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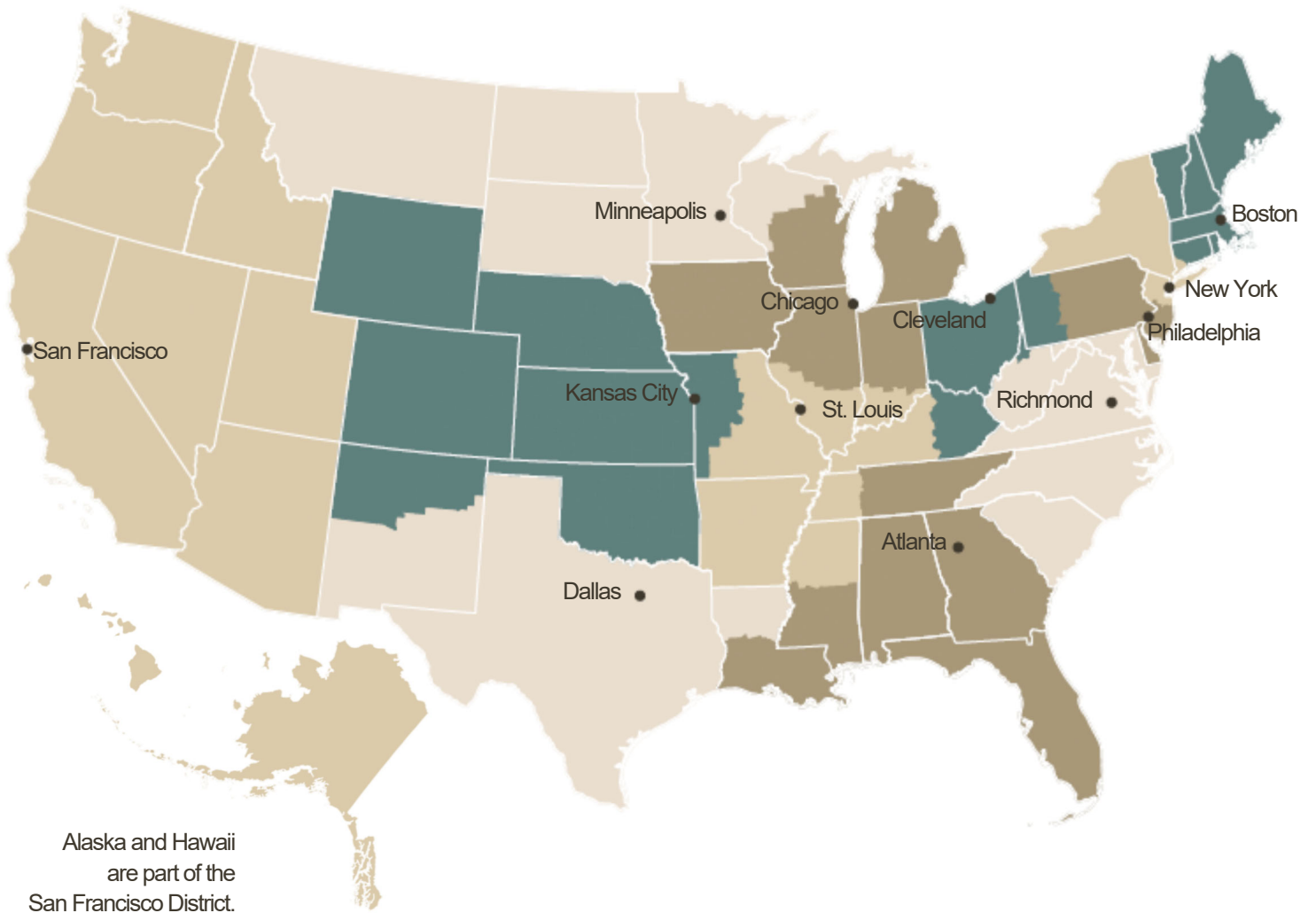
The Beige Book

Summary of Commentary on Current Economic Conditions

By Federal Reserve District

August 2020

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.

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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 District sources.

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. Because this information is collected from a wide range of business and community contacts through a variety of formal and informal methods, the Beige Book can complement other forms of regional information gathering.

How is the information collected?

Each Federal Reserve Bank gathers anecdotal information on current economic conditions in its District through reports from Bank and Branch directors, plus phone and in-person interviews with and online questionnaires completed by businesses, community contacts, economists, market experts, and other sources.

How is the information used?

The anecdotal information collected in the Beige Book supplements the data and analysis used by Federal Reserve economists and staff to assess economic conditions in the Federal Reserve Districts. 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 also serves as a regular summary of the Federal Reserve System's efforts to listen to businesses and community organizations.

This report was prepared at the Federal Reserve Bank of Minneapolis based on information collected on or before August 24, 2020. This document summarizes comments received from contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.



National Summary

The Beige Book ■ August 2020

Overall Economic Activity

Economic activity increased among most Districts, but gains were generally modest and activity remained well below levels prior to the COVID-19 pandemic. Manufacturing rose in most Districts, which coincided with increased activity at ports and among transportation and distribution firms. Consumer spending continued to pick up, sparked by strong vehicle sales and some improvements in tourism and retail sectors. But many Districts noted a slowing pace of growth in these areas, and total spending was still far below pre-pandemic levels. Commercial construction was down widely, and commercial real estate remained in contraction. Conversely, residential construction was a bright spot, showing growth and resilience in many Districts. Residential real estate sales were also notably higher, with prices continuing to rise along with demand and a shortage of inventory. In the banking sector, overall loan demand increased slightly, led by solid residential mortgage activity. Agricultural conditions continued to suffer from low prices, and energy activity was subdued at low levels, with little expectation of near-term improvement for either sector. While the overall outlook among contacts was modestly optimistic, a few Districts noted some pessimism. Continued uncertainty and volatility related to the pandemic, and its negative effect on consumer and business activity, was a theme echoed across the country.

Employment and Wages

Employment increased overall among Districts, with gains in manufacturing cited most often. However, some Districts also reported slowing job growth and increased hiring volatility, particularly in service industries, with rising instances of furloughed workers being laid off permanently as demand remained soft. Firms continued to experience difficulty finding necessary labor, a matter compounded by day care availability, as well as uncertainty over the coming school year and jobless benefits. Wages were flat to slightly higher in most Districts, with greater pressure cited among lower-paying positions. Some firms also rescinded previous pay cuts. Others, however, have looked to roll back hazard pay for high-exposure jobs, though some have chosen not to do so for staff morale and recruitment purposes.

Prices

Price pressures increased since the last report but remained modest. While input prices generally rose faster than selling prices, they were moderate overall. Notable exceptions included inputs experiencing demand surges or supply-chain disruptions, such as structural lumber, for which prices spiked. Several Districts also reported that costs for personal protective equipment and inputs to it remained elevated. Freight transportation rates rose in several Districts due to a resurgence in demand. In contrast, contacts in multiple Districts cited weak demand or lack of pricing power as a factor behind slower growth in retail or other selling prices.

Highlights by Federal Reserve District

Boston

Business contacts continued to cite the disruptive effects of the pandemic on all aspects of their activity, even as recovery began or continued in some sectors. Employees of some firms were called back, while others remained on furlough or have permanently lost jobs. The strength of the region's housing markets in July provided some support for contacts' optimism that the pandemic merely delayed the usual spring rebound.

New York

Growth in the regional economy has stalled in recent weeks, with activity still well below pre-pandemic levels. Retail activity and the single-family housing market have continued to improve. The labor market remains weak, and hiring activity has slowed. Selling prices and wages have been mostly steady, on balance.

Philadelphia

Business activity was flat during the current Beige Book period and remained far below levels attained prior to the onset of COVID-19. Firms continued to face hiring difficulties, and wages trended higher for low-wage jobs. Prices also trended slightly higher amid ongoing price spikes. Uncertainty is extremely high as contacts await layoffs, evictions, foreclosures, and bankruptcies while the coronavirus persists and the stimulus ends.

Cleveland

The region's economy grew modestly and at a pace similar to that of the previous reporting period. However, activity remained below pre-pandemic levels across most sectors. Staff levels changed very little and wages were mostly steady. Price pressures increased somewhat as input costs increased. Contacts expected moderate improvement in customer demand, although expectations have been scaled back.

Richmond

The Fifth District economy continued to improve in recent weeks, but activity remained considerably below pre-pandemic levels in most segments. A few notable areas of strength were auto sales, existing home sales, and trucking shipments. Employment continued to increase, but the pace of hiring slowed compared with our prior report. Price growth picked up but remained modest overall.

Atlanta

Economic conditions were mixed. Labor markets improved modestly, and nonlabor costs were subdued. Certain retail segments were strong, while others reported softness. Tourism activity remained soft. Residential real estate conditions improved, and commercial real estate activity was mixed. Manufacturing activity increased. Banking conditions rebounded slightly.

Chicago

Economic activity increased strongly, but the pace of growth slowed, and activity remained below pre-pandemic levels. Employment and manufacturing increased strongly, consumer spending and construction and real estate increased moderately, and business spending increased slightly. Wages increased slightly, and prices rose modestly. Financial conditions improved modestly. The pandemic continued to weigh on agriculture.

St. Louis

Economic activity has increased modestly but was highly variable across sectors. Auto dealers reported strong sales, and restaurants reported some improvement. Tourism and hospitality contacts reported that higher COVID-19 cases over the past month have reduced demand. The outlook among contacts remains pessimistic, on net, but has improved slightly since our previous report.

Minneapolis

Ninth District economic activity rose modestly. Job postings rose, but many firms expressed concern about future demand. Some segments of consumer spending and tourism saw improvements, while many services firms reported decline. Despite an overall pullback in new construction projects, residential building showed signs of resilience. Crop conditions were strong but faced low prices, and oil production fell significantly.

Kansas City

Economic activity strengthened moderately but remained below pre-pandemic levels in many sectors. Consumer spending increased moderately, with gains in retail, auto, restaurant, and tourism sales. Residential home sales and prices also rose moderately, but commercial real estate conditions worsened. Manufacturing activity expanded moderately, while conditions in the energy and agriculture sectors remained weak.

Dallas

Increasing COVID-19 infections in the Eleventh District have disrupted the budding economic recovery in some sectors. While manufacturing activity continued to expand, service sector activity declined overall in July but resumed its nascent recovery in August. Energy activity remained depressed. Sharply rising home sales were a bright spot. Outlooks were increasingly uncertain, as surging COVID-19 cases disrupted business sentiment.

San Francisco

Economic activity in the Twelfth District expanded slightly. Employment levels increased marginally. Price inflation remained generally unchanged. Sales of retail goods rose slightly, while conditions in the consumer and business services sectors remained precarious. Activity in the manufacturing sector increased modestly, and the agriculture sector remained weak. Residential construction activity picked up briskly, while activity in the commercial market increased a bit. Lending activity ticked up further.



Summary of Economic Activity

Business activity continued to pick up modestly in the First District in July and early August, even as some sectors saw little improvement. Some retailers cited strong activity, while air travel and hotels remained very soft. Manufacturing and staffing results were similarly mixed, with results largely a function of the pandemic's effects on the sectors of the firms' clients or customers. Residential real estate markets have begun to recover from the pause this spring. Commercial markets were split, with the retail and office sectors still very weak and warehouse and lab space robust. Outlooks continued to be highly uncertain, with more respondents expecting at least mild improvement than predicting increased losses.

Employment and Wages

Employment changes were mixed. Retail contacts selling autos and furniture brought back almost their entire workforces after layoffs and furloughs in the spring. By contrast, many hotel workers remained furloughed, particularly food and beverage staff that typically work larger functions. Similarly, an aviation and auto industry supplier furloughed large numbers of employees and recently announced an 8 percent permanent staff reduction. Some manufacturing contacts giving "hazard pay" to employees said they planned to stop doing so, but one said that they would continue the practice for fear of damaging morale. Staffing firms also noted that hazard pay for some jobs had been eliminated. Some clients of staffing firms raised pay compared to pre-pandemic levels to enhance recruitment.

Prices

Contacts again said little about prices. Manufacturing contacts continued to report a benign pricing environment. A milk producer said raw milk prices were very low due to decreased demand from restaurants.

Retail and Tourism

Respondents continued to report major disruptions related to COVID-19, though some noted improvements since the spring. After limited in-person shopping, car sales in Connecticut were strong throughout June, July, and the start of August, except for the week that remnants of Hurricane Isaias caused power outages

throughout the state. A furniture retailer reported average weekly sales up 30 percent compared to last summer, with weekly online sales up more than 300 percent compared with the same weeks in 2019 and in-store sales roughly one-third of pre-pandemic levels.

Restaurants across Massachusetts dramatically increased outdoor dining options. Over one-third of restaurant sales came from outdoor dining, which is unusual in Massachusetts where fewer than 20 percent of restaurants had outdoor dining options before the pandemic. Restaurants in coastal areas operated at around 75 percent of their usual sales, on average, while those in Boston were faring worse than the rest of the state.

Travel industry contacts reported hotel stays continued to be impacted significantly by the pandemic, with occupancy rates in Boston remaining under 20 percent. Some hotels will be housing college students for the fall semester to alleviate density in dormitories. Conventions scheduled into the first quarter of 2021 in Boston have been postponed. Air traffic into Logan remained low, with reductions of more than 85 percent in domestic passengers and more than 95 percent in international travelers.

Manufacturing and Related Services

Experiences diverged markedly across the ten manufacturing firms contacted this cycle. Firms with exposure to home goods, semiconductors, and health care reported strong results, even compared with a year ago, while firms with exposure to aviation and automotive continued

to suffer. A manufacturer and retailer of furniture reported that sales in the summer were up 30 percent year-on-year. Semiconductor firms reported significant increases in sales which they attributed to demand for devices and the upcoming release of a new iPhone. By contrast, a firm that makes parts for jet engines reported that sales were down 60 percent; OEM demand was down and aftermarket demand more or less vanished as airlines were not using their planes and were also trying to conserve cash.

One manufacturer said that they were increasing capital expenditures both because of discounts on capital goods and because they wanted to be in position to take market share when the economy recovers. Other firms said they faced COVID-related delays in construction or acquisition of capital goods. The commercial aviation-related contact cut capital expenditures substantially.

Contacts said they expected current performance, whether good or bad, to continue in the near term.

Staffing Services

New England staffing firms reported mixed business results into August, reflecting their different industry exposures. Firms that provide services to COVID-related industries, particularly healthcare, continued to see improvement and business growth since the spring. Most contacts indicated that labor demand is the same as or higher than in the spring. Some client organizations called back temporary workers whose jobs could not be done remotely; some moved from entirely virtual hiring to conducting the last round of interviews on-site.

Labor supply was described as complex. The majority of contacts reported difficulty finding candidates who were willing to work, especially for pay rates that might be lower than pandemic-augmented unemployment benefits. A lack of access to daycare and unwillingness of some working parents to send their children to daycare contributed to a reduced pool of candidates. By contrast, one contact saw increased applicants, citing recent layoffs and furloughs as driving factors.

Overall, respondents remained cautious about the uncertainty of the COVID situation and the upcoming election. The majority of contacts were somewhat more optimistic than three months ago, but a few were less optimistic and expected business activity to slow in Q3 and Q4.

Commercial Real Estate

Around the First District, the office and retail property sectors experienced ongoing weakness while markets for warehouse and lab space remained robust. Office leasing activity remained limited to renewal of expiring

leases, and tenants sought renewals of only 1 to 3 years' duration. The supply of office space for sublease increased by a significant margin, with the office vacancy rate in downtown Boston—including sublease supply—rising to an estimated 11 percent in August from roughly 6 percent in March. Office asking rents were steady, but effective rents declined amid increased leasing concessions. Office sales transactions were close to zero and office construction was limited to projects that were underway before the pandemic.

The District's industrial property markets saw continued robust demand, as online retailers further expanded their warehouse and distribution space. Demand for laboratory space in greater Boston stayed very strong; one contact raised concerns of a potential glut of lab space when planned projects are completed. The retail sector remained weak apart from grocery-anchored shopping centers and pharmacies; contacts cited an uptick in closures of small businesses. A regional lender to commercial real estate saw steady loan volume as well as a modest increase in requests for loan payment deferrals.

Contacts expected commercial real estate activity to stay flat or decline further for the remainder of 2020 and expressed a very uncertain outlook for 2021. Some were concerned that commercial bankruptcies and foreclosures would accelerate in coming quarters without renewed fiscal stimulus measures.

Residential Real Estate

Residential real estate markets in the First District began to pick up in July, following slow sales this spring due to the outbreak of COVID-19. (Boston and Vermont reported year-over-year changes from June 2019 to June 2020. Connecticut data were unavailable. The other four New England states reported statistics through July.) Closed sales for single-family homes increased for all areas reporting July statistics. Condo sales increased in July in New Hampshire and Maine, and decreased by about 1 percent in Rhode Island and Massachusetts. Across the region, contacts were optimistic that sales activity would continue at a high level into the fall.

Markets continued to favor sellers. Inventory decreased for both single family homes and condos in all reporting areas, with all markets except the Boston condo market experiencing double-digit drops. Median sales prices rose in all markets except for Boston condos. Additionally, both the Massachusetts and Boston contacts noticed increased moves from urban to suburban locations, which they attributed in part to the pandemic. ■

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



Summary of Economic Activity

Economic growth in the Second District economy has stalled in the latest reporting period, even as the spread of the virus has remained subdued and more businesses have gradually reopened. Employment overall has been little changed, though retailers and wholesalers have reported staff increases, as more restrictions have been lifted. Input prices accelerated somewhat, while selling prices have remained steady. Retail activity continued to expand, though it remains well below pre-pandemic levels, while tourism and travel have remained depressed. Home sales have been mixed, with the single-family sales market strengthening but other segments flat to weaker. Commercial real estate markets have softened further—particularly for office and retail space. Residential and commercial construction activity has remained weak. Finally, banks reported increased loan demand, tighter credit standards, and further widespread increases in delinquency rates. Overall, business contacts have become less optimistic about the near-term outlook.

Employment and Wages

The labor market has been generally flat since the last report, though retailers and wholesalers indicated that they had added staff as more restrictions have been lifted. A major upstate New York employment agency and a payroll processing firm both reported that hiring activity has picked up somewhat since midyear. However, a major New York City agency specializing in office jobs indicated that hiring has remained sluggish, as fewer people are leaving jobs and companies have been reluctant to on-board new workers remotely. These contacts noted a marked increase in job seekers.

Some businesses have noted less trouble bringing back furloughed workers and hiring new ones in recent weeks, as unemployment benefits were scaled back. However, a number of companies noted that concerns about child care and the upcoming school year remain constraints on worker availability.

Business contacts have mixed expectations about their likely staffing levels in the months ahead. While more manufacturers said they anticipated staff increases than reductions, the reverse was true among service sector businesses—especially those in the information, transportation, and warehousing industries.

Wages have generally been mixed but mostly steady, on balance, with declines in leisure & hospitality, infor-

mation, and wholesale trade, but increases in retail, real estate, and construction. Looking ahead, businesses generally expect wages to remain steady.

Prices

Business contacts reported that input costs accelerated slightly, rising at a moderate pace, while selling prices were mixed but, on balance, little changed. While contacts in the finance and professional & business service sectors reported declines in selling prices, retailers noted some escalation in prices for the first time since the outbreak began in March, reflecting widespread increases in input costs. Notably, businesses in the leisure & hospitality and retail & wholesale trade sectors were somewhat more inclined to raise prices in the months ahead.

Consumer Spending

Retailers generally reported that sales, though still down substantially from a year ago, picked up in July and into August, as restrictions were lifted further. However, some reported softening in revenues in mid-August. A number of retail contacts mentioned difficulties in getting supplies on time. Some have also noted that safety concerns and capacity restrictions have limited customer traffic.

New vehicle sales softened in the latest reporting period,

following a fairly strong rebound in May and June, according to dealers in upstate New York. This recent pullback is partly attributed to low inventories and reduced incentives, though inventory levels are expected to improve in the fall. Sales of used vehicles have remained strong in recent weeks, with no significant inventory problems reported. Credit conditions were reported to be in good shape.

Manufacturing and Distribution

Manufacturing growth has slowed to a crawl in the latest reporting period, while activity in the wholesale trade and transportation & warehousing sectors has contracted modestly. A number of contacts in these sectors have noted difficulties and delays in getting a variety of inputs.

Looking ahead, manufacturers projected moderate growth in activity, while wholesalers and transportation & warehousing contacts anticipated little change. Businesses' overall capital spending plans remain depressed, though there have been scattered reports of companies investing in air filtration systems and other such equipment to enhance safety.

Services

Service industry contacts generally reported that business activity has weakened since the last report and remains well below pre-pandemic levels. Information and professional & business services firms reported fairly widespread declines in activity, while those in leisure & hospitality and education & health reported flat to modestly declining activity. The falloff in economic activity in central business districts, most notably Manhattan, has distressed local businesses that provide services to offices and workers, as well as firms throughout the metro area that service them. Contacts at both business service and consumer service firms generally anticipated little change in business activity the months ahead.

Tourism has remained depressed, with New York City hotels still running at well under half capacity, though weekend occupancies have increased. Hotels have also seen some business as homeless shelter alternatives. Ongoing restrictions on capacity, as well as trepidation among customers, have restrained business at restaurants, hotels, and other providers of consumer leisure and recreation services. A large expansion in outdoor dining has helped mitigate New York City's ongoing ban on indoor dining, though many restaurants have still seen sizable reductions in overall capacity.

Real Estate and Construction

Housing markets across the District have continued to diverge, as New York City's sales and rental markets weakened further, while markets elsewhere—particularly

for single-family homes—have generally continued to show strength.

New York City's rental market has been particularly weak, with vacancy rates reaching multi-year highs in Manhattan and rents down roughly 10 percent from a year ago with increased landlord concessions. Rents declined more moderately in Brooklyn and Queens, and were little changed in the Bronx and across outlying portions of the metro area. The single-family rental market has been relatively strong across much of the District.

The residential sales market has been mixed. Sales of condos and co-ops in New York City have rebounded modestly from depressed spring levels, while prices have fallen, as the number of listings has swelled. Elsewhere across the District, though, home prices have risen and bidding wars have been common, reflecting strong pent-up demand and a dearth of homes on the market, which has also restrained sales volume.

Commercial real estate markets have weakened further. Office availability rates continued to rise, while rents were flat or declining. Retail rents have also been flat to lower, as vacancy rates have risen to multi-year highs.

New construction activity has remained quite sluggish and well below year-earlier levels, though a few areas have seen a pickup in multifamily construction starts. Contacts in real estate and construction have become less optimistic, on balance, about the near term outlook.

Banking and Finance

Finance sector contacts generally noted continued weak business and have grown more pessimistic about the near term outlook. Small to medium-sized banks across the District reported higher demand for consumer loans, residential mortgages, and commercial mortgages, but flat demand for commercial and industrial loans and little change in refinancing activity. Bankers reported tightened credit standards across all loan categories except consumer loans, where standards were unchanged. Banks reported narrowing spreads across all loan categories and lower average deposit rates. Delinquency rates rose across all categories—particularly on residential mortgages—though banks continued to report more lenient policies for delinquent accounts across all categories. ■

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



Summary of Economic Activity

Third District business activity changed little overall during the current Beige Book period and remained far below levels observed prior to the onset of the COVID-19 pandemic. Business operations increased incrementally, as COVID-19 caseloads remained at relatively low levels throughout the period. As firms recalled more of their workforce, net employment also grew modestly; however, firms also continued to issue permanent layoffs. Some wage increases were noted among lower-paying jobs. Meanwhile, contacts reported ongoing difficulties attracting workers. Prices edged higher again amid continued spotty price spikes. Firms maintained modestly positive expectations for growth over the next six months; however, uncertainty is extremely high, as contacts worried about the end of stimulus measures, pending layoffs, and an inevitable rise of evictions, foreclosures, and bankruptcies. Looming over all is the active presence of the coronavirus.

Employment and Wages

Employment increased modestly overall as firms stepped up hiring and recalling workers; however, layoffs continued as well. Among firms in our COVID-19 survey, 25 percent reported that they had hired new workers in July, and 13 percent recalled furloughed workers. Meanwhile, about 6 percent of the firms had laid off workers permanently, and another 6 percent had furloughed workers. However, at mid-August, a slightly greater percentage of firms reported that employment had declined over the month than had increased.

Staffing firms reported that activity continued to increase but remained below pre-pandemic levels by as much as 30 percent. Staffing contacts noted far more orders than they can fill with available labor, and they worried – as the school year neared – that childcare issues will further reduce the labor supply. A lack of childcare was also the only impediment cited by a greater percentage of firms in our COVID-19 survey in late July than in early July. Fear of infection and expanded unemployment benefits had become lesser concerns. From a separate July survey of Philadelphia's Center City offices, a vaccine was the overwhelming factor that firms required for a return from remote work; safer transit was a distant second.

Wages appeared to trend slightly upward. In mid-August, the percentage of nonmanufacturing firms reporting

higher wage and benefit costs per employee was higher than the percentage reporting lower costs. Manufacturers anticipate compensation costs to rise 3 percent over the next year – a bit higher than last quarter.

Several firms maintained previously imposed salary cuts on higher-paid positions, but further cuts were not reported. Upward wage pressure is most evident for lower-wage jobs, especially for Pennsylvania firms that are paying closer to the federal minimum than to the \$15 an hour, or more, being offered by many warehouses. Also, some firms found it difficult to end the temporary “hero” pay and have made all or part of it permanent.

Prices

Prices edged higher again, as more contacts reported higher prices rather than lower during the period, except for prices received by nonmanufacturers. However, over 60 percent of all firms noted no change in prices.

Contacts continued to describe spotty price surges as demand shifts, production disruptions, and logistics problems have created scarcity, delays, and price hikes for an ongoing parade of commodities. Scarcity and high prices for lumber continued to plague builders.

Manufacturing

On balance, manufacturers reported little or no change in activity during the current period. In our COVID-19

survey, manufacturing firms began the period with sales and new orders of about 11 percent below what had been anticipated pre-pandemic. Firms reported that demand was about 14 percent below expectations as of the end of July.

In contrast, positive but low diffusion indexes for shipments and for new orders from a mid-August survey suggested the possibility of slight growth. However, both indexes had fallen since mid-July, indicating that growth was less widespread among firms and that the overall direction of change was less certain.

Consumer Spending

On balance, nonauto retail sales leveled off over the period – remaining below expectations by 5 to 20 percent, depending on the retail segment (restaurants would be lower). Contacts continued to note some pickup in market share as some of their competitors had closed permanently. Most restaurants are cobbling sales together from a mix of sit-down dining, takeout/delivery, catering, and groceries. A heavy reliance on outdoor seating has contacts nervous as colder weather approaches.

Demand remained strong for auto sales; however, low inventories kept new car sales steady at levels about 15 percent below the prior year. However, prices rose and used car sales were strong, so dealer profits were also stronger and sometimes record-setting.

Tourism picked up slightly, following a partial recovery last period. However, overall activity was about 40 percent below prior-year levels. Contacts described good activity at open-air resort destinations but still less than in recent years. Attractions, business travel, and urban destinations remain depressed.

Nonfinancial Services

Nonmanufacturers reported a slight increase in activity, but levels remained well below pre-pandemic expectations. In our COVID-19 survey, nonmanufacturing firms began the period with demand about 23 percent below what had been anticipated; this improved slightly to 21 percent below expectations as of the end of July.

Financial Services

The volume of bank lending continued to hold steady over the period, in contrast to the same period in 2019, during which loan volumes continued growing moderately. Residential mortgages grew moderately during the period, and auto loans and commercial real estate lending grew modestly. However, these gains were offset by moderate declines in commercial and industrial loans. Credit card volumes continued falling moderately; last year, they rose moderately over the same period.

Banking contacts continued to report that government stimulus and moratoriums on evictions and foreclosures had worked well for most households and businesses. Many creditors have already resumed payments. However, there was universal concern about the outcome once stimulus measures and protections end.

Accountants and attorneys agreed. With moratoriums in place on foreclosures and evictions, the most serious consequences, thus far, had been a rise in corporate bankruptcies, especially in retail and hospitality. There were also reports of small business closings, but these are difficult to catalog and some simply shut their doors without leaving a trace. However, they expect a wave of foreclosure/eviction cases when the moratoriums end.

One attorney noted that banks were working with clients to form new payment plans. However, he said that collection rates have gone down significantly and “at some point, defaults need to happen.” Attorneys and accountants worried that clients were too complacent – believing that another round of assistance would occur. Others noted that increasing numbers of apartment tenants and small businesses had begun skipping payments. Several contacts at one law firm agreed that “this is a disaster waiting to happen.”

Real Estate and Construction

Homebuilders reported modest growth in sales activity that has kept contractors busy at levels comparable with recent years and created problems securing lumber and labor. Existing home sales grew moderately – July sales had returned to levels comparable with the prior year. Contacts described very strong demand – driven by low interest rates and well-heeled consumers searching for more space. However, inventories continued falling, driving prices higher and constraining potential sales growth.

Philadelphia’s commercial real estate construction grew modestly and leveled off at about 15 percent below the level of activity anticipated before the pandemic. Crew-size reductions for worker safety are the primary reason, but the pipeline for projects beyond the first quarter of 2021 is thin. Commercial office leasing activity declined slightly, as firms continued to delay decisions while many workers remain remote and potential layoffs lie ahead. Demand remains strong for warehousing and positive for life science activities, but weak for retail space. ■

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



Summary of Economic Activity

The Fourth District's economy grew modestly and at a pace similar to that of the previous reporting period. However, sales and activity generally remained below pre-pandemic levels across most sectors. Staff levels changed very little in all sectors, even as business activity continued to increase. Consequently, wages were mostly steady. Input cost pressures increased somewhat as prices for construction materials, metals, and materials used in pandemic-related medical equipment rose. Selling prices rose moderately as some of those costs were passed through to customers. Moreover, strong demand and low inventories helped to push up prices for vehicles and homes. Looking ahead, contacts expected moderate improvement in customer demand, although expectations have been scaled back since the previous reporting period because of the uncertainty of the coronavirus's path. Contacts expected to add staff slowly in the months ahead, and the majority of firms believed that by next spring, their staff levels would still be below pre-pandemic levels.

Employment and Wages

Labor demand remained weak, and staff levels changed by little in all sectors, even as business activity increased. Fewer firms reduced staff levels in the past two months than in the previous period. However, only about one-fourth of contacts added workers, a share which was unchanged from the previous period. Firms noted that the weak level of customer demand was the primary reason for their lackluster hiring activity. Although the labor market is more stable than it was during the spring, a few firms reported that previously furloughed workers have recently been laid off permanently—a sign that the labor market's recovery may not be smooth. Contacts expected to add staff slowly, and the majority of firms believed that by next spring their staff levels would still be below pre-pandemic levels. Most believed customer demand would not be strong enough to support pre-pandemic staff levels, but a sizeable minority noted their firms had become more efficient and did not need as many workers as they had at the beginning of the year.

Wages were mostly steady, with 8 out of 10 firms reporting no change in the past two months and with fewer firms cutting pay. Where pay increases were noted, a number of staffing agencies reported that before enhanced unemployment benefits had expired, the benefits motivated them to raise wages to attract workers. Also, a

few firms reported that professional staff whose wages had been previously cut have had those wages restored.

Prices

Nonlabor costs rose modestly after they had been flat or slightly lower in the prior two reporting periods. Construction firms widely reported that shortages of materials had caused input costs to rise. This was especially true of lumber. Manufacturers noted that prices rose for materials that were in limited supply and were also used for medical equipment, such as plastics or materials used in masks. Price increases for certain metals such as zinc, copper, and aluminum were also reported. Multiple firms in construction, manufacturing, and retail reported higher operating costs because of increased expenditures for personal protective equipment, extra sanitation measures brought about by COVID-19, and, in some cases, staggered shifts.

Selling prices rose modestly, although there was variation across sectors. Most firms held their prices unchanged because of weak demand. Among sectors in which price increases were noted, higher materials costs boosted new-home prices. Auto dealers commented that low inventories of vehicles were pushing up prices for new and used cars. Further, transportation firms noted that increased cargo volumes gave them enough pricing

power to raise their prices.

Consumer Spending

Most retailers reported an increase in consumer spending since the last report. However, demand remained below its pre-pandemic level, and sales growth lost momentum in July. Auto dealers indicated that sales had increased significantly in June, although some momentum was lost in July because of unusually low inventories caused by factory shutdowns in the spring. Similarly, one large department store reported that sales plateaued in July. Furthermore, an apparel retailer commented that it did not see the usual boost to sales during the back-to-school season because many schools were planning to go virtual. Most restaurateurs reported that carryout and delivery orders continued to be strong, but the number of dine-in customers remained very low. Hoteliers noted there was some improvement in occupancy relative to that of a few months ago, but the lack of business travel and group events were major drags on the sector's recovery. Looking ahead, contacts expressed uncertainty regarding the outlook for consumer spending, citing the path of the virus, future of fiscal stimulus, and reopening of schools as major unknowns.

Manufacturing

Manufacturing activity improved slightly, although there was variation in performance and production remains below pre-pandemic levels. Steelmakers saw a boost to sales from the growth in auto production and from customers who were making purchases that had been delayed. Food and beverage producers also noted growth, thanks to continued growth in consumer spending. Also, strength in residential construction boosted demand for electrical equipment used in homes. However, demand in the aerospace sector continued to decline, as air travel remains weak. Moreover, a sizeable share of producers that serve a range of markets reported that uncertainty about the economic outlook had caused their customers to either reduce or delay their orders for capital goods. On balance, contacts expect demand to improve slowly over the next few months, although expectations have been scaled back since the previous period.

Real Estate and Construction

Homebuilders and realtors widely reported that activity in the housing market continued to be strong. According to contacts, low mortgage rates and tight inventories of homes spurred home sales by creating a sense of urgency among homebuyers. Realtors noted that the low level of housing inventory also helped to boost prices. Renovation activity was reportedly strong as more homeowners expect to work from home for an extended time. Residential builders and real estate agents expect activi-

ty to remain at its current high levels in the near term.

By contrast, nonresidential real estate activity weakened. Builders reported diminished backlogs of new public projects, a situation which they believed could be a result of constrained government budgets. Demand for private-sector projects was reportedly flat, and contacts expect little improvement given the economy's uncertain path. Moreover, commercial real estate developers expressed concern that a rising number of mall tenants could be insolvent if economic conditions do not improve soon.

Financial Services

Banking activity softened during the reporting period. Contacts noted that demand for business loans declined as the Paycheck Protection Program wound down. This decrease was partially mitigated by strong demand for purchase mortgages, mortgage refinancing, and auto loans. Delinquency rates of commercial and consumer loans remained relatively low because of forbearance agreements and various fiscal relief measures. However, if the economy remains weak, most contacts expect delinquencies to rise as consumer and commercial deferral programs end. Bankers were uncertain about the future, particularly because of the lack of clarity about future government stimulus and the path of the coronavirus.

Professional and Business Services

Most professional services firms reported stronger business activity. IT firms experienced strong demand as firms adapted to a virtual work environment. Demand for payroll processing increased as more businesses reopened, and the continued shift toward online purchases heightened demand for transaction authentication services. An accountancy firm with a national footprint noted that deal flow had improved. Similarly, a large consultancy reported some clients restarted longer-term projects that were previously put on hold. Contacts expect demand to remain on a positive trajectory.

Freight

Demand for freight services grew moderately, thanks to improved manufacturing production and continued growth of consumer spending. A number of contacts reported that ongoing shortages of trucks made it difficult to meet customer demand. Moreover, the variation of businesses' reopening across states made it difficult to anticipate where trucks are needed. Contacts expect demand for transportation service to remain stable in the coming months. ■

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



Summary of Economic Activity

The Fifth District economy continued to expand in recent weeks, but activity remained below pre-pandemic and year-ago levels. Manufacturers experienced a moderate increase in new orders and shipments, on balance, but demand was described as unreliable and varied across different goods. Ports saw a modest rise in both imports and exports, but volumes were comparatively low. Trucking companies reported robust growth in demand, particularly for pharmaceuticals, food, beverages, retail and industrial shipments. Much of retail shopping remained weak, particularly at brick and mortar stores. Auto sales, on the other hand, were strong. Travel and tourism activity improved slightly as short-term renting showed some strength. Residential home sales increased robustly and although the inventory of homes for sale increased recently, there were more potential buyers than homes available for purchase. Commercial real estate leasing was little changed, overall, although retail vacancies rose. Financial institutions reported strong demand for home purchase loans and mortgage refinancing but a modest decline in lending for business investment. Overall, demand for nonfinancial services increased slightly, but reports varied. Some firms said that workplace safety measures led to increased costs. Employment continued to increase, but the pace of hiring slowed and many businesses report having difficulty filling open positions. Price growth picked up in recent weeks, but remained modest, overall.

Employment and Wages

Employment in the Fifth District continued to rise in recent weeks, but the pace of hiring slowed compared to our previous report. There were several reports of employers having difficulty filling open positions. Some contacts cited skills mismatches as a barrier to finding the workers they needed while others believed that the generous unemployment insurance benefits had discouraged workers from applying for available jobs. Also, multiple contacts said that some former employees were recalled but did not report back to work. Many firms said they were trying to figure out how to provide flexibility to workers with children schooling at home. On balance, wages were unchanged.

Prices

Since our previous report, price growth picked up but remained at a modest rate, overall. According to our most recent surveys, manufacturers reported a rise in prices paid and prices received; both of which remained below two percent. Service sector firms, on the other hand reported a slight increase in prices paid and a slight decline in prices received. Energy and agriculture commodity prices generally remained at low levels.

Manufacturing

Fifth District manufacturers reported a moderate increase in shipments and new orders since our last report. Several contacts said that demand was unreliable while others expressed concerns about growing uncertainty relating to COVID and the upcoming presidential election. Manufacturers of food and home goods such as furniture reported strong business, but some manufacturers further up the supply chain struggled as uncertainty led to caution among customers and reduced orders. Several companies reported that supply chain disruptions were restricting production and that tariffs on inputs were hurting profits.

Ports and Transportation

Fifth District ports saw a modest increase in shipments since our last report, but volumes remained below year-ago levels. Import volumes exceeded export volumes in recent weeks, but exports were down less over the year than imports. Auto shipments increased but were generally weak on both the import and export side. Imports of retail goods increased, but imports of machinery, farm equipment, and manufacturing inputs were low. On the export side, shipments of apparel and agricultural products rose while metal exports were down. An airport saw strength in cargo, as an increase in medical supplies and

diversity of product offset weakness in auto shipments.

Trucking volumes had strong growth in recent weeks. Contacts reported strength in pharmaceuticals and food and growth in retail, wine, and industrial shipments. Volumes of budget-friendly goods that have risen during the pandemic remained high. As demand strengthened, spot market rates rose, and driver shortages created capacity constraints. One executive reported buying new trucks due to strong demand. Despite strong business right now, other truckers expressed concerns over economic uncertainty from the pandemic and political uncertainty in an election year.

Retail, Travel, and Tourism

Retail demand was little changed in recent weeks, remaining at low levels overall. Customer traffic was low, and brick and mortar stores saw low demand, as the market shifted toward online sellers. Retailers cited COVID and civil unrest as deterrents to in-person shopping. Auto dealers reported strong demand, particularly online. Auto prices were high, boosting profits. Grocery stores also saw strong demand, but profit margins tightened due to increased cleaning costs.

Travel and tourism grew slightly since our last report but generally remained weak. Hotel occupancy was improved over recent months but down significantly over the year. However, short-term rentals did fairly well as people looked for more secluded vacations or enjoyable places to work remotely. Travel was mostly by car, but tourists were willing to drive longer distances. Beaches had strong visitation, but museums and other indoor attractions were closed or saw weak visitation. Indoor capacity limits led restaurants to expand outdoor seating, making demand more dependent on weather. Business travel remained low, and venues reported little to no demand for conferences or events.

Real Estate and Construction

Fifth District home sales increased robustly in recent weeks. Some realtors reported record months. Homes for sale rose from a few months ago, and demand continued to surge. Customer traffic increased, and customers were serious about buying. Days on the market fell, as many houses were bought sight unseen and some sold in hours. Home prices rose across most locations and price levels. Realtors attributed much of increased demand to low interest rates and to a desire to move from urban to suburban areas for larger homes with land.

Commercial real estate leasing held fairly steady since our last report. Industrial leasing remained strong, but retail leasing was weak, as vacancies rose. Leasing to

stores and restaurants was particularly soft and was expected to worsen with potential closures in the coming months. Office leasing held fairly steady, with tenants asking for short-term lease renewals, but there was not much new interest or construction in office space. Rental rates for retail and office were fairly stable, but many tenants were unable to pay rent in full due to cash flow issues. Multifamily leasing varied across markets as some urban areas saw falling rental rates and increasing concessions, while suburban areas had rising rental rates.

Banking and Finance

Overall, loan activity improved slightly for this period, driven primarily by strong demand for both home purchase and mortgage refinance loans. However, the respondents indicated a modest decline for conventional commercial lending, due to continued uncertainty for capital investment as a result of the prolonged COVID pandemic. Additionally, some financial institutions reported tightening underwriting standards in selected commercial sectors. Deposits grew moderately this period, despite lower rates on interest-bearing accounts, mainly due to federal aid disbursements. Credit quality remained excellent, but a few financial institutions reported a slight increase in delinquencies.

Nonfinancial Services

Nonfinancial services firms indicated a slight increase in demand in recent weeks, but individual reports varied considerably. Business that rely on events and in-person visits with clients, for example, reported very low levels of sales and revenue. Firms that provide services through federal government contracts, on the other hand, noted an increase in COVID-related contracts. A few businesses said that while their primary concern was the safety of their customers and employees, the additional safety measures were costly. ■

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



Summary of Economic Activity

Reports on economic activity in the Sixth District were mixed. Labor markets continued to modestly improve as firms slowly recalled workers. Nonlabor costs remained muted. Retail contacts reported continued strength in the home improvement and renovation segment, but softness in apparel sales. Auto dealers noted sales increased since the previous report. Tourism and hospitality activity remained soft. Residential real estate continued to strengthen, however, commercial real estate markets remained challenged. Overall manufacturing activity accelerated somewhat, though new orders and production levels varied across firms. District financial institutions reported that loan growth slowed, underwriting standards tightened, and loan loss reserves increased.

Employment and Wages

Although labor conditions improved modestly since the previous report, payrolls remain below pre-COVID levels and the outlook for further improvements was less certain. Firms continued to slowly recall workers as demand returned. However, many contacts noted that some prior staff cutbacks were permanent, and others had used attrition to reduce headcount. Among those hiring, most indicated that the pool of available workers was ample, although there were reports that unemployment insurance benefits continued to present challenges attracting low-wage workers. Several contacts reported that employees quarantined while waiting for COVID-19 test results was disrupting operations. Many employers also expressed growing concern about workers' abilities to balance workloads with the demands of childcare and a return to school or virtual learning environments.

Reports on wages and compensation varied among contacts. Some businesses rescinded salary cuts, while others maintained pay cuts, froze salaries, or eliminated bonuses and/or contributions to 401K plans. Wage increases remained concentrated at the low-end of the pay scale.

Prices

Over the reporting period, contacts continued to note muted input costs and little to no pricing power. Increasing costs associated with personal protective equipment,

testing, and sanitation practices to protect employees and customers from COVID-19 were notable, and rising shipping costs affected some industries, though neither of these costs were reportedly passed through. On balance, food prices stabilized, but shortages of some products caused prices to increase. The Atlanta Fed's Business Inflation Expectations survey showed year-over-year unit costs increased, on average, to 1.5 percent in August, up from 1.1 percent in July. Year-ahead expectations remained steady at 1.7 percent.

Consumer Spending and Tourism

District retail contacts reported continued strong demand in the home improvement and renovation segment. Clothing retailers noted lower year-over-year sales. Auto dealers reported continued increases in sales since the last report, as consumers focused on personal mobility versus shared transportation because of COVID-19.

Similar to the previous report, tourism and hospitality contacts across the District noted that while most hotels and attractions reopened with limited capacity in order to uphold social distancing measures, both revenues and employment continued to be negatively impacted.

Construction and Real Estate

Housing demand across the District remained resilient over the reporting period. Pending home sales soared as low interest rates and pent-up demand increased housing activity. Many markets experienced supply shortag-

es, which accelerated upward pressure on home prices. Construction was unable to keep pace with the surge in demand experienced by homebuilders. Higher home prices, coupled with declining household incomes, continued to suppress home ownership affordability. Delinquencies remained elevated, especially in markets with high concentrations of workers in the leisure and hospitality sector, such as in South Florida and Orlando.

Commercial real estate (CRE) contacts reported that the sector continued to encounter challenges associated with the coronavirus pandemic. Contacts in hard hit sectors like retail and hospitality reported that conditions continued to stabilize as local economies improved. Owners of lower-price multifamily properties reported an increase in late rent payments and a softening in occupancies. However, some contacts reported a decline in the number of tenants and borrowers seeking relief. While improving, low levels of tourism and travel are having a notable negative impact on activity across the hospitality and retail sectors. Investment property sales remained a fraction of pre-COVID levels. Contacts reported that capital was readily available at banks; however, underwriting criteria tightened for the financing of stabilized CRE projects. Contacts reported that high-quality asset values declined marginally, and hospitality and retail sector assets declined at a more accelerated rate.

Manufacturing

While most manufacturing firms reported a modest acceleration in overall business activity compared with the previous report, the level of activity remains slightly below pre-COVID levels. While many contacts indicated that new orders and production levels increased, reports of subdued demand at some firms persisted. Purchasing managers reported a slight increase in supply delivery times and a decline in finished inventory levels. Expectations for future production levels increased, with nearly half of contacts expecting higher levels of production over the next six months.

Transportation

Transportation contacts indicated that demand was generally consistent with the previous reporting period. Activity at ports was mixed: some contacts noted continued softness in container traffic, while others reported increased container volumes tied to e-commerce and consumer goods. Exports of agricultural products such as wood pulp, cotton, and peanuts rose, but coal exports were down. Year-over-year total rail traffic declined, but intermodal traffic increased slightly. Trucking firms saw higher freight volumes, which contacts attributed to inventory restocking and surging online sales.

Banking and Finance

Conditions at financial institutions rebounded slightly but continued to be impacted by issues related to COVID-19. Although requests for forbearance on loan payments declined, financial institutions increased loan loss reserves in preparation for increased charge-offs as the initial forbearance periods ended. Loan growth stalled, and underwriting conditions tightened for a majority of loan products. Compressed net interest rate margins, along with higher provisions for loan loss expenses and noninterest costs, continued to put negative pressure on earnings. Liquidity remained strong due to high deposit levels maintained by customers.

Energy

Energy markets continued to face a great deal of uncertainty. Crude oil production remained restrained by oversupply and weak demand. Demand for natural gas declined further over the reporting period, as COVID-19 shutdowns reduced power usage across the commercial and industrial segments. Refineries cut back throughput and maintained historically low utilization rates amidst muted demand. Reports indicated that delayed maintenance at refineries is expected to occur in the coming months, which contacts expect to add strain to already limited resources. District energy firms operating in areas such as oil and gas production, petrochemical refining, pulp and paper, and power continued to delay or halt projects indefinitely and reduce headcount. In contrast, renewables projects, including solar and wind farms and renewable diesel production, remained active.

Agriculture

Agricultural conditions remained weak. Drought-free conditions prevailed in most parts of the District except in Georgia, where much of the state experienced abnormally dry conditions. On a month-over-month basis, July's production forecast for Florida's orange crop was unchanged from the previous month and remained below last year's production, while Florida's grapefruit production forecast was down from the previous month but remained ahead of last year. The USDA reported that in June, year-over-year prices paid to farmers were up for rice and soybeans but down for corn, cotton, cattle, broilers, eggs, and milk. On a month-over-month basis, prices increased for cotton, rice, soybeans, broilers, and milk but decreased for corn and eggs while cattle prices were unchanged. ■

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



Summary of Economic Activity

Economic activity in the Seventh District again increased strongly in July and early August, but the pace of growth was slower than the prior reporting period and activity remained well below its pre-pandemic level. Contacts expected further growth in the coming months, but most did not expect a full recovery until at least the second half of 2021. Employment and manufacturing increased strongly; consumer spending and construction and real estate increased moderately; and business spending increased slightly. Wages increased slightly and prices rose modestly. Financial conditions also improved modestly. The pandemic continued to weigh on agricultural incomes.

Employment and Wages

Employment overall increased strongly during the reporting period, though a large number of contacts made little or no change to their staffing levels. One said that the Paycheck Protection Program (PPP) had allowed his firm to retain workers during the depths of the downturn and was sparing them the difficulty of searching for workers now that activity was picking up. A number of contacts in manufacturing reported they were maintaining higher employment levels than usual because of elevated rates of absenteeism as workers with a positive COVID test or potential exposure had to quarantine. Several contacts again commented that generous unemployment benefits had made it difficult to bring payrolls back to desired levels, especially at the entry level. Wages increased slightly across skill levels. Benefits costs also moved up some.

Prices

Prices rose modestly in July and early August, and contacts expected a similar-sized increase over the next 12 months. Consumer prices increased moderately on balance, led by higher vehicle prices. Food and beverage prices fell a bit overall. Producer prices increased slightly. Input costs were up modestly, driven by rising raw materials and shipping costs.

Consumer Spending

Consumer spending increased moderately over the reporting period, and sales in many sectors returned to near their pre-pandemic levels. Nonauto retail spending increased moderately. Contacts again reported robust gains in electronics (particularly for items that support e-learning) and sporting goods, but disappointing sales of apparel and other traditional back-to-school items as many schools were opting for virtual learning this fall. Sales leveled off in the grocery and home improvement sectors but remained well above year-ago levels. Vehicle sales fell slightly from strong levels in the previous reporting period. Dealers said that low inventories of some light truck models were holding back sales but supporting higher prices and profitability. Boats and RV sales continued to be strong. Contacts in the leisure and hospitality sector reported large increases in volumes, especially at hotels and restaurants, but activity remained well below its pre-pandemic level.

Business Spending

Business spending increased slightly in July and early August. Many retailers continued to struggle with inventory positions: one contact noted that nonessential retailers were being “careful on inventory” and did not want to over-order, while others reported low inventories of light trucks, boats, RVs, and many grocery items. Overall,

manufacturers said inventories were somewhat higher than comfortable, and a number continued to report minor supply chain problems. Capital expenditures were little changed, and many contacts said they had paused expansion plans for the year. Freight transportation increased modestly, but remained at a low level. Commercial and industrial energy consumption increased modestly, with higher reported usage by small commercial establishments.

Construction and Real Estate

Construction and real estate activity increased moderately on balance over the reporting period. Residential construction grew modestly, with increases in single-family suburban building. In contrast, residential real estate activity increased substantially, with gains in most segments. Contacts noted that low interest rates were supporting demand. Many contacts said that demand for larger living spaces had increased since the pandemic began. Prices rose modestly, driven by low inventories of single-family homes. Nonresidential construction increased on net, but activity remained slow. One contact said that financing challenges and weak demand were making it difficult for smaller construction firms to land nonresidential jobs and that larger firms were exploring taking on smaller projects. Commercial real estate activity decreased moderately, as demand for retail and office space fell. Sublease space for those segments increased moderately. Demand for industrial space remained solid. Rents fell modestly overall. Sales of commercial properties were slow and prices fell modestly. Some contacts said they were waiting for prices to fall further before making purchases, and one contact said that the gap between what buyers were willing to pay and what sellers were willing to accept was unusually large.

Manufacturing

Manufacturing production increased strongly in July and early August, but remained below where it was before the pandemic began. Auto production again grew sharply, though the pace of growth was slower than the previous reporting period. Steel production increased moderately, led by increased demand from the auto and construction industries. Heavy machinery manufacturers reported a slight decline in orders because of lower demand from the mining and energy sectors. Sales at specialty metals manufacturers increased modestly due to growth in demand from the auto, medical, and food manufacturing sectors. Demand for heavy trucks increased, but remained at low levels. Manufacturers of building materials reported a modest increase in shipments.

Banking and Finance

Financial conditions improved modestly on balance over the reporting period. Participants in the equity and bond markets reported better conditions, though volatility remained elevated. Business loan demand decreased moderately. Contacts noted that many businesses were flush with cash because of the Paycheck Protection Program (PPP) but were holding back on new capital purchases. Business loan quality deteriorated moderately, with declines concentrated in leisure and hospitality, retail, commercial real estate, and health care. Contacts said that payment deferrals and the PPP continued to help prevent delinquencies for many clients. Standards again tightened modestly. Consumer loan demand increased modestly, led by strong home purchase and refinancing activity. Loan quality improved slightly while standards tightened slightly. Contacts noted that deferrals were limiting delinquencies in the consumer sector as well. Contacts continued to report high levels of deposits for both businesses and households.

Agriculture

The agriculture sector continued to deal with lost income due to COVID-19 related factors, though CARES Act payments provided some support. In addition, a derecho windstorm caused damage to crops (especially corn), storage facilities, and livestock facilities in a number of areas within the District. Parts of the District were also experiencing drought. Still, contacts expected the corn and soybean harvests to be near record levels for the District as a whole. Corn prices were little changed at levels below where they were a year ago, while soybean prices rose and were above year-ago levels. Beef and pork production was catching up from pandemic-related reductions, and the backlog of cattle and hogs ready for slaughter fell. One contact reported that a gap in the supply of hogs was forming due to earlier euthanizations of many baby pigs. Cattle and hog prices rose, but not above year-ago prices. Beef and cheese prices moved lower as supplies normalized. ■

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



Summary of Economic Activity

Reports from District contacts suggest economic activity has increased modestly, but losses sustained during the pandemic have yet to be fully recouped. Activity was also highly variable across sectors. Employment increased modestly while wage growth was mixed. Auto dealers reported strong sales, and restaurants reported some improvement. Tourism and hospitality contacts reported that higher COVID-19 cases over the past month have reduced demand. The outlook among contacts remains pessimistic but has improved slightly since our previous report. While some contacts reported strong demand for their products and services, about half of contacts expect sales to return to pre-crisis levels in less than 12 months and one-third of contacts expect it will take more than 12 months.

Employment and Wages

The labor market has improved modestly since the previous report. Contacts across many industries reported hiring or rehiring workers, though they frequently reported difficulty doing so, citing potential workers' continuing health concerns and childcare obligations. A manufacturing contact reported that it was challenging to hire enough workers to staff half the plant's usual number of shifts. An employment agency stated that it was "not uncommon" for those it matched to jobs to quit within 48 hours. Service, hospitality, and healthcare firms continued to report more mixed employment trends, as did smaller firms. Some larger firms also reported laying off furloughed workers in the face of slower recovery.

Wage growth has been mixed, with wages at small firms remaining especially stagnant. On net, 15% of contacts reported that wages were up since this time last year—less than half the number who usually report such increases. Some firms reported increasing pay to attract scarce workers: One peach farmer reported that a 10% pay increase for his packaging workers still left him so short-staffed he had to leave some of his crop unharvested.

Prices

Prices have increased slightly since the previous report.

A significant share of contacts reported higher input costs; however, many contacts continued to report lower prices charged to consumers. Contacts noted increased prices for lumber and other building materials. The increase in food costs is causing restaurants to increase menu prices. Healthcare contacts noted that the costs of personal protective equipment remain elevated. In contrast, certain goods experienced price declines since the previous report. Contacts noted that prices for gasoline, chemicals, crops, and livestock have declined.

Consumer Spending

Consumer spending activity has been mixed since our previous report. Seasonally adjusted credit and debit card spending in early August increased or stayed the same compared with average spending in July. General retailers and restaurants reported mixed business activity over the past six weeks. Some retailers reported comparable or increased current-quarter sales compared with last year, and restaurants indicated that business has increased since they have been able to open up fractional seating capacity; however, some retailers and restaurants expressed concerns about their ability to stay open. Most auto dealers reported strong sales, some indicating year-over-year increases in current-quarter sales. Dealers cited that sales continue to be bolstered by low interest rates, but their outlook for the

coming months is mixed due to an uncertain economic outlook. Hospitality contacts reported that business activity, which remains significantly below typical levels, has declined since early July as reported COVID-19 cases have increased. Restaurants that cater to business-travel continue to struggle.

Manufacturing

Manufacturing activity has moderately increased since our previous report. Multiple steel manufacturing contacts reported that they are now working at full capacity. Plastics manufacturers in southern Indiana reported a surge in production. Contacts in Louisville reported that the automotive production continues to lag, but that most automotive plants are in the process of resuming operations due to the resolution of supply chain problems. Survey-based indices indicate that production, new orders, and capacity utilization are on average still slightly lower than they were a year ago. On average, contacts expect production, new orders, and capacity utilization next quarter to be nearly back to their levels from one year ago.

Nonfinancial Services

Activity in the nonfinancial service sector has improved slightly since the previous report. Airport passenger traffic has nearly doubled month over month, although levels are still down roughly 80% relative to this time last year. Cargo traffic has remained stable, increasing moderately month-to-month and year-over-year. A logistics firm was able to raise wages and expand its workforce. Hospital contacts noted that in-patient and ambulatory volumes have reached 90% of pre-crisis levels. However, hospitals indicate that they continue to deal with large numbers of COVID-19 patients. As a result, research remains sidelined and wholly devoted to COVID-19. Moreover, fellowship and residency programs are temporarily on hold. Hospital contacts noted that furloughed staff have begun to return in phases and hiring for physicians and nurses continues. Dentists and optometrists have reported increased activity, as patients who delayed care are now seeking treatment.

Real Estate and Construction

Residential real estate activity increased slightly since the previous report. Total home sales have improved slightly since early July. Home sales in most of the largest District MSAs are up through early August relative to the same period last year. Contacts cited high demand for housing and low interest rates as drivers of sales. However, a contact in St. Louis noted a recent downturn in demand after record-breaking sales in the later months of the second quarter.

Contacts reported a continued shortage of housing on the market and homes selling quickly once listed.

Residential construction increased modestly. Contacts noted higher demand for new homes, with a contact in Louisville noting that the shortage of housing inventory contributed to demand for new home construction. However, builders reported higher costs and shortages of input materials.

Commercial real estate activity has been mixed since the previous report. Contacts reported a lack of demand for retail and office real estate due to the pandemic. Contacts noted that existing tenants in retail spaces have been struggling due to consumer concerns over safety. Some contacts observed higher demand for industrial real estate.

Commercial construction activity has been unchanged. Construction activity has generally been sustained for projects that were ongoing prior to the pandemic. Contacts reported little to no speculative building for office or retail space and that uncertainty surrounding the pandemic has disrupted their ability to obtain and plan for future projects.

Banking and Finance

Banking conditions have slightly worsened since the previous report. Overall business loan demand slowed after the surge of emergency lending through July. Consumer loan demand has increased, particularly for credit cards. Low interest rates continue to spur stronger-than-expected mortgage lending, refinancing, and new construction loans. Banks reported high levels of deposits and increasing loan loss reserves. Overall delinquencies have declined primarily in consumer products such as credit cards, mortgages, and auto loans. However, bankers continue to express some concern for loans in the leisure and entertainment industry.

Agriculture and Natural Resources

Agriculture conditions have improved slightly from the previous reporting period. Relative to early July, the percentage of District corn, rice, and soybeans rated fair or better has increased slightly while the percentage of cotton decreased slightly. Contacts indicated that, while crop conditions look promising, low crop prices will reduce profitability and there is still concern over trade disputes with China and the effects on commodity pricing.

Natural resource extraction conditions continued to fall moderately from June to July, with seasonally adjusted coal production decreasing 7%. Production is down 31% from a year ago. ■



Summary of Economic Activity

Ninth District economic activity grew slightly since the previous report, but remained well below its prepandemic benchmark. Employment was mixed, wage pressures fell moderately, and price pressures generally remained modest. The District economy saw growth in consumer spending, tourism, manufacturing, residential construction and real estate, and mining. Agriculture was mixed, while services, commercial construction and real estate, and energy declined.

Employment and Wages

Employment was mixed since the last report. Job postings rose through mid-July in District states, and staffing contacts in Minnesota confirmed that job orders had been rising. However, there were signs of ebbing job demand later in the month and into August. A District-wide survey in late July by the Minneapolis Fed suggested that more firms were cutting staff compared with those adding workers. A second survey of construction firms found that overall hiring sentiment was slightly negative. Contacts in multiple District states said that new job postings and hires have been skewed toward those that directly produce income—sales, manufacturing, construction—while administrative and support positions have pulled back as firms try to remain as lean as possible. Despite high unemployment, staffing and other contacts nonetheless reported that unfilled job orders have been rising. Firms looking for workers reported difficulty in finding labor, particularly in sectors like food and entertainment that were operating at reduced capacity and faced the prospect of future shutdowns. Initial unemployment claims across District states in early August were modestly lower than a month earlier, but still significantly above normal. In general, many firms expressed concern about future demand and its impact on staffing. A large professional services firm in Minneapolis-St. Paul said, “I anticipate furloughs becoming layoffs if some of our shelved work doesn’t start up.”

Wage pressures continued to fall moderately overall since the last report. The Districtwide survey of general businesses found that most employers were holding steady on wages, but more reported wage decreases (30 percent) than those reporting increases (10 percent). A small share of local governments has also reported wage and other compensation cuts in the face of budget shortfalls. However, wage increases were seen in certain sectors. Staffing contacts reported slightly rising wages, driven by manufacturing clients who were still seeing good business. The Minneapolis Fed survey of construction firms also found that one-quarter had raised wages since the pandemic’s onset, while 10 percent had cut wages.

Prices

Price pressures remained modest, with some exceptions. Nearly half of early respondents to a survey of Ninth District professional services firms said input prices increased over a year earlier; however, a majority expected prices to remain flat over the coming 12 months. Structural lumber prices spiked since the last report, as inventories dwindled in the face of strong demand. Retail fuel prices in District states were little changed over the reporting period. Prices received by farmers in June increased from a year earlier for soybeans, potatoes, dry beans, and turkeys, while prices for corn, wheat, hay, cattle, hogs, chickens, and eggs decreased; milk prices were unchanged.

Consumer Spending

Consumer spending was modestly higher since the last report, but remained below prepandemic levels. Vehicles sales were up. A dealership in the western portion of the District reported strong year-over-year sales in July across multiple locations. Motor vehicle sales tax collections in Minnesota were also higher over this period. Passenger traffic at the eight largest airports in the District continued to increase modestly through early August. However, total traffic remains at just 35 percent of normal seasonal levels.

Certain segments of tourism reported healthy activity. Businesses catering to summer outdoor leisure reported robust demand compared with earlier in the summer. Sales of equipment and other products catering to this market—recreational vehicles, bikes, ATVs, boats, kayaks—were reportedly strong, but held back by low inventories. But many retail shops, restaurants, and bars continued to report only moderate demand even in the face of restrained operating capacity. Hotel and convention business remained dour with most large business and social gatherings canceled. One notable outlier was the annual motorcycle rally in Sturgis, S.D. Attendance was down modestly from previous years, but offered a spike in regional consumer demand.

Services

Activity in the services sector decreased since the last report. Preliminary results of a survey of District professional services firms indicated that sales and profits decreased for a majority of respondents compared with a year earlier, and employment and productivity fell slightly. Firms' expectations for the coming 12 months were more optimistic. Contacts in the advertising and marketing fields continued to report weakened demand as clients looked to cut budgets. Demand for heavy equipment maintenance and repair services was strong, according to several contacts.

Construction and Real Estate

Commercial construction was moderately lower since the last report. A Districtwide survey of more than 600 construction firms found significant cancellations and delays for both private and public projects. Firms reported staying relatively busy by pulling future work forward, but were also dealing with material shortages, supply chain problems, and labor difficulties. There was growing concern about new projects to bid on for the fall and early next year. Residential construction was modestly higher. While home building contractors reported project cancellations and delays, there were also more frequent reports of increased activity. July residential permitting activity saw year-over-year growth

in Minneapolis-St. Paul and St. Cloud (Minn.), Bismarck and Fargo (N.D.), and Sioux Falls, S.D. But flat or lower activity was reported in other regions.

Commercial real estate slowed modestly. In Minneapolis-St. Paul, vacancy rates in most segments have risen modestly. Industrial space was called a "bright spot" by one source. New, speculative construction has slowed, but client-driven demand continued, particularly for new manufacturing and distribution space. Leasing and sales for office space has slowed, and several sources noted some demand flight to the suburbs from downtown. New senior housing projects were reportedly struggling to find tenants. Residential real estate was moderately higher. Most markets saw home sales rise in July—many by double digits—over a year earlier, with the notable exception of Minneapolis-St. Paul, where sales were flat.

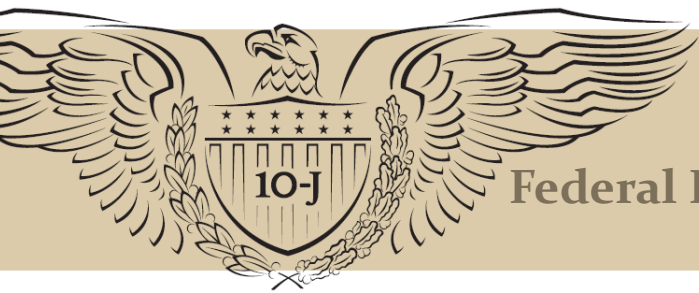
Manufacturing

District manufacturing activity increased slightly since the last report, though it remained below prepandemic levels. An index of manufacturing activity indicated expansion in Minnesota and South Dakota in July compared with a month earlier, but decreased activity in North Dakota. A producer of construction equipment reported that while demand from the commercial sector was down, it was offset by an increase in demand from residential building. Food processors reported a similar divergence between commercial and home demand. Contacts reported that while they've remained busy with backlogs through the pandemic, the pace of new orders had declined, leading to concerns about conditions later in the year and into 2021.

Agriculture, Energy, and Natural Resources

District agricultural conditions were mixed. Lenders responding to the Minneapolis Fed's second-quarter (July) survey of agricultural credit conditions overwhelmingly reported decreased farm incomes in their area relative to a year earlier, with a similar share reporting decreased capital spending. Crops as of early August were in strong condition in most areas of the District, with some states on track for record or near-record production, but prices for most commodities remained low. Activity in the energy sector decreased further, while mining rebounded. District oil and gas exploration held steady at subdued levels. The number of drilling rigs in the District as of mid-August was unchanged from a month earlier. Meanwhile, recent North Dakota oil production fell well below its recent peak. Most District iron ore operations that were closed during the early stages of the pandemic have reopened.

■



Summary of Economic Activity

Tenth District economic activity continued to strengthen in July and August. Overall, the economy expanded moderately, but activity in many sectors still remained below pre-pandemic levels. Consumer spending increased moderately as all subsectors reported improvement. In the months ahead, retail and auto contacts expected growth to continue, while tourism and restaurant contacts were more pessimistic. Manufacturing activity picked up, with both non-durable and durable goods producers reporting higher levels of production and new orders. Durable goods activity remained well below year-ago levels, but additional gains were expected in the next few months. Sales also picked up in the transportation, wholesale trade, and professional and high-tech sectors, and moderate growth was anticipated in coming months. Residential real estate activity continued to increase at a moderate pace, but commercial real estate conditions worsened further. Energy activity held relatively steady, but rig counts remained well below year-ago levels. The agriculture sector remained weak, and the deterioration in farm income accelerated. District employment rebounded further in July and August, but was still moderately below year-ago levels. Wages rose slightly, while overall input and selling prices increased at a modest pace.

Employment and Wages

District employment increased modestly since the last survey period but remained moderately below year-ago levels. The biggest gains were in real estate, transportation and tourism sectors, but despite these gains, tourism and transportation employment was still well below a year ago. Manufacturing, wholesale trade, and professional and high-tech employment rose modestly for the first time since declining this spring. Overall employment expectations improved in August, with manufacturers expecting moderate gains and services contacts expecting slight gains in the months ahead.

Respondents were split regarding labor shortages, with many reporting a need for truck drivers, mechanics, and restaurant workers. Wages rose slightly, and modest gains were expected in the coming months.

Prices

Input and selling prices rose modestly in July and August and were expected to continue to do so in the next few months. Prices for raw materials and finished products in the manufacturing sector increased modestly, and expectations were for similar gains in the coming months. Transportation input prices rose moderately and selling prices increased slightly, but were still modestly below year-ago levels. Construction supply respondents noted a moderate increase in selling prices since the last sur-

vey and expected prices to continue to increase in the months ahead. Retail input prices increased moderately, while selling prices rose at a slightly slower pace. Restaurant input and selling prices continued to increase significantly, but the pace of increases moderated compared to the previous survey. Restaurant prices were above year-ago levels and were expected to continue to rise in the coming months.

Consumer Spending

Consumer spending increased moderately since the last survey period but remained modestly below year-ago levels. Sales rose for auto, retail, restaurant, and tourism, with retail sales moderately above a year ago, driven by strong grocery and home improvement sales over the past few months. While restaurant and tourism activity showed a moderate rise compared to the last survey, activity was still strongly below year-ago levels. More than half of retail, restaurant, auto, and tourism contacts reported that stimulus funds had a major positive effect on their businesses in recent months. Expectations were mixed. Contacts in the health services, retail, and auto sectors predicted moderate gains in the months ahead, while restaurant and tourism contacts anticipated declines.

Manufacturing and Other Business Activity

Manufacturing activity expanded for the second consec-

utive survey period, and strengthened in August to a moderate pace of growth. Gains in the non-durable goods sector outpaced those in the durables goods sector, but contacts in both sectors noted positive growth. Production and new orders increased robustly in the non-durable goods sector, leading to overall activity levels that were slightly above a year ago. Production and new orders rose modestly in the durable goods sector, but activity remained moderately down from year-ago levels. Many respondents indicated that if government support were to diminish in the next six months, more furloughs or layoffs would be needed. Expectations rose moderately regarding production and new orders, but capital expenditures were expected to remain roughly flat.

Outside of manufacturing, sales in the transportation and wholesale sectors increased moderately compared to the last survey. Sales in professional and high-tech services showed modest improvement but remained moderately below year-ago levels. Contacts in wholesale trade, transportation, and professional and high-tech services sectors expected moderate increases in sales in the coming months. Expectations for capital expenditures were mixed across sectors.

Real Estate and Construction

Residential real estate conditions picked up moderately in July and August, while commercial real estate showed continued declines. Residential real estate experienced moderate increases in home sales and prices, with all respondents reporting stronger activity than a year ago. Construction supply sales continued to increase slightly, and expectations for future sales rose for the first time following declines in the spring. Home inventories decreased moderately and remained low, but contacts expected residential real estate activity to expand further in the coming months. Commercial real estate conditions continued to worsen as absorption rates, prices, rents, and sales fell since the previous survey period and remained moderately below year-ago levels. Commercial construction declined modestly, and contacts indicated that the slowdown in commercial construction may be accelerating. Additionally, access to credit remained difficult, and more respondents indicated higher vacancy rates. Commercial real estate contacts anticipated conditions to worsen in the next few months.

Banking

Since the last survey, bankers reported a slight increase in overall loan demand. Increases were concentrated in two categories, with strong increases in residential real estate loan demand and slight increases in consumer

installment loan demand. Respondents indicated loan demand for commercial real estate held steady, while demand for agricultural loans declined modestly and commercial and industrial loans fell moderately. Credit standards tightened in all categories, with a modest tightening in commercial real estate and commercial and industrial loans and slight tightening in residential real estate, consumer installment, and agricultural loans. In comparison to a year ago, loan quality decreased somewhat, and bankers expected loan quality to continue decreasing over the next six months. Deposit levels rose at a moderate pace since the last survey.

Energy

District energy activity held relatively steady since the previous survey period, but was much lower than levels of activity in August 2019. Revenues and employment continued to decline, but the number of active oil and gas rigs in the District was mostly unchanged. Rig levels remained significantly below year-ago levels. Firms shut-in wells earlier this year, and indicated no immediate plans to bring more production capacity back online until the oversupply of oil and gas wanes and prices increase. Despite most regional energy firms taking advantage of the SBA PPP loan program, expectations for future drilling and business activity remained subdued. Continued uncertainty was a key factor inhibiting future capital expenditures.

Agriculture

Weak conditions in the Tenth District agricultural economy persisted, and farm income deteriorated further. The effects of the COVID-19 pandemic continued to constrain prices of key agricultural commodities, and profit opportunities remained limited. Prices for major crops and livestock increased slightly from the prior reporting period, but remained below pre-pandemic levels. Drought in the western portion of the District could further reduce revenues for some producers. Dry conditions were most prevalent in Colorado, where nearly 30 percent of corn acres had poor or very poor quality through mid-August. Alongside lower revenues, farm income across all states in the District declined at a noticeably faster pace than the prior survey period. ■

For more information about District economic conditions visit:
www.KansasCityFed.org/Research/RegionalEconomy



Summary of Economic Activity

Increasing COVID-19 infections in the Eleventh District have disrupted the budding economic recovery in some sectors and is the biggest risk to the near-term outlook. While manufacturing activity continued to expand and loan volumes increased in the financial sector, service sector activity declined overall in July but resumed its nascent recovery in August. Retail sales fell steeply in July but stabilized somewhat in August. Energy activity remained depressed. Activity in the housing market was a bright spot, with home sales rising sharply. Employment remained fairly stable, according to contacts. Input costs rose modestly while selling prices were flat to down. Outlooks were increasingly uncertain, with numerous contacts expressing concern over surging COVID-19 cases and the resulting disruption to business.

Employment and Wages

Most contacts reported steady employment, though there were some reports of either layoffs or increased headcounts. Employment declines were centered in the energy industry and parts of the service sector. Manufacturing jobs recovered somewhat as more firms noted net hiring than noted net layoffs for the first time since January. Jobs grew in health care and professional and business services, while contacts more often noted employment declines in retail, leisure and hospitality, and transportation services. Energy contacts said more layoffs are coming, but that the worst is likely past.

Wage growth accelerated slightly in August; however, airlines and energy firms among others noted pay freezes and/or cuts.

Prices

Input costs rose at a moderate pace, except in oilfield services where costs were down 10-20 percent versus early-2020 contracts. Fuel costs have crept up and lumber prices have doubled since earlier in the year. Selling prices were largely flat.

Manufacturing

Manufacturing activity continued to recover, expanding moderately in July and August. Growth was led by high tech and construction materials manufacturing, while

food manufacturers noted a deceleration from previous months. Refiners noted that consumption of motor fuels had improved, but profit margins remained depressed. Manufacturing was still below normal levels, according to nearly three-fourths of contacts. They reported that July revenues were off by more than 30 percent from a typical July, on average.

Outlooks remained positive, and most manufacturers expect increased demand and production six months from now.

Retail Sales

Retail sales fell steeply in July but stabilized somewhat in August. Wholesalers also noted declines, though not as pronounced. Auto dealers said sales were constrained by short inventories due to factory shutdowns or bottlenecks. One contact noted that they were not expecting normal new-vehicle inventory until September or October.

Just over three-quarters of retailers said July revenues were below normal, by about 22 percent on average. More than half of retailers said supply chain disruptions were restraining revenues, in addition to weak demand. Expectations for future activity declined substantially, and uncertainty rose sharply.

Nonfinancial Services

Service sector activity declined overall in July after a short-lived expansion in June, but modest growth resumed in August. Face-to-face contact industries, such as leisure and hospitality, suffered as new COVID-19 cases rose sharply in Texas in July. However, while hotels have been hit hard, the single-family vacation rental market has been very strong. Airlines continued to struggle, with demand down 75 percent from a year ago according to multiple contacts, who also noted that business travel is virtually nonexistent. Colleges and universities across the district face logistical and financial challenges as they shift their fall semesters to a partially virtual environment with limited on-site learning and experience reduced enrollment. Some industries, like professional services, were less affected by COVID-19 trends and saw increased revenues in both July and August. Staffing contacts noted demand was stable recently but down year over year.

Roughly three-quarters of contacts said July revenues were below normal, by just over 30 percent on average. This magnitude of the shortfall was higher for leisure and hospitality firms, who said July revenues were off 46 percent, on average.

Outlooks worsened in July but improved in August, though uncertainty continued to climb, particularly regarding COVID-19 and the presidential election. When asked how likely it is that their business will permanently shut down within the next 12 months, 90 percent of contacts said it is not likely. Among leisure and hospitality firms, though, more than a quarter say it is at least somewhat likely their business will not survive to next July.

Construction and Real Estate

Activity in the housing market was a bright spot. Existing-home sales climbed sharply in July and remained solid in early August. Home builders continued to note widespread strength in sales. Contacts said record-low mortgage rates were driving sales, and inventories remained very tight for both resale and new homes. Builders noted strong sales have enabled them to raise prices. New development was active, and outlooks were optimistic.

Apartment leasing improved further in July, but rents were flat to down compared to year-ago levels and concessions have increased, particularly in areas where there is a lot of new product. Office leasing activity was modest and sublease space has increased. Industrial demand remained solid.

Financial Services

Loan volume increased over the past six weeks, driven

by a sharp rise in residential real estate lending. Commercial real estate lending stabilized after falling over the prior three periods, while commercial and industrial and consumer loan volumes continued to decline. Loan pricing fell further, and credit standards and terms continued to tighten. Another significant increase was seen in loan nonperformance, and nearly three-quarters of bankers expect further increases in loan defaults. Contacts report that 11 percent of loan volumes are currently on payment deferral due to COVID-19, on average, down slightly from the prior period. Requests for loan modifications were most prevalent among businesses in accommodation and food services as well as real estate and rental and leasing.

Outlooks were more pessimistic, with expectations for future loan demand turning slightly negative. Also, bankers voiced concern over the uncertainty about the PPP forgiveness process and that it could become arduous.

Energy

The Eleventh District rig count continued to erode over the reporting period, though well completion activity ticked up. Contacts continued to express a grim outlook. The recent increase in COVID-19 trends in parts of the U.S. and elsewhere is putting downward pressure on expectations for oil prices and fuel consumption. Contacts said it is unlikely that oil prices will reach above \$50 per barrel anytime soon, which is roughly the average price at which Eleventh District firms need to profitably drill new wells.

Agriculture

Soil moisture conditions deteriorated across the western part of the district, where drought conditions intensified. Grain harvesting progressed and yields were fairly normal, though prices remained unprofitably low. Cotton prices inched higher over the past six weeks as demand exceeded expectations, though prices were still below break-even levels without government price supports. Cattle and dairy prices trended higher. ■

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



Summary of Economic Activity

Economic activity in the Twelfth District expanded slightly on balance during the reporting period of July through mid-August. Employment levels increased marginally, but hiring was curtailed by firms' cost-containing efforts. Wages were generally stable, as was price inflation. Sales of retail goods rose slightly, while conditions in the consumer and business services sectors remained precarious. Manufacturing activity increased modestly. Weak conditions persisted in the agriculture sector. Residential real estate activity increased at a brisk pace, while activity in the commercial market picked up a bit. Lending activity ticked up further.

Employment and Wages

Employment levels increased marginally on net, but many employers curtailed hiring efforts to control costs in the challenging economic environment. Some metal and wood manufacturing facilities returned to operating full-time and added workers due to increased demand. A large transportation and logistics services provider increased entry-level job recruiting but froze manager searches. Most health-care and financial services providers noted restrictions on new hiring and overall flat employment levels, though a payment-processing firm in the Pacific Northwest reported actively hiring for several positions. Restaurants increased staffing modestly over the reporting period, but the tourism and entertainment industries noted persistently low employment levels. Some manufacturers expressed difficulties in finding skilled labor. Contacts in the agriculture sector also noted dwindling availability of immigrant workers, reducing the supply of unskilled labor. A few employers reported increased use of flexible schedules, or in some cases absenteeism, due to concerns about COVID-19 exposure, childcare, or schooling alternatives.

Wages remained flat overall. Most employers reported unchanged wages over the reporting period, partially due to cost containment efforts and uncertainty. In California and Oregon, wages at the bottom of the distribution saw a slight increase due to the implementation of new minimum wage regulations in July. Building materials manufacturers in California and the Pacific Northwest reported reinstating cost-of-living wage adjustments, retracting previous wage cuts, or offering widespread wage increases due to a brisk increase in demand. Conversely, some retailers eliminated hazard pay bonuses for their employees.

Prices

Inflation remained stable over the reporting period, on balance. Increased demand for logistics and transportation services resulted in additional surcharges designed to offset the cost of volume increases and greater dispersion of routes. Similarly, prices for metal products and building supplies strengthened on the back of recent additional demand. Food prices continued to climb at grocery stores, but prices declined slightly at restaurants and retail stores in an attempt to spur business. Some financial and business services providers either reduced or eliminated some types of fees because of lower demand. Contacts in other sectors such as health care, utilities, and machine supplies and repairs reported little to no changes in prices.

Retail Trade and Services

Retail sales rose slightly over the past six weeks, following a large bump in May and June when restrictions on nonessential businesses initially eased. Foot traffic to brick-and-mortar establishments decreased only slightly from end-June levels, while growth in e-commerce remained robust. Demand for do-it-yourself home materials soared, and sales of some specialty goods, for example bicycles and pet products, were on par with those from a year ago. Auto dealers reported continued high demand and lean inventories for both new and used vehicles, especially light trucks and SUVs. Retailers in some other sectors, such as apparel, mentioned reduced sales, operating hours, and capacity utilization, attributing the cutbacks to increases in COVID-19 cases and adherence to social-distancing guidelines.

Conditions in the consumer and business services sectors remained precarious. Sales remained strong in

select markets, including logistics and delivery services, meeting technologies, and tax preparations. However, the bulk of food service, travel, and hospitality providers continued to operate at a fraction of their capacities and saw the bump in sales in late spring reversed during the current reporting period. Restaurants that have been able to continue operations reported weak sales, reduced seating, and dire prospects for the immediate future. Some have adapted by exclusively offering take-out service and operating straight from their kitchens. Air travel remained subdued with one airport in Southern California welcoming only 9 percent of its typical pre-pandemic monthly level for domestic passengers and virtually no international arrivals. Hoteliers in Southern California, Washington, and Hawaii reported lower booking volumes and occupancy rates, though those in Southern California performed somewhat better compared with the rest of the District. Demand for nonurgent legal services, elective health procedures, and live event-based entertainment remained soft, as clients socially distanced and postponed discretionary expenditures.

Manufacturing

Manufacturing activity increased modestly over the reporting period, but remains considerably below pre-pandemic levels. Demand for recycled metals and finished steel products strengthened as auto production and construction continued to pick up, though capacity utilization rates remained at about three-quarters of their year-ago levels. Building materials manufacturers have also benefited from increased construction activity, with a wood product manufacturer in the Pacific Northwest reporting many sawmills returning to normal working hours or even overtime. Energy usage by manufacturers across the District also rebounded, while a renewable energy equipment producer in California mentioned pent-up demand for its domestic output. Some manufacturers reported more challenging conditions depending on industry, raw material availability, and severity of supply chain disruptions.

Agriculture and Resource-Related Industries

Conditions in the agriculture sector remained weak overall. Yields and quality of grain, fruit, and nut crops were high. In the Mountain West, bumper wheat crops contributed to already bulging inventories from previous harvests. General production and distribution were constrained by COVID-19-related supply chain disruptions and additional expenses incurred to adhere to social-distancing guidelines at farms and processing centers. Domestic demand remained mixed overall, but sales of

grapes, apples, and cherries to grocery stores and lumber to retailers and contractors increased notably over the reporting period. Export demand was weak, with producers in California and the Pacific Northwest highlighting poor sales to Asian markets across a variety of products, including nuts and lumber.

Real Estate and Construction

Residential construction activity increased at a brisk pace, supported by the low interest rate environment. Contacts reported increased demand for new single and multifamily homes in most areas, which helped boost permit issuance across the District. Existing inventories remained low, and prices climbed further as many buyers placed competing bids on desired homes. Workers continued to seek opportunities to move away from major metropolitan areas as some jobs become more conducive to teleworking. In the Mountain West and Pacific Northwest, homebuilders reported having trouble keeping up with demand, and pointed to the increasing costs of building materials and supply chain disruptions as their main constraints. Some parts of California saw less building activity and delayed permit issuance, as many local government offices remained closed.

Activity in the commercial real estate market picked up slightly, on net. Demand for new office space and hotel rooms remained soft, diverting construction into other commercial sectors. Existing commercial projects resumed, and new demand for industrial and warehouse space kept permitting high relative to pandemic-induced lows. A contact in Utah reported large investments in commercial properties including an airport, a convention venue, and an office tower.

Financial Institutions

Overall lending activity ticked up further. Contacts noted a shift in loan demand toward home mortgages, auto loans, and standard commercial loans as PPP activity wound down. Bankers reported that new and refinanced mortgages drove the bulk of business over the reporting period, as households took advantage of low interest rates. Loans to agricultural businesses were weak, but demand from builders was robust. Bankers highlighted solid liquidity conditions and strong capital positions as well as double-digit increases for deposits in some areas. Some contacts noted a decline in lending standards, which reduced credit quality and could increase delinquencies in the coming months. A contact in Arizona reported limited service hours due to COVID-19-related precautions, delaying deliveries of financial services. ■



