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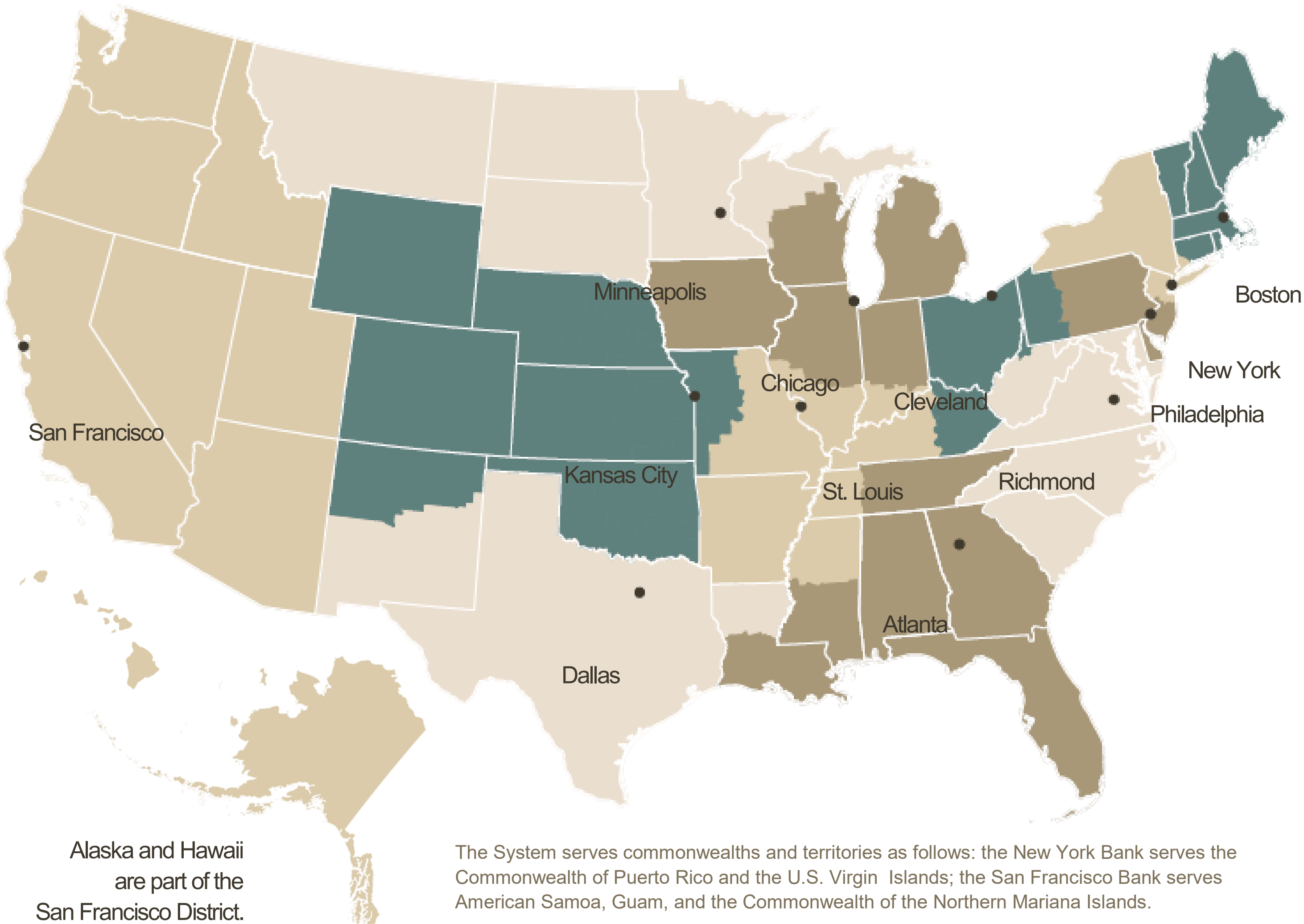
The Beige Book

Summary of Commentary on Current Economic Conditions
By Federal Reserve District

January 2021

Federal Reserve Districts



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

This report was prepared at the Federal Reserve Bank of San Francisco based on information collected on or before January 4, 2021. This document summarizes comments received from contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.

What is the Beige Book?

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

What is the purpose of the Beige Book?

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

How is the information collected?

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

How is the information used?

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

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

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

National Summary

Overall Economic Activity

Most Federal Reserve Districts reported that economic activity increased modestly since the previous Beige Book period, although conditions remained varied: two Districts reported little or no change in activity, while two others noted a decline. Reports on consumer spending were mixed. Some Districts noted declines in retail sales and demand for leisure and hospitality services, largely owing to the recent surge in COVID-19 cases and stricter containment measures. Most Districts reported an intensification of the ongoing shift from in-person shopping to online sales during the holiday season. Auto sales weakened somewhat since the previous report, while activity in the energy sector was said to have expanded for the first time since the onset of the pandemic. Manufacturing activity continued to recover in almost all Districts, despite increasing reports of supply chain challenges. Residential real estate activity remained strong, but accounts of weak conditions in commercial real estate markets persisted. Banking contacts saw little or no change in loan volumes, with some anticipating stronger demand from borrowers in coming months for new government-backed lending programs. Although the prospect of COVID-19 vaccines has bolstered business optimism for 2021 growth, this has been tempered by concern over the recent virus resurgence and the implications for near-term business conditions.

Employment and Wages

A majority of Districts reported that employment rose, although the pace was slow, and the recovery remained incomplete. However, a growing number of Districts reported a drop in employment levels relative to the previous reporting period. Labor demand was strongest in the manufacturing, construction, and transportation sectors, with some employers noting staffing shortages and difficulty attracting qualified workers, especially for entry-level and on-site positions. These hiring difficulties were exacerbated by the recent resurgence in COVID-19 cases and the resulting workplace disruptions in some Districts. Contacts in the leisure and hospitality sectors reported renewed employment cuts due to stricter containment measures. Firms in most Districts reported that wages increased modestly, as labor market conditions improved somewhat in some areas but generally remained weak. Employers in some Districts reported raising wages or offering more generous benefits, such as year-end bonuses and flexible work arrangements, to limit employee turnover.

Prices

Almost all Districts saw modest price increases since the last report, with growth in input prices continuing to outpace that of finished goods and services. Most notably, prices for construction and building materials, steel products, and shipping services were reported to have risen further. Contacts in several Districts noted an improved ability to raise final selling prices to consumers, especially in the retail, wholesale trade, and manufacturing sectors, and some cited plans to increase selling prices in coming months. Energy prices picked up in the reporting period but remained below pre-pandemic levels. Home prices continued to climb, driven by low inventories and rising construction costs.

Highlights by Federal Reserve District

Boston

Recovery from the pandemic continued in the final weeks of 2020, with mixed results across sectors. In particular, hospitality and travel remained hard-hit. Among firms that were hiring, some cited difficulty finding workers; other firms held headcounts steady or allowed attrition. A substantial dose of pandemic-related uncertainty clouded an otherwise-optimistic outlook.

New York

The regional economy weakened moderately in late 2020, and the labor market has deteriorated somewhat. This weakness was concentrated in the service sector, where activity has been further constrained by a rise in COVID-19 cases, increased restrictions, and cold weather. Consumer spending declined, with holiday sales down from last year and auto sales weakening. Businesses reported some acceleration in wages and selling prices.

Philadelphia
Business activity fell modestly during the current Beige Book period as sharply rising COVID-19 cases created disruptions at worksites and curtailed consumer spending during the holidays. On the whole, activity remained below levels attained prior to the onset of COVID-19. Meanwhile, slight wage growth and modest inflation continued, but employment appeared to edge down.

Cleveland
The District economy lost some momentum in recent weeks. Contacts said that rising cases of COVID-19 curbed demand for goods and services and disrupted supply through its impact on labor availability. Despite the slower growth in demand, firms generally indicated that they would hire workers if more were available. Wages and input costs rose moderately, as did selling prices.

Richmond
The regional economy grew modestly in recent weeks. Employment and wages showed modest increases, while prices grew at a moderate pace. The housing market remained strong, while commercial real estate leasing remained soft. Port and trucking volumes were high, and manufacturing activity showed a moderate increase.

Atlanta
Economic activity expanded modestly. Labor markets were mixed. Some nonlabor costs continued to rise. On balance, retail sales were down. Tourism activity slowed. Residential real estate demand remained strong and home prices continued to rise. Challenges persisted in commercial real estate markets. Manufacturing activity rose. Conditions at financial institutions were stable.

Chicago
Economic activity increased modestly but remained below its pre-pandemic level. Manufacturing increased moderately; business spending and construction and real estate increased modestly; and employment and consumer spending increased slightly. Wages rose modestly and prices were up slightly. Financial conditions were little changed. Agricultural income for 2020 was better than expected.

St. Louis
Economic conditions have been generally unchanged since our previous report. Reports on overall consumer spending were mixed, while reports on holiday sales focused on an accelerated shift to online shopping. District banking contacts reported slowing growth in loan volumes but anticipate stronger demand in coming months from new PPP loans.

Minneapolis
District economic activity increased modestly. Hiring demand increased, but contacts said health risks and other obstacles kept some workers out of the labor force. Holiday spending was better than many feared, but below last year, especially for small retailers. Commercial construction slowed, and the outlook remained weak. Agricultural conditions improved due to increased commodity prices and government aid.

Kansas City
Economic activity held steady in December, but conditions varied significantly across industries. Retail sales rose sharply, but overall consumer spending fell due to lower auto, restaurant, tourism and healthcare sales. Contacts in manufacturing, professional and high-tech services, and energy all reported increased activity levels, while activity slowed in the transportation, wholesale trade, and real estate sectors.

Dallas
The District economy expanded at a moderate pace, but activity in most industries remained below normal levels. Recovery in the manufacturing and service sector picked up, while retail activity remained weak. The housing market continued to be a bright spot, and real estate lending spurred growth in overall loan volumes. Energy activity accelerated slightly. Employment rose moderately. Outlooks were generally positive, but uncertainty remained elevated.

San Francisco
Economic activity in the District continued to expand at a modest pace. Holiday retail sales picked up, but activity in the services sector was mixed. Conditions in the agricultural and manufacturing sectors strengthened somewhat. Contacts reported strong activity in the housing market and overall healthy conditions in lending markets.

Summary of Economic Activity

Economic activity continued to expand in the First District through December, according to business contacts. Retailers reported revenue increases in recent weeks compared with a year earlier, while travel and hospitality remained well below pre-pandemic levels. Manufacturers also cited increased revenues in recent weeks, but some were up only in comparison to earlier in the pandemic, while others saw gains from a year ago. Software and information technology services firms reported gradual improvement, but new bookings remained below year-earlier levels. Reports from commercial real estate contacts were mixed, as in the last report, and residential real estate markets remained strong. Most responding firms were optimistic in their outlooks, but still quite uncertain about the first half of 2021.

Employment and Wages

Labor market reports from business contacts were mixed. Some retailers were holding headcounts steady; one was hiring "aggressively." Manufacturers' reports on hiring varied. Several contacts reported difficulty finding workers, including a furniture maker suffering significant production delays due to a worker shortage. Another contact, however, said that it was much easier to find factory workers now than just before the pandemic. Most software and IT services contacts reported restarting hiring plans, and one noted upward pressure on wages for technical positions.

Prices

Observations on pricing were limited. One retail contact noted no price changes; others said little about prices. Manufacturing contacts for the most part reported no unusual pricing pressure. A producer of cardboard boxes said that paper prices had increased after remaining flat for five years. Several contacts noted significant logistics issues both domestically and internationally, causing both higher prices and delays. Software and IT services contacts reported no changes in prices across the board, although one mentioned potentially restarting their annual increases in the next few months.

Retail and Tourism

Travel industry contacts continued to report major disruptions related to COVID-19, but responding retailers reported strong sales throughout the fall and into the holiday season. A furniture retailer noted sustained year-over-year growth averaging about 15 percent in 2020, notwithstanding persistent delays of 8 to 12 weeks for most furniture orders. One clothing retailer reported store foot traffic remains down 30 percent compared to a year earlier, but a higher conversion rate and strong online sales led to a year-over-year increase of about 5 percent in total November sales. With modest increases in sales throughout 2020, this retailer had greater profits because of reduced store operating costs and smaller promotions than in recent years. An online retailer continued reporting substantial growth relative to last year, with year-over-year increases in revenue, profits, and sales to repeat customers throughout 2020.

Airline passengers into Boston remained down 70 percent in November, an improvement from year-over-year declines of over 95 percent this spring. International passengers were down nearly 80 percent in November. International travel to Europe was down sharply, but passengers heading to South America ticked up recently. Scheduled flights in early 2021 are up modestly.

Manufacturing and Related Services

All seven firms contacted this cycle reported a good fourth quarter. For some contacts, including a furniture manufacturer and a frozen fish producer, results were significantly stronger than a year earlier. For others, like a producer of motors and brakes for industrial uses, sales were up significantly versus earlier in the year but still down from a year ago. Five of the seven contacts reported that sales would have been substantially higher were it not for capacity problems. A semiconductor manufacturer said that automotive customers drew down inventories to conserve cash in Q2 and demand has now increased dramatically both because they are producing more cars and because they are restocking inventories.

Contacts were generally optimistic. Although all respondents expressed uncertainty about the vaccine and the evolution of the pandemic, most expected the economy to be back on trend in the second half of 2021. The furniture maker expressed concern about labor shortages and his inability to fulfill orders quickly, which might lead to a reduction in demand for his products. A supplier of components to capital goods manufacturers said that orders started rising in Q4 2020 in anticipation of higher build rates in the second half of 2021.

Software and Information Technology Services

Software and IT services firms in the First District saw a gradual pick-up in demand as the calendar year drew to a close. On a year-over-year basis, demand remained muted as new bookings had not fully rebounded to last year's levels; however, the recent uptick was seen as an early sign of recovery. A contact at a healthcare software firm that was not seeing a pickup attributed the weakness to hospitals' "preoccupation" with the latest wave of COVID-19 cases; this firm has been relying on their backlog for the past 10 months but noted that it would run out at the end of 2020. Margins for all firms continued improving as expenses for travel and facilities remained lower.

Looking ahead, contacts expressed optimism that things would "return to normal" in the second half of 2021, but they remained concerned about the timing of the recovery. Most contacts reported feeling confident that their product offerings were well suited for growth as the economy recovers.

Commercial Real Estate

Commercial leasing conditions in the First District remained mixed, as in the last report. The industrial and lab-space markets were still doing well, while the retail and office-space markets continued to be weak. In the industrial leasing sector, demand outpaced supply in some metropolitan markets, with one contact citing a local vacancy rate below 2 percent. Several contacts reported multiple interested buyers on any for-sale industrial building, with one noting that this has pushed cap rates "shockingly low" (under 4 percent) in some cases. The life sciences sector was also strong; investors continued planning for and building new lab space in and around the Boston area, despite high costs of construction.

In the office market, renewals of expiring leases were almost the only activity, and tenants were willing to pay slightly higher rents in exchange for shorter lease terms. With new activity thin, rents have not yet begun to reflect the downward pressure from increased sublease space. The retail and hospitality markets were still very soft, especially as some areas experienced new restraints in response to COVID-19 spikes. Many contacts predicted that some retail space will be converted to industrial over the next several years.

Most contacts expected the first two quarters of 2021 to be similar to Q4 2020. Until the virus is more controlled and vaccines more widely administered, most commercial respondents said they would try to delay making decisions. While the first half of 2021 looks "bumpy," contacts expected improvements in the second half.

Residential Real Estate

In the First District, the home buying "frenzy" continued in November, with contacts attributing strong buyer confidence to historically low mortgage rates and historically high stock market performance. (Five states and Greater Boston reported changes from November 2019 to November 2020; Connecticut data were unavailable.)

The number of closed sales once again increased from a year ago in all reporting areas, with double-digit increases for all markets except Boston condos. However, severe inventory shortages persisted, with the inventory of homes for sale remaining substantially below a year earlier in all reporting markets except Boston condos, where inventories rose. Low inventory and high demand put upward pressure on prices. For single family homes, the median sale price increased by double-digit percentages in all markets. For condos, the median sale price increased in all markets except Rhode Island, but changes in prices for condos were smaller than for single family homes. Contacts noted that demand for condos has been curbed by buyers' pandemic-related desire for more space at home and less urban settings. Additionally, contacts in both Maine and Rhode Island 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 weakened moderately in the latest reporting period. The labor market has softened somewhat, with employment slipping in almost all service industries, where activity has been further constrained by a rise in COVID-19 cases, increased restrictions, and cold weather. However, businesses reported a modest increase in hiring plans and rising wage pressures. Input prices continued to rise at a moderate pace, and selling prices picked up modestly. Consumer spending declined, with holiday sales down from last year and auto sales weakening. Tourism picked up slightly in the latter half of December but was still at depressed levels. Housing markets have been mixed, while markets for office and retail space weakened further. Finally, banks reported some pickup in loan demand and little change in delinquency rates. Despite the recent weakening in business conditions, contacts grew somewhat more optimistic about the near-term outlook.

Employment and Wages

The labor market softened somewhat in the final weeks of 2020. A major New York City employment agency noted that hiring activity has been depressed, though this is typically a slow season; no significant pickup is expected until the spring at the earliest.

Businesses in almost all sectors, most notably construction and leisure & hospitality, reported weakening employment. The only exceptions were manufacturing and finance, where employment was reported to be little changed. Looking ahead, however, businesses expected that they would add staff, on net—especially in the manufacturing, wholesale trade, and information sectors

Wages have accelerated moderately, with more businesses indicating rising wages than at any point since the start of the pandemic. The most widespread increases were reported in the retail trade sector. A number of contacts in New York State remarked that the year-end hike in the minimum wage has been burdensome. Looking ahead, businesses expect wages to accelerate somewhat—particularly in retail & wholesale trade and, to a lesser extent, in construction, information and professional & business services.

Prices

Businesses' input prices overall have continued to rise moderately, with contacts in the manufacturing, distribution, and construction sectors reporting substantial upward pressure on prices paid. Businesses in most sectors expect further increases in the prices they pay in the months ahead.

Selling prices have accelerated modestly, led by fairly widespread hikes among retailers, wholesale distributors, and manufacturers. Looking ahead, a rising proportion of businesses indicated plans to raise their selling prices in the next few months—most notably in the wholesale and manufacturing sectors.

Consumer Spending

Consumer spending weakened since the last report. Retail holiday spending has been mixed. Sales at major retailers in New York City have been dismal, reflecting a lack of both tourists and office workers. However, retailers in upstate New York and other parts of the District noted that sales improved somewhat in December and were on or a bit above plan, though still down sharply from a year earlier.

New vehicle sales weakened further in late 2020, falling well below comparable 2019 levels, according to dealers in upstate New York. This weakness was attributed to both weaker demand and low inventories—particularly for trucks and SUV's. Sales of used vehicles also weakened, reflecting softer demand. Consumer confidence among residents of the Middle Atlantic region (NY, NJ PA) fell to a multi-year low in December, reflecting a weakening assessment of current conditions.

Manufacturing and Distribution

Manufacturing activity continued to expand at a subdued pace in December, while wholesale trade contacts reported weakening activity. Transportation firms noted a modest pickup in activity. A few contacts indicated delays in getting shipments from overseas.

Looking ahead, manufacturers and wholesalers expressed widespread optimism about the outlook, while transportation & warehousing contacts, who had been fairly gloomy in recent months, have become mildly optimistic in the latest reporting period.

Services

Service industry contacts reported marked weakening in business activity in the latest reporting period. Contacts in the professional & business services, information, and leisure & hospitality sectors reported widespread declines in activity, while those in education & health reported more moderate declines. Looking ahead, professional & business service firms expressed increased optimism about prospects for the first half of 2021, while those in other industries expected little change.

Tourism in New York City has remained exceptionally weak, though there was a modest pickup in the latter part of December. Restrictions on indoor dining combined with the onset of cold weather have hit restaurants hard. A number of hotels have closed, some permanently, and the occupancy rate among those still open has hovered around 35 percent—higher on weekends, lower during the week. With business travel moribund, most hotel stays are from weekenders and subsidized housing for the homeless, with a bit of an uptick in late December from holiday visitors. An authority on New York City's tourism sector noted that advance bookings have grown much shorter, due to uncertainty about the pandemic, and expects visitations to rebound gradually over the next two years, with business and international visits lagging the most.

Real Estate and Construction

Housing markets have remained mixed in the latest reporting period. Sales markets in upstate New York remained strong in the final weeks of 2020, with homes selling quickly and prices continuing to rise. New York City's co-op and condo market has picked up in recent weeks, with both sales and prices rising modestly, though still below late-2019 levels. Housing markets in areas around New York City, on the other hand, have leveled off, following an exceptionally strong third quarter. The number of new listings is up from a year ago, while the inventory of homes on the market remains high in New York City but low elsewhere.

The residential rental market has continued to weaken, led by New York City. Partly reflecting increased landlord concessions, effective rents in Manhattan and Queens are reported to be down more than 20 percent from a year earlier and down 8 percent in Brooklyn. Rental vacancy rates across New York City are reported to be at multi-decade highs.

Commercial real estate markets have weakened further, to varying degrees, across the District. Retail and office markets have been particularly weak in New York City, with asking rents trending down and well below year-earlier levels. Elsewhere, office markets have been modestly weaker, while retail markets have mostly been flat. The market for industrial space, however, has remained fairly firm.

New construction activity has remained sluggish in both the residential and commercial segments. Contacts in the construction industry continued to report weakening activity but have grown substantially less pessimistic about the near-term outlook. Contacts continued to report sharp increases in the cost of materials and scattered shortages and delays.

Banking and Finance

Finance-sector contacts generally reported widespread declines in business activity since the last report. Small to medium sized banks in the District reported higher loan demand across all categories, along with a modest increase in refinancing activity in the final weeks of 2020. Bankers reported tightened credit standards for consumer loans and commercial mortgages and narrowing spreads across all loan categories. Delinquency rates declined for consumer and C&I loans but rose for commercial mortgages. Finally, contacts reported some increased leniency for delinquent commercial mortgages. ■

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

Summary of Economic Activity

On balance, business activity in the Third District fell modestly during the current Beige Book period after plateauing in the prior period. Activity in most sectors remained below levels observed prior to the onset of the COVID-19 pandemic. Net employment appeared to decline slightly after rising modestly in the last period. Positive wage and price growth trends continued at slight and modest paces, respectively. The sharp rise in COVID-19 cases, renewed restrictions, and colder weather further reduced economic activity across most of the District, especially within the retail, restaurant, and hospitality sectors. Numerous firms across all sectors noted disruptions to operations as COVID-19 cases emerged at worksites or employees' homes. Positive expectations for modest growth over the next six months have narrowed among manufacturers but broadened among other firms.

Employment and Wages

Employment appeared to decrease slightly overall. The share of nonmanufacturing firms reporting employment decreases exceeded the share reporting increases for both full- and part-time employees. Among the reporting manufacturers, employment increases still exceeded decreases, but by less than in the prior period. Moreover, average hours worked rose for a smaller share of manufacturing firms and fell, on net, among nonmanufacturers.

Staffing firm contacts described continuing demand for employees and an ongoing lack of willing and qualified job candidates. During the current period, this mismatch was compounded by increased workplace disruptions, as COVID-19 cases caused temporary plant or store shutdowns and forced employees to quarantine at home. Employers and staffing agencies alike noted difficulties finding workers to fill shifts. Given childcare needs, agencies are increasingly compelled to fill some positions with such hours as a candidate can supply.

Wages continued to grow slightly. The percentage of nonmanufacturing firms reporting higher wage and benefit costs per employee remained somewhat higher than the percentage reporting lower costs. However, three-fourths of the firms reported no change.

Prices

On balance, prices continued to rise modestly, although reported increases were generally less widespread than in the prior period. Nearly 30 percent of the manufacturers reported higher prices for factor inputs, but only 20 percent received higher prices for their own products. Similarly, about 20 percent of the nonmanufacturers reported that prices rose for their inputs, and 20 percent noted higher prices received from consumers for their own goods and services. Over half of all firms noted no change in prices.

Supply disruptions, shortages, and price spikes became more prevalent again, as COVID-19 cases rose. However, few contacts noted significant lasting price hikes.

Manufacturing

On average, manufacturing activity was essentially unchanged as trends continued to soften from November into December. The diffusion indexes for shipments and for new orders remained positive, but just barely so for new orders. Firms also reported that sales and new orders were about 7 percent below what had been anticipated pre-pandemic – only slightly better than in the prior month.

Contacts offered a diversity of comments, including several firms noting gradual improvement. One firm noted overwhelming orders and huge backlogs for packaging materials, while another observed a return to caution from buyers of electrical equipment. A primary metals firm observed weak demand from customers serving the energy and hospitality sectors, while strong demand emanated from the utility and transportation sectors. Other contacts noted strong demand for pharmaceuticals and medical devices.

Consumer Spending

Nonauto retail sales appeared to fall modestly as rising COVID-19 cases, cold weather, and new restrictions further hampered consumer spending. Restaurants and the hospitality sector were most heavily impacted, especially compared with a typically busy holiday season. Stores selling food or other necessities observed some operating difficulties but little deterioration in demand.

Auto dealers reported slight growth in year-over-year sales but noted that consumer activity had slowed since late October as COVID-19 cases spiked. Black Friday sales were lackluster, and December sales were hampered by snow.

Although ski resorts have opened, the destinations are operating at lower capacity and with restrictions on restaurants and other attractions. Overall, tourism activity has slipped below half of prior-year levels – trending modestly lower as the weather grows colder and COVID-19 spreads.

Nonfinancial Services

On balance, nonmanufacturing activity has fallen modestly since the prior period. Firms reported that sales or new orders had edged down to 19 percent below pre-pandemic expectations. Another measure of firms' new orders and sales (which had been slightly negative) deepened – significantly for sales or revenues – indicating that declines were more widespread among firms.

Financial Services

The volume of bank lending fell slightly during the period (not seasonally adjusted); in the same period in 2019, by contrast, loan volumes grew modestly. Residential mortgages and commercial real estate lending grew modestly, while home equity lines fell moderately and commercial and industrial loans continued to fall sharply. Auto loans and other consumer loans were essentially flat on net. And while seasonal trends drove credit card volumes up moderately, they rose at a significantly greater pace over the same period in 2019.

Banking contacts were preparing for another round of Paycheck Protection Program loans, even as some uncertainty remained about the dispensation of the first round. Although some problem loans have begun to emerge, bankers continued to note that overall loan delinquencies remain low.

Real Estate and Construction

Beginning in November, homebuilders reported some slowdown to a modest pace of growth. However, the level of demand remained strong – in part reflecting first-time buyers moving out of apartments and well-heeled buyers seeking more space or second homes. Existing home sales also grew modestly – a slower pace than in the prior period. Strong demand for limited inventories continued to drive prices higher and reduce affordability. Appraisal challenges were rising but were often avoided by cash purchases.

Philadelphia's commercial construction activity appeared to remain busy but at lower levels than had been anticipated before the pandemic. Although the pipeline of new construction has thinned, construction should remain active through the first half of 2021. Commercial leasing activity continued to fall moderately, as contacts noted sublease office space being dumped onto the market and growing retail vacancies. Demand remained strong for warehousing construction and leasing. ■

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

Summary of Economic Activity

The Fourth District economy expanded only slightly in recent weeks as it lost some momentum amid rising COVID-19 cases. Contacts reported that the growing pandemic was adversely affecting both the demand for and supply of goods and services. Household demand softened as retailers, restaurants, and hotels reported weaker sales in late November and December, in large part because of rising COVID-19 cases. By contrast, demand was solid for manufacturers, freight haulers, and professional and business services firms, although some contacts in these industries suggested that labor constraints, exacerbated by rising COVID-19 cases, made it difficult for production to keep up with demand. A larger share of our contacts indicated that they wanted to increase staffing levels during the cycle, but hiring remained difficult. Contacts were encouraged that COVID-19 vaccines were becoming more widely available, but the most recent surge in cases left them less optimistic about the near-term outlook for demand than they were during the prior reporting period. Because of continuing uncertainty, firms generally limited capital spending. On average, wages and other input cost pressures were higher than earlier in the pandemic but lower than a year earlier, while output prices increased at a modest pace.

Employment and Wages

Labor demand increased modestly, on average, in spite of the broader slowdown in economic growth. Labor demand was strongest for those firms in sectors that reported strong increases in demand for their goods and services: professional and business services, freight and transportation, and manufacturing. Some contacts in these sectors noted that they had a little more success in filling open positions, but they also reported that competition for workers was intense and that they still needed more workers to keep up with demand. New orders continued to flow into staffing services firms, but their ability to fill those orders was limited by worker availability. Retailers indicated that they had increased temporary staffing during the holiday shopping season, but payrolls remained well below year-ago levels. In addition, retailers said that filling positions in fulfillment centers was made difficult by a general shortage of applicants and by competition from larger distribution and logistics firms that continue to add more permanent positions as more commerce takes place online. Restaurants and hotels said that fewer workers were needed as customer demand waned amid rising COVID-19 cases, yet they, too, faced challenges filling positions that were available.

Wage pressures were elevated relative to earlier in the pandemic. Some firms said that they were raising wages to fill open positions and to minimize turnover. Some contacts paid additional yearend bonuses to thank employees for working through a difficult year.

Prices

Nonlabor input costs also rose for many firms. Contacts from a variety of industries reported that shipping costs were up significantly because of capacity constraints. Construction firms said that costs for many materials were increasing, particularly those for steel, lumber, and some cement products. Manufacturers also noted rapidly rising steel prices, with one contact attributing the increase to supply chain disruptions and increasing global demand for steel products.

On balance, selling prices continued to rise modestly. Freight haulers said that exceptionally strong demand and limited capacity has allowed them to dictate terms to their customers, pushing shipping rates materially higher. Manufacturers also reported some success in pushing through price increases to cover rising input costs. In spite of softening demand, retailers and auto dealers said that prices firmed up in recent weeks because low inventories led to less discounting.

Consumer Spending

Reports suggest that consumer spending softened toward the end of the reporting period. Retailers noted that in spite of strong activity in October and November, the recent rise in COVID-19 cases and associated uncertainty weakened sales. Hoteliers and restauranteurs said that government-mandated restrictions on operating hours further reduced business activity. Auto dealers said that seasonal factors, along with low inventories, were limiting sales. Reports from general merchandisers and apparel retailers were mixed; while some said sales were up from those of the last reporting period because of the holiday shopping season, many noted that in-store sales were down and that online sales, while strong, were hurt by cost pressures from shippers. Looking ahead, contacts expected ongoing concerns about COVID-19 to restrain overall consumer spending in the next few months.

Manufacturing

Overall manufacturing orders increased moderately this cycle, although demand varied by industry segment. Steelmakers reported that orders were strong and that they had difficulty maintaining inventory. Some noted particular strength in demand from auto producers, suppliers to residential builders, and transportation equipment manufacturers, along with increased demand from China. By contrast, orders for steel used in commercial aerospace and nonresidential construction applications remained depressed. A sizeable share of manufacturers said they were operating below their target capacity utilization rate because of a lack of available workers. Manufacturers' reports were replete with concerns about rising input costs, emerging supply chain disruptions in Europe, and persistent uncertainty about the pandemic. On balance, manufacturers expected demand to soften somewhat in coming months, although many indicated that this was part of a typical seasonal pattern.

Real Estate and Construction

Demand for residential construction and real estate leveled off in recent weeks, a circumstance which contacts attributed to a typical seasonal slowdown. Pent-up demand for home construction and remodeling helped mitigate the decline in activity normally experienced during this time of year. One residential real estate agent noted that while the pace of transactions slowed in recent weeks, activity was still much higher than it was a year earlier. Contacts expected activity to remain seasonally slow in the near term but predicted that demand will rebound in the spring.

Nonresidential construction and real estate conditions continued to vary by end market. Robust demand for industrial space persisted, with one general contractor indicating that his industrial backlogs had doubled over the past two months. By contrast, demand for retail and office space remained weak as COVID-19 cases continued to rise and corporate uncertainty persisted. Going forward, contacts remained concerned that the increase in COVID-19 cases would continue to hamper consumer demand, putting additional strain on retail and hospitality tenants.

Financial Services

Banking activity remained mixed by market segment during the reporting period. Contacts noted that low interest rates continued to support demand for household loans, especially for mortgages. However, demand for business loans reportedly was flat. Lenders indicated that delinquency rates for commercial and consumer loans were still low because of forbearance agreements and various fiscal-relief measures, although one banker noted that delinquency rates were up among hoteliers. Multiple contacts reported growth in core deposits as customers held off on spending and investment. Looking ahead, bankers expected loan demand to remain unchanged in the near term but were optimistic that conditions will improve as more COVID-19 vaccines are distributed in 2021.

Professional and Business Services

Demand for professional and business services continued to increase at a steady, modest pace since our last report. The surge in ecommerce brought on by the pandemic led to an increase in demand for cybersecurity, IT solutions, and transaction authentication services. Firms in these industries were optimistic about the future because consumers continue to shift to online transactions.

Freight

Freight volumes increased notably again in recent weeks. The rise in activity resulted from three primary factors, according to contacts: more online holiday sales this year (and subsequent home deliveries), strong imports, and firms' replenishing inventories. Seventy percent of freight contacts reported demand had increased in the last two months, and many had difficulty hiring enough drivers to keep up with demand. Looking forward, contacts expected shipments to remain strong in the near term as the pickup from holiday demand has historically continued into early February. ■

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

Summary of Economic Activity

Fifth District economic activity increased modestly in recent weeks, but several industries continued to see business below year-ago and pre-COVID levels. Manufacturers reported moderate growth in shipments and new orders amid high demand, but they were sometimes constrained by supply chain disruptions and labor shortages. Ports saw volumes hold steady at high levels as imports of consumer goods such as furniture were especially strong. Trucking volumes were little changed, remaining at high levels, which were largely attributed to home goods and packaging volumes. Retailers experienced modest declines in in-store sales as customer traffic remained low; however, online sales were strong. The travel and tourism industry saw modest drops in business as hotel occupancy decreased and restaurants had more limited seating due to COVID restrictions and inclement weather. Residential home sales and prices held steady at high levels. Commercial real estate was little changed, as office tenants continued to downsize and industrial remained strong. Financial institutions reported slight loan growth due to continued strong demand for mortgage loans. Demand for nonfinancial services decreased slightly on balance. Employment rose modestly, and many firms reported difficulty finding workers. Overall, prices grew moderately, particularly for raw materials.

Employment and Wages

Total employment in the Fifth District rose modestly in recent weeks but remained below year-ago and pre-pandemic levels. Manufacturers and technology companies in particular reported increased hiring. Trucking companies saw driver shortages. Demand for health care workers was high. Several contacts reported that they had difficulty finding qualified workers, and many businesses reported that COVID-related absences were leaving them temporarily short-staffed. On the other hand, some restaurants had to cut serving staff. Some firms, including professional and business services firms were reluctant to hire because of uncertainty around the virus. In general, wages showed modest growth.

Prices

The Fifth District saw moderate price inflation since our last report. According to our most recent surveys, both manufacturing and service sector firms saw an acceleration in growth of prices received. Growth of prices paid for inputs increased moderately for service sector firms but slowed slightly for manufacturers. Inflation of prices paid outpaced that of prices received. Many firms reported rising costs of and longer lead times for raw materials, particularly those used in construction. Others reported continued elevated costs for personal protective equipment, which remained a strain.

Manufacturing

Manufacturers in the Fifth District reported moderate growth in recent weeks as shipments and new orders increased. Manufacturers of furniture, food, and construction materials saw especially strong demand. Several manufacturers pointed to supply chain issues resulting in delays and high prices of inputs. Some manufacturers also reported production constraints from understaffing while employees were on quarantine. Conversely, some manufacturers saw weak demand such as a South Carolina office supply producer and a Virginia souvenir manufacturer who were unsure how long they could remain open.

Ports and Transportation

Fifth District ports saw little change in activity since our last report. Shipping volumes remained near record highs and were substantially above year-ago levels. While there was strength in both import and export shipments, import levels remained above export levels. Contacts reported increases in furniture, toys, and produce imports, while meat and grains were strong on the export side. One contact noted that the rush to get empty containers back to Asia for future shipments is limiting container availability for exports. Ports saw increased shipments as vessels were added to normal rotations to transport excess volumes.

Fifth District trucking volumes held fairly steady at high levels since our last report. Demand exceeded supply as a shortage of drivers, partially attributed to suspensions of training programs during the pandemic, constrained trucking capacity. Volumes of home improvement goods and cardboard were high, and demand increased among industrial and manufacturing customers. Trucking rates were elevated, with one contact reporting that customers were offering to pay more to renew their contracts early because of the capacity shortage. Spot market demand and rates were high, and trucking companies continued to invest in capital expenditures for potential expansion.

Retail, Travel, and Tourism

Fifth District retailers reported modest declines in business since our last report and saw sales well below year-ago levels. Auto sales softened somewhat, particularly for import brands. Ecommerce was strong, but some retailers said sales were limited by customer capacity constraints that reduced foot traffic. Furniture, hardware, and home goods retailers saw strong business and depleted inventory levels as some experienced delays or shortages from suppliers. Meanwhile, some pop-up retailers developed, buying or leasing property where former retailers had gone out of business.

Travel and tourism activity in the Fifth District declined modestly in recent weeks and was below year ago and pre-pandemic levels. Hotel occupancy declined from already low levels. Restaurants struggled as cold weather deterred outdoor dining and restrictions limited indoor dining, leading to some restaurant closures. Many attractions such as museums either closed temporarily or reported low and decreasing visitation. Group travel, business travel, conventions, and the wedding business were very weak. However, a ski resort saw strong bookings and worked to adjust schedules to maximize business while observing social distancing.

Real Estate and Construction

Fifth District home sales decreased modestly in recent weeks but remained strong and well above year-ago levels. Realtors attributed the slight slowdown to both seasonality and COVID-related stay at home orders. However, inventories remained very low. Prices were little changed recently and were up on a year-over-year basis. Average days on the market held fairly steady at low levels since our last report. One contact reported that builders are limiting the number of home sales per week in order to not run out of inventory of quick-delivery homes. Builders described delays in and shortages of materials and appliances as well as a spike in the price of lumber.

Commercial real estate leasing in the Fifth District was little changed since our last report and remained weak compared to pre-pandemic levels. Many office tenants downsized on space as their leases ended or sublet as some employees worked from home, and others asked for short-term renewals of leases. Retail vacancies remained elevated compared to a year ago. By contrast, industrial real estate was very strong, with tight supply and new construction, both speculative and built-to-suit. Multifamily leasing was somewhat weak as vacancies were high and rents were soft.

Banking and Finance

Overall, respondents reported that loan activity improved slightly for this period, mainly driven by continued strong demand for mortgage loans. However, financial institution contacts indicated a tepid demand for commercial lending given the continued challenges in the economy. Deposit growth was moderate, even with low rates on interest-bearing accounts, due to many businesses holding cash in reserve. Credit quality remained good, but a few respondents noted a slight upward trend in delinquencies as CARES Act payment deferrals expired. Still, most financial institutions remarked that credit quality deterioration and delinquencies are not as severe as they expected at the start of the pandemic.

Nonfinancial Services

Overall demand for nonfinancial services softened slightly since our last report. Many firms reported decreases in demand and revenue. Some professional and business services firms reported struggling as they had clients, especially small firms, who were going out of business. Event-related businesses were uncertain how long they could remain open, and a marketing firm reported difficulties related to unreliable or delayed package delivery for clients. However, demand for education and health care remained strong. ■

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

Summary of Economic Activity

Business contacts in the Sixth District indicated that economic activity continued to expand at a modest pace from mid-November through December. Labor markets continued to gradually improve, and wage pressures were muted, on balance. Nonlabor costs related to construction and supply chains rose further over the reporting period. Although retail contacts reported overall holiday sales were subdued, ecommerce activity remained strong. Auto dealers noted sales declined since the previous report. Tourism and hospitality activity softened. Residential real estate demand remained strong, but challenges in commercial real estate markets persisted. Overall manufacturing activity rose moderately. Banking conditions remained stable, but some contacts noted an uptick in delinquencies, mostly with residential mortgages.

Employment and Wages

On balance, contacts noted that employment levels and hours worked rose over the reporting period. However, labor conditions were strained in several parts of the District as COVID-19 cases rose and absenteeism slowed activity. Labor markets continued to remain bifurcated with low turn-over and small steady improvements occurring among higher skilled positions where most can work remotely, while markets for positions that require in-person work (many of which are low-skilled) were tighter and had higher turnover. Looking ahead, many employers anticipate adding to headcounts as the pandemic subsides and demand increases. However, because of efficiencies realized during the pandemic, staffing levels for some firms are not expected to return to pre-pandemic levels. Most contacts also agree that flexible work arrangements will be a part of their staffing model going forward, allowing them to retain and attract higher-quality talent, and for some, reducing their real estate footprint.

Despite high demand for low-skilled workers, most employers resisted raising wages, though many increased referral, signing, and productivity bonuses to attract and retain workers. The upward pressure on wages at the lower end of the pay-scale, along with challenges to sourcing the required skills, accelerated talks of increasing automation. In Florida, the majority of employers expect little impact from the mandated increases to minimum wage as market forces have already begun to push wages to $15 per hour or will before the 2026 deadline.

Prices

Consistent with previous reports, input costs, particularly for lumber, aluminum, and steel, continued to rise notably. Transportation, shipping, and packaging costs increased as well. More contacts mentioned an ability to pass through increased costs to retailers and consumers. The Atlanta Fed's Business Inflation Expectations survey showed year-over-year unit costs increased significantly to 1.7 percent on average in December, up from 1.3 percent in November. Year-ahead expectations remained relatively unchanged at 2 percent.

Consumer Spending and Tourism

Retailers reported that, as expected, holiday sales were softer than in the previous year. Brick-and-mortar stores continued to struggle, while on-line sales were strong. Contacts expressed having little visibility into 2021 as some expect consumer spending behavior to change as a result of the pandemic. After experiencing a slight recovery in vehicle sales levels during the Fall, auto dealers reported softening demand through the end of the year, which was largely attributed to a resurgence in COVID-19 cases.

Travel and tourism activity softened since the previous report. Contacts noted that properties affected by recent hurricanes, primarily in Alabama, had not completed repairs as quickly as anticipated, which led to canceled reservations. Drive-to destinations across the District continued to experience solid activity; however, some contacts anticipate that surges in COVID-19 cases would dampen demand in the near term.

Construction and Real Estate

Home sales throughout the District remained strong as low interest rates continued to fuel demand. Existing home inventory remained extremely low in many markets, continuing to place upward pressure on home prices. The pace of new home construction continued to lag behind demand and lumber and labor costs remained a concern for builders. However, builders noted the ability to pass along rising costs to buyers through higher home prices. Though down from peak levels, mortgages either in forbearance or in delinquency remained elevated throughout the District, especially in rural areas of Alabama, Mississippi, and Louisiana, as well as urban markets in South and Central Florida, and North Georgia.

Commercial real estate (CRE) activity continued to be impacted by the pandemic. Hospitality, which was especially hard hit earlier in the year, experienced declining occupancies over the reporting period. The retail sector remained challenged due to a combination of rising ecommerce activity and an oversupply of retail space. Low levels of tourism and travel were reported as having a notable impact on activity across the hospitality and retail sectors. The number of new CRE borrowers seeking relief continued to moderate. Recent CRE asset valuations confirmed that values have deteriorated and may be creating impediments to new lending along with tighter underwriting standards.

Manufacturing

Manufacturing contacts reported a moderate rise in overall business activity since the previous report. While new orders increased only slightly, production levels rose at a stronger pace. Contacts indicated that finished inventory levels had fallen, while purchasing managers described delivery times as getting somewhat longer. Expectations for future production levels increased notably, with over half of contacts expecting higher levels of production over the next six months.

Transportation

Transportation firms reported increased levels of activity since the previous report. Freight forwarders experienced robust volumes and increased revenue due to sustained growth in ecommerce activity. Air cargo contacts noted year-over-year revenue growth as capacity constraints pushed up rates and congestion in Asian seaports drove some cargo, particularly high-dollar goods, to air transportation. Distribution of the COVID-19 vaccine is expected to bolster activity for both air cargo carriers and freight forwarders in the near term. Railroads reported considerable improvements in total traffic, including double-digit growth in intermodal freight and increased shipments of grain, food products, nonmetallic minerals, iron and steel scrap, and waste and nonferrous scrap. Nevertheless, some industry contacts do not expect a recovery to pre-pandemic levels until 2022 or beyond.

Banking and Finance

Conditions at financial institutions remained stable. Loan balances across most portfolios continued to trend downward, attributed to economic uncertainty, concerns about credit quality, and collateral valuations. Deposit levels remained elevated, and financial institutions continued to hold higher balances in cash accounts and their securities portfolios. Although a majority of loans modified earlier in the year have exited forbearance arrangements, credit quality did not significantly deteriorate. Still, financial institutions reported some higher noncurrent balances, primarily associated with residential mortgages.

Energy

Weak demand for crude oil, fuels, and other energy products persisted over the reporting period. Refinery output remained low, resulting in further consolidation among refiners. Industry contacts reported increasing optimism surrounding COVID-19 vaccine news, which has helped to strengthen crude oil prices, although concerns about oversupply diminished some of that confidence. While many planned petrochemical processing expansion projects and liquified natural gas export terminal construction projects remained stalled, some contacts reported renewed interest in moving projects forward. Within the utilities sector, contacts noted energy usage remained sensitive to COVID-19 conditions. Nevertheless, investments remained solid in renewables, grid modernization, and other infrastructure.

Agriculture

Agricultural conditions were mixed. While drought-free conditions prevailed in most of the District, some abnormally dry conditions were reported. Some counties in Alabama, Florida, Louisiana, and Tennessee were designated as natural disaster areas due to losses suffered from earlier hurricanes and storm damage. December production forecasts for Florida's orange and grapefruit crops were down from the previous report's forecasts and below last year's production. The USDA reported year-over-year prices paid to farmers in November were up for corn, cotton, and soybeans but down for rice, cattle, broilers and eggs while milk prices were unchanged. On a month-over-month basis, prices increased for corn, cotton, rice, soybeans, cattle, broilers, and milk but decreased for eggs. ■

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 modestly in late November and December but remained below its pre-pandemic level. Contacts expected further growth in the coming months, but most did not expect to see full recovery until at least the first half of 2022. Manufacturing increased moderately; business spending and construction and real estate increased modestly; and employment and consumer spending increased slightly. Wages rose modestly and prices were up slightly. Financial conditions were little changed. Agricultural income for 2020 was better than expected at the beginning of the year and at the onset of the pandemic.

Employment and Wages

Employment increased slightly over the reporting period, but contacts expected a moderate increase over the next 12 months. Contacts continued to report elevated employee absenteeism due to Covid-19 cases or exposures and childcare challenges for their workers, with some manufacturers saying they were forced to slow production following the Thanksgiving holiday due to staffing challenges. Many contacts noted difficulty in hiring workers, especially at the entry level. One aluminum producer said they were struggling to meet demand because they couldn't hire enough workers, even after raising wages. Overall, wages rose modestly across skill levels, with an increased number of reports of pay hikes for higher skilled workers. Benefits costs also rose modestly, with several contacts reporting higher healthcare costs. Some contacts said they had paid out larger-than-normal year-end bonuses, but others said they had been forced to cancel them.

Prices

Prices increased only slightly in late November and December, but contacts expected a more moderate increase in prices over the next 12 months. Consumer prices remained flat while producer prices increased some. Input costs increased modestly, driven by rising raw materials, energy, and shipping prices. Numerous manufacturing contacts noted large price increases for metals and metal products, particularly steel and aluminum. Energy prices increased some, as lower crude inventories supported higher prices for petroleum products.

Consumer Spending

Consumer spending increased slightly over the reporting period. Nonauto retail sales increased modestly as holiday sales came in at the low end of forecasts. E-commerce sales remained strong, but growth plateaued, in part because of shipping challenges. Brick-and-mortar traffic fell overall during the holiday shopping season. Demand remained robust in the home improvement, appliances, and furniture categories leading some items to be out of stock. Apparel sales increased only slightly. Light vehicle sales decreased slightly, and remained below pre-pandemic levels, with new vehicle sales softening more than sales of used vehicles. One contact said that vehicle demand from low and moderate income consumers had retreated as fiscal stimulus effects wore off. Leisure and hospitality spending weakened further as new and existing restrictions on restaurants and entertainment venues limited sales.

Business Spending

Business spending increased modestly in late November and December. Retail inventories were somewhat low overall. Dealers said that vehicle inventories remained well below pre-pandemic levels and weren't expected to rebound until well into 2021. Manufacturing inventories were generally at comfortable levels, but a growing number of contacts reported supply chain problems, especially related to raw materials, cardboard boxes, electrical components, and specialty parts. One contact said that they had stocked higher levels of raw materials to reduce the risk of running out. Capital expenditures increased modestly, as a number of contacts said they were resuming small-scale investment in equipment after pausing at the start of the pandemic. Contacts expected a moderate increase in capital spending over the next twelve months. Demand for transportation services increased moderately, and contacts noted that capacity constraints had led to sizeable price increases. There was a small increase in commercial and industrial energy consumption.

Construction and Real Estate

Construction and real estate activity increased modestly on balance over the reporting period. Residential construction activity increased moderately, with a number of contacts reporting increased single-family building. A contact in Des Moines said home construction was at its highest level in more than a decade and that the market for land was quite competitive. Contacts again reported project delays because of increased lead times for building materials and appliances, labor shortages, and delays in government permits and inspections. Residential real estate activity increased modestly. Home prices rose moderately, while rents rose slightly. Nonresidential construction was unchanged on balance. Construction of industrial space remained a bright spot, with a contact saying completed projects in 2020 in the Indianapolis area broke 2019's record. Commercial real estate activity fell slightly. Prices and rents fell marginally for commercial real estate, while sublease space increased slightly. Demand for industrial space remained robust, but interest in office and retail space decreased further.

Manufacturing

Manufacturing production increased moderately in late November and December, with reports of activity in some sectors approaching pre-pandemic levels. Some firms with strong demand continued producing on days during the holiday weeks when they normally would have been shut down. Auto output was stable and near its pre-pandemic level. Production of steel and aluminum increased, with growing demand from the construction, auto, and appliance industries. Manufacturer sales of specialty metals increased moderately and some contacts reported that capacity constraints had pushed up delivery lead times. Demand for heavy machinery rose slightly, driven in part by growth in the agriculture sector. Demand for heavy trucks increased strongly. There was steady demand for building materials.

Banking and Finance

Financial conditions were little changed on balance over the reporting period. Participants in the equity and bond markets reported a small improvement in conditions, though volatility remained elevated. Business loan demand decreased modestly overall, with one contact highlighting commercial real estate as a source of decline. Business loan quality deteriorated slightly, with declines concentrated in the retail, entertainment, and commercial real estate sectors. Business loan standards tightened modestly. Consumer lending was little changed on balance. Contacts continued to note steady, strong demand for residential mortgages. Most contacts said that loan quality and standards were little changed, though one contact reported a slight increase in delinquencies as customers came off deferrals.

Agriculture

Agricultural income for 2020 was better than contacts expected at the beginning of the year and at the onset of the pandemic. Contacts viewed government payments as an important reason many farms had profits. Corn and soybean prices continued to move higher over the reporting period, spurred by strong export demand. A larger than usual number of acres were planted with winter wheat, encouraged by higher prices for wheat and good fall weather. Dairy prices were volatile over the reporting period but ended close to where they started. Cattle prices were generally up, but hog prices moved down. Farmland values increased some. Ethanol producers continued to struggle, but some were helped by growing demand for byproducts such as carbon dioxide for dry ice. ■

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

Summary of Economic Activity

Reports from District contacts indicate that economic conditions have been generally unchanged since our previous report. Firms reported mixed changes in employment levels. Overall, wage pressures have increased slightly, with contacts citing tight labor market conditions. Reports on consumer spending were mixed, while reports on holiday sales focused on the accelerated shift to online shopping. Activity in the manufacturing sector continued its robust growth, but activity remains below year-ago levels. District banking contacts reported slowing growth in loan volumes but anticipate stronger demand in coming months from new PPP loans.

Employment and Wages

Reports on hiring have been mixed since the previous report. Firms across many industries, especially manufacturing and transportation, continued hiring in what remains a tight labor market. Businesses increasingly reported seeking workers nationwide due to the labor shortages and, when applicable, allowing workers to work remotely. Many other firms reported that employment levels have remained stagnant or declined, especially small businesses and firms in the leisure and hospitality sector. A survey of manufacturers indicates that, despite continued hiring, manufacturing employment in many areas remains below the same period last year.

Wages have grown modestly since the previous report, owing to the tight labor market in several industries and annual increases in minimum wages in some District states. One transportation firm advertised entry-level positions at more than twice the minimum wage, with benefits. Small-firm wages have remained more stagnant.

Prices

Consumer prices have increased moderately since the previous report. Contacts reported that the prices of lumber and concrete have increased since the previous report. These increases, paired with shipping delays for supplies have increased the costs of construction projects, leading homeowners to scale back renovation and building projects. Parcel companies have increased shipping prices due to unprecedented demand from online shopping overall and holiday demand specifically. Gasoline prices have increased since the previous report but remain lower than one year ago. One contact in outdoor retailing noted that tent prices have increased due to material cost increases. A wholesale car retailer noted that a recent wave of repossessions will lead to higher used car inventories and lower prices. A contact from a brewery reported that the elevated price of aluminum is eating away at profit margins: Canned beer has made up a larger portion of sales than on-premise pints since COVID-19 social distancing regulations have reduced demand at bars and restaurant.

Consumer Spending

Reports from District general retailers, auto dealers, and hospitality contacts indicate that consumer spending activity has been mixed since the previous report. Consumer sentiment in West Tennessee regarding both current economic conditions and future expectations has worsened since September. As of mid-December, most Tennessee consumers indicated they expected to spend less this holiday season than last year's. General retailers reported mixed business activity, with some retailers reporting sales comparable to or higher than this time last year. District auto dealers continue to report strong sales despite inventory shortages and hold an optimistic outlook for the coming months. Tourism and hospitality contacts reported lower business activity relative to late November, attributing the decline to increased COVID-19 cases and travel restrictions; contacts indicated a pessimistic outlook for the first half of 2021.

Manufacturing

Manufacturing activity has continued to increase at a robust pace since the previous report, although the rate of growth has leveled off. Firms in both Arkansas and Missouri reported a strong uptick in new orders and production. However, several contacts reported that production is still below pre-COVID levels and that inventory remains tight as manufacturers are unable to keep up with the demand. One contact in central Arkansas noted that some manufacturing plants were shutting down or slowing production due to COVID infections among employees.

Nonfinancial Services

Activity in the nonfinancial services sector has remained unchanged since the previous report. Passenger traffic at airports has risen slightly since the previous report due to holiday travel, although it remains a fraction of the prior years' levels. Several parcel services have continued to hire both seasonal and permanent employees. A logistics contact indicated that business in 2021 would likely be better than 2020, although potential regulations on heavy industry and low oil and gas pipeline investment could impact the demand for transported commodities. Hospitals continue to deal with large numbers of COVID cases and ICU beds are near capacity.

Real Estate and Construction

Residential real estate activity has been unchanged since the previous report. Seasonally adjusted existing home sales in St. Louis, Little Rock, and Louisville have increased since mid-November while sales in Memphis have fallen slightly. Inventory remains low, and a contact in Missouri reported expectations of similarly low levels of inventory for the foreseeable future. Compared with this time last year, home prices are up sharply across the District, with numerous buyers making offers above listing price. One St. Louis area realtor noted that this may be the worst time to buy a house in their decades-long career. Most of the largest District MSAs saw a slight decrease in their apartment rental rates, while Memphis saw a slight uptick since the previous report. However, rental prices remain elevated compared with this time last year and with the national average.

Commercial real estate activity has been mixed since the previous report. An Arkansas commercial real estate broker expects continued high demand for industrial space and decreasing demand for retail and office space into next year. Many construction firms in Memphis anticipate a robust 2021, with projects that were previously on hold starting back up again. Contacts in Arkansas and Louisville expect industrial properties for distribution, warehousing, and manufacturing will continue to be in high demand.

Banking and Finance

Banking conditions in the District have weakened slightly since the previous report. Banking contacts continued to report a modest decrease in overall loan demand. Outstanding loan volumes have declined moderately since the previous report but remained strongly above year-ago levels. Growth in residential real estate and consumer loans was down compared with the previous period and fell below year-ago levels. On the other hand, commercial real estate loan volumes increased slightly. Deposit levels at District banks remained elevated. St. Louis bankers were cautiously optimistic about the second round of PPP lending, hoping the additional funds would be helpful to some of the most distressed businesses, especially those in the entertainment industry. However, some bankers still voiced concern about the uncertain PPP guidelines that might discourage participation.

Agriculture and Natural Resources

District agriculture conditions have remained relatively unchanged since the previous report. The percentage of winter wheat in the District rated fair or better slightly increased from the end of October to the beginning of December. Wheat conditions are modestly worse than the same period one year ago.

Natural resource extraction conditions improved modestly from October to November, with seasonally adjusted coal production increasing 2%. November production was still down strongly compared with a year ago, falling nearly 21%. ■

Summary of Economic Activity

Economic activity in the Ninth District increased modestly since mid-November. Employment grew modestly, with increased hiring demand, but restrained labor supply. Wage pressures were moderate overall, and price pressures were generally modest. Sources reported growth in consumer spending, residential construction and real estate, manufacturing, and agriculture. Energy activity held steady at low levels, while tourism and commercial construction and real estate activity declined.

Employment and Wages

Employment grew modestly since the last report, with hiring demand seeing continued growth, but labor supply not responding in kind. Staffing contacts in Minnesota and North Dakota said December job orders were surprisingly strong, possibly to expand workforces to cope with virus-related quarantines and other interruptions. A November survey of hiring expectations among Ninth District firms found that a modestly higher share was planning to increase employment in 2021 compared with those planning to decrease staff levels. Many contacts noted evidence of healthy hiring demand. Districtwide, job postings have mostly recovered on a year-over-year basis, except in Minnesota, where postings have plateaued about 10 percent below year-ago levels. There were pockets of pessimism, however. A mid-December survey of Minnesota hospitality and tourism firms found that more than half were cutting or furloughing staff, in part due to operating restrictions put in place by the state a month earlier. Preliminary December data on workers compensation policies in Minnesota also showed a slight drop-off, suggesting that employers might be pulling back on future hiring plans. Initial and continuing unemployment insurance claims rose in recent weeks, due at least in part to normal seasonal slowing in some sectors like construction. As of mid-December, the number of workers receiving jobless benefits in District states was two-and-a-half times the level seen one year earlier.

Labor supply constraints remained significant. A handful of workforce development sources acknowledged a growing number of available jobs. But one contact noted that many available jobs lacked health care benefits and “just don’t pay enough” to take given higher health risks and other obstacles, like day care availability, transportation difficulties, or the possibility of being recalled from furlough. The prospect of further enhanced unemployment benefits was also keeping some workers on the sidelines. A contact in Minneapolis-St. Paul said she was seeing lower labor force participation among younger workers who were “extremely worried about parent and grandparent vulnerability” to COVID-19. Multiple contacts also noted technology equity issues, manifested in broadband availability and the lack of computer skills necessary for effective job search. “Just about every business in today’s world is run by technology. If you lack those skills, you will not succeed” in the job search, said one contact. Many job assistance offices remained closed to walk-ins, and newly enhanced online services compounded search problems for those without computer skills.

Wage pressures were moderate overall. A staffing contact overseeing multiple offices in Minnesota said that average wage offers in mid-December were 8 percent higher than a year ago, with most of that growth materializing in the second half of the year. Other contacts reported a rise in signing bonuses, but also a decline in hazard pay. A notable share of hospitality and tourism firms reported little or no wage increases given the difficulties in that sector. “I really can't even think of a wage increase except the mandatory (minimum wage increase) on January first,” said the female owner of a Minneapolis-St. Paul restaurant. “I need to survive first.”

Prices

Price pressures were generally modest, but shipping costs were up. Survey respondents from the hospitality and tourism industry generally reported flat or mildly increased wholesale prices over the past year, including for food and drink. Retail prices saw even less pressure. Most participants in a poll at a large transportation conference in early December expected freight pricing (excluding fuel surcharges) to increase faster than usual through early 2021. An industry source reported that residential rents as of December declined 2.1 percent in Minneapolis-St. Paul month over month, and 11 percent since March, the ninth fastest decline among the nation's 50 largest cities since the start of the pandemic.

Consumer Spending

Consumer spending rose modestly from the previous report. Many Minnesota retailers saw lighter foot traffic during the holidays, but some reported that it nonetheless exceeded their scaled-back expectations. Online sales were widely and significantly higher, but contacts suggested that total sales for many would fall modestly short of last year, particularly for small retailers. North Dakota retailers had cautious holiday expectations because of the downturn in the oil sector. A South Dakota contact said retailers saw “a real mixed bag.” Rural consumers there have been more willing to shop in person, so foot traffic in smaller communities “seems to be steady.”

Vehicle sales saw a modest dip in November, but a dealership in the western part of the District said sales in early December were solid, “although we would like more inventory, especially trucks.” Vehicle sales taxes in Minnesota in December were higher than last year. Restaurants and bars continued to see decreased revenue across the District. A majority of hospitality and tourism firms in Minnesota reported negative revenue trends in December and continued pessimism for early 2021. Results were even more dour for minority-owned firms. A minority-owned hotel in central Minnesota said the facility’s pool and breakfast buffet were both closed, and area bars and restaurants were barred from inside dining and drinking due to state-imposed restrictions. “Why would anyone want to stay?”

Construction and Real Estate

Commercial construction fell moderately since the last report. Two industry databases showed construction starts and total active projects in the District continuing to slow into December. A recent Minnesota survey reported a sour industry outlook, with 42 percent predicting a sectoral downturn in 2021, compared with 10 percent last year. Residential construction continued to outperform the rest of the sector. November single-family permitting rose 8 percent over last year in Minneapolis-St. Paul and also rose in Bozeman, Mont., Bismarck, N.D., and Sioux Falls, S.D.

Commercial real estate fell modestly since the last report. Softening levels of new commercial construction has helped keep a lid on vacancy rates in many real estate categories. However, the overall 2021 outlook was subdued, particularly in urban areas. Late payments among multifamily renters continued to creep up, according to surveys, which has put particular strain on more affordable properties with already thin margins. Sources believed federal stimulus proposals would temporarily relieve some financial stress for tenants and landlords, but there was continued concern over pandemic-related forbearance policies and their effects on housing markets. In contrast, residential real estate was strong. November home sales were robust across most the District, including many rural areas, and banking contacts reported record-level mortgage activity.

Manufacturing

District manufacturing activity increased briskly since the previous report. An index of regional manufacturing activity indicated brisk expansion in North Dakota and South Dakota in December compared with the previous month, while activity in Minnesota grew more moderately. Transportation industry contacts generally reported increased freight orders in the fourth quarter of 2020 relative to the third, with much of the growth coming from manufacturing customers.

Agriculture, Energy, and Natural Resources

Agricultural conditions improved modestly on strong harvests and recent increases in some commodity prices. However, contacts in the industry cautioned that much of the recent growth in farm incomes has been due to increased government aid rather than improved market conditions. District oil and gas activity remained steady at low levels. ■

Summary of Economic Activity

The Tenth District economy held fairly steady in December, on net, albeit with large variation across sectors. However, contacts in almost every sector expected conditions to improve over the next six months. Consumer spending continued to decline due to further drops in auto, restaurant and tourism sales. But retail sales rebounded sharply in December and were above year-ago levels. Manufacturing production and new orders expanded modestly, driven by moderate gains at durable goods plants. Sales rose slightly among professional and high-tech firms, but transportation and wholesale trade contacts reported declines. Residential real estate activity slowed as home sales declined amid falling inventories and rising prices. Commercial real estate conditions continued to deteriorate, but contacts expected vacancy rates to edge down and prices to stabilize in coming months. Energy activity expanded as revenues, profits and drilling rose for most firms. The agricultural sector improved modestly as higher crop prices lifted prospects for farm incomes. Employment levels increased slightly, and wages rose modestly. Input prices continued rise faster than selling prices, leading to tighter profit margins.

Employment and Wages

District employment increased slightly in December, but remained slightly below year-ago levels. Within the services sector, gains were driven by retail and wholesale trade, while growth was restrained by the restaurant and tourism industries. Expectations within the services sector were mostly positive aside from the transportation, restaurant, and health services sectors. Manufacturers noted increases in both employment levels and employee hours and expected modest growth in the coming months.

The majority of contacts in the services sector reported labor shortages, noting a need for truck drivers, specialized information technology workers, and mechanics. One hospital noted being short on staff to care for COVID patients such as registered nurses, respiratory therapists, and certified nursing assistants. Wages rose modestly during the survey period and were expected to rise at a faster pace in the coming months. Services contacts reported that 23 percent of employees were working remotely on average, while the average among manufacturers was 9 percent.

Prices

Growth in input prices continued to outpace that of selling prices in the services and manufacturing sectors, although more notably for the latter. Within manufacturing, prices for raw materials rose moderately while prices received for finished products grew slightly. Additionally, prices for raw materials were expected to continue to outpace selling prices in the coming months, putting pressure on profit margins. Retail prices increased moderately, with input prices rising slightly faster than selling prices. In contrast, contacts from the transportation and restaurant sectors indicated that selling prices rose faster than input prices in December, but expected that trend to reverse in upcoming months. Contacts in construction supply noted that selling prices rose modestly and expected them to continue to do so in following months.

Consumer Spending

Overall consumer spending declined in December despite a robust increase in retail sales. Declines in restaurant, auto, and tourism sales accelerated, while activity in the health services sector also fell following moderate gains during the previous survey period. Retail trade was the only bright spot, with strong sales growth during December and sales above year-ago levels. Auto and restaurant sales were modestly below year-ago levels, while tourism activity remained sharply lower. Respondents from all consumer sectors expected modest gains in the next few months. While the majority of contacts indicated that the most recent surge of COVID cases negatively affected their firm's business, a quarter of respondents indicated that it had had no effect.

Manufacturing and Other Business Activity

Manufacturing activity expanded modestly since the last survey, but remained modestly below year-ago levels. Production and new orders rose moderately for durable goods, while activity for non-durables fell slightly for the first time since late spring. Contacts in both sectors expected production and new orders to rise in coming months. Capital expenditures were just below year-ago levels. Looking ahead, firms' primary motivations for capital outlays in the upcoming year were to make investments in labor saving technology and equipment to enhance production capacity.

Outside of manufacturing, sales in transportation and wholesale trade fell, leaving sales modestly below year-ago levels. Sales in professional and high-tech services rose slightly, but remained moderately below year-ago levels. Capital expenditures edged down in transportation and professional and high-tech services but increased modestly for wholesale trade. Contacts from these three sectors anticipated both sales and capital expenditures to rise over the next few months.

Real Estate and Construction

Residential real estate activity slowed moderately in December, while commercial real estate conditions continued to worsen modestly. Residential sales fell moderately as inventories of homes fell further and prices continued to rise. Despite this, home sales remained above year-ago levels and contacts anticipated moderate increases in sales and prices the coming months. Construction supply sales fell for the first time since February and were expected to continue to fall modestly moving forward. Commercial real estate contacts noted modest declines in absorption rates, sales, prices, and rents along with an increase in vacancy rates. Developers reported that credit was increasingly difficult to access. Commercial construction, however, edged up and additional increases were expected in the next few months. Additionally, contacts expected vacancy rates to edge down and prices to stabilize.

Banking

Banking contacts reported a slight increase in total loan demand in recent weeks. Growth was concentrated in two categories, with a modest increase in the demand for residential real estate loans and a slight increase in the demand for commercial real estate loans. Loan demand in all other lending categories slowed, with a slight decline in consumer loan demand, a modest decline in commercial and industrial loan demand, and a moderate decline in agricultural loan demand. Credit standards tightened slightly for residential real estate and commercial and industrial loans, and tightened modestly for commercial real estate loans. Overall loan quality improved slightly compared to a year ago, although bankers expected loan quality to decline modestly over the next six months in several categories including commercial real estate, hospitality and small business. Deposit levels increased robustly in recent weeks. Anecdotal evidence suggested the economy outperformed expectations this year, but there remained a general uncertainty around future performance. One banker commented, "surprised how well our year turned out. Economy seems very fragile yet continues to perform surprisingly well".

Energy

District energy activity expanded since the previous survey period but continued to lag year-ago levels. Revenues, profits, and drilling activity rose for most firms but remained below year-ago levels. However, employment levels continued to decline. The number of active oil and natural gas rigs increased broadly across District states. While commodity prices increased since the last survey period, regional firms also reported needing a higher average price for a substantial increase in drilling to occur for oil and natural gas. Most contacts expected higher regulatory costs for their firm in the upcoming year, and a significant share of firms indicated plans to reduce emissions or reuse water. Expectations for future drilling and business activity turned positive for the first time since the first quarter of 2020, but firms anticipated additional job cuts moving forward due to continued consolidation and efficiency gains.

Agriculture

Conditions in the Tenth District agricultural economy and prospects for farm income improved modestly since the previous reporting period alongside further increases in crop prices. District contacts reported that direct government payments had provided robust support for farm incomes, and expected the sharp increase in crop prices during recent months to further improve profits. Since the previous period, crop prices increased moderately and were well above a year ago. In addition to higher prices, strong crop yields in some parts of the District boosted revenues further, particularly in Missouri. Profit opportunities for livestock producers in the District were more limited. Cattle prices were generally stable, but remained well below a year ago. Hog prices declined slightly in the period, but were slightly higher than a year ago. ■

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

Summary of Economic Activity

The Eleventh District economy expanded at a moderate pace, but activity in most industries remained below normal levels. Recovery in the manufacturing and service sectors picked up, while retail activity remained weak. The housing market continued to be a bright spot, with robust home sales and strengthening apartment demand. Overall loan volume increased, led by real estate lending. Energy activity showed mounting signs of improvement after a prolonged contraction. Employment rose moderately, though wage growth remained subdued. Input cost increases continued to outpace growth in selling prices. Outlooks were generally positive, but uncertainty remained high. Several contacts voiced concern about rising COVID-19 infection rates impacting their short-term business prospects, though there was optimism about the vaccine paving the way to a resumption of more normal activity this year.

Employment and Wages

Employment rose moderately overall. Hiring was most robust in the manufacturing sector but also picked up in the service sector after stalling out in the prior period. Several contacts noted hiring freezes and, among those adding to payrolls, there were scattered reports of recruiting difficulty. Layoffs continued in the energy sector, although they abated somewhat. Energy contacts said more layoffs and early retirements were in the works, but the worst is past despite mounting bankruptcies. Outside the energy sector, just over half of Texas businesses surveyed expect to add to headcounts in 2021, while 38 percent expect to keep employment levels flat and 10 percent expect declines. Airline contacts noted the new COVID-19 relief bill would likely prevent further layoffs in the first quarter.

Wage growth remained subdued, except in manufacturing where it picked up after a nine-month slump. Still, several service sector contacts noted implementing bonuses or increased wages, with an accommodations firm citing the increasing minimum wages in California and Florida contributing to their decision. Looking ahead, most firms expect wage growth in 2021 to be well above what was seen in 2020.

Prices

Input costs continued to increase at a moderate pace overall, though retailers saw more substantial rises and several manufacturers noted sharply increased raw materials prices, particularly steel. Selling prices were flat to up slightly, with more marked increases reported in the retail and manufacturing sectors. While contacts overall noted subdued growth in selling prices in 2020, most expect a rebound to average or above-average selling price growth this year.

Manufacturing

The Texas manufacturing recovery gathered steam in December, with production and demand growth accelerating from November. Growth was widespread and led by nondurables, particularly petrochemical products. Petrochemical contacts noted healthy demand for PVC, driven by construction, and very strong plastic packaging demand. The pandemic remained a drag on business overall, with nearly half of manufacturers saying revenues were still below normal. The vast majority expect 2021 revenues to be stronger than last year, with growth peaking in the third quarter. Outlooks among manufacturers pushed further positive, despite considerable uncertainty.

Retail Sales

Texas retail activity was flat in December following a decline in November. Auto sales picked up, though contacts voiced concern that rising COVID-19 infections could negatively impact buying activity. A Dallas Fed survey of about 50 Texas retailers showed that a nearly equal share—about 30 percent—expect revenue to decrease in the first quarter versus increase, but that by the second quarter the share expecting a decrease falls to 17 percent while the share expecting an increase grows to 53 percent. Overall, well over half of retail firms expect 2021 revenues to exceed 2020 levels.

Nonfinancial Services

Growth in the nonfinancial services sector resumed but remained muted as rising COVID-19 cases restrained demand. Continued contraction was seen in leisure and hospitality. In transportation services, cargo volumes through Texas ports and via small parcel delivery services were up quite strongly, and much of the leftover passenger air capacity was used to move freight air cargo. Airlines noted that increasing COVID-19 cases were impacting leisure air travel and that despite a seasonal pickup in passenger demand, airline bookings remained well below year-ago levels. Business air travel continued to be virtually nonexistent. Recovery continued, however, among professional and business services firms, with revenue growth accelerating in December. Staffing services firms said demand was broad-based and had increased drastically over the last couple of months.

Looking ahead, a majority of businesses expect 2021 revenues to exceed 2020 levels, by about 30 percent on average. Even still, a sizeable share expects flat or reduced revenue this year. Overall, outlooks remained marginally positive, with many contacts pointing to the COVID-19 vaccine as a particular driver of optimism.

Construction and Real Estate

Home sales remained solid during the reporting period. Several contacts noted seasonal softness; however, sales were up year over year. Builders said they continued to push up prices, and a few noted solid margins. New home development remained vigorous, though there were continued reports of supply chain issues and skilled labor shortages. Outlooks were favorable, with continued concern about political uncertainty and a weak labor market negatively impacting future sales.

Apartment demand in the fourth quarter was better than expected. Nevertheless, demand lagged completions, putting downward pressure on occupancy and rents. There was slight deterioration in apartment rent payments in December. Office leasing stayed weak and contacts noted concern about the growing amount of sublease space. The industrial market continued to perform remarkably well.

Financial Services

Overall loan volume increased modestly over the reporting period, with declines in consumer and commercial and industrial (C&I) loans offset by increases in residential and commercial real estate loans. Loan pricing continued to decrease, and some contacts voiced concerns about margin compression. Credit standards tightened further, particularly for C&I loans. Nonperforming loans rose over the past six weeks, though at a markedly slower rate than what was seen in mid-2020. While assessments of current general business activity remained mixed, nearly 70 percent of contacts expect an increase in business activity six months from now.

Energy

The rebound in the energy sector solidified further over the reporting period, though the level of activity remained below year-ago levels. The Eleventh District rig count rose markedly, and drilling and well completion activity continued to improve. Contacts on both the exploration and production side and the oilfield services side reported stronger levels of business activity for the first time since the onset of the COVID-19 pandemic, and oil production stabilized after several months of decline. Outlooks generally improved, though rising COVID-19 cases and the prospect of tighter regulations weighed on contacts' sentiment about future activity.

Agriculture

Drought conditions intensified further, particularly in the western part of the District. Demand for agricultural products remained solid. Crop and cattle prices rose over the past six weeks, though cheese prices fell dramatically. Higher crop prices boosted sentiment, as current levels are profitable for many producers given normal yields. ■

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

Summary of Economic Activity

Economic activity in the Twelfth District continued to expand at a modest pace during the reporting period of mid-November through December. Overall employment levels and the existing modest pace of price inflation were largely stable, and wages increased slightly. Retail sales picked up, but activity in the consumer and business services sectors was mixed. Manufacturing activity increased somewhat, and conditions in the agriculture sector strengthened slightly. Contacts reported continued strong activity in residential real estate markets, while conditions in the commercial sector weakened. Lending activity continued at high levels.

Employment and Wages

Employers in most reporting sectors maintained generally stable staff head counts, following a sustained period of employment volatility due to the pandemic. Some contacts reported increased employee turnover but also highlighted little difficulty finding qualified applicants. Others reported labor shortages in the construction and building materials manufacturing sectors, which was intensified in some areas by reconstruction efforts following the wildfire season. Contacts in tourism and food services noted employment cuts in response to the recent surge in COVID-19 cases and resulting renewal of mobility restrictions in some areas. A contact in automotive services reported reduced numbers of workers and hours due to slower activity. A few contacts in the financial sector mentioned operational efficiencies that led to the elimination of redundant positions. Demand for labor in the technology and health-care industries remained solid.

Wages increased slightly near year-end. Contacts reported little change in entry level wages, except for workers affected by minimum wage legislation. For higher-paying positions, employers noted either no noticeable changes to wages or only typical merit increases for existing employees. Some firms in the construction and manufacturing sectors offered extra vacation days and extended holiday season bonuses to help reduce turnover. There were a few reports of decreased wages for some financial service providers due to a reduction in interest margins. Others, however, mentioned slight increases in wages and rising pressures.

Prices

Most contacts reported stable and low price inflation over the reporting period. While manufacturers noted that input costs had increased, some highlighted that they had not passed those increases to end users. Consumer service providers generally did not change their price structures, but some business service providers implemented holiday season surcharges in response to strong demand. Prices for building materials rose significantly, while those for agricultural products rose modestly.

Retail Trade and Services

Retail sales picked up in general, but reports varied somewhat by region. Holiday sales were stronger than expected given the pandemic but weaker than past holiday seasons. Retailers in areas where local governments reinstated limitations on commerce and mobility in response to the recent virus surge saw a large negative impact on sales. Reports highlighting foot traffic varied widely, with some contacts noting empty stores and shopping malls, and others mentioning customers in long wait lines. Sales at auto dealerships were boosted somewhat by year-end tax incentives. Some specialty retailers, including for pet products, reported strong sales. Others mentioned weaker sales for discretionary products due to customers' focus on purchases for essential products. E-commerce volumes increased notably relative to brick-and-mortar stores, and contacts reported that the pandemic has further accelerated the shift toward online sales. Contacts in areas that depend more heavily on tourism, such as Alaska and Hawaii, reported that holiday retail sales were significantly below levels from past seasons.

Activity in the consumer and business services sector was mixed. Demand for logistics and delivery services rose further, with providers working at full capacity. Shipping service quotas were implemented on many big box companies, with some reported order backlogs and shipping delays due to increased online sales volume during the holiday period. In health care, demand for elective procedures and mental health assistance continued to rebound from the pause earlier in the year, though providers expressed concerns about the recent surge in COVID-19 cases potentially limiting the volume of such services. Contacts in the tourism industry noted that demand for air travel and hotel rooms was still subdued. The pandemic continued to severely impact restaurant and dining services, with reports noting that many smaller restaurateurs have struggled to stay open. Production in the entertainment sector has returned slowly under strict safety protocols. Capacity utilization among automotive service providers remained low, and store hours were reduced to reflect the current environment. Demand for nonprofit services focused on housing assistance remained at average levels, while enrollment numbers for higher education stayed tepid.

Manufacturing

Manufacturing activity increased modestly on balance. Production and capacity utilization for renewable energy equipment and supply chain services continued to grow at a strong pace, with some factories engaging in considerable overtime to meet pent-up demand. Production and capacity utilization in metals and wood products manufacturing remained robust, and contacts reported adequate access to materials. Demand for energy from manufacturers other than aerospace rebounded faster than power providers had anticipated. Aerospace manufacturing activity continued to be plagued by the pandemic-related drop in air travel demand. One contact also mentioned that pre-pandemic technical issues continued to hamper demand for manufactured aircraft parts.

Agriculture and Resource-Related Industries

Agricultural activity increased slightly over the reporting period. Demand for agricultural products grown in California and the Pacific Northwest expanded both domestically and internationally, as exports benefitted from a depreciated dollar. Sales of wheat, fruit, raisins, and nuts to global markets picked up near year-end, with shipments of almonds reaching record highs according to a contact who provides transportation services for the agricultural sector. Inventories fell somewhat from the prior reporting period but remained high. Fires in California's Central Valley impacted production capacity for some farmers and livestock ranchers, but the total impact is yet to be determined.

Real Estate and Construction

Activity in residential real estate markets continued to grow robustly across the District, yet the pace of growth was slightly slower than in the previous reporting period. Demand for homes continued to be boosted by historically low mortgage rates and wider geographic searches by those able to work remotely. New construction and prices for housing rose further while inventories remained tight, especially for homes at more affordable price ranges. Contacts in the Mountain West noted that many homes were sold prior to completion. Across the District, contacts reported constraints on the availability of qualified construction labor, building materials, and lots with ready access to public utility services. Demand for residential rental units in metropolitan areas continued to fall. In contrast, contacts reported increased inquiries for suburban rental spaces. One contact in the Pacific Northwest highlighted an increase in the number of past due rent payments.

Demand for new commercial construction weakened, and contacts observed that high uncertainty continued to cloud plans in the District. Reports focused on increased vacancies in retail space but continued modest competition for warehouse space. Construction permitting for industrial and storage facilities was still in high demand, partially due to increasing rents. A contact in Utah noted increased demand for office and hotel space due to population growth in the area. One contact in California mentioned that the positive news concerning vaccines was a material input in their firm's decision to partially renew their commercial space lease.

Financial Institutions

Lending activity remained at high levels but the pace of new loan generation slowed somewhat. Reports indicated that expectations for a new round of government-backed lending programs with favorable terms have encouraged many business borrowers to postpone their loan applications slightly. Demand for new mortgages and refinancing remained strong. Deposits were robust and banks reported having significant liquidity, high asset quality, and generally healthy balance sheets. Nonetheless, some bankers expressed concern over potential loan losses should payment deferrals and loan forbearances be terminated, especially in relation to loans extended to restaurants, bars, and hotels. In venture capital markets, contacts noted increased investor interest in clean energy and other businesses oriented around environmental sustainability. ■