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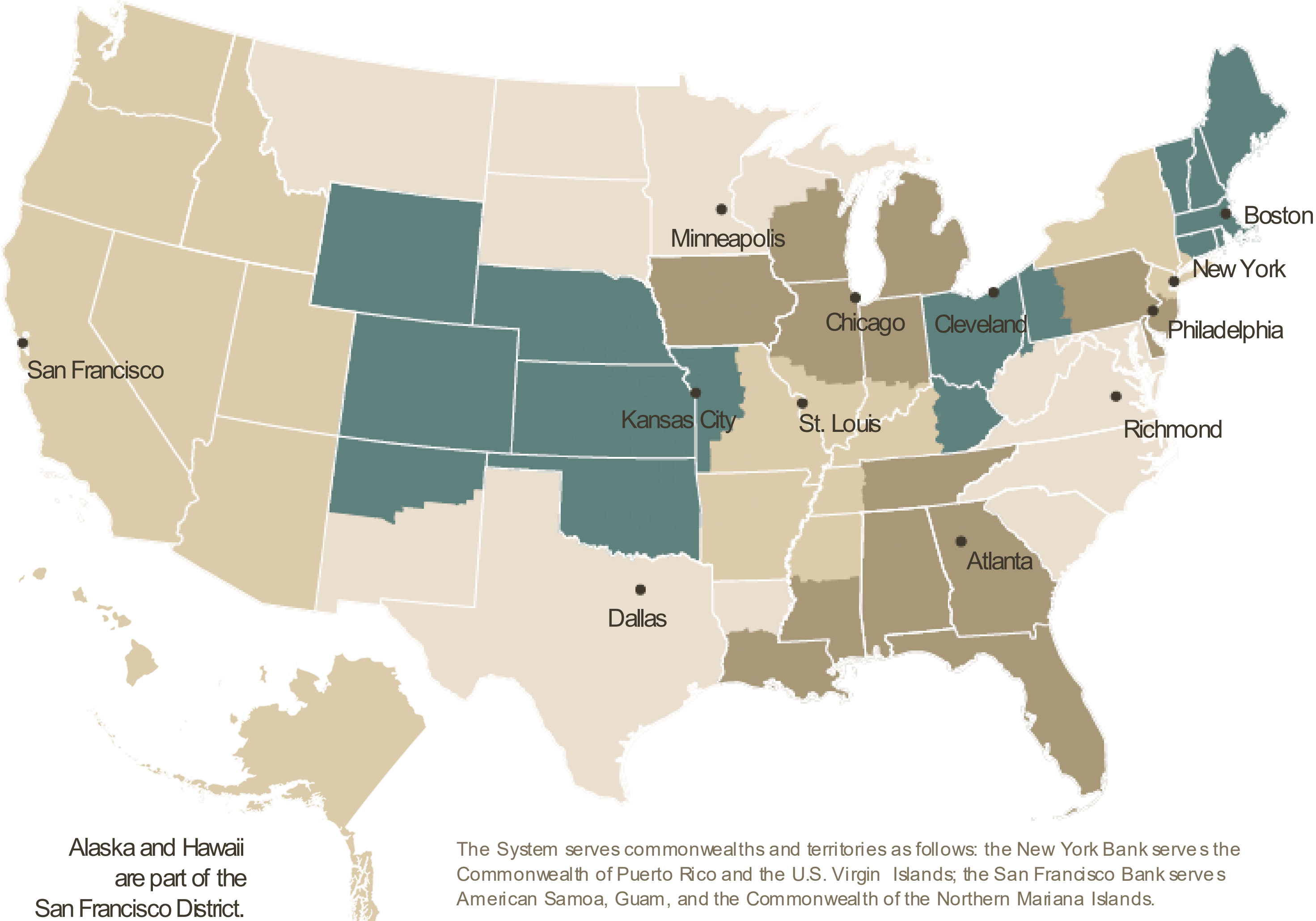
The Beige Book

Summary of Commentary on Current Economic Conditions
By Federal Reserve District

May 2021

Federal Reserve Districts



The System serves commonwealths and territories as follows: the New York Bank serves the Commonwealth of Puerto Rico and the U.S. Virgin Islands; the San Francisco Bank serves American Samoa, Guam, and the Commonwealth of the Northern Mariana Islands.

This report was prepared at the Federal Reserve Bank of Cleveland based on information collected on or before May 25, 2021. This document summarizes comments received from contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.

What is the Beige Book?

The Beige Book is a Federal Reserve System publication about current economic conditions across the 12 Federal Reserve Districts. It characterizes regional economic conditions and prospects based on a variety of mostly qualitative information, gathered directly from each District's sources. Reports are published eight times per year.

What is the purpose of the Beige Book?

The Beige Book is intended to characterize the change in economic conditions since the last report. Outreach for the Beige Book is one of many ways the Federal Reserve System engages with businesses and other organizations about economic developments in their communities. Because this information is collected from a wide range of contacts through a variety of formal and informal methods, the Beige Book can complement other forms of regional information gathering. The Beige Book is not a commentary on the views of Federal Reserve officials.

How is the information collected?

Each Federal Reserve Bank gathers information on current economic conditions in its District through reports from Bank and Branch directors, plus interviews and online questionnaires completed by businesses, community organizations, economists, market experts, and other sources. Contacts are not selected at random; rather, Banks strive to curate a diverse set of sources that can provide accurate and objective information about a broad range of economic activities. The Beige Book serves as a regular summary of this information for the public.

How is the information used?

The information from contacts supplements the data and analysis used by Federal Reserve economists and staff to assess economic conditions in the Federal Reserve Districts. The qualitative nature of the Beige Book creates an opportunity to characterize dynamics and identify emerging trends in the economy that may not be readily apparent in the available economic data. This information enables comparison of economic conditions in different parts of the country, which can be helpful for assessing the outlook for the national economy.

The Beige Book does not have the type of information I'm looking for. What other information is available?

The Federal Reserve System conducts a wide array of recurring surveys of businesses, households, and community organizations. A list of statistical releases compiled by the Federal Reserve Board is available here, links to each of the Federal Reserve Banks are available here, and a summary of the System's community outreach is available here. In addition, Fed Listens events have been held around the country to hear about how monetary policy affects peoples' daily lives and livelihoods. The System also relies on a variety of advisory councils—whose members are drawn from a wide array of businesses, non-profit organizations, and community groups—to hear diverse perspectives on the economy in carrying out its responsibilities.

National Summary

Overall Economic Activity

The national economy expanded at a moderate pace from early April to late May, a somewhat faster rate than the prior reporting period. Several Districts cited the positive effects on the economy of increased vaccination rates and relaxed social distancing measures, while they also noted the adverse impacts of supply chain disruptions. The effects of expanded vaccination rates were perhaps most notable in consumer spending in which increases in leisure travel and restaurant spending augmented ongoing strength in other spending categories. Light vehicle sales remained solid but were often constrained by tight inventories. Factory output increased further even as significant supply chain challenges continued to disrupt production. Manufacturers reported that widespread shortages of materials and labor along with delivery delays made it difficult to get products to customers. Similar challenges persisted in construction. Homebuilders often noted that strong demand, buoyed by low mortgage interest rates, outpaced their capacity to build, leading some to limit sales. Nonresidential construction increased at a moderate pace, on balance, even as contacts in several Districts said that supply chain disruptions pushed costs higher and, in some cases, delayed projects. Demand for professional and business services increased moderately, while demand for transportation services (including at ports) was exceptionally strong. Lending volumes increased modestly, with gains in both household and business loans. Overall, expectations changed little, with contacts optimistic that economic growth will remain solid.

Employment and Wages

Staffing levels increased at a relatively steady pace, with two-thirds of Districts reporting modest employment growth over the reporting period and the remainder indicating employment gains were moderate. As the spread of COVID-19 continued to slow, employment growth was strongest in food services, hospitality, and retail. Manufacturers also added workers in several Districts. It remained difficult for many firms to hire new workers, especially low-wage hourly workers, truck drivers, and skilled tradespeople. The lack of job candidates prevented some firms from increasing output and, less commonly, led some businesses to reduce their hours of operation. Overall, wage growth was moderate, and a growing number of firms offered signing bonuses and increased starting wages to attract and retain workers. Contacts expected that labor demand will remain strong, but supply constrained, in the months ahead.

Prices

On balance, overall price pressures increased further since the last report. Selling prices increased moderately, while input costs rose more briskly. Input costs have continued to increase across the board, with many contacts noting sharp increases in construction and manufacturing raw materials prices. Increases were also noted in freight, packaging, and petrochemicals prices. Contacts reported that continuing supply chain disruptions intensified cost pressures. Strengthening demand, however, allowed some businesses, particularly manufacturers, builders, and transportation companies, to pass through much of the cost increases to their customers. Looking forward, contacts anticipate facing cost increases and charging higher prices in coming months.

Highlights by Federal Reserve District

Boston

Business activity in the First District expanded at a moderate pace. Restaurant sales were up sharply, and restaurant openings buoyed retail property leasing. Labor demand strengthened but hiring was held back by labor shortages. Recruiting efforts intensified, with varying degrees of wage increases. Prices held mostly steady despite growing cost pressures.

New York

The regional economy continued to grow at a strong pace, with growth broad-based across industries. Hiring picked up and wages continued to grow moderately, with availability of workers cited as a top concern. Consumer spending and tourism picked up noticeably. Input price pressures have intensified further, and more businesses are raising their selling prices.

Philadelphia
Business activity continued at a moderate pace of growth during the current Beige Book period – still below levels attained prior to the pandemic. Supply constraints continued to limit growth but may also be contributing to overstated perceptions of strong demand for labor and parts. Employment continued to grow modestly as did wage growth, while prices grew moderately.

Cleveland
The pace of business activity quickened, and contacts expect that demand will remain strong in the near term. However, supply chain bottlenecks constrained growth and caused materials costs to escalate. Price hikes became more widespread as firms attempted to keep up with rising costs. Hiring activity was reportedly modest because of a dearth of job applicants. A greater share of firms boosted wages, especially for hourly workers.

Richmond
The regional economy expanded moderately in recent weeks. Manufacturers and service providers reported increased activity but also faced higher labor and input costs as well as shortages of materials. Employment rose moderately but was constrained by challenges filling open positions. Prices rose briskly in recent weeks as some increased costs of business were passed along to customers.

Atlanta
Economic activity expanded at a moderate pace. Labor markets improved and wage pressures picked up for some positions. Some nonlabor costs remained elevated. Retail sales increased. Leisure, hospitality, and tourism activity strengthened. Residential real estate demand remained strong. Commercial real estate conditions were mixed. Manufacturing activity improved. Banking conditions were steady.

Chicago
Economic activity increased moderately. Employment, consumer spending, business spending, and manufacturing production all increased moderately, while construction and real estate was flat. Wages and prices rose moderately and financial conditions improved slightly. Prospects for agriculture income in 2021 improved.

St. Louis
Contacts reported that economic conditions have moderately improved since our previous report. Many contacts described a situation in which growth in demand for their products or services is outpacing their growth in capacity.

Minneapolis
The District economy saw robust demand, tempered by inventory shortages and rising prices. Job openings increased, but wage growth was not well aligned with firms' broader concerns over labor availability, and workforce contacts cited low wages as a barrier to job seekers taking available jobs. Manufacturing and construction activity continued to grow despite strong input cost pressures. Agricultural incomes grew sharply.

Kansas City
Economic activity rose moderately since the last survey. Consumer spending increased moderately, and sales were above pre-pandemic levels for the majority of retail, restaurant, and auto contacts. Most other sectors expanded as well, including commercial real estate, which increased for the first time since the pandemic started. However, about two-thirds of firms reported a negative impact from rising material prices and lack of availability.

Dallas
The District economy expanded at a solid rate, bolstered by continued strong growth in housing, manufacturing, and nonfinancial services. Drilling activity rose further. Price pressures intensified. Reports of labor shortages were more widespread across sectors and skill levels than the last report. Outlooks stayed positive.

San Francisco
Economic activity in the District expanded significantly, and labor market conditions continued to improve modestly. Wages and inflation picked up further. Retail sales increased, and activity in the services sector strengthened moderately. Conditions in the manufacturing and agriculture sectors continued to improve. Residential construction remained strong, while lending activity grew somewhat.

Summary of Economic Activity

Business activity in the First District expanded at a moderate pace on average, with notable variation across sectors. Restaurant sales were up sharply in recent months, surpassing their comparable 2019 levels. Automobile and home furnishings sales were flat but at very high levels, and a discount retailer saw moderate sales increases. Most manufacturers reported moderate to strong revenue increases, while two had flat but robust sales. Commercial real estate markets were mostly stable but retail leasing increased notably. Residential real estate sales rose moderately as recent data point to increased listings. Labor demand strengthened, but hiring was held back by widespread labor shortages. Amidst intensified recruiting efforts, wage increases varied across sectors. Prices held mostly steady despite growing cost pressures at some businesses, although restaurant prices rose sharply. Contacts generally maintained a cautiously optimistic outlook.

Employment and Wages

Labor demand strengthened but many firms reported difficulties in hiring and retention. Staffing firms reported high demand for labor across a range of sectors. Retail headcounts were level despite accelerating labor demand, as firms—especially restaurants—faced pronounced labor shortages. Manufacturers described ambitious hiring goals: one planned to hire 10,000 workers and another had open positions equal to more than 10 percent of total staff. While the former firm did not anticipate market constraints on labor supply, other manufacturers reported unusual difficulties finding workers. In this context of higher labor demand, wage increases were slight to moderate among manufacturers, wages for restaurant workers also went up, and selected hourly workers enjoyed wage increases of up to 30 percent. Signing bonuses and enhanced recruiting efforts were mentioned with increased frequency. Among the barriers to labor supply, firms cited generous unemployment benefits, childcare responsibilities, and safety concerns.

Prices

High demand and low inventory in the auto industry led to modest price increases. A few manufacturers complained of further upward pressure on input prices—such as freight—but held back from raising prices in favor of cost-cutting measures. Others manufacturers reported no substantive pricing pressures. In Massachusetts, restaurant prices increased sharply to cover increased labor and food costs, and a furniture retailer faced increased wholesale pricing pressure but did not report any price increases. Staffing bill rates were either flat or up slightly.

Retail and Tourism

According to contacts, since March retail sales were stable or moderately higher and restaurant sales surged, while through March hotel occupancy rates showed little improvement from winter. New and used automobile sales were roughly steady at a very strong pace, straining inventories. The scarcity of processing chips continued to restrain production at some carmakers, threatening an otherwise strong market for 2021. A salvaged goods chain reported moderately increased sales in recent months, with revenues up 6 percent from the same period in 2019. Online sales of home furnishings remained robust and sales of outdoor furniture increased earlier in the season than expected. A contact perceives that the market for outdoor furniture expanded in the pandemic and will stay strong.

Restaurants across Massachusetts experienced a dramatic uptick in sales in April and May, with recent revenues exceeding those in the same period of 2019. April also brought the reopening of the majority of the roughly 500-700 restaurants in the state that temporarily closed over the winter. The return of widespread outdoor dining fueled the initial surge in sales, but more recently dining room sales increased as well. Conventions in Boston remain canceled through the fall, but major outdoor events slated for October—including the Boston Marathon—are anticipated to bring large numbers of visitors to the area. As of March hotel occupancy rates in greater Boston stood at around 25 percent, similar to the previous report, but contacts remain optimistic for summer tourism.

Manufacturing and Related Services

Of the eight firms contacted this cycle, six reported moderate to strong revenue gains in 2021Q1 from the previous quarter and two said that sales were roughly flat. All reported higher sales versus the same period a year ago. Year-over-year growth was exceptionally strong for suppliers to the semiconductor and health care industries, respectively, and a provider of diagnostic services to veterinarians also reported strong sales increases from one year ago. These results were not distorted by pandemic-related declines in 2020. Two firms that reported being inundated with orders pointed out that customers were placing the same order with multiple suppliers, and so felt that results were perhaps inflated relative to true demand.

Contacts cited two main limits to growth: labor scarcity and supply chain issues. The dearth of semiconductors remains a major problem, but contacts also cited long lead times for a variety of other inputs. Supply constraints held back production for some contacts, but most were able to meet their output goals and none made major revisions to their capital expenditures plans. All contacts were optimistic for the rest of 2021 and some revised their forecasts up. All anticipated relaxing any remaining COVID restrictions over the summer.

Staffing Services

First District staffing firms reported mixed results ranging from modest revenue declines to robust gains in the first quarter of 2021 from the previous quarter. Two out of four firms said that 2021Q1 had been their strongest quarter since before the pandemic, with sales increases as high as 28 percent. Firms described labor demand as robust across most fields, and especially strong for direct hires in skilled positions. Conversions from temporary to permanent employment increased. Contacts expressed growing concerns about weak labor supply, but one said there was an ongoing surplus of low-skilled workers. One firm reported sharply higher pay rates for selected positions and said that the higher rates reflected a combination of labor scarcity and growing business confidence. Other firms launched new recruiting campaigns to combat labor scarcity. Some contacts perceived that generous unemployment benefits were the deciding factor holding back labor supply, but others expected at least a modest boost in labor supply as vaccination rates climbed and infection rates declined.

Commercial Real Estate

Commercial real estate markets in the First District were stable or improving. Robust demand for warehouse space amid low inventories translated into very rapid sales of listed properties. Industrial construction was seen as still profitable despite high construction costs, but some contacts warned that further cost increases could become prohibitive. Life sciences construction plans expanded moderately to include Rhode Island, despite remaining concentrated in the Boston area. Contacts were encouraged by fresh gains in retail leasing activity, due to a spate of openings and relaunches of restaurants and smaller stores, but noted that large-format retail leasing remained weak. Office leasing showed no signs of improvement and the outlook for eventual office occupancy rates and rents remains uncertain. Contacts expect to have a clearer picture of the office market after Labor Day, which is when many firms are expected to bring greater numbers of workers back to the office.

Residential Real Estate

Residential real estate markets posted robust sales and further price increases to March and April 2021, with growing strength in condominium sales. Vermont reported changes from March 2020 to March 2021 while all other reporting areas provided changes from April 2020 to April 2021; Connecticut data were unavailable.

Closed sales, pending sales, and median sales prices increased by moderate-to-large margins over-the-year in all reporting areas, indicating a moderate acceleration in activity since the previous report. Condominium sales showed particular strength, with pending condo sales up more than 100 percent in all reporting markets. However, the outsized over-the-year sales gains in part reflect the low sales levels in March and April of 2020, when the market was on pause due to COVID-19. As in the last report, homes for sale are down by double digit percentages for all reporting markets, although the Boston condo market saw a moderate increase in supply. Although contacts continued to worry about low inventories, the Massachusetts contact pointed out a substantial increase in listings in April, and some expected a seasonal increase in listings in the coming months.■

For more information about District economic conditions visit:
www.bostonfed.org/regional-economy

Summary of Economic Activity

Economic activity in the Second District continued to grow strongly in the latest reporting period, as vaccinations expanded and COVID cases abated across the District. Business contacts expressed widespread optimism about the near-term outlook. The labor market has strengthened further, with contacts reporting increased employment and wages, as well as difficulties hiring and retaining staff. Input price pressures have intensified further, and more businesses report that they are raising their selling prices. Consumer spending has strengthened, bolstered by accelerating auto and retail sales and rising tourism. Housing markets have been steady to stronger, while markets for office and retail space appear to have stabilized at weak levels. Finally, contacts in the broad finance sector reported moderate improvement in conditions, while regional banks reported higher loan demand and little change in delinquency rates.

Employment and Wages

The job market strengthened further in recent weeks, with more businesses reporting a pickup in employment and widespread labor shortages. A major New York City employment agency noted a significant increase in hiring and a greater sense of urgency to fill open positions. Similarly, an upstate employment agency noted increased hiring activity for both payroll and contract workers and indicated that filling job openings have been challenging. Many business contacts ranked staffing as a top business concern, especially at the lower end of the wage spectrum, and attributed this to a combination of workers' health concerns, child-care constraints, and generous unemployment benefits.

A broad array of businesses plans to add staff in the coming months—particularly those engaged in leisure & hospitality, manufacturing, retail, and wholesale trade. A major employment services firm expects the tight labor market to intensity, as businesses bring staff back to the office and many workers are looking to change jobs.

Wages have continued to grow moderately, with especially widespread increases in the retail and wholesale trade sectors. Looking ahead, a substantial proportion of businesses across all major industry sectors plan to raise wages.

Prices

Firms' input prices have continued to accelerate across the board, with an overwhelming majority of contacts in construction and manufacturing noting increases. Businesses in all sectors expect widespread hikes in prices they pay in the months ahead.

Selling prices accelerated modestly, with hikes widely reported in manufacturing, retail, wholesale trade, and transportation but steady prices in most other sectors. The vast majority of manufacturers, retailers, wholesalers, and transportation firms plan price hikes in the months ahead. More moderate increases were anticipated in other industry sectors. Uncertainty about future inflation was also cited as a concern in planning and formulating contracts.

Consumer Spending

Consumer spending picked up to a strong pace of growth in recent weeks. Non-auto retailers reported a substantial increase in business, with some reports of a sharp rebound in demand for luggage and formal wear. A major retail chain noted that its sales in the region have exceeded plan, though sales in New York City continued to lag, partly due to weak international tourism. Retailers also expressed increasing optimism about the near-term outlook. Consumer confidence among

New York State residents surged to a two-year high.

Sales of both new and used vehicles have strengthened noticeably since the last report, far surpassing pre-pandemic levels, despite low inventories. However, a persistent shortage of microchips is expected to keep inventories lean for a number of months, and this is expected to severely restrain new vehicle sales. Dealers reported that credit availability continues to be satisfactory.

Manufacturing and Distribution

Activity continued to grow strongly in the manufacturing and wholesale trade sectors but slowed somewhat in transportation & warehousing. Contacts continued to report widespread supply disruptions and delays at ports and in trucking. Looking ahead, businesses in all these sectors continued to express widespread optimism about near-term business prospects, despite ongoing concerns about the future availability of workers and materials.

Services

Service industry contacts also reported sturdy growth in the latest reporting period. Contacts in the hard-hit leisure & hospitality sector noted exceptionally strong gains in business activity. Businesses in the information, professional & business services, and education & health sectors all noted a continuation of fairly brisk growth. Looking to the months ahead, contacts in all these sectors expressed widespread optimism about business prospects.

Tourism has strengthened further, particularly in New York City, though the volume of international and business visitors has remained well below pre-pandemic levels. In New York City, hotel occupancy rates have continued to rise, exceeding 50 percent for the first time since before the pandemic, with weekend occupancy rates noticeably higher. Nightly room rates have risen but remained well below normal levels. Moreover, as restrictions have been lifted, a number of New York City hotels have re-opened, and the city has waived the hotel occupancy tax for the third quarter of this year. Museums and restaurants have also seen a rebound in business.

Real Estate and Construction

Housing markets continued to strengthen in the latest reporting period. Sales markets outside of Manhattan have remained quite robust, with rising sales volume, lean inventories, strong price appreciation, and frequent bidding wars. In Manhattan, sales volume has picked up strongly, while the inventory of homes for sale has receded somewhat from the peak levels of last October but remains higher than normal. Prices have stabilized at about 6 percent below pre-pandemic levels.

New York City's rental market remains soft but appears to have hit bottom. Rents in Manhattan are still down roughly 20 percent from early-2020 level and down 10-15 percent in Brooklyn and Queens. However, leasing activity has picked up substantially across the city reaching the highest levels in well over a decade. A local real estate expert ascribes this largely to more people moving for better deals.

Commercial real estate markets have remained mixed across the District but have shown signs of stabilizing overall. Office markets in and around New York City continued to slacken, with vacancy and availability rates continuing to trend up and rents steady but moderately below year-earlier levels in Manhattan and modestly below across the rest of the metro region. Office markets across upstate New York have been steady. The market for retail space has stabilized, with scattered signs of a pickup in some areas. The industrial market remains fairly robust, with vacancy rates steady at low levels and rents up 5-10 percent from a year earlier.

New office construction has remained sluggish, but multifamily residential construction has picked up outside New York City. Contacts in the District's construction industry have grown somewhat more positive about current conditions and substantially more optimistic about the near-term outlook, though there is widespread concern about the cost and availability of materials, especially lumber, and workers.

Banking and Finance

Businesses in the broad finance sector noted moderate improvement in business activity. Bankers reported a pickup in loan demand, mainly from the commercial sector. Credit standards were unchanged, except on residential mortgages where bankers tightened standards. Loan spreads were little changed. Delinquency rates were generally flat overall—down modestly for C&I loans, but up somewhat for residential mortgages. Banks reported that they have become less lenient toward delinquent accounts, except for commercial mortgages.■

For more information about District economic conditions visit:
www.newyorkfed.org/regional-economy

Summary of Economic Activity

On balance, business activity in the Third District continued to grow moderately during the current Beige Book period; however, activity in most sectors remained below levels observed prior to the pandemic. The share of adults who have received at least one dose of a COVID-19 vaccine has climbed well past 50 percent. As normal activity resumes, contacts have reported increasing demand. However, labor shortages and supply chain disruptions have also continued. Some contacts observed that some of the perceived strong demand may represent the broader (duplicative) search efforts of employers for labor and producers for parts. On the housing front, an overly hot market may be discouraging buyers. Net employment continued at a modest pace of growth, while wages and prices continued to grow modestly and moderately, respectively. About two-thirds of the firms expressed positive expectations for continued growth over the next six months – broadening among nonmanufacturers but narrowing among manufacturers since the prior period.

Employment and Wages

Employment continued to grow modestly overall. The share of firms reporting employment increases broadened to one-third among nonmanufacturers, while reported increases edged back to one-fourth among manufacturing firms. Overall, average hours worked rose again but for a smaller share of all firms.

Nearly all firms reported difficulty hiring sufficient labor. Contacts at staffing firms reported ongoing demand for workers, unusually high levels of open orders, and a dearth of qualified job candidates. While demand clearly exceeds the supply, contacts did note that perceived demand may be overstated by clients placing orders with more staffing firms than is typical.

Wages continued to rise modestly. The percentage of nonmanufacturing firms reporting higher wage and benefit costs per employee edged above one-third, while the share reporting lower wages remained very low. Prior to the pandemic, the share of firms reporting compensation increases averaged well over one-third. Across all sectors, firms continued to report raising wages and offering signing bonuses, retention bonuses, and referral bonuses to compete for scarce labor resources.

Prices

On balance, prices continued to rise moderately over the period. The share of manufacturers reporting higher prices for factor inputs remained at about three-fourths, while those receiving higher prices for their own products rose well above one-third. In turn, the share of nonmanufacturers reporting higher prices for their inputs rose to one-half; however, the share receiving higher prices from consumers for their own goods and services fell to one-fifth.

Contacts continued to note severe supply chain disruptions impacting most sectors of the economy. Microchip shortages continued to limit current and future production plans, and container shortages continued to disrupt logistics.

Looking ahead one year, the prices that firms anticipate receiving for their own goods and services rose further still – after the firms reported moderately high expectations last quarter. Firm expectations for compensation increases were slightly higher than those for their own prices, and expectations of general consumer price increases rose the most. Unlike in prior quarters, firms now expect general consumer inflation to be even higher than firm prices.

Manufacturing

On average, manufacturing activity continued growing moderately. About 40 percent of the firms reported that increases of shipments and new orders were somewhat higher. On net, manufacturing activity remained below pre-pandemic levels.

As with perceived demand at staffing firms, many manufacturers have stated that their production would be higher but for labor shortages and supply chain disruptions. A good portion of the perceived demand appears to be real, as order backlogs, inventories, and delivery times increased further and were at or near record levels in May.

Consumer Spending

Contacts reported continued modest growth of nonauto retail sales. Survivors in the retail and restaurant sectors are reporting strong sales and profits even against 2019 levels. Rising vaccination rates and an anticipated return to "normal" are feeding positive expectations for the remainder of the year.

Reports from auto dealers suggest that sales grew moderately. In some markets, year-to-date sales now equal their 2019 sales for the comparable period. Some contacts suggested that buyers may have hastened recent purchases to avoid an anticipated decline in dealer inventory as manufacturers contend with the microchip shortage. Despite the tightening constraint on new car sales, stronger used car sales and higher prices have boosted profit margins.

Overall, tourism continued to grow modestly – reflecting a slow recovery as more potential leisure travelers are vaccinated. Consumers have pent-up demand for travel experiences, and many have extra savings to spend. Contacts also noted improvements in business travel but don't expect a full recovery this year or next.

Nonfinancial Services

On balance, nonmanufacturing activity continued at a moderate pace of growth. Over one-third of the firms reported increases in sales or revenues; however, most firms continued to note that output remains below pre-pandemic levels.

Financial Services

The volume of bank lending fell slightly during the period (not seasonally adjusted); compared with the same period in 2019, by contrast, loan volumes grew modestly. Commercial and industrial loans, home equity lines, and other consumer loans fell moderately, while auto lending fell slightly. Commercial real estate lending grew, but only slightly, while home mortgages were flat. Credit card volumes were also flat – in contrast, volumes grew at a modest pace over the same period in 2019.

Bankers, accountants, and bankruptcy attorneys continued to report that relatively few problems with bad debt had emerged. Optimism had grown for many of their clients in recent weeks; however, some creditors and landlords have become impatient to collect, evict, or foreclose. A credit counselor reported increasing activity to fix credit scores for prospective first-time homebuyers, to keep current homeowners in their houses, and to consider personal bankruptcy options.

An accountant reported more mergers and acquisitions, with some clients choosing to sell their businesses – giving reasons of retirement, uncertainty, stress, and high valuations as motivating factors. A corporate lawyer noted that a few smaller clients had simply paid their debts and closed down their businesses.

Real Estate and Construction

Homebuilders reported modest growth in new contracts as sales traffic slowed, yet construction activity continued apace. Contacts noted that higher prices and extended delivery times have dissuaded some buyers, while builders remain challenged by the high costs of building materials, ongoing supply chain disruptions, and the unreliability of subcontractor scheduling.

Existing home sales were flat, as new listings continued to fall – availability dropped below a one-month supply in many locations. In the face of ongoing demand, contacts noted a strong sellers' market in which offers were often above asking price, in all cash, or without inspections or other buyer protections. One contact noted that some potential buyers were giving up, while others commented on the rising unaffordability, especially for buyers who qualify for FHA but not conventional financing.

Philadelphia's commercial construction activity appeared to have improved slightly to 85 or 90 percent of pre-pandemic levels. Little change was evident in nonresidential leasing activity, although reports of future office downsizing continued to grow. Demand for warehouse space remained strong, and the weak supply of for-sale homes appears to be boosting demand for rental units. ■

For more information about District economic conditions visit:
www.philadelphiafed.org/research-and-data/regional-economy

Summary of Economic Activity

The economic recovery gained strength in recent weeks, and contacts across an array of industries reported healthy gains in customer demand. Contacts often pointed to progress in the fight against the COVID-19 pandemic, the easing of government-mandated restrictions, and the release of pent-up demand as key drivers of the recent improvement in customer demand. For these same reasons, firms were decidedly upbeat that demand will continue to improve in the near-term. That said, many contacts commented that supply chain bottlenecks were constraining growth by causing extended lead times, depleted inventories, and escalating materials and transportation costs. Hiring activity was reportedly modest despite the improvement in customer demand, and many firms indicated they were operating with fewer staff members than they would like because of a dearth of job applicants. Consequently, a greater share of firms boosted wages, particularly for hourly workers on the lower end of the pay scale. Price hikes became more widespread as firms attempted to keep up with rising costs for materials and labor.

Employment and Wages

Staff levels increased modestly, despite widespread reports that customer demand had strengthened. Many firms commented that their headcounts were below desired levels because there were too few applicants for open positions. The problem was acute for firms in consumer-facing industries. A few retailers and restaurants noted they operated with reduced hours or had closed locations because they were short-staffed. One convenience store chain tried to increase its staff level for the past month, but unsuccessfully. As a result, 10 of its stores operated for four fewer hours than desired each day. Many manufacturers also said they were short-staffed, and several noted they were using overtime to fill the staffing gap. Others indicated that they were automating processes to keep up with demand and to reduce labor needs. Contacts in several industries observed an increase in employee turnover, which they attributed to workers' feeling more confident leaving their jobs for higher wages or for more suitable positions.

The dearth of available workers motivated a greater share of firms to raise wages. About 55 percent of our survey respondents increased wages over the past two months, up from about 40 percent in the prior period. Reports of wage increases were widespread and were especially common among manufacturing, retail, and freight contacts. One staffing company contact remarked that he turned away prospective clients that offered starting wages of less than $13 per hour because he will not be able to find anyone at that wage.

Prices

Reports of rising input costs have grown more widespread. About three-fourths of contacts reported that their nonlabor costs had increased in the last two months. This share is up from about two-thirds in the last report. Cost increases were broad across items and were especially sharp for resins, metals, lumber, packaging, and freight services. Rising input costs were partly attributed to supply chain challenges caused by suppliers who often did not have enough workers to meet demand. A few manufacturing and construction firms reported that suppliers were raising their prices more frequently. One real estate developer said that quotes from general contractors were now valid for only 10 days, whereas before the pandemic quotes would be valid for 30 days or even as many as 180 days. Looking to the second half of 2021, roughly 60 percent of contacts expect their nonlabor costs will increase by an amount comparable to or more than the increases they experienced in the first half of 2021.

Reports of firms' raising their selling prices also became more widespread. Many of the firms that raised prices suggested they were able to pass through most of their cost increases to customers. Contacts now expect it to take longer than previously anticipated for these supply chain issues to be resolved. This expectation motivated some of them to be more aggressive with their pricing. Looking ahead, about half of contacts plan to raise their selling prices in the second half of the year, with most of those firms intending to do so to an extent that will at least preserve their margins.

Consumer Spending

Reports suggest that consumer spending grew significantly. General merchandisers and apparel retailers said that demand remained strong beyond the expected boost from stimulus funds in March. Several contacts believed there was a good deal of pent-up demand that was being released as government restrictions were being eased. Hoteliers reported improvements in leisure travel, and auto dealers commented that sales were strong despite limited inventory and higher selling prices. Contacts were optimistic that consumer spending would continue to improve in the coming months thanks to growing vaccination numbers and easing of government-mandated restrictions.

Manufacturing

Demand for manufactured goods continued to increase strongly. Contacts cited strength in demand for products related to housing, autos, and other durable consumer goods. Aerospace-related production continued its modest recovery, although demand remained weak on balance. Many contacts noted that output growth was constrained by shortages of hourly-wage workers, extended lead times for inputs, and depleted inventories. Many contacts reported their capacity utilization was within its normal range, although a sizeable minority reported above-normal capacity utilization. Manufacturers generally expected demand to continue to rise in coming months.

Real Estate and Construction

Demand for residential construction and real estate remained elevated as homebuyers continued to take advantage of low mortgage interest rates. Even so, a few contacts remarked that escalating construction costs may have sapped some of the momentum in homebuilding. One homebuilder observed that elevated prices made some customers hesitant to move forward with projects. A realtor observed a slowdown in lot purchases as builders in her market waited for construction prices to settle. Expectations for demand were mixed. Some contacts believed that housing demand would remain strong, while others predicted that elevated prices would discourage potential homebuyers.

Nonresidential construction and real estate activity increased in nearly all sectors as workers began to return to their offices, more consumers resumed in-store shopping, and overall economic conditions continued to improve. Overall, nonresidential contacts were optimistic that demand would increase further as the economy continues to reopen and pent-up demand is released. However, one contractor suggested that rising prices and materials shortages may curtail construction.

Financial Services

Banking activity increased moderately. Contacts noted that demand for auto loans and mortgages remained strong, although the recent uptick in interest rates and limited inventories in both markets dampened activity. Multiple contacts reported improvements in business lending, especially for commercial real estate loans. However, overall loan demand remained relatively soft. Lenders said that delinquency rates for consumer and commercial loans were still low and that the number of active forbearance agreements continued to drop. Bankers were optimistic that loan demand would continue to pick up as social distancing restrictions ease, but they also noted that potentially higher interest rates clouded their outlooks. They were also concerned that supply challenges could curtail their clients' sales and soften their demand for credit.

Professional and Business Services

Demand for professional and business services remained strong. Authentication services continued to benefit from the further expansion of ecommerce. Also, demand for consulting and technical services increased as more companies began to recover from the pandemic. Overall, contacts anticipated that demand would continue to grow as firms feel more comfortable moving forward with projects that had previously been put on hold.

Freight

Demand for freight services remained robust, and volumes increased as the broader economy continued to recover. Contacts commented that shortages of shipping containers and bottlenecks at ports continue to be problematic. Looking forward, contacts expected demand to improve further in coming months, although many anticipate that a persistent driver shortage will constrain growth. ■

For more information about District economic conditions visit:
www.**clevelandfed.org/region**

Summary of Economic Activity

The regional economy expanded moderately since our previous report. Manufacturers reported strong growth in shipments and new orders, intensifying already-sizeable backlogs and long lead times. Port and trucking volumes also rose as both import and export activity picked up. Retailers experienced moderate growth and increased foot traffic at physical stores. New car sales were limited by low inventories, which spurred higher demand for used vehicles. Consumer travel and tourism rose, particularly for weekend destinations, while business travel remained low. Despite the easing of COVID-related restrictions, some restaurants and hospitality services were unable to open to full capacity because they were unable to hire more workers. Similarly, demand for nonfinancial services rose but growth was constrained by labor shortages. The demand for residential real estate remained high amid very low inventory levels. Commercial real estate leasing increased moderately, including some office leasing as businesses returned to working in-person. Loan activity rose, particularly for business loans. Employment increased modestly, but many firms reported having difficulties filling open positions. Prices rose sharply in recent weeks as shortages of labor and materials led to higher costs, some of which translated to higher prices to customers.

Employment and Wages

Employment rose modestly in recent weeks, but job growth was somewhat constrained by labor shortages as firms across a variety of industries reported having difficulty filling open positions. One contact speaking about the hospitality sector thought that many former workers were either choosing to remain unemployed or had found new jobs in another industry. Several contacts also noted increased turnover and one reported that employees were leaving for advancement opportunities. Wages increased moderately, overall. Strong demand for workers, particularly at the entry-level, drove up starting wages. Several employers also noted that raising wages for entry-level positions led them to raise wages to retain more experienced staff.

Prices

Overall, prices increased sharply in recent weeks. Price increases were largely attributed to strong demand, rising input costs, and supply constraints. Firms across goods-producing and service-providing industries experienced increased prices paid for labor, energy, shipping, raw materials, and inventories, but the degree to which those price increases were passed on to customers varied. For example, a furniture store said that they were unable to pass along increased costs because of online competition and MSRP pricing. In contrast, a small appliance manufacturer was able to pass along price increases because others in their industry faced similar rising input costs and were also raising prices.

Manufacturing

Fifth District manufacturers saw strong growth in demand in recent weeks, as both shipments and new orders increased. Manufacturers of materials, home goods, and food reported especially high demand. Lead times lengthened, and inventories of inputs fell. Backlogs of orders grew, as shortages of labor and input goods constrained production. Trucking and shipping container shortages, as well as delays at ports, contributed to difficulties in receiving inputs and in getting final goods to customers. Because of the delays in receiving and high costs of inputs, many manufacturers looked for substitutions for regular inputs and eliminated certain products.

Ports and Transportation

Fifth District ports saw robust growth in recent weeks, as volumes continued to break records. Growth of both imports and exports was strong, with notable acceleration in the growth of exports. On the import side, volumes were driven by retail goods, especially furniture, home goods, and home improvement goods. On the export side, volumes of agricultural products were high. Both imports and exports of automobiles were volatile, which contacts attributed to the microchip shortage.

Fifth District trucking companies reported moderate growth from already high volumes in recent weeks. Demand exceeded supply, as labor and equipment constraints caused truckers to turn business away. Shipments of most goods rose, as volumes of home improvement goods were especially strong, and some supplies for business conventions began to move. Supply shortages and long lead times for new tractors and trailers led companies to rely more heavily on repairing and reusing older equipment.

Retail, Travel, and Tourism

Fifth District retailers reported moderate growth in demand and revenues in recent weeks. Shopper traffic increased, and shoppers were generally serious about making purchases. Clothing sales began to increase after a soft year, and demand for home goods remained strong. However, many retailers reported that supply chain disruptions, such as shipping and production delays, were limiting inventories. Auto inventories were especially low and continued to shrink, as the microchip shortage limited supply of new cars and increased demand for used vehicles, which were also in short supply.

Travel and tourism increased moderately in the Fifth District since our last report. Visitation was especially strong at beaches and other outdoor attractions. Some museums and restaurants opened amid strengthening business conditions. Hotels saw short booking-windows but high occupancy on weekends, which contacts attributed to leisure travel, mostly from people who live in drivable distance. Hotel occupancy was lower during the week, as group and business traveled remained soft, but inquiries for group travel increased. Restaurants, hotels, and other attractions reported cutting services and restricting capacity because of labor constraints.

Real Estate and Construction

Demand for homes held fairly steady at high levels since our last report. Prices continued to rise, and the average time to sell a home shortened. Builders saw a continued drop in inventories, with some communities selling out of homes. Agents noted that more resale homes were being put on the market but were being absorbed too quickly to boost inventories. Construction and material costs continued to increase, and shortages of materials caused building delays. Real estate agents noted that mortgage applications were getting approved, but they were increasingly seeing cash sales.

Commercial real estate leasing expanded moderately in recent weeks, but new projects were delayed by shortages and high costs of inputs. Multifamily occupancy and rental rates rose. Retail leasing strengthened, leading to falling vacancy rates as stores and restaurants opened and expanded, and contacts noted an increase in new construction. Office leasing improved as businesses returned to the workplace, and some agreed to longer-term leases than in the past year and took advantage of leasing concessions. Industrial leasing remained strong despite increasing rates, and new construction continued.

Banking and Finance

Overall loan demand rose moderately this period due in part to the need for increased capital as businesses continuing to emerge from the pandemic. Financial institutions indicated a moderate demand for conventional commercial lending driven by improving consumer and business sentiment as well as sustained low rates. In addition, contacts noted a continued slight growth in mortgage lending, but reported a slight decline in refinancing requests. Deposit growth was strong owing to the recent round of stimulus payments. This has led to increased competition among financial institutions as firms seek to deploy these deposits. Credit quality and delinquencies remained good.

Nonfinancial Services

The demand for nonfinancial services rose moderately in recent weeks. An increase in health services demand was driven by non-COVID-related services and elective procedures. A university president reported a substantial spike in applications, but noted that applications from lower income students were down slightly. Meanwhile, an advertising agency reported solid growth in new ad spending, particularly from small businesses. There were several reports, however, that the inability to find additional workers was limiting sales and revenue growth. ■

For more information about District economic conditions visit:
www.richmondfed.org/research/data_analysis

Summary of Economic Activity

Economic activity in the Sixth District expanded at a moderate pace, on net, from April through mid-May. Demand for labor strengthened, though shortages among low-skilled workers persisted. Wage pressures increased for positions in high demand. Some nonlabor costs continued to rise, and pricing power remained mixed. Retail sales activity increased, and auto sales rose more than expected. Hotel occupancy levels rose due to robust leisure travel activity; however, hotels dependent on business travel continued to struggle. Demand for housing remained strong and home prices continued to rise. Conditions in commercial real estate were mixed. Manufacturing activity strengthened as new orders and production levels rose. Conditions at financial institutions were stable, and consumer loan demand grew slightly.

Employment and Wages

Overall employment in the District increased since the previous report. Contacts reported strengthening demand for labor as economies in the region began to reopen. Demand was strongest among lower-skilled positions, and employers reported that labor availability among that segment was very low. Shortages were also noted among skilled trade workers, nurses, IT workers and commercial drivers. Many employers continued to state that expanded unemployment insurance benefits and stimulus payments were keeping would-be workers on the sidelines; others indicated that childcare, transportation issues, and the inability to guarantee hours were key factors in preventing potential workers from seeking employment. Employers indicated there was a great deal of churn among low-skill, low-wage positions, and many reported that labor shortages had a limiting effect on services to customers, as well as the production of goods, which is contributing to supply chain disruptions. Several contacts anticipate that labor shortages will abate this fall but there is a great deal of uncertainty around how much supply will materialize. For firms with limited supply of labor in their markets, opportunities to offer remote work for some positions have removed geographic barriers, allowing employers broader access to talent.

Wage pressure picked up from April through mid-May, and upward pressure was most notable among low-skilled positions. Within this segment, reports of wage increases were more widespread with referral and signing bonuses becoming increasingly more common. Among the more skilled positions, wage increases were more modest.

Prices

District contacts reported that input costs, particularly for lumber, steel, transportation, and shipping remained at elevated levels. Increased costs in construction materials and labor slowed business expansion projects. Reports on pricing power were mixed, but many contacts cited the removal of promotional pricing to maintain margins. The Atlanta Fed's Business Inflation Expectations survey showed year-over-year unit costs increased significantly to 2.8 percent on average in May. Year-ahead expectations increased to 2.8 percent in May, up from 2.5 percent in April.

Consumer Spending and Tourism

District retailers continued to report healthy sales activity over the reporting period, driven largely by tourism. Although auto production and inventory levels fell due to tight chip supplies, sales rose well above forecasted levels for April.

Travel and tourism contacts across the District reported continued strong demand in leisure travel, with hotel occupancy levels in the 80-90 percent range. Contacts noted an uptick in bookings for business travel, conventions and special events planned for the second half of the year. International travel activity continued to be constrained as vaccine distribution in other countries remained slow.

Construction and Real Estate

Housing activity throughout the District remained strong over the reporting period. Relatively low interest rates and a shift from renting towards home buying remained primary drivers of demand, as well as an increase in buyers moving to the region from higher cost markets in the Northeast and West Coast. The persistent shortage in existing home inventory levels resulted in further home price appreciation. In some markets, contacts reported that homes were frequently selling above the asking price. Heavy demand from investors, particularly for newly constructed homes, was also noted to be contributing significantly to price pressures and reduced inventories for home-owner purchasers. Homebuilders noted rising cost pressures as labor and material costs escalated, and many reported efforts to limit sales by raising prices. Contacts noted that housing affordability is becoming more of concern.

Reports on commercial real estate (CRE) activity were mixed. Conditions in the retail and hotel segment improved modestly, as contacts reported increased consumer traffic amid further re-openings of malls, stores, and hotels. Occupancy at lower-priced hotels rose, though higher-priced hotels continued to experience challenges as business travel remained muted compared with pre-pandemic levels. Activity in the multifamily sector improved, even in some of the hardest hit, high-density areas. The office sector continued to face headwinds as many employers remained cautious about future space needs. Negative absorption and new construction are pushing office vacancies upward. Banks reported that capital was available, and competition accelerated among lenders for a small segment of CRE loans.

Manufacturing

Reports on manufacturing activity were largely consistent with the previous report, with contacts noting continued increases in new orders and production levels. Supplier delivery times slowed considerably, and finished inventory levels fell somewhat. Expectations for future production levels remained positive, with nearly two-thirds of contacts expecting higher levels of production over the next six months.

Transportation

District transportation activity expanded since the previous report. Contacts at several ports reported record volumes of containerized imports, and some noted significant investments in infrastructure to grow container capacity. Railroad contacts saw substantial increases in intermodal shipments and total traffic compared with pre-pandemic levels. Trucking firms reported double-digit increases in freight volumes; however, driver shortages persisted. Impacts on freight movements from the shutdown of the Colonial Pipeline were noted as immaterial.

Banking and Finance

Conditions at District financial institutions remained stable over the reporting period. Earnings grew due to lower provisions for loan loss expenses and higher non-interest income, which improved capital. Net interest margins stabilized but remained compressed due to the low interest rate environment. Deposit levels continued to be elevated. Some loan growth returned over the last six weeks, particularly in consumer loans, although residential loan growth slowed due to lower housing inventories, increased cash purchases, and a loss of market share for residential mortgages to nonbanks. Increases in securities portfolios continued to outpace loan growth. Past due balances in loan portfolios held steady despite ongoing declines of loans in forbearance.

Energy

District energy contacts experienced some operational disruptions resulting from the Colonial Pipeline shutdown, including fuel access and delivery tightness that required fuel trucks to be pulled from surrounding markets to serve impacted areas. Production slowed at oil refineries that were unable to offload fuel. Nonetheless, optimism about oil and gas demand among energy contacts continued to grow as economies across the U.S. reopened. Oil and gas exploration and production picked up slightly since the previous report, and contacts expect activity to accelerate in the coming months. Renewable energy projects increased as investment dollars continued to flow into windfarms, solar power plants, and battery storage. Utilities contacts indicated that commercial activity picked up, and residential demand remained strong.

Agriculture

Agricultural conditions remained mixed. Widespread rain across much of the District resulted in abnormally moist to excessively wet conditions while the southern tip of Florida experienced abnormally dry to moderate drought conditions. Most of the region’s cotton and peanut crops were behind the five-year planting average, while soybean planting was mixed, and Tennessee’s corn crops were mostly on par with the five-year average. On a month-over-month basis, the production forecast for Florida's orange crop was unchanged in May while the grapefruit production forecast was down; both forecasts were below last year's production levels. The USDA reported year-over-year prices paid to farmers in March were up for corn, cotton, rice, soybeans, and broilers, but down for eggs and milk; cattle was unchanged. On a month-over-month basis, prices increased for corn, rice, soybeans, cattle, broilers, eggs, and milk but decreased for cotton. Contacts reported some supply chain challenges, including the ability to acquire materials and equipment, higher input costs, and tighter labor availability. Several contacts noted land values increased. ■

Summary of Economic Activity

Economic activity in the Seventh District increased moderately in April and early May and approached its pre-pandemic level. Contacts expected strong growth in the coming months. Employment, consumer spending, business spending, and manufacturing production all increased moderately, while construction and real estate was flat. Wages and prices rose moderately and financial conditions improved slightly. Prospects for agriculture income in 2021 improved.

Employment and Wages

Employment increased moderately over the reporting period, and contacts expected a strong increase over the next 12 months. Contacts again reported minimal employee absenteeism due to Covid-19 infections or exposures. Help wanted signs sprouted across the District as businesses sought to meet growing demand. Contacts across sectors reported greater difficulty in finding workers, particularly at the entry level. Employers, temp agencies, and workforce development organizations pointed to a number of factors limiting labor supply, including health safety concerns, childcare challenges, cutbacks in public transportation schedules, job search fatigue, and financial support from the government. Overall, wage and benefit costs increased moderately. However, contacts across sectors noted strong pressure to raise wages, particularly at the entry level, and there were widespread reports of businesses offering signing bonuses. In addition, there was an increase in reports of firms hiring employees away from other firms by offering greater pay.

Prices

Overall, prices rose moderately in April and early May, and contacts expected similar-sized increases over the next 12 months. Contacts noted that prices for copper, steel, aluminum, metal products, resins, natural gas, food products, PVC pipes, and lumber were noticeably higher. Business output prices moved up moderately, driven by passthrough of higher material, energy, and transportation costs. Many manufacturers said that unlike usual, they were able to raise prices with little pushback. Consumer prices moved up moderately due largely to increased costs; in response there were reports of some retailers limiting operating hours or trying to cut costs by renegotiating leases.

Consumer Spending

Consumer spending increased moderately over the reporting period. Contacts said that looser pandemic-related restrictions and stimulus payments from the American Rescue Plan supported activity, though the impact of the payments had waned in recent weeks. Spending on leisure and hospitality services rose but stayed below pre-pandemic levels. Nonauto retail sales increased moderately, with continuing high levels of demand for furniture, home furnishings, home improvements, electronics, appliances, and sporting goods. Grocery store sales remained healthy and there were again reports of consumers trading up for more expensive items, such as premium meat cuts, finer wines, and seafood. Contacts from some large open-air shopping centers reported that consumer traffic levels had recovered to or remained just below 2019 levels. New and used light vehicle sales increased modestly from a high level, but with sales constrained by issues of vehicle availability.

Business Spending

Business spending increased moderately in April and early May. Retail inventories were uncomfortably low for many items, and contacts expected challenges to continue through much of 2021. New and used light vehicle inventory levels fell further—to very low levels for new vehicles. One dealer reported that their stocks were at 33% of normal and that the manufacturer indicated the situation wouldn't improve until August at the earliest. Many manufacturing contacts said inventories were below comfortable levels. Contacts noted that supply chain issues had worsened, particularly for raw materials, microchips, and specialty parts. They expected little improvement through the end of the year. Demand for transportation services increased moderately. Many contacts reported ongoing shipping delays, both from overseas and within the U.S. Capital expenditures were up moderately, and contacts expected a moderate increase over the next twelve months. Several contacts said that long wait times for equipment were holding back spending. Demand for commercial and industrial energy consumption was little changed overall.

Construction and Real Estate

Construction and real estate activity increased slightly over the reporting period. Residential construction was little changed from a strong level. Contacts said that rising costs due to limited lot availability and higher material costs (particularly for lumber) were putting a damper on building. Home remodeling activity was strong and continued to grow. Residential real estate activity increased moderately despite low inventory levels. Strong demand pushed home prices up noticeably, with many selling for well above list price. Residential rents edged up. Nonresidential construction increased slightly, with contacts highlighting growth in the industrial and transportation infrastructure sectors. Commercial real estate activity was little changed overall. Rising demand for industrial space was offset by falling demand for office and retail space. That said, a few contacts noted that retail space that had emptied earlier in the pandemic was starting to fill again. Commercial real estate prices increased marginally and rents were unchanged. The availability of sublease space was up modestly as some offices trimmed their post-pandemic footprint.

Manufacturing

Manufacturing production increased moderately in April and early May despite widely reported supply chain challenges. Most manufacturing contacts said that business was above pre-pandemic levels. Auto output declined slightly due to parts shortages, notably of microchips. Steel production increased moderately to meet growing demand from manufacturers, builders, and the energy sector. Demand for heavy machinery also grew moderately, spurred by growth for construction, mining, and agriculture. Specialty metals manufacturers reported a solid increase in shipments, but also a large increase in backlogs as they struggled to keep up with demand.

Banking and Finance

Financial conditions improved slightly over the reporting period. Participants in the equity and bond markets reported a small improvement in conditions, though volatility remained elevated. Lenders continued to report that businesses and households had large amounts of cash on hand to finance spending. Business loan volumes were little changed on balance, with contacts highlighting strength in construction and manufacturing, but weakness in commercial real estate and leisure and hospitality. Business loan quality increased slightly across most segments. Contacts reported stiff competition for loan opportunities and that standards had loosened a bit. In consumer markets, loan demand increased modestly, led by ongoing growth in residential mortgage activity. Consumer loan quality increased slightly, while credit standards were little changed.

Agriculture

Expectations for farm income in 2021 strengthened across sectors in April and early May. Drought and dry weather conditions were an issue across a substantial portion of the District, though timely rains could still erase most of the impact. Frosts damaged some plants and trees, with potentially heavy losses for fruit producers. Corn and soybean planting proceeded ahead of the normal pace. Corn, soybean, and wheat prices moved up and were near multi-year highs. Hog, cattle, and milk prices rose, helped by strong meat and dairy exports. Egg prices dropped however. Despite higher prices, livestock producers' margins were little improved because of higher feed costs. Farmland values increased once again, because of strong demand and limited inventory. ■

For more information about District economic conditions visit:
chicagofed.org/cfsbc

Summary of Economic Activity

Contacts reported that economic conditions have moderately improved since our previous report, although growth was robust in some sectors. Many contacts described a situation in which growth in demand for their products or services is outpacing their growth in capacity. Contacts cited product and material shortages and low staffing levels as key constraints. Many supply chain issues also stemmed from labor shortages at suppliers' facilities. Contacts remained optimistic and expect these constraints to subside beginning in the fall. On net, 48 percent of contacts expect economic conditions during the remainder of 2021 to be better or somewhat better than the same period one year ago.

Employment and Wages

Employment has increased modestly since our previous report. Contacts across industries reported hiring to meet higher demand. Many, however, noted shortages for both skilled and unskilled labor. One St. Louis job fair, held by a dozen restaurants to fill more than a hundred positions, drew barely a dozen applicants. Contacts attributed this scarcity to increasing demand for labor in other sectors, unemployment benefits, and workers' healthcare and childcare concerns; one manufacturer, so affected by childcare difficulties, planned to use federal aid funds to address the issue. Many firms reported difficulty maintaining employee morale and engagement. A high-end restaurant owner reported only a single employee who never came in late or missed a shift in a month after offering a $1000 bonus for doing so. Some firms turned to automation; one manufacturer reported doing so after seeing a 70% turnover rate in new hires.

Wages have increased moderately. Employers specifically reported increasing starting wages and sign-up bonuses to attract new hires, though small firm wages remained more stagnant. One restaurant owner reported that raising his starting wage has drawn interest from prospective workers—when he can find any to talk to.

Prices

Prices have increased moderately overall since our previous report, but prices in some sectors such as automobile retailing and construction have increased sharply due to transitory supply chain constraints and a spike in consumer demand. Contacts across industries reported increased delivery costs and long lead times for input materials. Several auto dealers reported strong increases in new and used vehicle prices, depending on the age and mileage of the vehicle. These contacts attribute the price increases to high demand and a reduced supply due to input shortages; however, these prices are expected to stabilize before the end of the year. A manufacturing contact reported increased input costs for fuel, acrylic, wood, and metals. Steel prices have increased moderately since our previous report and robustly year over year. Lumber prices have declined since our previous report but remain elevated relative to one year ago. A contact from a regional refinery reported that oil prices have stabilized at a higher level than expected. Several contacts in the construction industry reported increased material supply prices. Contacts in the retail and commercial real estate industries reported lower sales prices.

Consumer Spending

Consumer spending activity has increased strongly since our previous report. General retailers reported increased sales over the past six weeks and an overall improved outlook, citing federal aid to households, vaccinations, and pent-up demand. Auto dealers reported that sales over the past six weeks were about the same or slightly higher than the previous 6 weeks, although the outlook for sales for the coming quarter was mixed. Dealerships described the impact of stimulus checks as “massive” and “ongoing.” Hotel occupancy is up, but the number of rooms available is down due to labor shortages. A contact noted that parents who have not spent much on experiences for their children are ready to start spending now that social distancing restrictions have been relaxed.

Manufacturing

Manufacturing activity has strongly increased since our previous report. Survey-based indices suggest that production, capacity utilization, and new orders have strongly increased. Some firms are experiencing large order backlogs as supply chain issues and labor shortages have constrained production. Several contacts in the region noted that Winter Storm Uri caused disruptions in the supply of plastics coming from the Gulf Coast. Contacts also reported that they are struggling to find and maintain employees due to competition with other industries, especially as COVID-19 restrictions are lifted. On average, firms reported they expect strong increases in production, capacity utilization, and new orders in the third quarter, but remain pessimistic about supply-chain disruptions in the next few quarters.

Nonfinancial Services

Activity in the nonfinancial services sector has increased slightly since our previous report. About two-thirds of contacts indicated that sales met or exceeded expectations during the second quarter. Airport passenger traffic has increased by 10% since our previous report, but only to around two-thirds of May 2019 levels. One logistics contact mentioned that low inventories have increased demand for their services. The recent pipeline cyberattack disrupted trucking shipments to the northeast. A crack in the Interstate 40 bridge connecting Memphis to Arkansas disrupted auto and barge traffic in May. Several healthcare contacts reported lingering issues from COVID-19, such as higher input costs and tighter hospital budgets. An IT service contact reported a slowdown in new projects due to difficulties connecting with new clients.

Real Estate and Construction

Residential real estate activity remains unchanged since our previous report. Inventory levels remain extremely low and the median number of days a house is on the market continues to fall. Contacts reported that low interest rates and pent-up demand from the pandemic are continuing to drive demand for homes. Home building has slowed due to supply chain issues. In addition, suppliers have extended lead times on appliances and some finished building products. Builders are also waiting to list houses until they are complete, to adjust for materials’ price volatility. Several contacts reported that these changes in costs are causing clients to reconsider or cancel projects.

Commercial real estate activity remains mixed across different sectors. Industrial real estate activity remains unchanged, with high demand from e-commerce distribution facilities. Demand for office and retail spaces remains low, but contacts speculate that the return of some office workers as well as increased retail spending will lead to improvement. Contacts reported that supply shortages and price volatility may lead to delays or cancellations of projects. However, industrial construction projects are expected to continue despite these issues.

Banking and Finance

Banking conditions have improved slightly since our previous report. Many bankers highlighted high asset quality, ample liquidity, and record earnings in the first quarter of 2021. Most contacts anticipate mortgage business and PPP loan income to increase their earnings. Compressed net interest margins continue to be a concern. Contacts reported a modest increase in overall loan demand. Commercial and industrial (C&I) loan demand rose slightly, while consumer loan demand, particularly for auto loans, increased moderately. To offset higher used car prices, many lenders have decided to stretch out terms on auto loans to make financing more affordable. Delinquency rates remained low, although some lenders started to see a slight uptick in C&I delinquencies in recent months.

Agriculture and Natural Resources

Agriculture contacts remain optimistic about current conditions overall. Most agriculture contacts surveyed reported that their sales thus far have met expectations. Supply chain issues are raising many producers’ costs, although higher commodity prices have helped generate higher incomes, maintaining profit margins. One contact indicated that government support has been strong in the sector. The percentage of row crops planted has increased since the previous reporting period and is up slightly from this time in 2020. Progress of acres planted is up slightly to moderately this year for every crop of the District states; only Indiana is behind their 2020 progress to this point. This optimism extends to the outlook as well, as contacts reported that their outlook for the rest of 2021 has improved somewhat. ■

Summary of Economic Activity

Ninth District economic activity grew at a moderate-to-strong pace since early April. Employment grew moderately, with strong hiring demand outpacing labor availability. Wage pressures were moderate overall, and wholesale price pressures increased briskly while consumer prices increased more moderately. Growth was noted in consumer spending, construction, real estate, manufacturing, agriculture, and energy. Minority- and women-owned businesses in the region reported moderate improvements in business activity.

Employment and Wages

Employment grew moderately since the last report, with strong hiring demand outpacing labor availability. Job postings saw strong increases in recent weeks, particularly in South Dakota and Montana. A Minnesota staffing firm with multiple offices said every location had at least 100 job openings. Hiring demand was healthy across all sectors, but was strongest in manufacturing, construction, health care, and hospitality. Recent hiring and near-term hiring expectations improved for firms of all sizes; however, large firms reported significantly stronger hiring tendencies. For those hiring, most said their ability to find and hire staff was moderately or extremely difficult. Contacts in the Dakotas and Montana expected some improvement in labor availability with the early elimination of enhanced federal unemployment benefits in those states. But the action itself was weeks away, and competition for new entrants would be high.

Wage pressures were moderate overall. Wage growth among the large majority of contacts remained below 3 percent on an annualized basis. Workers at construction, manufacturing, and hospitality firms saw stronger wage growth, while many service-related firms saw weaker growth. Future wage expectations were slightly higher, but not well aligned with firms' broader concerns over labor availability. A manufacturer of construction products recently increased hourly wages by $3 an hour and saw job applications jump significantly.

Worker Experience

Job seekers saw modest improvement in labor market conditions since the last report. While hiring demand was robust, job service contacts reported low wages as a moderate or significant barrier keeping job seekers from taking available jobs. They also noted increased interest in telework, but few viable options. A workforce contact said that displaced high-income earners were actively seeking jobs to replace lost income, while low-income earners were more likely to stay on the sidelines if they were receiving government benefits. Contacts also cited the challenges of childcare and children's school schedules in making employment decisions. Several contacts pointed to increased inoculations and the gradual return of activities in travel and hospitality as positives for frontline workers. A labor contact expressed that while employment for janitorial workers remains 10 percent below pre-pandemic levels, more janitors were finding work deep cleaning commercial spaces.

Prices

Wholesale price pressures increased briskly, while consumer prices increased more moderately, as ongoing spikes in certain inputs fed through to final prices. Nearly a quarter of respondents to a business conditions survey reported nonlabor input price increases of greater than 10 percent relative to pre-pandemic levels. Pressures were slightly lower for final/retail prices charged to customers. Respondents to a construction survey noted increases in materials costs across the board, but particularly sharp increases for lumber, steel, and copper wire. Manufacturing contacts continued to report higher final prices due to increased costs for raw materials, packaging, and transportation. However, contacts offered that growing demand was allowing firms to pass along a greater share of markups to customers. Retail fuel prices increased at a moderately strong pace since the previous report.

Consumer Spending

Consumer spending was slightly higher since the last report, but remained at elevated levels. Restaurants, bars, hotels, and recreation firms all reported increased activity in recent weeks. However, many reported difficulty hiring and were operating at limited hours and/or capacity. A Montana contact said tourism firms were "facing the toughest recruiting season ever." Auto sales in the western portion of the District remained strong, with low inventories remaining the biggest obstacle. "Most new units are spoken for by the time they arrive at the dealerships," said one Montana contact. Similar demand was reported for recreational and marine vehicles. Airline passenger levels have hit a seasonal lull before the summer travel season, but a North Dakota travel contact said activity was expected to rise "once families begin summer vacations." A regional shopping center in Minnesota said that traffic had been rising; while still below pre-pandemic levels, growth was expected to continue due to pent-up demand.

Construction and Real Estate

Commercial construction activity grew slightly overall, held back by supply chain disruptions and rising costs for materials. Overall project activity showed signs of increasing, according to two industry trackers and contacts across the District. However, many contacts also noted that supply chain problems and inflated materials costs were creating significant project delays and some outright cancellations, and lack of available labor was further eroding their ability to either take on work or complete projects. All of these pressures were having a noticeable effect on profits. Similar difficulties were evident in residential construction. However, contacts noted stronger overall demand and outlooks, and recent residential permitting remained robust across many of the District's larger markets.

Commercial real estate improved modestly overall, though subsectors varied. Industrial property remained strong, with some speculative building reentering the market. Vacancy rates rose in office and retail, with sublease activity also increasing. Apartment vacancy rates remained low across the District, and rents were reportedly rising again, but uncertainty related to the elimination of eviction moratoriums remained. Residential real estate continued to see strong home sales across the District. In many District markets, inventories of homes for sale were half—or less—of last year's levels; shortages were acute among lower-priced homes, sparking offers above asking prices.

Manufacturing

District manufacturing activity increased briskly since the last report despite sharp cost increases. An April index of regional manufacturing conditions indicated strong expansion in activity in Minnesota and increased activity in North Dakota and South Dakota from a month earlier. More than half of manufacturing contacts reported that they expect revenues to increase in the second quarter of 2021 from the previous quarter.

Agriculture, Energy, and Natural Resources

Agricultural conditions improved sharply since the previous report. Contacts expected strong farm incomes heading into planting season, building on recent commodity price increases and export demand. Crop progress as of mid-May was generally well ahead of recent averages in District states. However, extreme drought conditions spread in portions of the District. District oil and gas exploration activity increased slightly since the previous report, but remained well below its pre-pandemic level.

Minority- and Women-Owned Business Enterprises

Minority- and women-owned business enterprises (MWBEs) in the region reported moderate improvements in business activity, according to a May survey. Customer traffic and revenue is modestly to significantly higher compared with the same period a year ago, when restrictions were imposed. A contact working with minority entrepreneurs warned that barriers faced by many businesses to access financial assistance during the pandemic continued to put them behind in the recovery. They further indicated that while many businesses have been technologically adapting to the new environment, some clients lack the knowledge and/or capacity to do so. A contact in the hospitality industry expressed difficulty finding employees and highlighted the inability of small businesses to match current income from government benefits. Like firms overall, MWBE manufacturing and construction businesses were faring well, but also faced labor and material shortages, respectively. ■

For more information on the Ninth District economy, visit:
minneapolisfed.org/region-and-community

Summary of Economic Activity

Conditions in the Tenth District economy continued to improve at a moderate pace in April and May, and contacts in most sectors anticipated additional gains in the months ahead. Consumer spending increased moderately as retail, restaurant, and tourism sales rose. Sales exceeded pre-pandemic levels for the majority of retail, restaurant, and auto contacts, while tourism and healthcare sales remained below pre-pandemic levels. Manufacturing activity expanded robustly, and almost two-thirds of manufacturers reported that new orders were at or above pre-pandemic levels. Contacts also reported sales gains in the wholesale trade, professional and high-tech, and transportation sectors. Residential real estate activity increased and home prices rose robustly as inventories fell further from already low levels. Commercial real estate activity increased slightly for the first time since the pandemic started. The energy sector expanded as production, commodity prices, and capital expenditures moved higher. The farm economy remained strong, but drought conditions continued to strain producers in the western part of the region. Employment rose at a modest pace, and wages increased moderately. Input prices increased robustly, while selling prices increased at a moderate pace.

Employment and Wages

District employment continued to increase modestly during the survey period in both the services and manufacturing sectors, with a slight majority of contacts in both industries indicating that employment levels were now at or above pre-pandemic levels. Recent employment gains in the services sector were driven by hiring in the retail and wholesale trade industries, while transportation, auto, and real estate contacts reported slight declines. Looking ahead, services contacts expected modest increases in employment in the coming months, with slightly stronger gains in tourism and wholesale trade. Manufacturers anticipated both employment levels and hours to rise moderately in the next few months.

The majority of contacts reported labor shortages, with many contacts noting demand for all positions and several others in need of truck drivers and technicians. More than three-quarters of contacts reported that the inability to find workers with the required skills was restraining hiring plans. Wages rose moderately, and while the majority of contacts expected wage growth to remain moderate throughout 2021, more than one-third of manufacturing and services contacts expected to raise wages by 4 percent or more at their firms.

Prices

The prices of raw materials rose robustly in both the manufacturing and services sectors since the previous survey, while selling prices increased at a slightly more moderate pace. The majority of respondents also indicated that selling prices were above pre-pandemic levels. More than one-third of contacts reported that rising materials prices and supply issues, such as lack of availability or increased delivery times, were having a strong negative effect on their firm, and an additional one-third of contacts reported a slight negative impact from these factors. About 80 percent of contacts expected these factors to persist for 12 months or less. Contacts in both sectors expected input prices to continue to rise robustly over the next six months, while the growth rate of selling prices was anticipated to accelerate.

Consumer Spending

Consumer spending grew moderately over the survey period, and the majority of contacts noted that sales were above pre-pandemic levels. The strongest sales gains in April and May were observed in the retail, restaurant, and tourism sectors. Compared to pre-pandemic levels, more than 70 percent of retailers and half of restaurant owners indicated higher sales, while the majority of tourism contacts continued to report lower sales. Health services and auto sales held fairly steady since the previous survey, with health services sales still below pre-pandemic levels and auto sales above. Respondents across all consumer sectors expected sales gains in the coming months, with restaurant and tourism contacts expecting particularly strong gains.

Manufacturing and Other Business Activity

Manufacturing activity expanded robustly since the last survey as production and new orders increased at both durable and nondurable goods plants, albeit with stronger gains among durable goods producers. Almost two-thirds of respondents indicated that new orders were either at or above pre-pandemic levels. Looking ahead, both durable and nondurable goods manufacturers expected moderate gains in production, new orders, and capital expenditures in the coming months.

Outside of manufacturing, sales rose robustly at wholesale trade firms, moderately at transportation firms, and modestly at professional and high-tech services firms in May. In addition, capital expenditures increased modestly over the survey period in all three sectors. Transportation and wholesale trade contacts expected moderate-to-strong sales gains over the next six months, while sales at professional and high-tech services firm were expected to continue to rise moderately.

Real Estate and Construction

Residential real estate activity continued to expand moderately in April and May, while commercial real estate activity increased slightly for the first time since the pandemic started. Home prices sustained robust growth as sales increased moderately and inventories continued to decline. Contacts expected these trends to continue in the coming months. Construction supply sales rose modestly since the last survey, and similar gains were expected in the next few months. Commercial real estate contacts noted modest increases in absorption rates, sales, prices, rents, and construction as well as a slight decrease in vacancy rates. Growth in commercial sales and construction was expected to pick up in the coming months, and vacancy rates were expected to fall modestly. However, developers' access to credit was expected to become modestly more difficult.

Banking

Loan demand rose slightly since the previous survey, with gains driven by modest growth in the demand for consumer installment loans and slight growth in the demand for commercial real estate loans. Commercial, industrial, and residential real estate loan demand held steady, while demand for agricultural loans declined modestly. Credit standards remained stable across all lending categories, and bankers reported that overall loan quality had improved strongly since last year. Additional improvement in loan quality was anticipated over the next six months. Deposit levels increased robustly in recent weeks, with anecdotal evidence suggesting the increase is concentrated in liquid accounts, such as demand deposit accounts and savings accounts.

Energy

District energy activity expanded in April and May as the number of active oil and natural gas rigs rose due to the addition of several oil rigs in Oklahoma. With a larger number of active rigs compared with a year ago, production levels also increased modestly. Multiple firms indicated capital spending plans aimed at increasing production in 2021 while reducing costs after restructuring over the past year. Employment in the energy sector inched up slightly across the District since the last survey period, but the number of jobs remained considerably below year-ago levels. A slight increase in commodity prices since the last survey period supported higher revenues and profits for regional firms. Contacts across the District expected stable to slightly higher oil prices for the remainder of the year as impacts from the pandemic continue to wane and demand recovers.

Agriculture

The Tenth District farm economy remained strong, but drought continued to strain all types of producers in the western part of the region. Prices for corn, soybeans, wheat, cotton, and hogs increased in recent weeks and remained at multi-year highs through the early part of May. In contrast, prospects for the cattle industry remained subdued as cattle prices were near pre-pandemic levels but profit opportunities were limited due to elevated feed costs. Alongside severe drought in the western portion of the District, the wheat crop was in poorer condition in Colorado relative to other states. Contacts also reported that the impact of drought on pasture quality and hay production continued to worsen. ■

For more information about District economic conditions visit:
www.KansasCityFed.org/research/regional-research

Summary of Economic Activity

The Eleventh District economy continued to expand at a solid pace during the reporting period. Growth in the manufacturing and nonfinancial services sectors was strong, though activity remained below pre-pandemic levels. Retail sales were mixed. Home sales and single-family construction remained robust, but activity was being constrained by labor, lot, and materials shortages. Apartment demand rose, while office leasing stayed weak. Overall loan volume increased sharply, buoyed by continued strength in real estate lending. Energy activity and agricultural conditions improved. Employment growth was moderate, and upward wage pressures continued as hiring remained a key challenge for many companies. Ongoing supply chain disruptions intensified price pressures, particularly in the construction and manufacturing sectors. Outlooks improved, though there was widespread apprehension about the sustainability of current demand growth in light of supply constraints, difficulty hiring, and rising costs.

Employment and Wages

Employment expanded at a moderate pace. Lack of labor availability, particularly for low-skilled positions, was a growing concern among firms trying to hire or recall workers, with a majority noting a lack of applicants and generous unemployment benefits as impediments to hiring. Many contacts, particularly accommodation and food service firms, reported sizable numbers of unfilled positions, and some noted that existing staff have had to take on responsibilities outside of their normal jobs. Some firms noted difficulties getting applicants to show up for interviews, which further hampered hiring.

Wages continued to increase, with reports of significant upward pressure in industries having trouble finding and retaining workers. There were multiple reports of considerable wage pressures for mechanics, warehouse employees, construction specialty trades, and truck drivers. A manufacturer said that even with a starting hourly wage of $14 for non-skilled workers, they were unable fill 20-plus open positions.

Prices

Price pressures intensified further in part due to persistent supply chain issues, and multiple firms noted that this was affecting business growth. Input costs surged, with contacts in the construction, manufacturing, and retail sectors citing the steepest increases. There were several reports of higher prices of fuel, petrochemicals, agricultural commodities, building materials, lumber, metals, and vehicles, as well as rising freight costs. Some contacts expect costs to remain elevated for some time due to strong demand and/or supply chain challenges. Selling prices rose at a fast clip in many sectors. Housing contacts noted difficulty obtaining appraisals due to rapid escalation in home prices. Compared to yearend 2020, business contacts have revised upward their expectations for input and selling price increases in 2021.

Manufacturing

Solid expansion continued in the manufacturing sector, though the pace of growth eased from the prior reporting period. Several durable goods manufacturers noted large backorders and a lack of capacity to keep up with strong demand. Those noting slower activity said supply chain issues combined with inventory or raw materials shortages led to slowdowns in production schedules. Refining operations were recovering from the disruption caused by the Colonial pipeline outage, and contacts were increasingly optimistic for strong U.S. fuel demand in the third quarter. Margins are expected to rise in the second half of the year to near 2019 levels. Petrochemical production has mostly recovered from Winter Storm Uri outages, but supply chain disruptions were likely to persist through yearend 2021. Overall outlooks improved, although some manufacturers voiced concern about the dampening effect on activity of supply constraints, extended lead times, and proposed tax hikes.

Retail Sales

Retail sales grew robustly in April but dipped in May, which contacts attributed to supply chain issues and low inventories. Auto sales expanded as well during the reporting period, though new car supplies were limited by microchip shortages. Outlooks were positive, buoyed by the reopening of the economy and current pace of vaccinations, though rising costs and inventory shortages remained a concern.

Nonfinancial Services

Nonfinancial services expanded strongly over the reporting period. Demand growth was broad based, led by increases in leisure and hospitality, transportation, and professional and business services. Restaurateurs and hoteliers said leisure activity was largely driving demand as business travel remained sluggish. Airlines also cited modest increases in ticket sales, which they attributed to improvement in COVID statistics and easing restrictions. Leisure travel continued to dominate airline bookings, and contacts noted a pickup in reservations a few months out. Staffing firms reported broad-based increases in demand. In transportation services, air cargo volumes rose sharply due to continued strength in domestic e-commerce activity. Container shipments coming through the Port of Houston picked up, and small parcel shipments increased as well. Outlooks were positive, although there was apprehension regarding the sustainability of current demand growth along with proposed changes in tax policies among other regulations.

Construction and Real Estate

Activity in the single-family housing market remained brisk. Sales continued to be robust, though builders were struggling to keep up with demand and had to limit sales. Several builders are shifting away from build-to-suit construction to only starting inventory homes and selling them at the framing or drywall stage due to production challenges and escalating costs. In fact, in some instances, builders were selling lots and/or inventory homes to the highest bidder. Others who were still doing build-to-suit jobs noted including price escalation clauses in contracts to cover cost increases incurred during the construction phase. Lot supply remained very tight as did existing and finished vacant home inventories. In the existing-home market, realtors reported bidding wars on listings and homes getting snapped up quickly. Outlooks were mixed, with contacts voicing concern about constrained lot supply, appraisal issues, rising costs, and labor and material shortages.

Apartment demand was solid, pushing up occupancy and rents. Apartment construction was ramping back up after a slowdown last year due to COVID. Contacts said that there is a lot of money chasing multifamily deals and pricing on assets is quite aggressive. Industrial construction and leasing remained robust. Demand for office space remained weak and vacancies ticked up further.

Financial Services

Loan volumes rose robustly over the past six weeks supported by continued strength in commercial and residential real estate activity. Commercial and industrial loan volumes ticked up, while consumer lending was flat. Nonperforming loans declined, and credit standards stayed somewhat tight. Loan pricing remained competitive, and multiple contacts said they were flush with liquidity and that it was difficult to deploy the excess capital to generate reasonable returns. Sentiment regarding general business activity improved markedly, with 68 percent of respondents citing an increase over the past six weeks. Outlooks were optimistic, with contacts expecting continued declines in non-performing loans, strong loan demand, and increased general business activity six months from now. Nearly half of respondents also noted that they expect long-term rates to rise over the next 12 months.

Energy

Drilling and completion activity rose further during the reporting period. Oilfield services firms noted modest hiring to support increased oil field activity. Exploration and production firms expect the market to support a West Texas Intermediate price of $60-65, and reiterated that, at this price, capital spending plans would likely remain unchanged among large U.S. producers. E&P firms have slightly revised up their production outlook for 2021 thanks to strong year-to-date results. Sentiment in the oil and gas industry improved further, though contacts remained cautious about changes in tax policy and rising fuel, materials, and labor costs.

Agriculture

Recent rainfall eased drought conditions in parts of the District and improved prospects for row crops. Agricultural commodity prices moved higher across the board, spurred by tight world supply and robust export demand. Overall, row crop farmers were optimistic for improved production and revenues this year. Significantly higher grain prices, however, have negatively affected the livestock sector with feed costs double what they were a year ago. Beef exports were strong, which together with continued capacity constraints in meat packing plants have driven up beef prices to well-above-average levels.

For more information about District economic conditions visit:
www.dallasfed.org/research/texas

Summary of Economic Activity

Economic activity in the Twelfth District expanded significantly during the reporting period of April through mid-May. Conditions in the agriculture and resources sectors improved notably, while manufacturing activity continued to expand at a modest rate. Contacts reported ongoing strength in residential real estate markets, but largely unchanged conditions in the commercial real estate sector. Lending activity rose somewhat, with increased competition for new loans and deals. Employment levels continued to increase modestly, accompanied by moderately higher wages. Price increases stepped up considerably, driven by increased material costs and supply chain disruptions. Retail sales increased a fair bit as vaccinations continued, allowing for further easing of social-distancing restrictions. Activity in the consumer and business services sectors strengthened somewhat.

Employment and Wages

Overall employment levels continued to increase as the labor market tightened in some regions. Employment accelerated in states that only recently lifted business restrictions, like California, and slowed modestly in states where unemployment levels were already low, as in the Mountain West. Most of the job growth was concentrated in the hospitality, retail, tourism, and food services sectors, with employers seeking to rehire workers as the economy reopens and demand for these services strengthens. However, many of these employers also reported facing difficulties hiring and retaining workers for low-skilled jobs, as did contacts in manufacturing, construction, transportation, and agriculture. Labor demand also picked up in the technology and entertainment sectors while holding steady in the financial and other professional services sectors.

Wage pressures increased moderately. Employers in the construction, manufacturing, technology, retail, healthcare, restaurant, and hospitality sectors reported having to increase wages to retain and attract workers for both high- and low-skilled jobs. In addition to raising wages, these employers also mentioned offering other incentives such as sign-on bonuses, reduced or flexible hours, and the ability to work remotely. Wage increases were especially high in restaurants and hospitality services ramping up to reopen, and employers reported difficulties in rehiring workers. Wages in financial services remained stable.

Prices

Price increases stepped up considerably over the reporting period. Continuing supply chain disruptions, low inventories, and increasing labor costs have contributed to upward pricing pressures in recent weeks. These were most pronounced for users of raw materials, especially fuel and lumber. With burgeoning demand for food services, prices for many agricultural products have also risen, which translated into higher prices at grocers and some restaurants. Additionally, prices for airline tickets, rental cars, and lodging have started to normalize from previous lows.

Retail Trade and Services

Retail sales increased a fair bit over the reporting period. Sales growth was particularly strong in restaurants and drinking establishments during recent weeks, as the continued pace of vaccinations allowed for further easing of social-distancing restrictions. A number of contacts reported increased foot traffic in retail stores, while e-commerce sales continued to be strong. However, retailers across the District highlighted several supply chain disruptions, including port issues, container shortages, and manufacturing delays. As a result, most retailers, even consignment and thrift stores, reported low inventory stock and raised concerns that the current sales pace might slow in coming months. Sales of new and used motor vehicles remained robust, although constrained by low inventories, as did those of home improvement goods. Demand for airline reservations was noted to have picked up for the first time since the onset of the pandemic.

Activity in the services sector also strengthened moderately. Following the further unwinding of pandemic-related restrictions, conditions in the travel, leisure, entertainment, and hospitality industries improved, albeit slowly. Bookings for hotel rooms slightly increased due to a pickup in leisure travel. Restaurants reported operating at almost full capacity outdoors, although indoor dining capacity was still limited. Demand increased for automotive parts and services, as well as for car rentals. In health care, elective services and non-COVID-19 lab testing increased modestly, but preventive services remained subdued. Demand for transportation and logistical services continued to be strong, while that of legal and other professional services was largely unchanged.

Manufacturing

Manufacturing activity continued to expand at a modest rate. New orders growth remained strong, especially for wood products, chemicals, manufactured metals, computers, electronics, and manufactured food products. Yet delivery delays and shortages of input materials, such as semiconductors, continued to hold back production and decreased inventories in some cases. Wood product manufacturers in the Pacific Northwest, already operating at full capacity, reported having to delay production of some orders. A contact in Southern California noted that capacity utilization rates in manufacturing of renewable energy equipment have normalized, and new orders are generally growing.

Agriculture and Resource-Related Industries

Conditions in the agriculture and resources sectors notably improved. Loosened capacity restrictions in restaurants and drinking establishments contributed to stronger demand for agriculture products, including wheat, corn, nuts, and fruits. Demand from abroad also increased, aided by the depreciating dollar in the later part of the reporting period. As a result, inventories of fruits and nuts were noted to have decreased to lower-than-usual levels. However, supply chain disruptions continued to negatively affect many producers with one reporting both domestic and international logistical issues that resulted in significant delays in seafood product sales. Growers in California noted that current drought conditions are expected to negatively impact annual crops this year, driving up labor and electricity costs as farmers depend more on wells and water pumps for irrigation.

Real Estate and Construction

Residential construction activity continued to expand at a brisk pace. Demand for single-family homes remained strong, although construction still failed to meet high demand since the previous reporting period. The lack of available homes was further exacerbated by increasing labor and transportation costs, as well as widespread shortages of raw materials, including lumber, asphalt, cement, steel, and wallboard. The lack of available land caused some homebuilders to start building smaller homes or to move further into rural areas. Contacts in the Pacific Northwest noted that bidding wars are common for newly listed properties, and some homebuilders are delaying price quotes until completion of new homes due to overall cost uncertainties. Demand for multifamily homes also increased, although a few contacts noted that projects in metropolitan areas had to be put on hold due to increasing costs. Several contacts in California mentioned a backlog of permits due to COVID-related shutdowns in local governments.

Conditions in the commercial real estate market were largely unchanged. Demand for new office, retail, and hospitality space stayed muted with reports of high vacancies and declining lease rates. However, demand for industrial, warehouse and distribution spaces strengthened especially in the suburbs, and vacancy rates were noted to be relatively low with lease rates either steady or rising. One contact in Southern California mentioned that the continued pace for vaccinations has contributed to a slight pickup in demand for retail space, as people return to metropolitan areas in preparation of in-person work.

Financial Institutions

Lending activity rose somewhat during the reporting period. Most new growth in loan origination was led by demand for commercial and multifamily real estate. Residential mortgage and refinancing activity also continued to be solid, while demand for auto loans and credit cards held steady. However, contacts across the District noted increased competition among financial institutions for new loans and deals, which led a few to raise concerns over deteriorating loan quality. Overall though, banks reported low delinquency rates, ample liquidity, and high asset quality. Mergers and acquisitions activity continued to increase, although one contact in Southern California observed a decline in SPACs (special purpose acquisition companies) origination in recent weeks. ■