Summary of Economic Activity

Economic conditions softened slightly across the Tenth District in recent weeks. Hiring activity and business conditions were mostly unchanged, but contacts in the energy, agriculture and commercial real estate sectors reported moderate declines in activity. Several bankers characterized their appetite for lending as being on a “loan diet” - looking for smaller portions (smaller balances) and only healthy fare (better creditworthiness). Most businesses indicated wage growth slowed to a moderate pace. In particular, wage growth among entry-level jobs slowed as job hopping became less common. Lower turnover reportedly eased wage competition and led job switching to result in smaller wage gains for workers compared to earlier in the year. The pace of consumer spending was unchanged. Some contacts noted that household spending on home renovation activity grew slightly, which they attributed to a “lock-in effect” among homeowners with low interest rate mortgages. Prices generally grew at a moderate pace. However, several housing property managers reported that rent growth decelerated significantly in recent weeks. Contacts also indicated that rent pressures will subside further due to a substantial amount of new multifamily housing becoming available over the next eighteen months.

Labor market conditions in the Tenth District were unchanged over the last month on average. Though several contacts in manufacturing reported slight job gains over the last month, they indicated they were filling long-vacant positions rather than growing their workforce. Average hours worked at manufacturing facilities fell slightly as new staff allowed employers to reduce overtime hours. Service contacts reported a slight contraction in employment. Labor markets remain tight on balance, but wage growth slowed to a moderate pace.

Business contacts reported their workforce is less qualified and less productive compared to earlier this year. They attributed the moderate declines in workforce effectiveness to high turnover of more skilled and tenured staff in recent years. Most contacts expected these workforce conditions to persist due to continued difficulty hiring qualified workers. Many noted new applicants across job levels and occupations are less skilled, experienced, or educated than applicants earlier this year. Service contacts mentioned particularly pronounced issues with new applicant reliability, experience, and skills - making it difficult to fill open positions.
Price growth remained moderate across the District. Services businesses noted ongoing difficulty passing price increases to their customers. Given these pressures on their margins, most contacts expected to continue raising their prices over the next six months. Several multifamily housing property managers reported that growth in rent prices stalled in recent weeks, and that rent growth is down considerably compared to last year. Contacts expected rent pressures to further subside over the next year due to a substantial amount of multi-family housing supply coming online.

The pace of consumer spending was unchanged in recent weeks. Spending at restaurants slowed mildly but other leisure spending maintained momentum. Retail spending picked up slightly, which some contacts noted was concentrated among larger retail businesses. Citing the “lock-in effect” of homeowners with low interest rate mortgages, some contacts noted that spending on home renovation activity grew slightly. However, spending on renovation activity was constrained by the limited availability of contractors willing to take smaller jobs.

Contacts reported that low- and moderate-income (LMI) workers continued to pursue higher wages through job hopping, but those opportunities were becoming less advantageous. Entry-level wages have continued to rise, though at a much slower pace than a few months ago. Most workforce organizations said they focused on directing clients to seek more career-oriented opportunities in preparation for a possible recession. However, clients have been hesitant to pursue such opportunities due to the time they would need to spend in training, favoring more immediate employment. Workforce organizations reported seeing more LMI individuals pursuing work despite ongoing challenges reaching employer locations and finding childcare. One organization with a harder-to-place clientele reported placement rates fell to a multi-year low of 30%, citing higher rates of addiction, mental health issues, and physical disabilities.

Overall business activity was mostly unchanged, with subtle differences across sectors. Manufacturing firms, especially durable goods producers, continued to report broad-based declines in new orders, shipments, and order backlogs – all indicators of future softening in demand. Service contacts in consumer-facing retail businesses, healthcare, and education reported strength in activity. However, several transportation contacts highlighted broad-based declines in shipments and freight rates. One contact specifically highlighted a decline in shipments of goods tied to interest rate sensitive sectors like housing and construction, noting that shipping volumes of carpet and other building materials were down. Another contact in trucking highlighted a risk surrounding credit performance of owner-operators who are facing lower revenues and steeply declining valuations on equipment that was used to collateralize loans.
Contacts across the commercial real estate sector high-lighted distinctions in performance across property classes. Newly constructed – or otherwise prime – office, retail, and industrial spaces continued to perform above expectations while class B properties faced lower operating incomes and valuations. Most contacts noted funding for renovation activity was substantially less available than for new property development. Several contacts suggested uncertainty about rates inhibited transaction activity more so than higher rates. They expected revaluation of properties and greater transaction activity would emerge once rate stability was achieved.

Several bankers characterized their appetite for lending as being on a “loan diet” – looking for smaller portions (smaller balances) and only healthy fare (better credit-worthiness). Although credit quality remained sound across commercial loan types, pockets of deterioration appeared in various consumer loan segments. Weakness grew in mortgage loans and consumer installment debt, in particular. Bankers expected additional deterioration in consumer credit quality over the next six months. Loan demand was mostly unchanged during the last month as higher interest rates continued to mute activity from the commercial real estate and commercial and industrial sectors. Deposit balances exhibited continued migration from checking accounts into higher yielding time deposits and money market accounts. Contacts highlighted deposit promotions and maintaining competitive pricing as key strategies for deposit retention.

Tenth District energy activity declined moderately over the last month. Oil prices rose recently and regional inventories in the District decreased to multi-year lows. Yet, the number of active oil rigs declined, with contacts citing capital discipline as a constraining factor amid slightly declining profits for District firms. Profitability was expected to increase as contacts’ six-month oil price expectations moved up over the last month. Firms also anticipate a slight increase in productivity over the next year, further boosting future profit expectations. Accordingly, contacts noted capital expenditures are expected to increase at a faster pace in coming months, as access to credit remains steady. District states added gas rigs recently due to a slight increase in natural gas prices during the summer months.

Conditions in the Tenth District farm economy softened alongside further declines in commodity prices and prolonged drought. As harvest began in some areas, at least one third of corn and soybean acres were in very poor condition, raising concerns about yields and revenue. Dry conditions across the nation also reduced water levels in the Mississippi River, disrupting barge traffic along many gulf port routes and heightening concerns about freight costs and export activity. Cattle prices continued to be supported by low inventories, but drought also constrained hay supply in many areas, raising costs for ranchers. Interest rates were another key concern cited by agricultural contacts, as producers faced significantly higher financing costs.