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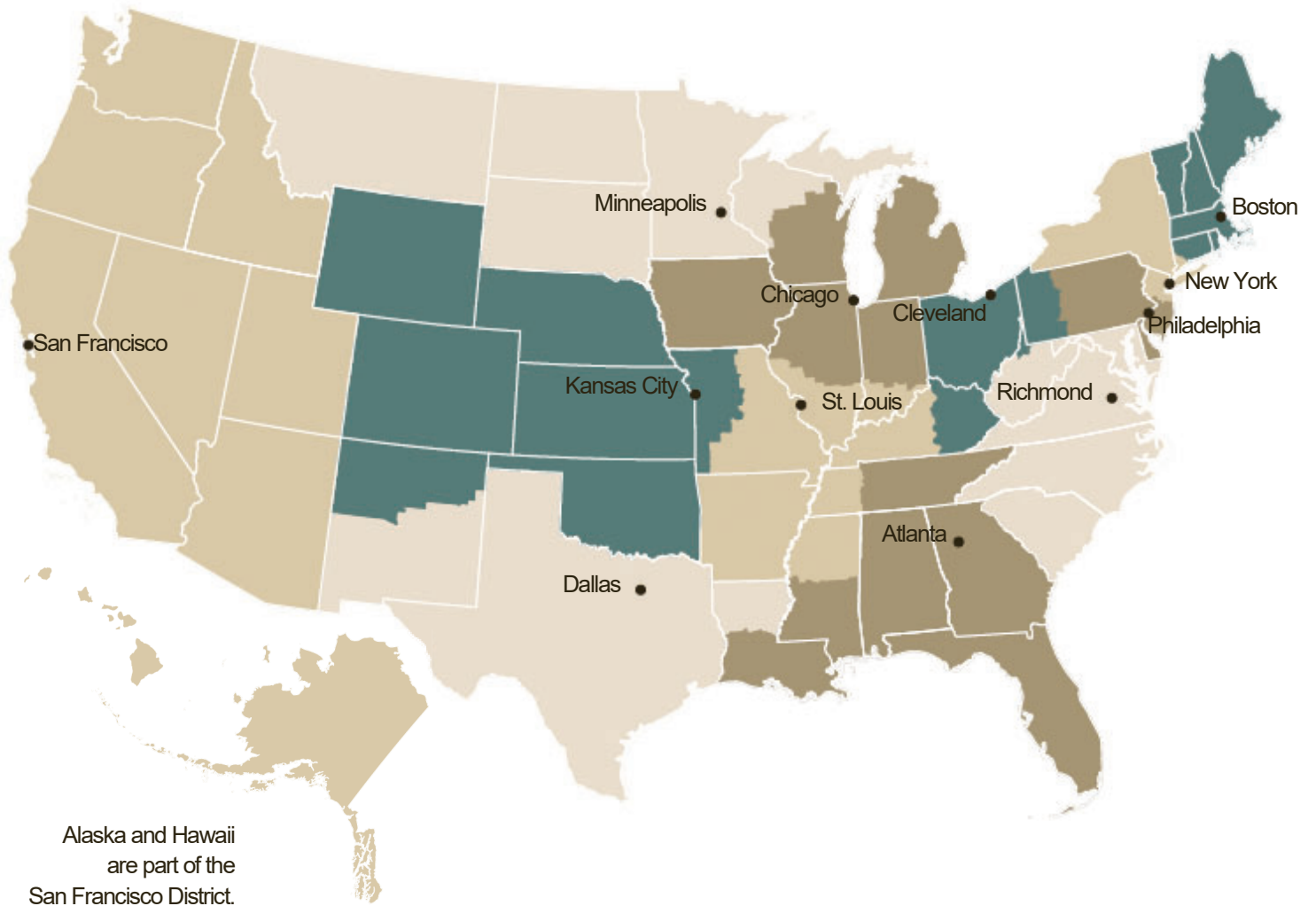
The Beige Book

Summary of Commentary on Current Economic Conditions

By Federal Reserve District

November 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 Philadelphia based on information collected on or before November 20, 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 ■ November 2020

Overall Economic Activity

Most Federal Reserve Districts have characterized economic expansion as modest or moderate since the prior Beige Book period. However, four Districts described little or no growth, and five narratives noted that activity remained below pre-pandemic levels for at least some sectors. Moreover, Philadelphia and three of the four Midwestern Districts observed that activity began to slow in early November as COVID-19 cases surged. Reports tended to indicate higher-than-average growth of manufacturing, distribution and logistics, homebuilding, and existing home sales, although not without disruptions. Banking contacts in numerous Districts reported some deterioration of loan portfolios, particularly for commercial lending into the retail and leisure and hospitality sectors. An increase in delinquencies in 2021 is more widely anticipated. Most Districts reported that firms' outlooks remained positive; however, optimism has waned – many contacts cited concerns over the recent pandemic wave, mandated restrictions (recent and prospective), and the looming expiration dates for unemployment benefits and for moratoriums on evictions and foreclosures.

Employment and Wages

Nearly all Districts reported that employment rose, but for most, the pace was slow, at best, and the recovery remained incomplete. Firms that were hiring continued to report difficulties in attracting and retaining workers. Many contacts noted that the sharp rise in COVID-19 cases had precipitated more school and plant closings and renewed fears of infection, which have further aggravated labor supply problems, including absenteeism and attrition. Providing for child-care and virtual schooling needs was widely cited as a significant and growing issue for the workforce, especially for women – prompting some firms to extend greater accommodations for flexible work schedules. In several Districts, firms feared that employment levels would fall over the winter before recovering further. Despite hiring difficulties, firms in most Districts reported that wages grew at a slight or modest pace overall. However, many noted greater pressure to raise rates for low-skilled workers, especially in outlying areas. Staffing firms described greater placement success with competitive rates, and one firm instituted a minimum wage rate for its industrial clients.

Prices

In most Districts, firms reported modest to moderate increases of input prices, while the selling prices of final goods rose at a slight to modest pace. Contacts noted that COVID-19 cases have caused ongoing disruptions and delays among short-staffed producers and shippers – raising transportation costs, which are then passed through to buyers.

Highlights by Federal Reserve District

Boston

Manufacturers reported increased revenues from a year ago, including some strong gains. Retailers and staffing firms continued recovering toward pre-pandemic levels, while the hospitality and tourism sectors remained hard-hit. Uncertainty about the course of the pandemic, vaccines, and possible relief measures added caution to positive outlooks.

New York

The regional economy has been flat, and the labor market has remained weak. Manufacturing growth slowed, consumer spending and tourism were little changed, and a number of service industries saw declines in activity. Commercial real estate softened further, but most residential sales markets continued to show strength. Wages and other business input costs picked up modestly, while selling prices were little changed.

Philadelphia

Business activity held steady during the current Beige Book period and remained below levels attained prior to the onset of COVID-19. However, sharply rising COVID-19 cases triggered a downward trend in early November and heightened concerns over anticipated layoffs, foreclosures, evictions, and bankruptcies. Meanwhile, modest job growth, slight wage growth, and modest inflation continued.

Cleveland

Economic activity increased moderately, and staff levels increased slightly. Firms connected to IT, housing, and consumer durables fared better than those connected to travel, energy, and hospitality. Supply chain constraints boosted transportation costs and prices for certain construction and manufacturing inputs. Contacts expected a modest improvement in activity, but hiring plans were restrained because of the pandemic's uncertain path.

Richmond

The regional economy grew moderately in recent weeks. Employment rose and demand for some professional business occupations was strong. Wage and price growth were modest. The housing market remained robust, and commercial real estate leasing improved somewhat. Port and trucking volumes reached robust levels and manufacturing activity picked up.

Atlanta

District economic activity modestly expanded. Labor markets continued to improve. Contacts noted some nonlabor costs rose. Retail activity and auto sales were mixed. Activity in tourism and hospitality picked up slightly. Residential real estate demand was strong and home prices rose. Commercial real estate conditions remained challenged. Manufacturing activity increased. Conditions at financial institutions stabilized.

Chicago

Economic activity increased moderately but remained below its pre-pandemic level. Employment, consumer spending, and manufacturing increased moderately; business spending increased modestly; and construction and real estate was flat. Wages rose slightly, as did prices. Financial conditions improved modestly. Strong harvests, government support, and higher prices boosted expectations for farm income.

St. Louis

Reports from District contacts suggest economic activity has continued to increase slightly since our previous report; however, conditions deteriorated toward the end of the reporting period. The overall outlook for business conditions over the next 12 months has improved but remains slightly pessimistic.

Minneapolis

District economic activity grew moderately. Employment rose modestly, but obstacles such as child care availability and virtual schooling for households with children impacted labor participation, particularly among women. Consumer spending grew slightly, with softening demand in some segments due to rising COVID-19 infections. Manufacturers generally saw brisk growth. Agricultural conditions improved slightly.

Kansas City

Economic activity continued to expand slightly. After rising in October, consumer spending fell slightly in November but was expected to bounce back in the coming months. Contacts in the manufacturing, residential real estate, wholesale trade, transportation, and professional and high-tech services sectors all reported increased levels of activity. In addition, the energy sector held steady, and the agriculture sector improved moderately.

Dallas

Economic activity expanded modestly. Growth moderated in the manufacturing, retail, and services sectors. The housing market continued to outperform expectations, but office leasing remained weak. Energy activity remained depressed though it showed further signs of improvement. Outlooks were positive, though highly uncertain due to looming concerns surrounding political uncertainty and the unknown course of the pandemic.

San Francisco

Economic activity in the District expanded modestly. Employment levels increased slightly, while price inflation showed little change. Sales of retail goods rose appreciably, but conditions in the services sector were unchanged. Manufacturing expanded moderately, and the agriculture sector improved slightly. Residential real estate activity continued to grow, while commercial markets changed little. Lending activity increased mildly.



Summary of Economic Activity

Economic activity continued to expand in the First District in October and early November. Most manufacturers cited increases in revenues in recent weeks compared with a year earlier. Tourism and hospitality remained in the doldrums, while brick and mortar retailers saw gains from earlier in the year. Staffing firms' revenues were down from a year ago, but they too cited quarter-over-quarter improvements. Real estate markets for industrial and lab space continued strong even as the office and retail real estate markets remained weak. Residential real estate markets across the region continued to experience increases in both sales and prices. Reports on the labor market were mixed. Most responding firms cited cautiously optimistic outlooks, with continued uncertainty.

Employment and Wages

Labor market conditions varied by sector. Many hotel workers across the region remained furloughed, particularly staff that worked larger functions. Most manufacturing respondents said they were hiring; some reported difficulty finding workers but others did not. A supplier to commercial aviation announced major layoffs over the summer and has not had any reason to revise those plans either up or down since then. Staffing companies, while noting increased business, reported that the supply of labor continued to be a challenge. They cited a number of reasons for a shortage of workers: limited or lack of access to daycare and school, worries about contracting COVID-19, mandatory 14-day quarantines, and potential further shutdowns. Staffing firms' bill and pay rates have gone up considerably since the pandemic hit, but some companies said the rates had begun reversing toward their pre-pandemic levels.

Prices

Contacts cited limited concerns about prices. Average nightly hotel prices in Boston dropped 45 percent compared to 2019 reflecting extremely low occupancy. Manufacturers said pricing pressures were generally muted. Nonetheless, a chemical maker said prices of some bulk chemicals had spiked due to demand for PPE and the recovery in China. Several manufacturers registered cost concerns regarding the availability of transportation both locally and around the world.

Retail and Tourism

Retail contacts noted improvements in brick and mortar store sales compared to the first half of 2020, though tourism and hospitality respondents continued to report major disruptions related to COVID-19. After limited in-person shopping in the second quarter, one retailer's same-store sales were off just 5 percent—exceeding expectations—across August, September, and October compared to the same period in 2019, with home décor and furnishings doing best. Another retail contact reported sales improved more than anticipated from the spring, but were down by mid-single digits from a year ago.

Restaurants across Massachusetts benefited from a dry summer and start of fall, but as temperatures declined, outdoor dining and average sales dropped. At the same time, COVID-19 cases increased and new restrictions were imposed, both of which contacts suspected raised concerns with indoor dining. Many restaurants that used tented spaces to increase social-distanced table capacity this fall reported that heating constraints will shut down those spaces as winter approaches. Restaurants in Boston continued to fare the worst in the state, on average, and some will close for the winter, as operating at reduced capacity would lead to greater losses.

Travel industry contacts reported that hotel stays were still significantly impacted by the pandemic; hotel occupancy in Boston was under 30 percent as compared with

a 2019 average over 80 percent. Conventions scheduled in Boston through July 2021 have been postponed.

Manufacturing and Related Services

All but one of 11 contacted manufacturers reported increased sales versus a year earlier. The lone exception has large exposure to commercial aviation and autos, with commercial aviation down 40 percent to 50 percent and autos down 10 percent to 15 percent. By contrast, some contacts reported strong gains, including a manufacturer of testing equipment who said sales were up 35 percent and a semiconductor equipment supplier with a 45 percent increase. A manufacturer of ventilators cited \$400 million in orders as compared to \$20 million in a normal year. A supplier of products to veterinarians said that demand was up partly because the number of pet owners has increased during the pandemic.

Capital expenditures were generally up but several contacts reported delays in delivery of capital goods. No one reported any issues with financing. Most contacts had not made major capital investments in response to high demand because they viewed it as temporary.

Manufacturers generally reported positive outlooks, albeit with some caution because of uncertainty about both the path of the pandemic and the timing of vaccines.

Staffing Services

New England staffing firms reported positive growth in Q3 regardless of their industry exposure. Quarter-over-quarter growth rates ranged from 10 percent to 15 percent for firms that shared numbers. By early Q4, a few companies enjoyed levels of business activity similar to their pre-COVID ones. All contacts remarked that business volume was still down compared to a year ago, citing numbers from -8 percent to -40 percent. All reported that business has steadily regained momentum since July, with the demand for labor strong. One contact had shifted to placing essential workers due to higher demand. In general, staffing firms were more optimistic now than they were in August. They expect modest slowdowns next quarter but quick recovery in the following quarters of 2021.

Commercial Real Estate

Conditions in First District leasing markets have not changed appreciably since the last report. Industrial and lab space continued to do well, while retail and office space continued to suffer. Much industrial activity was related to e-commerce and last-mile fulfillment. Construction activity in the industrial market was somewhat restrained by increased construction costs. In the life-

science sector, one contact reported that around 5 million square feet of lab space is underway to be delivered by the end of 2025 in greater Boston, with about 40 percent of it pre-leased.

With very little leasing activity in the office sector, tenants nearing the end of their leases were renewing only for the short term. Some respondents reported an increase in available office sublease space, indicating more office-market problems to come. Retail properties continued struggling, with grocery and big-box stores the only successes. Contacts estimated daytime office occupancy rates at around 20 percent—bad news for the shops and restaurants that relied on office workers' business. Regarding the outlook, contacts expressed cautious optimism, with positive vaccine news and the election behind them. Many expected Q1 2021 to be tough, with the pandemic picking up again and uncertainty about future stimulus measures, but they were hopeful about the second half of 2021.

Residential Real Estate

The First District saw high sales numbers in September or October, as pent-up demand from the delayed spring market and eagerness to take advantage of historically low mortgage rates overpowered the usual fall slowdown. (Connecticut data were unavailable. Boston and Maine reported changes from October 2019 to October 2020; all other areas reported changes through September 2020.)

The number of closed sales increased in all reporting areas from a year ago, with double-digit increases for all markets except Boston condos. Notwithstanding these unusually high sales numbers, severe inventory shortages continued; the inventory of homes for sale dropped by double-digit percentages from a year ago in all reporting markets except Boston condos. The lack of inventory and high buyer demand continued to put upward pressure on prices and, once again, the median sale price rose in all markets, with double-digit increases for single family homes. Contacts expected this "buying frenzy" to continue through the winter months. The Massachusetts contact again mentioned movement from urban areas to suburban and rural areas, and the Maine contact noted a substantial influx of out-of-state buyers. ■

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



Summary of Economic Activity

Economic activity in the Second District economy was flat in the latest reporting period. The labor market has remained weak, with employment in most industry sectors essentially unchanged. Input prices continued to rise moderately, while selling prices were little changed. Consumer spending has been little changed at subdued levels, while tourism has remained depressed. Housing markets have continued to strengthen, except in New York City, while markets for office and retail space have continued to soften. Finally, banks reported little change in loan demand, tighter credit standards, and an upturn in delinquency rates. Overall, business contacts have become less optimistic about the near-term outlook, with many contacts mentioning the recent pandemic wave, increased restrictions, and political uncertainty as major challenges.

Employment and Wages

The labor market has remained weak, with employment levels little changed in recent weeks. A major New York City employment agency reported that hiring has remained moribund and anticipated a rough patch through the winter but expressed hope for a pickup later in 2021. An upstate agency, on the other hand, indicated scattered signs of a pickup in hiring, especially for lower-wage workers, and noted particular difficulty in recruiting customer-service representatives. Despite the weak labor market, a number of business contacts have struggled to hire and retain skilled workers.

Businesses in many service industries—leisure & hospitality, education & health, wholesale trade, and information—reported flat to declining employment. However, manufacturers and retailers, on balance, reported modest increases in staff. Business contacts in most sectors said they plan to leave staffing levels at or near current levels in the months ahead, with the notable exception of construction, where considerably more businesses plan to reduce than expand employment.

Wages have picked up modestly, according to business contacts across a wide spectrum of industries. Moreover, an upstate New York employment agency noted a particular upward trend in wages at the lower end of the pay scale. Looking ahead, businesses generally expect

wages to accelerate somewhat—particularly in the trade & transportation and education & health sectors.

Prices

Business contacts have reported somewhat more upward pressure on input prices in recent weeks. Businesses in manufacturing, distribution, education & health, and leisure & hospitality have generally noted more widespread escalation than those in other sectors. Construction contacts, on the other hand, reported somewhat less pronounced cost pressures than previously. Some business contacts have noted a pronounced acceleration in health coverage costs for 2021.

Regarding selling prices, retailers, distributors, and manufacturers reported some increases, but businesses in other sectors indicated that selling prices remained steady. Looking ahead, there has been a further modest increase in the proportion of businesses planning to raise their selling prices in the next few months—most notably in the retail and manufacturing sectors.

Consumer Spending

Consumer spending has been mostly flat since the last report. Retailers reported that sales have been steady to somewhat lower in recent weeks, with business remaining well below pre-pandemic levels. Stores in upstate New York continued to outperform those in other areas.

New vehicle sales were flat to down slightly, according to dealers in upstate New York, with the weakness attributed to a combination of low inventories, reduced dealer incentives, and some pullback in demand. Sales of used vehicles have been steady, also hampered by lean inventories. Consumer confidence among residents of the Middle Atlantic region (NY, NJ, PA) retreated in October and remains moderately below pre-pandemic levels.

Manufacturing and Distribution

Manufacturing growth has slowed to a subdued pace in the latest reporting period. In contrast, wholesale trade firms continued to report moderate growth, and businesses engaged in transportation & warehousing reported some pickup in activity.

Looking ahead, manufacturers have remained fairly optimistic about the outlook, while wholesalers' optimism has waned, and transportation & warehousing contacts have continued to be broadly pessimistic.

Services

Service industry contacts generally reported that business activity has weakened noticeably in the latest reporting period. Contacts in the professional & business services and leisure & hospitality sectors reported widespread declines in activity, while those in the information and education & health sectors indicated more moderate declines. Looking ahead, professional & business service firms expressed mild optimism about prospects for the months ahead, whereas leisure & hospitality firms expressed increased concern that conditions would deteriorate.

Tourism, which had picked up somewhat in the previous reporting period, has more recently shown signs of weakening. A number of contacts attribute this to the recent wave of the pandemic across the nation and much of the world, as well as the onset of cold weather, which limits outdoor activities. An authority on New York City's tourism sector noted that most recent visitations have been short haul trips. Hotel occupancy rates have been noticeably higher on weekends than weekdays but are still well below 50 percent, and room rates are down sharply. Many city hotels are picking up some of the slack with alternative uses, such as providing shelter for the homeless. Advance bookings for the holiday season suggest only a modest uptick. While tourism is expected to rebound noticeably in 2021, it is projected to remain 25-30 percent below pre-pandemic levels, as the international and business segments are expected to lag.

Real Estate and Construction

Housing markets have continued to strengthen across much of the District. In both upstate New York and the

areas around New York City, sales activity has been brisk, home prices have risen strongly, and the inventory of unsold homes has declined further. In New York City, conditions have been more mixed. Rental markets have weakened further: with increased landlord concessions, effective rents are reported to be down 15 percent from a year ago in both Manhattan and nearby Queens and down 5 percent in Brooklyn, as vacancy rates have climbed. The co-op and condo sales market has been more stable, with prices declining moderately in Manhattan but holding mostly steady in Brooklyn.

Commercial real estate markets have weakened further. Office availability and vacancy rates have continued to rise across the District, while asking rents declined in New York City but were steady to higher across the rest of the District. Retail vacancies have continued to increase across the District. Asking rents for retail space have fallen sharply in New York City but have been flat to down modestly in other areas.

New construction activity has remained sluggish and well below year-earlier levels for both residential and commercial structures. Contacts in the construction industry reported weakening activity and have grown increasingly pessimistic about the near-term outlook. One contact noted clogged supply chains as a major problem and attributed this partly to reduced availability of credit.

Banking and Finance

Contacts in the finance sector generally continued to report steady to declining business activity but have grown less pessimistic about the near-term outlook. Small to medium-sized banks in the District reported little change in overall loan demand, with increased demand for residential mortgages but decreased demand for commercial and industrial (C&I) loans. Refinancing activity increased. Bankers reported tightened credit standards across all categories. Spreads narrowed on all loan categories except C&I, where spreads were unchanged. Finally, bankers reported higher delinquency rates across all loan segments except commercial mortgages where delinquency rates held steady. Bankers reported no change in the degree of leniency on delinquent accounts across all categories. ■

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



Summary of Economic Activity

On balance, Third District business activity held steady for most of the current Beige Book period and remained below levels observed prior to the onset of the COVID-19 pandemic in most sectors. Net employment continued to grow modestly, wages continued to grow slightly, and price increases remained modest. However, numerous contacts noted that the sharp rise in COVID-19 cases had disrupted economic activity, and a downward trend emerged as November began. The cases heightened concerns that the winter months would prove difficult, if not impossible, to survive for some firms. Bankruptcies have already begun within the retail, restaurant, and hospitality sectors. Contacts are concerned that when unemployment benefits and moratoriums on evictions and foreclosures expire, an avalanche of bankruptcies will emerge among other small and medium-sized businesses, as well as households. Positive expectations for growth over the next six months have narrowed among firms.

Employment and Wages

Employment continued to increase modestly overall. The share of manufacturers reporting employment increases held steady at one-third, while the share reporting declines fell. Among nonmanufacturing firms, the share reporting increases has risen since the prior period, while the share reporting decreases held steady. On balance, average hours worked rose across all firms.

Activity at staffing firms remained below pre-pandemic levels, with most firms noting more openings than candidates. Firms have more success at placements for those clients willing to pay competitive wages. Even in outlying areas of the District, this often means that firms seeking workers for low-skilled jobs must compete with billboard advertisements by warehouses for positions that start at \$15 an hour and higher. Rising COVID-19 cases and sporadic school closings continue to deter workers, especially women, from reentering the labor market.

Wages continued to grow slightly. In mid-November, the percentage of nonmanufacturing firms reporting higher wage and benefit costs per employee remained somewhat higher than the percentage reporting lower costs. However, two-thirds of the firms reported no change.

Prices

Prices continued to rise modestly overall. Nearly 40

percent of the manufacturers reported that prices rose for factor inputs (and none reported a decline), but only about 25 percent received higher prices for their own products. In turn, about 25 percent of the nonmanufacturers reported that prices rose for their inputs, but only about 10 percent received higher prices from consumers for their own goods and services (and 6 percent reported declines). Generally, well over half of all firms noted no change in prices.

Various contacts noted that supply disruptions, shortages, and price spikes were easing. However, as COVID-19 cases surged, more businesses were coping with sporadic shutdowns and labor shortages, and many feared worse conditions in the winter months ahead.

Looking ahead one year, manufacturers now anticipate receiving prices for their own goods and services that are modestly higher than they expected one quarter earlier. However, nonmanufacturing firms have raised their expectations significantly. Overall, firms also reported slightly higher expectations for annual consumer inflation.

Manufacturing

On average, manufacturing activity continued to grow slightly over the prior period; however, the trend softened in early November. The diffusion indexes for shipments

and for new orders from our mid-month surveys in October and November remained positive – suggesting some growth. However, the indexes rose from September to October, then fell in November.

Manufacturing firms responding to a question drawn from our COVID-19 survey reported that sales and new orders were about 8 percent below what had been anticipated pre-pandemic – the same as was reported at the end of September.

One contact with a diverse and global footprint noted that U.S. manufacturing softened at the beginning of November, as had manufacturing in Europe after COVID-19 cases began rising. In contrast, cases are few in China, and activity is holding steady. Although China's economy would be expected to slow as global demand wanes, the contact noted that some production has shifted back to Chinese facilities – free of virus-induced disruptions.

Consumer Spending

Nonauto retail sales appeared to edge lower beginning in late October. Contacts cited rising COVID-19 cases and falling temperatures as contributing factors. Rising caseloads worried consumers and disrupted purveyors with staff shortages and sporadic closures. Sales held steady for some firms but still disappointed, since holiday shopping (and eating out) would typically have begun to boost brick-and-mortar sales.

Auto dealers continued to report strong consumer demand for new and used autos; however, the growth rate in new car sales remained modest on average. Dealers noted that inventory problems had mostly cleared and that margins were greater, as labor expense was lower and terms with manufacturers were more favorable.

Contacts noted that leisure travel held up later into the fall, but business travel and group travel picked up less than usual. Shore destinations reported better-than-normal activity well into October. However, overall tourism remained at almost half of prior-year levels and appeared to decline slightly at the end of October. A hotel contact expects a tough winter for the industry and has already observed more “jingle mail” – when the operator sends the keys to the lender.

Nonfinancial Services

On balance, nonmanufacturing activity has fallen slightly since the prior period. In responding to a question from our COVID-19 survey at the end of September, nonmanufacturers had reported that sales and new orders were about 16 percent below what had been anticipated pre-pandemic. In our mid-month surveys for October and

November, firms reported demand was nearer to 19 percent below pre-pandemic expectations.

The diffusion indexes for new orders and sales from our mid-month surveys also suggested slight declines. Both indexes have fallen into negative territory since mid-September, indicating that declines were somewhat more widespread among firms and that the overall direction of change was no longer positive.

Financial Services

The volume of bank lending fell modestly during the period (not seasonally adjusted); in the same period in 2019, by contrast, loan volumes grew modestly. Residential mortgages grew modestly but were offset by modest declines in home equity lines, auto loans, and other consumer loans. Commercial real estate lending was flat, and commercial and industrial loans fell sharply again as Paycheck Protection Program loans continued to roll off the books. Credit card volumes fell moderately; last year, they grew modestly over the same period.

Banking contacts, as well as accountants and attorneys, continued to note little change in delinquencies or other credit problems, except in the retail, restaurant, and hospitality sectors. However, concerns remained that significant problems will arise as moratoriums on evictions and foreclosures expire and unemployment benefits end.

Real Estate and Construction

Homebuilders reported moderate sales growth in which demand continues to outpace the availability of land and labor. Raising prices has helped builders to slow demand and cover rising costs. Existing home sales have also grown moderately – relative to very low levels from the prior year. Inventory levels remain extremely low; however, the recent high demand for homes may be depressing inventory levels because new listings are snapped up so quickly.

Philadelphia's commercial construction activity held steady at about 13 percent below the level of activity anticipated before the pandemic. The existing pipeline of construction should keep activity steady through the first half of 2021. Commercial office leasing activity has fallen moderately in the suburbs and in central business districts. Demand remained strong for warehousing construction and leasing. ■

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



Federal Reserve Bank of Cleveland

The Beige Book ■ November 2020

Summary of Economic Activity

Economic activity increased moderately and at a similar pace to the previous reporting period. Activity increased at a brisk pace for professional services, freight haulers, and firms whose sales benefitted from low interest rates (such as homebuilders and durable goods producers). Firms in industries that were most impacted by the pandemic (such as hospitality, aerospace, and energy) saw little improvement in demand. Staff levels increased slightly as customer demand improved. However, most firms were still below pre-pandemic staff levels. Although labor availability had improved recently, many firms report ongoing difficulty finding workers. Idiosyncratic disruptions to production as well as shipping delays pushed up transportation rates and costs for certain construction and manufacturing inputs. Selling prices rose moderately as a result. Looking ahead, contacts expected modest improvement in customer demand, although expectations have been tempered since the previous reporting period because of the uncertainty of the coronavirus's path. Consequently, outlooks for hiring in the year ahead were also restrained.

Employment and Wages

District labor markets continue to heal steadily. Staff levels increased slightly in response to the broader improvement in business activity. Most firms that had temporarily laid off workers have rehired most of those workers. That said, staff levels remain below pre-pandemic levels for about two-thirds of our contacts. Also, despite high levels of unemployment, firms experienced mixed results in recruiting workers. Firms generally had no trouble finding workers for office-type jobs, but recruitment was still a challenge for many manufacturing, construction, retail, and transportation firms. Firms in these sectors indicated that, although labor availability has improved with the passage of time since supplemental unemployment benefits lapsed in July, their staffing challenges have persisted.

Overall, wage pressures were modest because of the slack in the labor market. The freight and logistics sector was an exception. Many of these firms reported pay increases of 10 percent or more for drivers and hourly workers to attract workers and to stem high employee turnover.

Regarding the outlook, hiring plans for the year ahead were generally modest. About a third of contacts expected they will still be below pre-pandemic staff levels 12 months from now. Uncertainty about the path of the

virus and associated public health measures topped the reasons firms are reticent to add staff. Moreover, a sizable share of firms indicated they expected sales growth to be too low to justify stronger hiring.

Prices

Nonlabor costs rose moderately, on balance. However, cost increases were more prominent for builders, manufacturers, and retailers. Many firms in these sectors experienced delays in receiving inputs because either the producer or the shipper was short-staffed. This situation not only increased input costs and the cost of shipping these materials, but it also increased lead times. Steel and lumber were widely cited as examples of commodities for which prices are well above pre-pandemic levels.

Selling prices rose moderately, although increases were stronger for durable goods and freight than they were for professional services and nondurable goods. Very strong demand and tight capacity in the industry motivated almost all of our freight haulers to boost their rates for new contracts, and most received little pushback from customers. A number of manufacturers and builders were able to pass cost increases on to their customers if they were not held to a long-term contract. Auto dealers commented that low inventories of vehicles continue to

push up prices for new and used cars. By contrast, a number of restaurants and hotels cut their prices to attract customers. Professional services firms broadly held their prices, as they have done for several reporting periods.

Consumer Spending

Reports suggest that consumer spending grew moderately, albeit at a slower pace than in the last reporting period. Sales of goods were generally stronger than for services. Auto dealers commented that sales remained strong, thanks largely to low interest rates, and while some reported improved inventory levels, a number of contacts indicated that sales were still being limited by low inventories. Sales for general merchandisers and apparel retailers were slightly better recently, and they were expecting a favorable holiday shopping season. However, hoteliers and restaurateurs noted that the recent rise in COVID-19 cases weakened dine-in sales and business travel further from its previous low level, and customers were cancelling planned weddings and holiday events. Contacts expected business activity to remain broadly unchanged in the next few months, although increases in COVID-19 infections and diminished assistance to households from federal programs were significant downside risks to the outlook for spending.

Manufacturing

Manufacturing orders increased modestly, although at a slower rate than in the previous period. Firms also reported slightly better capacity utilization, and plans for capital investment were stable. By end-market, the wide variation in activity that was seen in recent periods persisted. Firms that make consumer durables (such as autos) and goods related to homebuilding continue to experience strong demand. Also, the growth of online retailing boosted orders for producers of packaging and logistics equipment. Conversely, aerospace demand remained flat at low levels because of depressed air travel. Similarly, orders for oil and gas equipment remained weak because of low levels of oil and gas drilling. Looking forward, contacts expected demand to improve modestly.

Real Estate and Construction

Demand for homes remained strong, and contacts attributed this primarily to low mortgage rates. Although a seasonal slowdown is normally experienced around this time of the year, homebuilders and real estate agents noted that sales have yet to slow. Looking to the next two months, contacts were concerned that demand may soften as COVID-19 cases increase. One homebuilder indicated that traffic on the firm's website had declined, suggesting that new home sales may soon begin to

soften.

Nonresidential construction and real estate activity remained relatively stable since our last report. Increases in COVID-19 infections and uncertainty about the elections led many firms to hold off on their investments. One general contractor stated that there have been fewer projects available for bidding and those that are available have been smaller in dollar value. He also noted that many projects have seen a significantly larger pool of bidders than usual.

Financial Services

Banking activity remained stable during the reporting period. Contacts noted that low interest rates continued to support demand for consumer loans, especially for mortgages and auto loans. However, demand for business loans was reportedly flat. Core deposits grew for most contacts, and lenders indicated that delinquency rates for commercial and consumer loans were still low because of forbearance agreements and CARES Act-related assistance. One banker noted that customers for whom forbearance agreements had ended were staying current with their payments. Looking ahead, bankers were optimistic that conditions will improve as the likelihood of an effective COVID-19 vaccine increases.

Professional and Business Services

Demand for professional and business services strengthened further from its previous high level. IT firms, in particular, experienced robust demand for digitization projects and support for online retailing operations. One marketing firm noted an uptick in advertising activities. Contacts expressed optimism for the coming months and expected demand to remain strong.

Freight

Demand for freight services strongly increased, and firms expect the momentum to continue into the next several months. Logistics firms indicated that strong online retail sales growth was keeping fulfillment centers busy. Cargo volumes picked up as manufacturers and retailers built up their inventories. Also, import volumes were reported to have increased ahead of the holiday shopping season. Many firms in the industry indicated that high staff turnover and difficulty finding workers made it difficult for them to keep up with demand. ■

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



Summary of Economic Activity

The Fifth District economy expanded at a moderate rate in recent weeks. Although some sectors reported strong growth, most businesses reported demand or sales at levels below their pre-pandemic or year-ago levels. Manufacturers experienced robust growth in shipments and new orders, and in some cases, demand exceeded capacity as producers were constrained by labor and supply chain factors. Ports and trucking companies saw strong growth in volumes, driven by high demand for furniture, consumer goods, and autos. Retailers reported little change in overall sales and low customer foot traffic, however there was strong growth in certain categories. Travel and tourism declined modestly as leisure travel softened. Restauranters voiced concerns about colder weather impacting outdoor dining in the coming months. Residential home sales picked up markedly and prices rose for both new and existing homes. Commercial real estate grew modestly. Office and retail vacancies remained elevated but rent payments held up. Despite moderate growth in mortgage demand, total loan volumes declined slightly, according to Fifth District financial institutions. On balance, the demand for nonfinancial services rose slightly in recent weeks. Employment continued to rise, but some firms looked to invest in technology or automation rather than hiring more workers. Overall, price growth was little changed as prices received by firms grew modestly.

Employment and Wages

Employment in the Fifth District rose moderately since the previous report. Despite recent increases, the overall level of employment remained below the pre-pandemic level. Some professional and financial services firms reported a recent uptick in hiring, particularly for accountants, lawyers, and IT professionals. An infrastructure design and consulting firm was hiring engineers due to strong demand for their services. Similarly, an advanced manufacturing firm reported strong growth in hiring for engineers, technicians, and administrative staff. Several businesses, however, were hesitant to hire and some looked to invest in technology or automation rather than increasing employment. Other firms reported difficulty finding workers to fill open positions. Wage growth remained modest, overall.

Prices

Price growth was little changed, on balance, in recent weeks. According to our most recent surveys, manufacturers and service sector firms reported modest growth in prices received, averaging well below two percent. Growth in prices paid for inputs remained moderate and generally outpaced growth in prices received. Firms in both goods producing and service providing sectors continued to state that additional cleaning measures and

purchases of personal protection equipment contributed to the growth in input costs compared to last year.

Manufacturing

Manufacturers reported strong increases in shipments and new orders since our last report. Producers of furniture, textiles, home goods, food, and shipping materials reported robust demand, often exceeding capacity. However, many manufacturers reported that production was constrained by unavailability of labor and supply chain disruptions resulting from tariffs, shutdowns, and shortages. Some manufacturers expressed concerns about recent increases in new COVID cases, leading to uncertainty about the extent that they would be able to operate in the near future.

Ports and Transportation

Fifth District ports saw robust growth in shipping volumes in recent weeks. Contacts reported volumes were up over the year and neared record levels. Import levels continued to exceed export levels, but both registered strong growth and high volumes. Furniture, consumer goods, and auto imports were particularly strong, but machinery and beverage imports were weak. On the export side, machinery, meat, and grocery products were strong. Lumber and grain exports improved slightly but remained soft compared to year-ago levels.

Trucking companies reported high volumes and strong growth since our last report. High rates and fairly stable costs led to strong profits. Volumes of home improvement goods and packaging materials were particularly high. Demand often exceeded supply, leading some companies to turn away business. Trucking companies continued capital investments but faced capacity constraints from lack of available drivers. Contacts noted that drivers from smaller companies that closed during the pandemic often left the industry or did not qualify to drive for larger companies with higher safety standards.

Retail, Travel, and Tourism

Fifth District retailers reported little change in recent weeks, and business remained below year-ago levels. Home goods and food retailers continued to see strong demand. Local retailers that also sell online reported solid online sales while in-store shopper traffic remained low. Auto sales were fairly stable, and dealers held out for higher prices because of low supply. Retailers worked to restock inventories to prepare for holiday sales, but some contacts reported that delays and shortages were limiting their ability to do so.

Travel and tourism in the Fifth District saw a modest decline since our last report and was well below year-ago and pre-pandemic levels. Hotel occupancy was low, as leisure travel softened and business travel remained very low. Restaurateurs expressed concerns about the feasibility of outdoor dining heading into the colder weather, as both restrictions and low demand limited indoor dining. Attractions, museums, and performing arts also saw weak demand. Many businesses felt that demand would not return until a vaccine becomes widely available, and many businesses faced renewed constraints on activity with the recent surge in virus cases. However, some mountain resorts reported solid to strong demand.

Real Estate and Construction

Home sales in the Fifth District continued to be strong since our last report. Sales were robust across price ranges and locations; demand for moderately priced suburban homes was particularly strong. Prices were strong and rising for both new and existing homes, which contacts attributed to low inventories, high demand, and low mortgage rates. Average days on the market decreased, as did the number of listings. Construction costs were high as lumber prices remained significantly elevated. Realtors reported that buyers were increasingly looking for houses with more land, multiple home offices, pools, and personal gyms.

Commercial real estate leasing grew modestly in recent weeks. Vacancy rates remained elevated for office and retail, but rent payments generally have held up. Office tenants asked for short-term renewals as they reevaluated space needs and increasingly looked to locate in smaller buildings, often in the suburbs, instead of renting space in urban high-rises. Some retail vacancies opened up as tenants went out of business, but realtors reported new interest in those spaces. Industrial space remained in high demand, driven largely by ecommerce. Multifamily vacancy rates varied by location and were notably high in the District of Columbia. Rents were soft in retail and multifamily but high for industrial space. High construction costs encouraged repurposing of old buildings by companies instead of building new sites.

Banking and Finance

Overall, respondents reported that loan activity declined slightly for this period, despite moderate mortgage loan growth. On balance, contacts indicated conventional commercial lending remained unchanged with several banks indicating tightening credit standards, especially for hospitality, retail, and office loans. Deposit growth was moderate even with interest rates paid on deposits remaining low. Credit quality remained good, but a few respondents said they were carefully watching how some mid and lower tiered loans will perform in 2021. In addition, there was some concern regarding increased competition as banks search for loan volume to help offset lower yields.

Nonfinancial Services

On balance, demand for nonfinancial services picked up slightly in recent weeks. Some firms reported moderate growth, particularly those engaged in construction related services, information technology, legal, and financial services. Several other firms, however, reported flat to declining demand due to limited business-to-business spending. A marketing company, for example, said that businesses seemed to be conserving resources and marketing budgets were one of the first places that companies look to cut. Health service providers continued to report strong demand. ■

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



Summary of Economic Activity

On balance, economic activity in the Sixth District expanded modestly from October through mid-November. Labor markets continued to recover as some firms added to headcounts where demand was strong. Some contacts noted rising nonlabor costs, especially related to construction and shipping. Retailers reported mixed activity. Auto dealers reported solid retail vehicle sales, offset by softness in fleet sales. Tourism and hospitality noted slow improvements in activity. Residential real estate remained strong, but challenges in commercial real estate markets continued. Manufacturing activity accelerated as new orders and production levels rose. Banking conditions stabilized, but net interest margins remained compressed.

Employment and Wages

On balance, contacts continued to report modest improvements in labor market conditions. Increases in headcounts were strongly tied to improvements in demand. Some firms noted the ability to maintain or increase productivity levels with fewer employees, while others reported onboarding new employees to provide relief to overworked staff. Seasonal hiring was notable among retailers, distributors, and delivery firms. Driver shortages intensified as capacity constraints due to social distancing measures at driver training locations slowed the number of new certified drivers. Business contacts indicated that companies in higher cost-of-living geographies were recruiting accounting, IT, and other professional staff to work remotely full-time, and are able to pay salaries that were higher than local market rates, but often lower than the salary paid in their geography. Those hiring for higher skilled positions noted an ability to find quality applicants. Overall, the supply of available lower-skilled workers remained limited. Childcare challenges continued to be noted and there were some reports of accelerations in retirements.

There were fewer reports of wage and salary reductions since the previous report, and some firms began to restore pay cuts or plan to do so in 2021. Increases in wages were largely targeted to specific occupations and lower-skilled positions.

Prices

Over the reporting period, contacts continued to note some rising input costs, particularly for lumber and alu-

minum. Shipping costs rose as solid demand put increased pressure on capacity; however, fuel costs remained low. Firms continued to report little to no pricing power, but some anticipate having the ability to pass through increased costs in 2021. The Atlanta Fed's Business Inflation Expectations survey showed year-over-year unit costs decreased significantly to 1.3 percent in November, down from 1.6 percent in October. Year-ahead expectations increased to 1.9 percent from 1.6 percent since the last reporting period.

Consumer Spending and Tourism

Retailers reported mixed activity over the reporting period, though demand generally outperformed forecasts. Some retailers noted cutting store hours and reducing costs to preserve margins. The outlook for the holiday season remained uncertain. Although overall District auto sales declined from September to October, retail auto sales remained solid while fleet sales fell significantly as compared with year-earlier levels.

Travel and tourism contacts reported that the industry was slowly recapturing demand, as some contacts reported a pickup in leisure travel. Business travel continued to struggle. Based on the current trajectory, a full recovery is not expected until 2023.

Construction and Real Estate

Although they moderated slightly from peak levels experienced over the summer, District home sales remained strong, with low interest rates continuing to be the primary driver of demand. Existing home inventory remained

tight and new home construction continued to lag demand. Construction costs, especially lumber and labor, remained elevated. Consequently, home prices continued to rise, putting pressure on affordability. Rural areas in Alabama, Mississippi, and Louisiana, urban markets in south and central Florida, and the southern portion of the Atlanta metro area were geographies that stood out in terms of the share of mortgages that remained in some stage of delinquency.

Business contacts reported that the commercial real estate sector continued to encounter bifurcated conditions associated with the effects of the pandemic. Hospitality, which was especially hard hit earlier this year, saw modestly improving conditions come to an end, as occupancies declined from the prior reporting period. Retail remained challenged; however, contacts reported limited improvement in rent collections. Low levels of tourism and travel have had a notable impact on activity across the hospitality and retail sectors. Recent asset valuations in public markets confirmed that values are deteriorating, which, along with tighter underwriting standards, may create impediments to new lending.

Manufacturing

Most manufacturing firms reported an increase in overall activity over the reporting period as new orders and production levels continued to climb. Production managers indicated that supplier delivery times were getting longer, and finished inventory levels remained slightly elevated. Expectations for future production levels declined, with over one-third of contacts expecting higher levels of production over the next six months compared to one-half during the previous reporting period.

Transportation

District transportation contacts indicated that demand was largely consistent with the previous report. Total year-over-year rail traffic rose as robust intermodal freight volumes offset declines in agriculture products, petroleum and petroleum products, and aggregates and coal. Trucking companies noted solid demand; however, driver shortages continued to constrain capacity for some. At District ports, container traffic increased, while roll-on, roll-off cargo, breakbulk and bulk freight volumes remained below year-earlier levels. Several contacts reported strong warehouse expansion activity across the region.

Banking and Finance

Banking conditions stabilized, taking pressure off of earnings. Net interest margin compression continued but significant additions to provisions for loan losses were not required. Banks appeared to struggle to find suitable lending opportunities while deposit levels remained

elevated. Outside of residential real estate and commercial loans, loan balances across multiple portfolios were stagnant or edged downward. Instead of increasing loans, banks held higher balances in cash accounts or securities portfolios.

Energy

Hurricane Zeta made landfall within the District during the reporting period, causing temporary disruptions to oil and gas production in the Gulf of Mexico. Amid continued soft demand for crude oil, industry contacts reported consolidation among refiners and expect more in the coming months. Petrochemical manufacturers noted that reduction in crude oil refining has lowered the availability of residual products used for fuel, which ultimately has affected production supply chains, capabilities, and costs. While some energy contacts noted that petrochemical and chemical processing expansion projects were gradually restarting, others reported that many projects that were delayed will be on hold into 2021. Within the utilities sector, residential power demand was up compared with this time last year; however, commercial and industrial segments, although recovering, were down overall. Contacts described that recovery of commercial energy usage slowed in recent weeks since demand is sensitive to COVID-19 movements. Still, capital investment within the utilities sector remains solid, including increasing investment in renewable energy sources in the industry's ongoing pursuit of increased decarbonization.

Agriculture

Agricultural conditions were mixed. While drought-free conditions prevailed in most of the District, some producers reported crop damage caused by recent hurricanes. Contacts noted increases in some agriculture commodity prices attributed to changes in supply and demand, the USDA Food Box program, and improved trade with China. Some contacts also noted that increased federal assistance helped improve balance sheets. Cotton harvesting progressed, though below the five-year average pace, while soybean and peanut harvesting were near their five-year averages. The USDA reported year-over-year prices paid to farmers in September were up for rice, soybeans, cattle, and eggs, but down for corn, cotton, broilers, and milk. On a month-over-month basis, prices increased for corn, cotton, soybeans, cattle, and eggs, but decreased for rice, broilers and milk. ■

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 increased moderately in October and early November, though activity remained below its pre-pandemic level. Contacts expected further growth in the coming months, but nearly all expected full recovery would not occur until at least the second half of 2021. Employment, consumer spending, and manufacturing increased moderately; business spending increased modestly; and construction and real estate was flat. Wages rose slightly, as did prices. Financial conditions improved modestly. Strong harvests, government support, and higher prices boosted expectations for farm income.

Employment and Wages

Employment increased moderately overall during the reporting period. Several contacts made little or no change to their staffing levels and there were some reports of increased headcounts in response to sales growth. Numerous contacts reported increased absenteeism because of Covid-19 cases or exposures among their workers, but these firms were generally able to maintain their output levels. Many contacts noted difficulty in finding workers, especially at the entry level. Several contacts reported using overtime to make up for elevated absenteeism and unfilled positions. Wages across skill levels and benefits costs moved up slightly.

Prices

Prices increased slightly in October and early November, and contacts expected a moderate increase in prices over the next 12 months. Consumer prices ticked up, led by higher food and vehicle prices. Producer prices increased slightly. Input costs were up modestly, driven by rising raw materials and shipping prices. Several contacts said that a shift forward in holiday season deliveries had pushed up shipping rates. Energy prices moved down further, as oil and gas inventories remained elevated and demand was slow.

Consumer Spending

Consumer spending grew moderately over the reporting period. Nonauto retail sales increased modestly. Demand remained robust in the appliance, electronics, home accessories, home improvement, power sports, and recreational goods categories. Apparel rebounded somewhat, and sales at party supply stores were strong. Growth in e-commerce eased but continued to register sharp gains from a year earlier. Contacts expected holiday-related spending to increase slightly compared with last year. Light vehicle sales decreased modestly. Auto service department activity slowed, and contacts attributed the pullback to fewer people traveling to school and work. Leisure and hospitality spending increased but remained weak, as new and existing restrictions on business travel and conventions held back gains. Contacts said that spending for elective health care procedures fell. Social service organizations reported strong demand for mental health services and financial assistance.

Business Spending

Business spending increased modestly in October and early November. Retail inventories were generally comfortable, though stocks of certain vehicle models remained well below normal levels. Most manufacturers also reported comfortable inventory levels, but a number

continued to experience minor supply chain problems, especially related to raw materials. Capital expenditures were little changed overall, though a number of contacts said they had resumed making investments after pausing since the start of the pandemic. Several firms cited increased efficiencies as their justification for current expenditures. Contacts expected a moderate increase in capital spending over the next twelve months. Freight and shipping demand increased moderately, and contacts noted that capacity constraints had led to sizeable price increases. Commercial and industrial energy consumption increased slightly.

Construction and Real Estate

Construction and real estate activity was unchanged on balance over the reporting period. Residential construction increased moderately. Contacts noted that a lack of available lots and high materials costs continued to restrain growth. Residential real estate activity remained vibrant, particularly in the single-family market. Home prices rose slightly, while rents rose marginally. Nonresidential construction decreased some. Commercial real estate activity fell modestly, as did prices and rents. Contacts reported an increase in requests for shorter leases. Sublease space increased modestly as some tenants, particularly in the office sector, reduced their footprint in response to increased teleworking.

Manufacturing

Manufacturing production increased moderately in October and early November but remained below where it was before the pandemic began. Auto output continued to rebound and was near its pre-pandemic level. Steel production increased moderately, with reports of greater demand from the construction, auto, and appliance industries. Sales of specialty metals were mixed. Demand for heavy machinery rose slightly, driven by the automotive and construction sectors. Demand for heavy trucks increased strongly, helped by higher carrier profits. Manufacturers of building materials reported a small increase in shipments, supported by growth in residential construction.

Banking and Finance

Financial conditions improved modestly over the reporting period. Participants in the equity and bond markets reported a small improvement in conditions, though volatility remained elevated in light of the pandemic and election. Business loan demand increased modestly, with contacts highlighting increases in small business banking. Contacts also reported an increase in requests for equipment financing. Business loan quality deteriorated slightly, with declines concentrated in the hospitality, retail, and commercial real estate sectors. Business loan

standards tightened modestly. In consumer markets, loan demand increased somewhat, led by growth in residential mortgages. Contacts reported that delinquencies had slightly increased as accounts exited deferral programs but remained at low levels. Loan quality decreased slightly, while loan standards tightened modestly. Contacts continued to report high levels of deposits for both businesses and households.

Agriculture

Farm income beat expectations for the growing season, as prices for key agricultural commodities moved higher and government support continued. Corn, soybean, and wheat prices were up again, reflecting tighter stocks and increased exports. With the harvest nearly over, most of the District saw above-trend corn and soybean yields. Most specialty crops had solid yields as well. Favorable weather conditions allowed farmers to complete field work that had been skipped in prior years because of poor weather. Dairy prices were mixed, but up on net. Hog and cattle producers also benefited from higher overall prices, but expressed concern about rising feed costs. ■

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



Summary of Economic Activity

Reports from District contacts suggest economic activity has continued to increase slightly since the previous report; however, conditions deteriorated toward the end of the reporting period. The pace of activity continues to remain highly variable across sectors. Employment has increased slightly, while wages have increased modestly. Consumer prices increased slightly; however, nonlabor input costs have experienced stronger increases. The overall outlook for business conditions over the next 12 months has improved but remains slightly pessimistic.

Employment and Wages

Employment has increased slightly since the previous report. The strongest growth was reported in manufacturing, transportation, and healthcare. Expanding firms continued to note labor supply shortfalls, ascribing it to workers' childcare and health concerns. One firm sought new employees in neighborhoods without adequate transportation by expanding a bus system to and from its warehouses. However, half of contacts reported remaining below pre-pandemic employment levels. Staffing contacts noted that many firms remained hesitant to hire or re-hire workers in the face of policy uncertainty and COVID-19 resurgences. Some firms—particularly small firms and those in the leisure and hospitality industry—exhibited more mixed employment trends.

Wages have grown modestly. Two-thirds of contacts reported raising wages for new and existing employees due to labor shortages, especially for low-wage and high-contact positions; one staffing firm instituted a minimum wage at which it would hire industrial workers for clients, believing it impossible to fill vacancies otherwise. Small-firm wage growth remained more mixed, with many reportedly unable to compete with larger firms' raises.

Prices

Input prices have increased strongly. However, contacts reported only a slight growth in prices charged to consumers, indicating that very little of the increased input

cost is being passed on to consumers. Raw materials prices have increased moderately overall; agriculture contacts noted that prices are at a yearly high, which contacts attributed to low yields nationally paired with healthy demand for staple crops such as corn and wheat both domestically and from China. Coal and lumber prices have declined since the previous report. A lumber yard contact noted that with inventories back to normal levels, lumber prices have declined 40% after spiking in recent months, putting them back at average levels compared with prices in previous years. A real estate contact noted that the price of plumbing materials has increased. Another contact noted increases in container-board prices due to higher demand from online shopping coupled with lower supply from COVID-19 and natural-disaster-related production delays.

Consumer Spending

Reports from general retailers, auto dealers, and hospitality contacts indicated that consumer spending activity has been mixed since our previous report. Over the course of October, seasonally adjusted credit and debit card spending generally declined across the District. As of early November, general retailers and restaurants reported mixed business activity. Auto dealers reported that current-quarter sales have met or exceeded expectations. Dealers cited low interest rates and gas prices helping to bolster sales. Tourism and hospitality contacts

reported that current-quarter sales fell short of expectations and continued to be much lower than they were during the same period last year. Hospitality contacts expect business activity to decline in the coming months.

Manufacturing

Manufacturing activity has strongly increased since our previous report. Survey-based indices suggest that manufacturing activity moderately increased in Arkansas and strongly increased in Missouri. In both states, firms reported a strong uptick in new orders and production. Auto manufacturers in south central Kentucky and southern Indiana reported high levels of production. Firms reported that supply chain issues that were previously constricting production have mostly been resolved. One contact noted that containerboard paper manufacturers are seeing increased demand, but some mills are experiencing slowed back production due to minimal crew schedules in response to COVID-19 precautions.

Nonfinancial Services

Activity in the nonfinancial services sector has been mixed since our previous report. Airport passenger traffic appears to be declining further relative to last year as business travel remains minimal and rising numbers of COVID cases lead to holiday travel cancellations. A parcel services contact indicated that business has improved, and the firm is already experiencing holiday-level activity. Several trucking contacts were optimistic about the industry going into 2021, as fewer competitors remain in business. Feedback from other logistics contacts was mixed regarding both sales in the previous quarter and the outlook for the next quarter, with one citing a lack of demand. A healthcare contact reported lower-than-expected sales last quarter, given increased apprehension about seeking health services.

Real Estate and Construction

Residential real estate activity has increased modestly since our previous report. Home sales remain robust for this time of the year and inventory levels remain low. A St. Louis-based contact noted that lower interest rates are a major factor in the increased demand for homes and thus why selling prices are rising.

Residential construction activity has remained unchanged since the previous report. Contacts noted that high demand for residential real estate is driving new residential construction, as there continues to be low residential inventory. Contacts also noted that construction is limited by lack of building materials, and a contact in St. Louis reported that the spike in COVID-19 cases is forcing them to regularly quarantine workers due to outside exposure.

Commercial real estate activity has been mixed since our previous report. Demand is down for both retail and office space, with contacts reporting a loss of retail tenants. Contacts in Memphis expect a loss of tenants as leases come to an end. However, demand for industrial space remains high, particularly for warehouse and manufacturing space, with demand expected to remain high or increase in the next quarter.

Commercial construction activity has been mixed. Contacts observed that most speculative activity in the office and retail space has ceased. However, construction for industrial space remained strong due to high market demand, with multiple active projects across the region. Contacts reported that large distribution companies are buying up new speculative inventory in order to quickly expand capacity.

Banking and Finance

Banking conditions in the District have experienced little change since the previous report. Overall loan demand remained low due to the pause in business activity following the recent surge in COVID-19 cases in the District. Residential real estate loans increased slightly, led by elevated refinancing activity to lock-in favorable rates. Banking contacts continued to report high levels of deposits despite lower rates paid on interest-bearing accounts. Delinquency rates remained generally low; however, some contacts observed a slight uptick in deferred payments among hospitality and commercial real estate clients. Competition for new loans and lower interest rates continued to narrow net interest margins.

Agriculture and Natural Resources

District agriculture conditions have remained unchanged since our previous reporting period. Production forecasts for corn, cotton, and soybeans have decreased, while cotton production forecasts have increased. Production levels for corn, rice, and soybeans are expected to be significantly higher than in 2019, while cotton production is expected to see a moderate decline. District contacts expressed optimism, citing higher-than-expected yields due to excellent weather conditions and a strong rebound in prices.

Natural resource extraction conditions declined modestly from September to October, with seasonally adjusted coal production declining around 3%. Production is still struggling overall, declining 24% from a year ago. Contacts reported reducing employee hours and offering early retirement options as a result of the industry struggles. ■



Summary of Economic Activity

The Ninth District economy grew modestly overall since the last report, but some signs of softening appeared recently as COVID-19 infections surged. Employment rose modestly since the last report, but conditions were volatile. Wage pressures were moderate and appeared to be increasing for some, while price pressures were modest. Consumer spending, manufacturing, energy, and residential construction and real estate grew since the previous report. Commercial construction and real estate activity fell. Agricultural conditions improved slightly.

Employment and Wages

Employment rose modestly since the last report, but conditions were volatile and likely to remain so in the face of rising COVID-19 infections. A survey of District construction firms in late October found that firms were hiring overall, particularly in skilled trades. However, hiring sentiment for the coming months was somewhat softer. A handful of ad hoc surveys of Minnesota firms in November showed similar findings. Job postings have seen modest-but-steady growth through mid-November across most District states. A western South Dakota contact said many firms were “desperate for help,” a situation worsened by visa programs that were no longer a reliable labor source. However, there was widespread concern over new, pandemic-related restrictions on business activity and employment. Some indicators also showed small business employment falling steadily in October through mid-November. Initial unemployment insurance claims increased in the last half of October, due in part to normal seasonality, but were nonetheless several times their level last year. The number of workers receiving unemployment benefits steadily declined through October, but remained high overall, especially among minority workers. Though unemployment has been dropping steadily, state government contacts noted that falling labor force participation was responsible for much of the recent drop.

Labor constraints became more pronounced, particularly

in sectors, such as health care, experiencing worker shortages due to COVID-19-related quarantines. Firms also reported difficulty filling open positions, frequently citing enhanced unemployment benefits as a work disincentive. However, workforce contacts noted that the expiration of more generous benefits has not led to a big increase in job seekers. Other obstacles—child care availability, virtual school for households with children, and virus fears—also impacted labor participation, particularly among women. A Minnesota contact noted that workforce systems were “failing to reach” those most negatively affected, particularly African American and noncollege-educated workers.

Wage pressures were moderate and appeared to be increasing for some. More District businesses reported raising average wages than cutting them. Certain sectors like construction were seeing greater wage pressures, and sources also noted bonuses and temporary wage hikes for frontline retail workers, higher entry-level wages, and reinstatement of pre-pandemic wage levels that had been cut. Pressures were not uniform, however. A large Minnesota nonprofit said that frontline staff received wage increases related to virus exposure, while other staff have been laid off or had wages frozen.

Prices

Price pressures since the previous report were modest overall. A majority of firms responding to recent Minneapolis Fed surveys reported little or no change to

nonlabor input costs and final prices compared with pre-pandemic levels. By contrast, more than half of respondents from the construction industry reported input price increases of greater than 5 percent. Respondents also expected a similar rate of price increases over the coming year, consistent with rapid growth in construction materials prices. Home heating costs were expected to rise more in District states than nationwide this winter, largely due to regional differences in the prices of natural gas and greater demand due to work from home. Retail fuel prices in District states as of mid-November fell slightly from the previous reporting period. Prices received by farmers in September increased from a year earlier for soybeans, wheat, dry beans, cattle, hogs, eggs, and turkeys, while prices for corn, hay, potatoes, chickens, and milk decreased.

Consumer Spending

Consumer spending grew slightly overall. Car and truck sales rose modestly in October compared with a year earlier, and contacts noted strong demand for recreational and powersport vehicles. However, spending was checked by softening demand at retail, restaurant, accommodation, and other firms more directly affected by rising COVID-19 infections. Numerous ad hoc polls showed that (self-reported) consumer spending remained below pre-pandemic levels, and future spending would be influenced by infection trends. Strong outdoor activity has lingered; visits to most of the District's major national parks rose in October compared with last year, and Mackinac Bridge traffic to Michigan's Upper Peninsula also rose over the same period. However, leisure travel through District airports as of mid-November had leveled off after modest-but-steady growth through September.

Construction and Real Estate

Commercial construction fell moderately since the last report. Industry data showed a slowing of new and active projects in the District. A survey of construction firms in late October found that 40 percent saw revenues decline compared with earlier in the pandemic, and a slightly smaller share saw revenues increase. Firms were also more pessimistic about revenues in the coming months due to a shrinking pipeline of new projects. A minority-owned contractor in the western part of the District said the company had a fraction of its typical workload due to COVID-19-related cutbacks in spending on government projects. "There is very little work out there ... and prices are being driven down drastically as contractors are all bidding for the same projects." However, prospects in Minnesota improved with the state's recent passage of a record-high \$1.8 billion bonding bill. Residential

construction continued to outperform other industry segments, in both recent project activity and planned future work, according to the recent survey. Most of the District's metros saw growth in single-family permitted units in October compared with a year earlier.

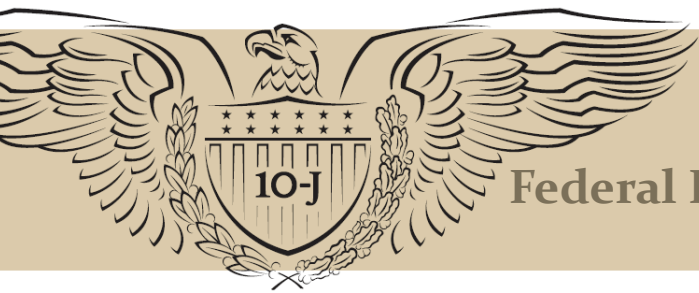
Commercial real estate fell modestly since the last report. Vacancy rates have risen across most categories, particularly in retail and office space. Industrial vacancy rose slightly in Minneapolis-St. Paul but was still considered healthy. While federal and state eviction moratoriums were keeping people housed, rent collections at lower-priced units in Minnesota were reportedly falling faster than at higher-priced units. Rising nonpayments were also squeezing smaller landlords, who have fewer options for mortgage forbearance than larger landlords. Residential real estate saw robust growth, with closed home sales in October seeing double-digit growth across the District. A Minneapolis-St. Paul contact said demand was "relentless." Low inventories of homes have also resulted in strong increases in median sale prices.

Manufacturing

District manufacturing activity increased briskly since the previous report. A regional manufacturing index indicated strong growth in October in Minnesota and South Dakota compared with a month earlier, with positive but more moderate growth in North Dakota. A producer of cleaning equipment was expanding operations as it sought to in-source more of its supply chain. A manufacturer of home furnishings reported difficulty keeping up with strong demand due to pandemic-related safety measures.

Agriculture, Energy, and Natural Resources

Agricultural conditions improved slightly due to solid harvests, recent increases in prices for some commodities, and federal relief aid. Respondents to the Minneapolis Fed's third-quarter (October) survey of agricultural credit conditions mostly reported unchanged farm income compared with a year earlier, while the outlook for the fourth quarter was for increasing farm incomes. District oil and gas activity increased slightly from low levels; the number of active drilling rigs was little changed since the last report, while oil production increased from its lows earlier in the year but remained below pre-pandemic output. District iron ore mines were operating at normal levels except for one idled facility that was scheduled to reopen in December. Contacts in nonferrous mining described activity as steady. ■



Summary of Economic Activity

The Tenth District economy continued to expand slightly in October and November, although activity remained below pre-pandemic levels in several sectors. After rising in October, consumer spending fell slightly in November due to a pullback in retail, restaurant, auto and tourism sales. However, contacts expected sales in all consumer segments to rebound in the months ahead. Manufacturing production and new orders expanded modestly, and capital expenditures were expected to rise at both non-durable and durable goods plants. Transportation and wholesale trade sales picked up moderately, and sales rose modestly in the professional and high-tech sector. Home sales and prices increased and were well above year-ago levels even as inventories fell further. Commercial real estate conditions worsened modestly, and additional declines were expected in the months ahead. Energy activity held steady, and the farm economy improved moderately as agricultural commodity prices increased. Employment rose slightly, but remained modestly below year-ago levels. Wages continued to rise, and modest gains were anticipated in the next few months. Input prices rose at a faster pace than selling prices, and most industries expected additional price gains moving forward.

Employment and Wages

District employment increased slightly during the survey period, but remained modestly below year-ago levels. Growth was driven by increases in health services and retail employment, but was held back by moderate declines in the restaurant and tourism sectors. Manufacturing contacts noted a slight increase in employment, and contacts expected additional gains in the coming months. Employment expectations within the services sector were mixed, with the biggest gains expected in retail and wholesale trade and the biggest losses expected in auto and professional and high-tech services.

A majority of contacts in the services sector reported labor shortages, indicating a need for truck drivers and retail, restaurant, and technology staff. Wages rose modestly in October, followed by smaller gains in November, leaving wages modestly above year-ago levels. Modest wage increases were expected moving forward. Over the next year, most firms expected employment to increase or remain unchanged, although a lesser number still expected declines. Contacts cited expected sales growth and the need to expand the current skillset of employees as the primary reasons for hiring.

Prices

Input prices rose moderately, outpacing modest gains in selling prices in both the services and manufacturing

sectors. Contacts in the retail and restaurant sectors indicated that growth in selling prices was expected to accelerate in the coming months. Prices for raw materials and finished products in the manufacturing sector followed a similar pattern, but although selling prices were expected to grow more quickly moving forward, raw materials prices were still expected to rise at a faster pace. Transportation input prices rose moderately in October but edged down in November, while selling prices rose modestly. Transportation contacts expected moderate gains in the coming months. Construction supply contacts indicated that selling prices grew moderately, but expected them to fall in the winter months.

Consumer Spending

Consumer spending increased slightly in October, but decreased slightly in November. Moderate gains in retail and health services drove the rise in October. However, a slight decline in retail sales combined with modest decreases in restaurant and auto sales and moderate declines in tourism led to an overall decline in November sales activity, despite an increased pace of sales in health services. Despite the drop in retail sales in November, activity remained moderately above year-ago levels. However, tourism and restaurant sales remained well below year-ago levels. In November, respondents from all sectors expected positive growth in the months ahead, with tourism and restaurant sectors expecting

modest gains for the first time since spring. The majority of firms indicated that developments related to COVID have pushed their firm to either expand, implement for the first time, or create a plan to implement an online business segment.

Manufacturing and Other Business Activity

Manufacturing activity expanded modestly since the previous survey, but still remained modestly below year-ago levels. Production and new orders increased modestly for both durable and non-durable goods, but durable goods activity remained moderately below year-ago levels. By contrast, nondurables contacts indicated that production was slightly above year-ago levels for the first time since February. Expectations were positive as contacts in the durables and non-durables sectors expected modest and moderate gains, respectively. Capital expenditures were expected to increase modestly in both sectors. Many contacts indicated that the uncertainty surrounding the pandemic and related business restrictions/ policies was restraining hiring plans.

Outside of manufacturing, sales in transportation and wholesale trade increased moderately, and sales and capital expenditures in professional and high-tech services rose modestly. For the latter, this marked an improvement from declines in late summer. Contacts in transportation and wholesale trade expected moderate gains, while those in professional and high-tech services anticipated modest declines.

Real Estate and Construction

Residential real estate activity increased moderately, while commercial real estate conditions continued to worsen at a modest pace. Despite additional declines in home inventories, sales increased modestly, leading to moderate gains in home prices. Home sales and prices were strongly above year-ago levels, and this trend was expected to continue in the coming months. Construction supply sales continued to rise modestly, but were expected to decline heading into the winter months. Commercial real estate conditions worsened, as vacancy rates rose, developers had difficulty accessing credit, and there were slight decreases in absorption rates, sales, prices, and construction. Commercial rents edged down in October but were unchanged in November, the first month without a decline since February. Contacts indicated that rents were expected to hold steady moving forward, although overall commercial real estate conditions were expected to worsen modestly.

Banking

In recent weeks, bankers reported a slight increase in overall loan demand. Gains were driven by moderate

increases in residential real estate loan demand and slight increases in commercial real estate loan demand. Consumer installment loan demand held steady, agricultural loan demand decreased slightly, and commercial and industrial loan demand fell modestly. Credit standards tightened slightly for residential real estate, commercial real estate, and commercial and industrial loans. Loan portfolio quality decreased slightly in comparison to a year ago, but bankers expected significant decreases in loan quality over the next six months. Despite this, deposit levels remained strong. Overall, bankers were somewhat concerned with the continued stress on the economy due to the pandemic, although specific sectors, including residential real estate, remained strong.

Energy

District energy activity was relatively unchanged from the previous survey period, with revenues and drilling activity mixed across individual firms. Debt increases and bankruptcies continued for several regional firms, while other contacts reported positive net income and capital expenditure plans. Firms expected additional mergers and acquisitions moving forward. Many contacts reported additional efficiency gains and continued investment in innovations to lower operating costs. The number of active oil and gas rigs in the District increased slightly in October and November, due to gains in New Mexico and Oklahoma. However, the number of active rigs remained below year-ago levels. Oil prices held relatively steady, and natural gas prices rose. However, prices for oil and gas remained below the average price District firms reported needing for drilling to be profitable.

Agriculture

The Tenth District farm economy improved moderately since the previous period alongside additional increases in agricultural commodity prices. Since early October, strengthening demand and downward revisions to production estimates led to sharp increases in corn and soybean prices and moderate increases in most other agricultural prices. Stronger profit opportunities than earlier in the year, in addition to substantial government payments to producers, supported farm sector finances. Although farm income generally remained low in aggregate, contacts reported lower rates of problem loans compared to a year ago. District contacts continued to express concerns, however, about the potential for renewed pressure in the months ahead, depending on the path of agricultural commodity prices, government support programs, and drought in some parts of the region.

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



Summary of Economic Activity

The Eleventh District economy expanded at a modest pace, but activity in most industries remained below normal levels. Recovery in the manufacturing, retail, and services sectors slowed. The housing market continued to outperform expectations, but office leasing remained weak. Overall loan volume fell, though residential real estate lending continued to be robust. Energy activity remained depressed but showed some signs of improvement. Employment rose modestly, and several firms said weak demand and uncertainty about the course of the pandemic and/or related regulations were a drag on hiring. Input costs rose moderately, while selling prices were flat to up slightly. Outlooks were generally positive but uncertain, with political uncertainty and the trajectory of the pandemic weighing heavily on growth expectations for 2021.

Employment and Wages

Employment rose modestly, with continued reports of hiring in certain sectors such as single-family home construction and manufacturing. Most firms looking to hire said they've been able to do so without difficulty, though some staffing firms cited challenges due to unemployment insurance benefits. Voluntary separations and/or job losses continued in the air transportation and energy sectors. Several firms said continued weak demand and uncertainty about the course of the coronavirus pandemic as well as related regulations and government policies were a drag on hiring, with a few noting it would take more than two years to reach their pre-pandemic employment level.

Wage growth remained subdued, with most firms noting that they were not raising salaries or wages to attract new hires or retain existing employees. Some contacts cited cutting pay in order to be able to keep employees on payrolls or recall furloughed workers. A few energy sector companies said they weren't cutting compensation but encouraging retirement among older, more costly workers. An airline reported plans to cut non-contract employees' salaries in absence of additional government support.

Prices

Input costs continued to increase at a moderate pace, in part due to supply-chain issues. The exception was in oilfield services where costs declined due to weak demand. Selling prices were flat to up slightly, with more marked increases reported in the construction and retail sectors. Contacts noted that pass-through of costs onto customers remained limited.

Manufacturing

Manufacturing activity continued to recover, though at a slower pace than in the previous reporting period. Output rose with growth led by primary metals, fabricated metals, construction-related, and food product manufacturing. Several manufacturers, particularly those tied to the energy and the leisure and hospitality sectors, said demand remained below normal. Petroleum refiners noted a slight increase in utilization rates, and chemical production rose, but margins remained depressed due to weak demand and high inventories. Overall, outlooks among manufacturers remained positive, though uncertainty persists.

Retail Sales

Growth in retail sales slowed during the reporting period. Some firms experiencing continued sluggish demand attributed it to weakness in the oil and gas sector and in tourist activity. Auto sales remained weak partly due to low inventories. Hardware store sales have been boosted by rising home renovation activity. Wholesalers of nondurable goods noted solid demand. Outlooks were somewhat optimistic, although political uncertainty arising from the election and increasing COVID-19 cases remain sources of concern.

Nonfinancial Services

Recovery in the nonfinancial services sector slowed following a surge in activity during the previous reporting period. However, activity in the information and professional and business services industries saw continued solid growth. Staffing firms noted a pickup in demand, particularly for healthcare, IT, online retail, and call center services; however, activity remained below year-ago levels. Air cargo volumes rose. Airlines saw modest growth in bookings. Leisure travel to outdoor vacation destinations continued to dominate bookings, while corporate travel remained nearly nonexistent. Outlooks among airline contacts remained weak and further reduction in capacity was expected. Activity in the leisure and hospitality sector remained sluggish, and a contact noted that a sizable share of hotel owners in Corpus Christi would only be able to survive another six months without government assistance. Nonprofit organizations continued to face challenges due to lack of funding.

In general, outlooks were marginally positive, with the resurgence of COVID-19 cases and political uncertainty continuing to weigh on sentiment.

Construction and Real Estate

Activity in the housing market remained robust. Home sales continued to outperform expectations, particularly in suburban locations, and inventories remained exceptionally tight. Builders said they were raising home prices both to cover higher construction costs and to slow down sales given the heavy backlogs. New home development was active, and contacts noted that builders and developers were chasing land and lots. Outlooks were positive, with some concern about the impact on future sales of rising COVID cases, tight lot supply, and a weak labor market.

Apartment demand held steady. Elevated supply continued to put downward pressure on apartment rents. Office leasing remained weak and sublease space rose as many firms continued to evaluate their space needs given that a sizeable share of their employees continued

to work from home. Retail market conditions stayed fragile, while industrial demand remained strong driven by third party logistics and e-commerce activity. Investment sales have picked up for multifamily and industrial properties.

Financial Services

Overall loan volume dipped during the reporting period, with solid gains in residential real estate lending offset by declines in consumer and in commercial and industrial (C&I) loans. Loan pricing was competitive, and a few contacts voiced concerns about margin compression. Credit standards tightened, particularly for C&I and commercial real estate loans. Nonperforming loans rose over the past six weeks, and over half of the respondents expect an increase in delinquencies six months from now. Perceptions of general business activity and outlooks for loan demand stayed positive, though there were lingering concerns about political uncertainty, low net interest margins, and deteriorating asset quality.

Energy

The Eleventh District rig count rose over the reporting period. Well completions rose sharply as firms moved forward with bringing uncompleted wells into production. However, most contacts expect drilling and completion activity to level off soon and hold nearly flat through mid-2021. Contacts said that the recovery of oil consumption remained their primary near-term concern, although political uncertainty surrounding potential changes in the regulatory environment was particularly worrisome for smaller exploration and production and fracking-services firms.

Agriculture

Drought conditions intensified, particularly in the western part of the district. Contacts remained concerned about the La Niña weather pattern and a dry winter diminishing 2021 crop prospects. The harvest was wrapping up for 2020 row crops, and prices pushed above breakeven levels for most producers. The livestock sector was facing headwinds of lower cattle prices and higher feed costs. Contacts were more optimistic about the agricultural sector in general with stronger prices, solid export demand, and a more hopeful economic outlook. ■

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



Summary of Economic Activity

Economic activity in the Twelfth District expanded modestly on balance during the reporting period of October through mid-November. Employment levels increased slightly on net, though the pace of job recovery slowed down in certain regions. Wages increased marginally, whereas price inflation showed little to no change on balance. Sales of retail goods rose appreciably, while conditions in the consumer and business services sectors remained unchanged overall. Manufacturing activity expanded moderately, with capacity utilization rates increasing a bit. Conditions in the agriculture sector also improved slightly. Residential real estate activity increased further, while commercial market conditions changed little on net. Lending activity increased at a mild pace.

Employment and Wages

Employment levels increased slightly on net. A large logistics and distribution firm with a national presence reported continued strength in hiring activity, as did construction and steel manufacturing firms. However, employers in the financial and energy sectors reported little to no change in their employment levels. In addition, employment in the hotel, restaurant, and entertainment industries remained well below pre-pandemic levels. In California and the Pacific Northwest, the job recovery pace slowed during the reporting period. A few contacts in California and Washington noted an unusual uptick in voluntary employee attrition, which they attributed to various reasons including changes in childcare needs, decisions to move out of state, or fear of contracting COVID-19. Several employers expressed difficulty attracting qualified workers, especially in industries that require employees to be on-site, such as payment processing companies, hotels, and food services. Some contacts in financial services mentioned implementing employee assistance programs and flexible work schedules to allow employees to coordinate with their managers ways to accommodate them to meet their children's schooling needs.

Wages increased marginally, although conditions varied widely by industry. Wages continued to increase in construction and financial services. Several contacts in California mentioned that the forthcoming change in the minimum wage taking effect in the new year would result in wage increases for most hourly workers. A wood product manufacturer in the Pacific Northwest reported plans to distribute year-end bonuses to reward employees for their efforts during the pandemic. Retail and

other consumer-facing businesses reported little to no change in employee compensation. Employers in financial services and information technology mentioned reconsidering their wage structures as employees work remotely in areas with varying degrees of cost of living.

Prices

Price inflation showed little to no change on balance. Contacts in wholesale retail, energy, and food services reported stable prices. Prices of building and construction materials including wood products, wallboard, cement, and paint continued to be highly elevated. Increased demand from the automotive industry as well as from foreign markets put upward pressure on prices of recycled metals and steel products. In contrast, a few hoteliers noted recently further downward pressure on rates due to increased discounting by competitors. Prices for crops such as nuts, grapes, and stone fruits were lowered mainly due to shipping constraints and export tariffs.

Retail Trade and Services

Retail sales rose appreciably over the reporting period. Many retailers moved up their holiday marketing by several weeks, and some have already benefited from an earlier start for holiday shopping. Online sales continued to be strong, and demand for home improvement goods, vehicles, delivery services and food products increased further. A contact in Southern California noted a recent spike in demand for bicycles. However, given the recent rise in COVID-19 cases and stricter containment measures across the District, brick-and-mortar stores expressed high uncertainty, with many being cautious about stocking up for the holidays. Most retail-

ers expected the big shift to e-commerce to continue this holiday season, while overall sales volume is expected to be flat or slightly lower compared with last year. Several grocers reported intermittent supply issues and low inventories of certain products.

Conditions in the consumer and business services sectors remained unchanged overall. Activity remained strong in information technology, health care, and legal services. Logistics and transportation services reported continued strength in home deliveries and increasing holiday shipments. A contact in Southern California noted that demand for lodging in areas within easy driving distance of major metropolitan areas increased in the fall, especially among younger people. However, weakening activity in leisure and travel industries began in mid-October, and restaurants and hotels continued to operate at fractional capacities. Furthermore, contacts across the District expressed concern over renewed containment measures, including shutting down or reducing capacities for indoor dining, gyms, movie theaters, and beauty services. One contact in Hawaii suggested that lower levels of tourism may be at least partially attributable to testing and quarantine protocols.

Manufacturing

Manufacturing expanded moderately, with capacity utilization rates improving. Demand for manufactured wood products and building materials remained strong, as residential construction continued its rebound. A wood products manufacturer in the Pacific Northwest reported most sawmills were operating at near capacity, though still somewhat constrained by COVID-19, with related staff shortages and challenges in acquiring raw materials. Sales of recycled metals and fabricated steel products increased further, underpinned by strong demand from the automotive industry. Although energy usage by manufacturers has mostly rebounded from its lows, it has slowed down somewhat, which one contact attributed to a slowing recovery of the manufacturing sector as winter approaches. Durable goods orders increased robustly as businesses resumed investment, though several contacts reported continued disruptions to supply chains.

Agriculture and Resource-Related Industries

Activity in the agriculture sector increased slightly. The harvest for most agricultural crops, including grains and potatoes, has been completed in the Pacific Northwest and California, and ample water supply has contributed to high yields. International demand for wheat, raisins, and nuts has increased recently due to droughts in other parts of the world as well as a slight depreciation of the dollar. Despite the increase in exports, inventories re-

mained elevated, especially for raisins, nuts, and almonds. Domestic demand for logs and timber continued to be strong, and demand from Asia increased. Several contacts expressed concern over the short to medium-term impact that wildfires could have on crops as well as on wood supply.

Real Estate and Construction

Residential construction activity continued to grow strongly, supported by low interest rates and the current telework environment. Contacts throughout the District reported increased demand for new and existing homes, especially in suburban areas and vacation home destinations, which kept inventories low and raised home prices further. Activity in the multifamily property sector was mixed, with lower rents and higher vacancies in metropolitan areas, while the opposite occurred in suburban areas. Several contacts noted increases in construction costs and longer project timelines due to labor shortages and supply chain disruptions. A contact in the Pacific Northwest noted that many people who were impacted by the wildfires plan to rebuild their homes, which could further spur demand for construction labor and materials.

Activity in the commercial real estate market was little changed on net. Although commercial construction projects that began prior to the pandemic continued, new development projects were put on hold. Demand for commercial office and retail space continued to be weak throughout the District. By contrast, demand for new industrial and warehouse spaces increased in the Pacific West. A contact in Washington noted plans for a large new warehouse facility in their region.

Financial Institutions

Overall lending activity increased at a mild pace. Most of the demand continued to be for residential and commercial real estate loans, particularly refinancing. Demand for auto loans continued to grow, albeit at a slower pace as compared with the summer. Demand for commercial and industrial loans edged down slightly, and utilization of commercial lines of credit remained low. In contrast, consumer lending activity has picked up a bit. Deposits continued to grow at double-digit rates, and deposit rates declined further. Banks noted strong asset quality, with low delinquency rates and ample liquidity. Several contacts across the District expressed concern over potential loan losses in the coming months should payment deferrals and mortgage forbearances no longer be extended. A contact in Southern California noted that capital markets and investment activities have rebounded in recent months, especially in the sustainability and clean technology areas. ■



