



Summary of Economic Activity

On balance, business activity in the Third District held steady during the holiday season after declining steadily for most of 2023. Employment grew slightly overall, although manufacturers reported fewer workers and shorter hours. Wage and price inflation appeared to subside further—to a still-modest pace for wages, but to a slight pace for prices. Contacts noted increased consumer resistance to higher prices. Consumer spending held steady across most segments, although contacts noted an increasing divergence as low-income households spent less yet paid more on credit, while affluent households continued to spend freely. Ongoing concerns centered mainly on global issues and the 2024 election, while sentiment improved with the prospect of falling interest rates. On balance, expectations for economic growth over the next six months remained mostly positive but were below historical averages.

Labor Markets

Employment slowed to a slight pace of growth—following a modest pace in the prior period. In our monthly surveys, nonmanufacturing firms reported modest increases in full-time jobs but no change in part-time employment nor in the average employee workweek. Having fulfilled most of their backlogs, manufacturing firms reported a slight decrease in employment and a modest decline in the average employee workweek.

Several contacts noted increased layoffs of midcareer professionals from finance, tech, and highly leveraged firms in other sectors but observed that most secured new jobs within months. Several contacts, including staffing firms, noted that businesses were becoming more selective when hiring. One staffing firm observed that many businesses overhired during the pandemic, then held steady in 2023—they expect job levels to increase slowly as companies begin to hire again.

One firm that had raised wages competitively in recent years noted good talent among its staff and a lower turnover rate than in 2019. In 2024 it will add nonwage benefits, including mental health coverage and an employee stock ownership plan. Nonprofits reported that significant wage increases in 2022 had steadied hiring and retention rates—now wage pressures have lessened, and hiring is easier.

Overall, wage inflation appeared to continue subsiding but remained at a modest pace. Among nonmanufacturers, the distribution of firms reporting higher (39 percent) and lower (4 percent) wage and benefit costs per employee was typical of the mid-2010s, when modest wage growth prevailed. Most reported no change.

Prices

On balance, price increases appeared to subside to a slight pace of growth after modest growth last period. Our monthly prices paid and prices received indexes declined for nonmanufacturers. Moreover, the prices paid index neared its nonrecession average, and the prices received index fell below average for the fifth time in the past seven months. Several small businesses observed that customers' resistance to higher prices increased further. For some firms, profit margins narrowed as food commodity costs remained volatile.

Most manufacturing firms noted that their input costs steadied; some fell. The manufacturers' prices paid index rebounded to its average, while the prices received index remained near its average for a fifth consecutive month; over two-thirds of the firms indicated no change.

Moreover, manufacturers' price expectations have fallen. The future prices received index fell to near its long-run average; the future prices paid index fell to half its average. Both indexes were positive, with over 35 percent of the firms expecting increases in the next six months.

Manufacturing

Overall, manufacturing activity declined moderately during the period following a slight decline in the prior period. The index for new orders fell sharply, and the shipments index declined for a second month.

Expectations among manufacturers for growth in the next six months strengthened but remained below historical averages. More than 40 percent of the firms expected increases in new orders and in shipments.

Consumer Spending

On balance, retailers (nonauto) reported little change in real sales through the holiday period—an improvement from the prior period’s modest decline. However, online sales appear to have been stronger than in Third District brick-and-mortar retailers. Contacts noted continued pullback in spending from lower-income consumers.

Auto dealers reported steady sales of new cars following a slight decline in the prior period. Contacts noted that dealers maintained sound profitability but that margins have begun to erode because supply constraints have eased and inventories have risen. One contact reported that dealers were lowering margins to move product off their lots. Another observed that the higher overall price of new cars—especially given the rising mix of electric vehicles—is further bifurcating the new and used car market, with lower-income households unable to afford new cars.

Tourism continued to edge down from still strong levels. Contacts reported slower bookings and less spending by tourists, so some hotels have started to lower rates. However, contacts further observed that as hotel rates are cut, spending at local restaurants and stores has risen. Several contacts noted that warm weather and excessive rain diminished the early ski season.

Nonfinancial Services

On balance, nonmanufacturing activity appeared to grow slightly—for the first time since our February 2023 report. The index for new orders was close to zero, while the sales/revenues index increased to a modest pace. One large firm reported robust growth in the entertainment/destination sector.

Moreover, firms signaled more positive sentiment. The index of general activity for the region returned to positive territory just as the index of general activity at the firm level did in the prior month. Nevertheless, expectations among nonmanufacturers for growth in the next six months remained about the same—well below historical averages.

Financial Services

The volume of bank lending (excluding credit cards) grew moderately during the period (not seasonally adjusted)—faster than the slight pace observed last period but similar to the same period last year.

During the period, District banks reported moderate growth in home mortgages, auto loans, and other consumer loans. The volume of commercial real estate loans, home equity lines, and commercial and industrial loans grew modestly. Credit card volumes surged following no growth during the prior period—typical for the year-end holiday season.

Banking contacts continued to note generally sound credit quality even as delinquency rates ticked up from very low levels. Banks and business clients agreed that access to credit had tightened. Some small businesses reported higher usage of credit cards by customers, and that their customers noted a greater need to rely on credit cards.

Real Estate and Construction

Brokers reported that existing-home sales remained mired at historically low levels through November. Contacts are waiting until after the seasonal lull to see if consumers respond to lower mortgage rates, but overall sentiment improved. Meanwhile, the inventory of for-sale properties remained low, and prices remained high.

One new-home builder reported increased traffic during the holidays, another noted an uptick in contract signings in December, and all expressed increased optimism that 2024 would be a stronger construction year, with more closings and more new signed contracts.

In nonresidential markets, leasing activity and transaction volumes continued to decline slightly—more so in the office market in which existing tenants continued to downsize their space and upgrade their quality as their leases expired.

In contrast, current construction activity held steady, although many contacts expect that the project pipeline will shrink before the end of 2024. New projects are slowly emerging in heavy industry and infrastructure. ■