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## Summary of Economic Activity

Economic activity in the Third District grew slightly this period after picking up to modest growth last period. Manufacturing activity rose moderately, and nonmanufacturing activity held steady. Nonauto retailers reported little change in activity, but auto dealers reported a slight decline in sales. Prices continued to rise moderately. Firms noted that higher oil prices had increased input cost pressures somewhat but expected the full impact on prices to be lagged. Employment levels declined slightly during the period, while wage growth remained modest. Looking ahead, manufacturers' expectations for growth over the next six months remained widespread, but nonmanufacturers' growth expectations were more limited. Contacts appeared less confident about growth expectations if the conflict in the Middle East were to persist.

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### Labor Markets

Employment declined slightly overall after increasing modestly last period. The full-time employment index for nonmanufacturers fell sharply and turned modestly negative in March; the part-time employment index also turned negative. The index for total manufacturing employment ticked up but signaled no change in overall employment levels. Notably, a large majority of both nonmanufacturers (81 percent) and manufacturers (74 percent) reported no change in employment.

Overall, our staffing contacts reported mostly steady demand—slower than the pickup in activity typically experienced for the season. Most contacts continued to report stable employee head counts with very low turnover. Many contacts reported little issue with labor supply; however, hiring skilled labor for manufacturers remained a challenge.

Wage inflation remained unchanged at a modest pace. Contacts reported little wage pressure, with wage increases in line with their average pre-pandemic rate.

### Prices

Firms' prices continued to rise moderately this period. In our monthly surveys, the diffusion indexes for prices paid and prices received rose for manufacturers in March, moving further above their nonrecession averages. For nonmanufacturers, the prices paid index was little changed at an elevated level, while the prices received index declined to its lowest level since June.

Many business contacts reported a rise in transportation costs this period in addition to continued cost pressures from tariffs, insurance, health care, and utilities. Some businesses noted that many cost increases from higher oil prices would be lagged because of previously negotiated short-term contracts and that they were bracing for higher material costs, especially for plastics, as those contracts come up for renegotiation.

Consumer-facing businesses across sectors reported mixed abilities to pass on recent cost increases. One retailer reported delaying a recent planned price increase fearing consumers couldn't absorb it. A homebuilder noted an inability to pass through increased construction costs because home sales are agreed to prior to construction, causing a significant decline in the builder's profit margin. Meanwhile, another contact recently set contract prices higher than their dynamic prices to build in room for potential future cost increases.

Looking ahead, the indexes for future prices paid and future prices received continued to suggest that manufacturing firms expect price increases over the next six months. The future prices received index moved lower, while the future prices paid index was little changed; both remained above their nonrecession averages.

### Manufacturing

Manufacturing activity rose moderately in the current period, up from a modest increase last period. The index

for new orders remained modestly positive, while the shipments index jumped to a moderately positive level.

Although manufacturing activity accelerated during the period, uncertainty remains a constraint on businesses. Several survey contacts cited uncertainty surrounding tariffs and the conflict in the Middle East as their firm's greatest challenge. Furthermore, nearly 82 percent of the surveyed firms reported that uncertainty was at least a slight constraint to capacity utilization in the first quarter, up from 62 percent last quarter.

Looking ahead, manufacturers' optimism about growth over the next six months remained widespread. The future indexes for general activity, new orders, and shipments all remained elevated above their nonrecession averages.

### Trade and Services

On balance, firms across nonmanufacturing industries reported that activity held steady, after rising modestly in the prior period. The sales/revenues index remained positive, while the new orders index remained negative.

Most nonmanufacturers cited uncertainty and energy markets as constraints on business in the first quarter. Nearly 89 percent of the surveyed firms reported that uncertainty was at least a slight constraint on operations (unchanged from the previous quarter), and 77 percent of the firms reported energy markets as at least a slight constraint (up from 39 percent).

Retailers (nonauto) reported that activity held steady after rising slightly last period. One retailer noted that persistently high gas prices will weigh on sales but reported little impact in the current period.

Auto dealers reported a slight decline in sales during the period, following a moderate decline in the prior period. Contacts noted an increase in financing incentives being offered to stimulate demand and combat affordability challenges.

Tourism activity rose slightly in the current period, after a modest increase last period. Contacts reported that a sluggish February offset a strong January, but activity rebounded in the first few weeks of March. Domestic leisure travel continued to drive improvement in overall activity, according to contacts.

Expectations for own-firm growth in the next six months were less widespread. The diffusion index fell notably in March and was well below its nonrecession average.

### Real Estate and Construction

Existing home sales declined slightly after a modest decline last period. Real estate contacts described a slight shift "towards a buyers' market rather than a pure sellers' market," noting a softening in sales prices. However, the same contacts reported that low inventory and affordability issues persisted. Homebuilders again reported slight declines in sales and construction activity overall. One builder commented that recent sales were concentrated at the high end of the luxury market, with not much activity elsewhere.

In nonresidential markets, contacts continued to report a slight decrease in activity this period. Building construction declined slightly, with activity again focused mostly in data center and health-care projects, according to contacts. One contact noted that building renovations continued at a solid pace, as some businesses opted for the lower cost of refurbishment rather than new development. Another contact reported an increase in available warehouse space for lease, as this sector appears to be softening.

### Credit Conditions

The volume of bank lending (excluding credit cards) rose modestly during the period (not seasonally adjusted), after declining slightly last period.

District banks reported moderate growth in commercial and industrial loans and home equity lines. Mortgage and commercial real estate lending both edged higher, while auto lending was essentially unchanged. Credit card volumes fell modestly, which is typical for the season.

Banking contacts reported mostly stable loan demand but noted that economic unpredictability continued to temper demand from commercial clients. One banker expected a pickup in demand from manufacturing clients that had delayed projects in 2025 but reported clients were again hesitant to start new projects due to uncertainty stemming from the conflict in the Middle East. Multiple bankers highlighted a spike in mortgage demand when mortgage rates dropped below 6 percent at the start of the current period before a quick reversal in demand as rates rose in subsequent weeks. Contacts continued to report stable credit quality; however, multiple bankers noted they had recently tightened credit standards. ■