have largely spent down any savings and are increasingly turning toward credit cards to make ends meet. More households were skipping car payments, rationing medication, and moving in with other families to cut back on expenses. Organizations noted that while most industries have increased wages recently, the growth in earnings at LMI households was insufficient to offset recent and ongoing inflation. As a result, non-profits were experiencing substantially higher demand for assistance. They reported struggling to meet that demand due to decreasing donations.

Overall business activity declined slightly last month. Contacts in retail and tourism reported moderate declines in sales and revenues. Hoteliers reported occupancy levels remained steady but noted an increase in stays related to business travel. This shift in traveler type raised some concerns regarding future demand, as business travelers are reportedly more sensitive to price and business cycle fluctuations. Contacts in healthcare reported a somewhat lower outlook for use of services through the end of year. With greater enrollment in high-deductible health insurance plans in 2023, more households have yet to meet their deductible despite being late in the year and may forgo care requiring out-of-pocket payment. Manufacturing businesses reported little change in activity, though some contacts noted a decline in their expectations of demand over the medium term. Planned capital spending was mixed across segments with manufacturers reporting softening investment activity. Contacts noted the emergence of a firm-specific dichotomy whereby businesses that obtained government or defense contracts are fueling the majority of capital expenditure activity.

Several developers and construction managers reported raw materials costs stabilized recently. They also noted greater ability to push against escalating costs from subcontractors. Public sector funding for municipal projects sustained demand for building materials, somewhat supporting materials prices. Contacts indicated that subcontractors were becoming more available for work, with holes in their backlog schedules for the first time in several years. Though construction labor was somewhat more available, growth in labor costs remain elevated.
Loan demand remained tepid at banks across the District as lenders continued to focus on maintaining sound credit quality, while higher rates exerted pressure on customer demand for credit. Though standards across loan types remained unchanged, several contacts expected further deterioration in credit quality over the next six months, particularly in the consumer and commercial real estate segments of their portfolios. Bankers cited higher debt service costs and declining borrower cash flow as key risks facing their CRE books, particularly for loans maturing in the near term. Rising funding costs persisted as deposit balances continued to shift to higher-yielding accounts, with contacts reporting strength in time deposit products.

Renewable energy activity in the Tenth District continued to grow at a moderate pace, driven by modest growth in wind generation and robust growth in solar installations. Expectations were for a continued moderate pace of growth going into next year, driven mostly by wind generation. While growth in renewable energy in the District is expected to be slightly behind the U.S., Kansas and New Mexico are slated to outpace the U.S. average in coming months. Contacts in the renewable energy sector highlighted acute skilled labor shortages and limitations on inter-regional electricity transmission as key challenges. While higher interest rates are adding to the renewable development costs, most of those higher costs are being passed onto consumers in the form of higher electricity rates. Contacts highlighted the significant boost to renewable development activity expected in the coming years from fiscal stimulus spending, equating that spending to “throwing gasoline on an already raging fire.”

The agricultural economy and farm credit conditions in the District softened last month alongside a moderate decrease in agricultural commodity prices. Agricultural bankers reported borrower liquidity deteriorated slightly from strong levels, and loan repayment rates were slightly lower than a year ago. Farm income declined faster in areas with more intense drought and more corn and wheat production. Agricultural real estate values remained firm. Cattle prices remained strong, supporting credit conditions in other portions of the District. Contacts cited elevated production expenses and high financing costs as ongoing concerns.