Tenth District Beige Book

September 06, 2023

Tenth District Summary for Beige Book

Summary of Economic Activity

Economic activity across the Tenth District was stable over the past two months. After falling from high rates of growth during the first half of the year, manufacturing production and sales at service businesses stabilized in July and August. Contacts indicated the recent pickup in growth was not due to increases in demand, so much as a greater ability to meet existing orders as delays along supply chains were resolved. Accordingly, job growth was flat across the District. Despite several months of subdued employment growth, wages continued to grow at a robust pace through August, exceeding historical norms and most businesses' expectations. Consumer spending continued to expand at a moderate pace, with robust leisure travel offset somewhat by tepid retail sales growth. Several contacts suggested consumers have exhausted their savings and are relying more on borrowing to support spending. Bankers noted pockets of deterioration in some consumer loan types as delinquencies rose, with further deterioration expected for consumer borrowers. Prices increased at a moderate pace in recent months, a noticeable reduction from the pace of price increases witnessed over the last year. Though slower, growth in input prices still outpaced selling prices for most firms, compressing profit margins broadly.

Most Tenth District contacts reported employment levels were unchanged in recent months. Labor markets remained tight with many businesses reporting ongoing difficulties hiring and retaining skilled workers, partially contributing to the slowdown in hiring activity. Both services and manufacturing businesses indicated modest improvements in expected employment growth over the next six months. These expectations were based on a better outlook for recruiting workers, rather than a desire to open more positions and recruit more workers.

Despite several months of subdued employment growth, wages grew at a robust pace, exceeding historical norms. Most contacts reported annual wage increases between 6 and 10 percent during the first half of the year. However, these contacts also suggested the "second half of the year will be different," renewing their expectations for softening of wage growth they reported in early 2023. Most contacts indicated they expect more moderate wage increases of less than 5 percent over the next year. Manufacturing contacts, in particular, reported a stark shift in wage expectations, with over two thirds of respondents downshifting their expectations to more modest wage increases.

Prices increased at a moderate pace in recent months, a noticeable reduction from the pace of price increases witnessed over the last year. Though slower, the pace of growth in input prices still outpaced selling prices for most firms, which contacts attributed more to elevated wage growth rather than to rising materials prices. Both manufacturing and service contacts reported compression in their profit margins in recent months, as businesses were unable to pass all their higher costs onto customers. Expectations are for continued margin compression in the coming year, but at a slower pace than witnessed in recent months.

Consumer spending continued to expand at a moderate pace during the last couple months, driven largely by a stronger-than-expected summer tourist season. Contacts across District states reported robust growth in leisure travel at both drive-to and fly-to destinations. Despite healthy tourism activity, contacts reported growth in retail sales has not been as robust. In several states, retail spending declined slightly, with contacts suggesting consumers have exhausted their savings and are relying more on borrowing to support spending. New auto sales increased a bit due to slightly more available inventory.

Housing providers faced more difficulty building new, and maintaining existing, affordable rental properties because of substantial increases in financing and insurance costs. In Colorado, property insurance premiums reportedly rose as much as 30-50% over the last year, due in part to increased weather-related claims. Contacts reported some optimism in being able to help low- and moderate-income households with homeownership, using state and philanthropic funds for down payment assistance and rate buy downs. However, evictions and foreclosures continued to rise, and recently reached or exceeded 2019 levels across District states. A non-profit in Kansas City noted calls for housing and utility assistance were up 21% and 12%, respectively, over the previous six months and up 30% from 2019 levels.

After declining for several months, manufacturing production and sales at service businesses stabilized in July and August. Contacts indicated the recent pickup in activity was not due to increases in demand. Instead, business reported a greater ability to meet existing orders, as delays along supply chains were resolved. As existing orders were met, businesses indicated that backlogs and inventory levels declined significantly over the past two months. Contacts expressed mixed views on investments plans. Falling profit margins and shorter backlogs led many businesses to pull back on capital expenditures. Some contacts also noted securing financing for equip-ment and transportation vehicles was more difficult. Still, many businesses reported increasing investment activity in recent months and had plans to raise their investment spending over the next six months.

Demand for housing continued to exceed available housing supply across the District. Contacts noted several changes in the composition of home buyers in recent months. First, fewer institutional investors bought homes recently. Investor-buyers were more likely to own a small number of properties. Second, fewer buyers were willing to purchase homes that required significant improve-ments. Financing for home renovation typically requires licensed contractors perform the work, rather than owners' "sweat equity." The combination of skilled-labor shortages and higher financing costs reportedly deterred renovation activity on newly purchased homes. Third, investor-buyers were much more likely to 'flip' refurbished homes, rather than hold and rent them, due to higher interest expenses.

Loan demand weakened further during the last month as bankers stated high interest rates and economic uncertainty resulted in a cautious approach for prospective borrowers. Contacts noted pockets of deterioration in some consumer loan types as delinquencies rose, with further deterioration expected for consumer borrowers and across the commercial real estate (CRE) industry. Several contacts also stated that credit standards for CRE loans had tightened in light of reduced risk appetite and expected deterioration in credit quality. Deposit levels stabilized during the last couple of months, while the funding mix continued to shift from checking accounts to time deposits, driving up overall bank funding costs.

Tenth District energy activity remained steady through August. Though oil prices rose, total oil production and rig counts in the District were essentially flat, as global oil consumption slightly underperformed a majority of District firms' expectations. The number of active gas rigs decreased slightly, and production stagnated because drilling for gas remained unprofitable for District firms. Well completions leveled off from recent declines, keeping the number of drilled-but-uncompleted wells unchanged. Accordingly, District energy employment ticked up only slightly, but still lagged pre-pandemic levels. Coal production in Wyoming increased moderately as regional prices remained above historic levels.

The farm economy in the Tenth District remained strong, but conditions softened alongside lower agricultural commodity prices and persistent drought. Volatility in markets for major crops was elevated amid heightened uncertainty about supply and demand conditions. Through mid-August, prices for corn and wheat were about 10% lower than the beginning of the month and soybean prices also dropped slightly. In the livestock sector, cattle prices remained strong and continued to support profit opportunities, despite considerable cost pressures. Large areas of the region continued to be heavily impacted by drought that could reduce crop revenues and limit availability of feed for livestock operations. District contacts continued to highlight input costs, interest rates and thinner margins as other key concerns. Lenders indicated that credit conditions remained sound with support from strong farm finances.

Media


BEIGE BOOK: LABOR MARKETS


BEIGE BOOK: PRICES


SALE
BEIGE BOOK: CONSUMER SPENDING


BEIGE BOOK: COMMUNITY CONDITIONS


BEIGE BOOK: MANUFACTURING AND OTHER BUSINESS ACTIVITY


BEIGE BOOK: REAL ESTATE AND CONSTRUCTION


BEIGE BOOK: COMMUNITY AND REGIONAL BANKING


BEIGE BOOK: ENERGY


BEIGE BOOK: AGRICULTURE