Summary of Economic Activity

On balance, business activity in the Third District continued to decline slightly. High interest rates and tightening credit standards continued to constrain demand for big-ticket consumer items and private market transactions. Wage and price inflation subsided significantly — to a still-modest pace somewhat higher than the pre-pandemic rate — but price levels remain high for many items. Consumer spending fell modestly in real terms across most segments as consumers became yet more price sensitive. Low-income households have struggled the most. Despite demand falling slightly, employment grew modestly as more job candidates applied and hiring difficulties eased. Overall, contacts’ concerns have shifted away from COVID-19, supply chain issues, and labor market issues to uncertainty about interest rates, world affairs, and the 2024 election cycle. On balance, expectations for economic growth over the next six months are mostly positive but remain well below historical averages.

Labor Markets

Employment grew modestly — faster than the slight growth in the prior period. In our monthly surveys, non-manufacturing firms reported further increases in full-time jobs and an uptick in part-time employment. Manufacturing firms reported a slight increase in employment levels but noted a modest decline in the average employee workweek.

Contacts continued to note an increase in job applicants but a dearth of qualified candidates. Looking ahead and citing expectations of weaker demand, firms expressed more caution about future hiring. A staffing contact reported that orders were down year over year for the firm as well as for most of its peers, although an uptick had narrowed the decline recently.

In a broad annual survey of all of our contacts, 40 percent expected employment to increase over the year, 45 percent expected no change, and 16 percent expected a decrease. The net 24 percent of firms that hope to hire is the lowest share we’ve recorded dating back to 2011.

Firms reported that wage inflation continued to subside and is approaching pre-pandemic levels but remains at a modest pace overall. On a quarterly basis, firms’ expectations of the one-year-ahead change in compensation cost per worker edged down to a trimmed mean of 4.1 percent in the fourth quarter of 2023, from 4.3 percent in the third quarter (and from a peak of 5.8 percent in the third quarter of 2022). Expectations averaged 3.2 percent prior to the pandemic. Expected compensation growth fell to 4.1 percent for manufacturers and to 4.2 percent for nonmanufacturers.

Prices

On balance, firms reported that price increases subsided significantly but remained modest — somewhat higher than the typical increases in the 1.5 to 2.0 percent range that were observed before the pandemic.

Firms reported that increases in prices received for their own goods and services over the past year fell significantly in the fourth quarter of 2023 compared with the third quarter. The trimmed mean for reported price changes, as indicated by responses to our quarterly survey questions, fell to 3.6 percent from 4.5 percent for all firms. Price increases fell to 3.0 percent among nonmanufacturers and to 4.2 percent for manufacturers.

Contacts noted that while inflation has subsided, many prices remain at new high levels — straining household budgets and business profitability. Some food pantries recently reported that 25 percent of the families served are new; other pantries exist to serve university students. Meanwhile, food banks are struggling to secure food.
Looking ahead one year, the increases that firms anticipated in the prices for their own goods fell significantly. The trimmed mean for all firms fell to 2.7 percent in the fourth quarter of 2023, from 3.7 percent in the third quarter. After reaching a peak of 5.9 percent in the fourth quarter of 2021, expectations are now only slightly above the quarterly average of 2.3 percent for 2016 through 2019. The expected rate of growth fell to 2.3 percent for nonmanufacturers and to 3.1 percent for manufacturers.

**Manufacturing**
Overall, manufacturing activity declined slightly during the period following a modest decline in the prior period. The index for new orders edged up slightly; however, shipments sank deep into negative territory after oscillating over the past four months.

Expectations among manufacturers for growth in the next six months remained mostly positive but weakened considerably compared with historical averages.

**Consumer Spending**
On balance, retailers (nonauto) continued to report a modest decline in real sales. Some contacts noted that nominal sales were flat or slightly increased. Most said that lower-income consumers were shopping for discounts and spending less; one observed that middle-income consumers were buying fewer items per trip.

Auto dealers reported a slight decline in unit sales after holding steady in the prior period. Contacts noted that supply constraints have mostly ended, but pent-up demand persists — sustaining high prices. Contacts observed that electric vehicles were accumulating on dealer lots as high prices, high interest rates, and consumer hesitancy curbed demand.

Tourism activity continued to decline slightly. Contacts noted that demand is weakening and pricing is softening, especially for budget-oriented properties. One contact noted that business travel has eased — adding that it had not yet fully recovered.

**Nonfinancial Services**
On balance, nonmanufacturing activity resumed a slight decline following a modest decline in the prior period. The index for new orders remained negative, while the shipments index turned positive by the end of the period.

Expectations among nonmanufacturers for growth in the next six months improved somewhat but remained well below historical averages.

**Financial Services**
The volume of bank lending (excluding credit cards) grew slightly during the period (not seasonally adjusted) — significantly slower than the moderate pace observed last period and during the same period last year.

During the period, District banks reported moderate growth in home mortgages, modest growth in commercial and industrial loans, and slight growth in home equity lines and other consumer loans. Commercial real estate loans were flat, while auto loans fell modestly.

Credit card volumes were flat following strong growth last period. The pace of growth had been modest during the comparable period last year; however, little or no growth was typical for the comparable time period in most pre-pandemic years following the Great Recession.

Banking contacts noted that delinquencies and bankruptcies are rising but remain at low levels — overall credit quality remains sound. However, nonprofit agencies continued to report higher cash flow problems among small and minority businesses as banks tighten credit standards.

**Real Estate and Construction**
Brokers reported that existing-home sales were mired at historically low levels — still buffeted by high prices, high interest rates, and low inventories. New-home builders reported a slight decline in home sales but noted that demand remains strong. People with means continue to buy new or existing homes, while affordability has forced many potential buyers to remain in the rental market.

According to contacts, high interest rates continue to have a dampening effect on commercial real estate market transactions and on new construction. Leasing activity declined slightly accompanied by growth of concessions. The construction pipeline is not yet full for 2024. Activity fell slightly; however, infrastructure projects are keeping some firms very busy.