



Summary of Economic Activity

Economic activity in the Third District increased slightly after rising modestly in the prior period. Nonmanufacturing activity increased slightly. Non-auto retailers and auto dealers reported a slight decline in activity, noting tepid demand from consumers. Meanwhile, manufacturing activity rose moderately. Employment levels rose slightly during the period, while wage growth remained near its modest pre-pandemic rate. Prices continued to rise moderately. Firms continued to report increased cost pressures from tariffs and other business expenses and to expect to raise prices in the coming months to offset these higher costs. Firms expect a modest increase in activity over the next six months, although contacts across industries warned of additional downside risks of a prolonged government shutdown. Manufacturers were more optimistic than nonmanufacturers about growth over the next six months.

Labor Markets

Employment appeared to increase slightly this period following no change in the last period. Based on our September surveys, full-time employment rose for both manufacturing and nonmanufacturing firms. However, more than two-thirds of all firms reported no change in full-time employment, higher than the historical average. Part-time employment declined for nonmanufacturers.

Overall, our staffing contacts reported demand for workers was mostly flat compared with the prior period, noting that extremely low employee turnover remained a drag on their businesses. One contact highlighted that the demand for workers was focused on short-term project-based roles, rather than permanent positions.

Business contacts echoed reports of low employee turnover and noted little trouble hiring workers. A majority of contacts reported little change in their number of employees; however, a couple of contacts stated their firms are shrinking their workforce or have plans to do so.

Contacts also highlighted potential disruptions in the labor market from immigration policies. One staffing contact reported high demand from companies looking to fill positions that were recently vacated owing to changes in previous employees' visa status. Meanwhile, a contact in the construction industry noted a decline in the availability of foreign-born workers caused delays at one job site and felt that it would create a significant labor shortage if construction demand were to pick up.

Wage inflation continued to ease on balance, but firms still reported modest increases. Across industries, contacts reported little upward wage pressure, with wage increases typical of their long-run average.

Prices

Firms continued to report moderate price growth this period, although the pace of growth appeared to slow slightly from last period. In our monthly surveys, the diffusion index for prices paid in September declined for nonmanufacturers and manufacturers. The index for prices received also declined for manufacturers but held steady for nonmanufacturers. Despite these declines, the prices paid and prices received indexes remained above their historical averages for all firms.

Most business contacts reported continued cost pressures from tariffs, insurance, health care, and utilities. Multiple contacts noted that some suppliers were citing tariffs when raising prices, even if their goods were not subject to increased levies. Another contact reported a 15 percent increase in a liability insurance policy from a year earlier in addition to a nearly 10 percent rise in health care costs.

Consumer-facing businesses across sectors reported an inability to pass through all these increased costs, with many instead increasing discounts to sustain demand. Contacts reported more aggressive discounts from retailers, lower hotel room rates, and increased incentives on autos and newly constructed homes.

However, most contacts expected further tariff impacts in the months ahead. Contacts reported dwindling inventories of pre-tariff goods and an inability to continue absorbing tariff-related costs. The indexes for future prices paid and future prices received for manufacturers were well above their historical averages in September.

Manufacturing

On balance, current manufacturing activity increased moderately following modest growth last period. The indexes for new orders and shipments rose moderately and were above their historical averages in September.

Total production increased in the third quarter compared with the prior quarter for 46 percent of firms in our September survey, the highest share in over a year. A few firms reported increased activity from an uptick in tariff-related onshoring; however, more than half of the firms in our September survey reported uncertainty as a moderate or significant constraint on capacity utilization.

Manufacturers remained optimistic about growth over the next six months. More than half of the firms expect increases in new orders and shipments.

Trade and Services

On balance, firms across a broad spectrum of nonmanufacturing industries reported a slight increase in activity, down from a moderate increase in the last period. The new orders index was flat in September, dropping from a modest level in August, while the sales/revenues index remained at a modest level.

Retailers (non-auto) reported a slight decrease in sales over the current period, down from a slight increase in the prior period. One retailer noted that a seasonal slowdown in September is normal following high spending by consumers during the summer months; however, the retailer reported that sales slowed much earlier in August this year and remained flat through September.

Auto dealers reported a slight decrease in auto sales, following a slight increase last period. Contacts highlighted that sales would have fallen by more if not for a rush to buy electric vehicles (EVs) before the expiration of a federal EV tax credit at the end of September.

Activity in the tourism sector declined modestly, down from a slight decrease in the last period. The slowdown was widespread across nearly all segments, with only luxury leisure travel experiencing growth, according to contacts. One contact noted a decline in the average distance traveled for leisure trips, with many consumers looking to save by choosing destinations closer to home.

Expectations for growth over the next six months have narrowed among nonmanufacturers since the prior period. The future activity index remained positive in September but is well below its nonrecession average.

Real Estate and Construction

Existing home sales declined slightly after increasing slightly last period, with contacts continuing to describe a lack of inventory and high prices as major headwinds. One realtor highlighted how would-be homeowners who have been priced out of the market are driving historically high demand in the local rental market. New-home builders continued to report a slight uptick in sales this period but noted fewer potential buyers looking at homes.

In nonresidential markets, leasing activity and transaction volumes continued to record slight growth. Nonresidential construction activity continued to record slight declines this period, despite continued growth in activity related to data centers, according to contacts. One contact reported that uncertainty surrounding the status of federal funding continued to slow previously planned projects.

Credit Conditions

The volume of bank lending (excluding credit cards) declined moderately during the period (not seasonally adjusted)—weaker than the modest growth observed during the comparable period in 2024. Bank lending held steady in the prior period.

The moderate decline in lending was largely driven by a continued strong decline in commercial and industrial lending and a modest decline in commercial real estate loans, according to District banks. Meanwhile, consumer lending (excluding auto lending and credit cards) rose strongly, home equity lines increased moderately, auto loans rose modestly, and mortgages ticked up slightly. Credit card volumes decreased modestly, down from a slight increase during the same period one year ago.

Banking contacts reported weaker loan demand, particularly from commercial clients. These contacts attributed the slowdown to businesses' unwillingness to make long-term investment decisions in such an uncertain cost environment. One lender noted that many commercial clients were paying down lines of credit and looking to keep more cash on hand. Most banking contacts continued to report strong credit quality overall, despite a slight rise in delinquencies and defaults. ■

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