



Summary of Economic Activity

Economic activity in the Third District grew slightly, after picking up to a modest pace of growth last period. Employment rose modestly, as both manufacturing and nonmanufacturing firms reported increased hiring. Wage inflation remained steady at a modest pace, although some firms reported upward wage pressures. Prices rose moderately after slowing to a modest pace last period. Firms reported increased cost pressures and that they raised prices to offset these higher costs, where possible. Manufacturing activity rose moderately, slightly slower than the prior period's strong growth. Non-manufacturing activity was little changed, down from a slight increase. Retailers, both auto and nonauto, reported slight declines in sales. Tourism continued to grow at a moderate pace. Expectations for growth over the next six months varied by firm type. Manufacturers' growth expectations remained widespread and above their historical average, but non-manufacturers' expectations were limited and less widespread than in the prior period.

Labor Markets

Employment rose modestly during the period, up from a slight increase in the prior period. On balance, nonmanufacturing firms reported modest increases in both full- and part-time employment, and manufacturing firms also reported a modest rise in total employment.

Overall, staffing contacts reported mostly steady demand—up from a year ago but still muted by historical standards. Most contacts reported little trouble with labor supply and low employee turnover. However, the lack of skilled labor has continued to constrain manufacturing activity, according to contacts. Nearly three-quarters of the surveyed manufacturers reported labor supply as at least a slight constraint on capacity utilization in the third quarter, up from half in the previous quarter. A manufacturing-focused staffing contact noted increased demand for high- and low-skilled workers in recent months, with some firms becoming less selective in their hiring and more willing to train new employees.

Wage inflation remained largely unchanged at a modest pace overall; however, some contacts reported pockets of higher wage pressures over the period. A retailer shared plans for an upcoming wage increase of 4 percent (up from 2.5 percent last year) owing to the high cost of living, weaker labor availability, and an expectation of higher-than-usual wage increases by competitors. A staffing contact highlighted increased job seeker pushback on wages for manufacturing jobs and a willingness from some firms to raise starting pay for the first time in years.

Prices

On balance, firms' prices rose at a moderate pace, up from a modest increase last period. In our monthly surveys, the diffusion indexes for prices paid and prices received rose from the prior period for nonmanufacturers, moving above their historical averages. The prices paid index was little changed for manufacturers at an elevated level, while the prices received index moved further above its historical average.

Contacts across sectors reported higher input costs this period. In addition to continued cost pressures from fuel surcharges, tariffs, and insurance, contacts noted the expiration of some contracts or hedges that kept costs relatively stable in recent months. The expiration of these contracts has given manufacturers greater pricing power, allowing them to pass increased costs further along the supply chain, according to contacts.

However, contacts reported that many consumer-facing businesses have little ability to pass on recent or expected future cost increases. Consumer-facing contacts across sectors instead reported absorbing higher costs while increasing discounts and incentives to sustain business, citing price-sensitive customers.

Looking ahead, multiple contacts expect the impact of contract repricing and expiring hedges to broaden over the next few months, leading to further price pressures. The indexes for future prices paid and future prices received rose further in September and are now among their highest readings of the past 35 years.

Manufacturing

Manufacturing activity grew moderately in the current period, down from the strong increase in the prior period. The indexes for new orders and shipments softened slightly from the last period; however, both indexes remained well above their historical averages.

Contacts reported that manufacturing growth continues to be driven primarily by data centers, AI, and defense-related activity. However, more than two-thirds of the surveyed firms reported increased production in the third quarter, the highest share since the second quarter of 2022, suggesting growth may be broadening across the sector. Labor supply and uncertainty are the biggest constraints on capacity utilization, according to contacts.

Looking ahead, manufacturers' optimism about growth over the next six months remained widespread. The indexes for future new orders and shipments stayed elevated above their historical averages. The share of firms expecting an increase in capital expenditures over the next six months also remained elevated.

Trade and Services

Firms across a broad spectrum of nonmanufacturing industries reported little change in activity this period after a slight increase last period. The sales/revenues index softened to a modestly positive level, while the new orders index suggested a slight decline.

Retailers (nonauto) continued to report a slight decline in consumer spending during the period and continued to describe consumers as price sensitive. One retailer reported that customer traffic remained weak at the end of August and during the first half of September, but they highlighted a noticeable uptick in visits during the second half of September when gas prices declined slightly.

Auto dealers reported a slight decline in sales this period after holding steady in the prior period. One contact explained that aggressive manufacturer incentives likely boosted overall sales in September, somewhat masking the increased strain on consumers and dealers from rising financing costs.

Tourism activity again grew at a moderate pace. Contacts reported that ongoing healthy levels of leisure travel were augmented by increased business travel and continued increases in average daily rates for lodging. However, one tourism contact noted that in recent months travelers have become more price resistant, booked more last-minute trips once rates were discounted, and spent less money at their destination.

Expectations among nonmanufacturers for their own growth over the next six months remained low by historical standards and were less widespread than in the prior period.

Real Estate and Construction

Existing home sales continued to decline slightly this period. Contacts reported that rising mortgage rates in September slowed activity in the housing market even further—higher borrowing costs forced prospective buyers out of the market, while the inventory of for-sale properties remained low.

New-home builders again reported a slight decline in sales. Similar to the existing home sales market, contacts attributed weaker demand to rising interest rates in recent months. One builder noted that most buyers have to first sell their existing house, which has become more difficult. Another contact reported that a large developer has started to walk away from some early-stage projects and that an excess supply of homes built without secured buyers has led to steep discounting by competitors.

Nonresidential construction activity again appeared little changed this period. Contacts reported continued construction activity by firms in the data center and related manufacturing spaces but little new activity elsewhere.

Credit Conditions

The volume of bank lending (excluding credit cards) continued to rise slightly this period (not seasonally adjusted), compared with a modest decline one year ago.

District banks reported moderate increases in commercial and industrial loans and home equity lines of credit, and a slight increase in auto loans. Mortgage lending was flat, while commercial real estate lending ticked down slightly. Credit card volumes rose modestly during the period, after little change in the prior period.

Banking contacts reported mostly steady levels of loan demand during the period, despite higher loan pricing. Many contacts noted that it was too soon to tell the impact of higher interest rates on business investment, saying it would take time to discourage demand. However, contacts highlighted that higher borrowing costs did slow demand for mortgages, which was already weak. ■

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