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# The Beige Book

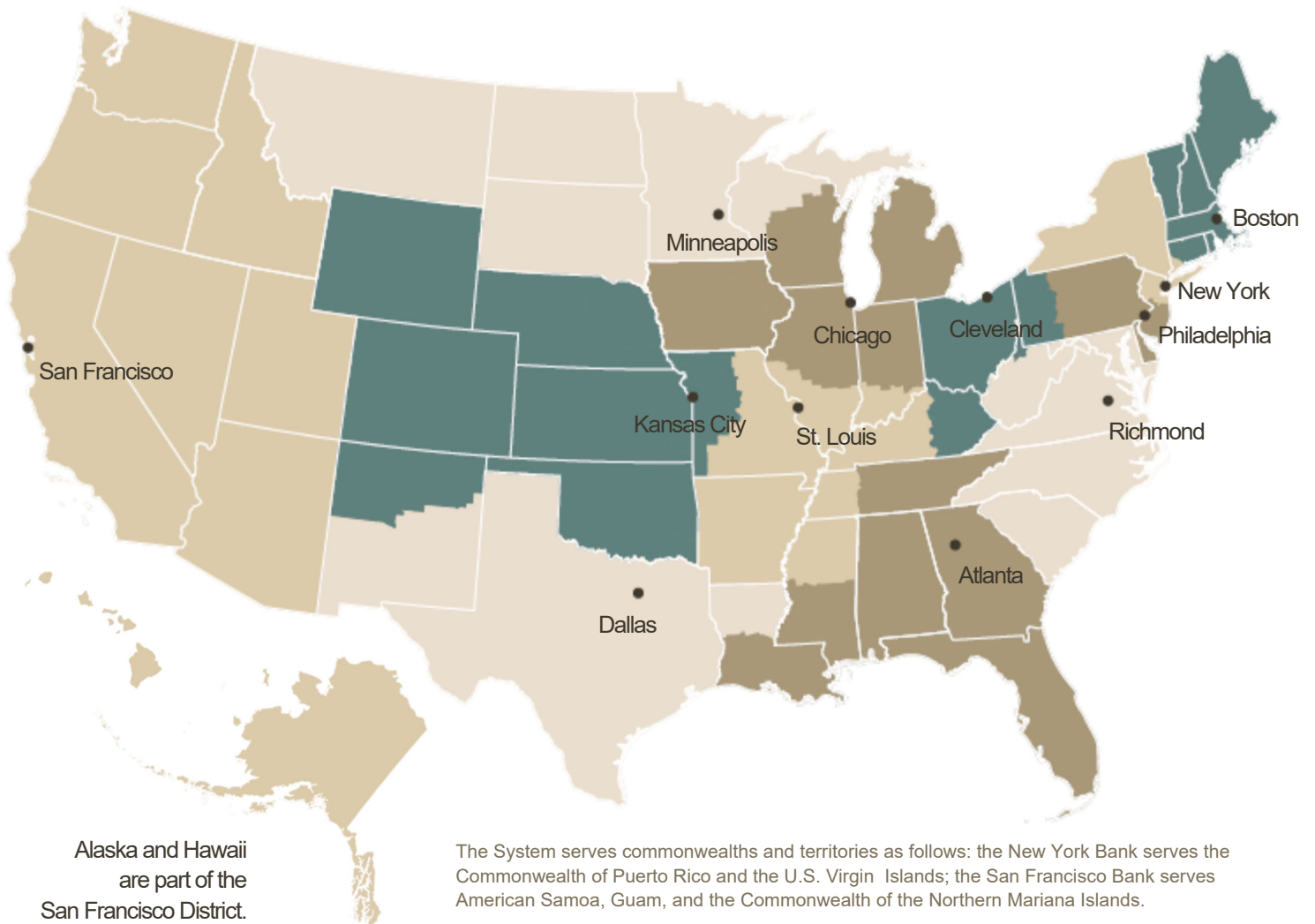
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Summary of Commentary on Current Economic Conditions

By Federal Reserve District

February 2021

## Federal Reserve Districts



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This report was prepared at the Federal Reserve Bank of Atlanta based on information collected on or before February 22nd. This document summarizes comments received from contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.

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## What is the Beige Book?

The Beige Book is a Federal Reserve System publication about current economic conditions across the 12 Federal Reserve Districts. It characterizes regional economic conditions and prospects based on a variety of mostly qualitative information, gathered directly from 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

The Beige Book ■ February 2021

## Overall Economic Activity

Economic activity expanded modestly from January to mid-February for most Federal Reserve Districts. Most businesses remain optimistic regarding the next 6-12 months as COVID-19 vaccines become more widely distributed. Reports on consumer spending and auto sales were mixed. Although a few Districts reported slight improvements in travel and tourism activity, overall conditions in the leisure and hospitality sector continued to be restrained by ongoing COVID-19 restrictions. Despite challenges from supply chain disruptions, overall manufacturing activity for most Districts increased moderately from the previous report. Among Districts reporting on nonfinancial services, activity was mixed, though most reported modest growth over the reporting period. Some Districts noted that financial institutions experienced declines in loan volumes, but most cited lower delinquency rates and elevated deposit levels. Historically low mortgage interest rates continued to spur robust demand for both new and existing homes in most Districts, and home prices continued to rise in many areas of the U.S. On balance, commercial real estate conditions in the hotel, retail, and office sectors deteriorated somewhat, while activity in the multifamily sector remained steady and the industrial segment continued to strengthen. Districts reporting on energy observed a slight uptick in activity related to oil and gas production and energy consumption. Overall, reports on agricultural conditions were somewhat improved since the previous report. Transportation activity grew modestly for many Districts.

## Employment and Wages

Most Districts reported that employment levels rose over the reporting period, albeit slowly. Labor demand varied considerably by industry and by skill level, and many contacts noted continued difficulties attracting and retaining qualified workers. Labor supply shortages were noted by contacts as most acute among low-skill occupations and skilled trade positions. Constraints on labor supply included those related to COVID-19, childcare, and unemployment benefits. Overall, contacts expect modest improvements in employment levels in the near term. Several Districts reported modest wage increases for high-demand positions with many also noting upward pressure on wages to attract and retain employees. On balance, wage increases for many Districts are expected to persist or to pick up somewhat over the next several months.

## Prices

On balance, nonlabor input costs rose moderately over the reporting period, with steel and lumber prices increasing notably. In many Districts, the rise in costs was widely attributed to supply chain disruptions and to strong overall demand. Transportation costs continued to increase, in part due to rising fuel costs and capacity constraints. Reports on pricing power were mixed, with some retailers and manufacturers affected by input cost increases reporting the ability to pass prices through, while many others were unable to raise prices. Several Districts reported anticipating modest price increases over the next several months.

## Highlights by Federal Reserve District

### Boston

Economic activity remained mixed in the First District, with strong performance at manufacturers and ongoing weakness at hospitality outlets. Labor markets were tight for skilled workers. Manufacturers faced new upward pressures on input prices. Single-family home sales increased further. Contacts in the restaurant and hotel industries expressed a more optimistic outlook.

### New York

The regional economy declined modestly, with particular weakness in the service sector. The labor market has remained sluggish, though wage growth accelerated. Businesses reported further acceleration in prices, as well as increasingly widespread supply disruptions. Contacts across a wide variety of sectors expressed increased optimism about the near-term outlook.

### Philadelphia

Business activity rebounded to a modest pace of growth during the current Beige Book period. COVID-19 cases waned and restrictions eased, but economic disruptions continued. On the whole, activity remained below levels attained prior to the pandemic. Employment rebounded – growing slightly – as wage growth and prices picked up to modest and moderate paces, respectively.

### Cleveland

The District's economy regained momentum, reflecting declining numbers of coronavirus infections and various fiscal support measures. That said, activity remains below prepandemic levels for most firms, and supply chain disruptions restrained output for many firms. Such disruptions also led to sizable increases in nonlabor costs. Hiring activity remained modest, although a greater share of firms reported they were raising wages.

### Richmond

The regional economy continued to grow modestly. Manufacturing activity picked up, as did port and trucking transportation. Travel and tourism also rose in recent weeks. Retail sales, on the other hand, declined. The housing market remained strong and commercial real estate leasing rose modestly. Employment increased slightly while wages were little changed. Prices increased moderately in recent weeks.

### Atlanta

Economic activity expanded modestly. Labor market conditions improved, and wage pressure was subdued. Some nonlabor costs rose. Retail spending was steady. Tourism and hospitality activity rose slightly. Residential real estate demand increased, and home prices rose. Commercial real estate conditions were mixed. Manufacturing activity improved. Conditions at financial institutions were stable.

### Chicago

Economic activity in the Seventh District increased modestly. Manufacturing and consumer spending increased moderately; business spending and construction and real estate increased slightly; and employment was little changed. Wages and prices rose modestly. Financial conditions were little changed. Contacts expected agricultural income to be solid in 2021.

### St. Louis

Reports from contacts indicate that economic conditions have been generally unchanged since our previous report. Overall, the outlook among contacts continued to improve and is generally optimistic. Contacts noted a high degree of uncertainty about the pace of recovery,

which they linked to vaccine rollout and efficacy.

### Minneapolis

District economic activity increased modestly. Hiring demand rose, but employment growth remained flat, likely due to labor supply constraints and workers' hope of being rehired by previous employers. Manufacturers expected a recent uptick in business to carry forward, while construction and real estate were seeing hot-and-cold activity across the District. Conditions for minority- and women-owned businesses remained difficult.

### Kansas City

Economic activity expanded slightly, with gains in most sectors. Stronger retail, restaurant, and healthcare sales drove consumer spending higher in January, but consumers pulled back in February. Activity rose in the manufacturing, professional and high-tech services, wholesale trade, residential real estate, energy, and agriculture sectors. Contacts were generally optimistic about future growth, driven in part by the COVID-19 vaccine rollout.

### Dallas

The District economy expanded at a moderate pace, though output in most industries remained below normal levels. Unprecedented winter storms and widespread power outages in mid-February severely disrupted economic activity, though the impact is mostly expected to be transitory. The housing market continued to be a bright spot, and energy activity improved further. Employment rose and wages increased moderately. Outlooks were generally positive, but uncertainty persisted.

### San Francisco

Economic activity in the District expanded at a modest pace as labor markets deteriorated somewhat. Wages and inflation picked up. Retail sales improved, but activity in the services sector declined moderately due to ongoing pandemic-related restrictions. Conditions in the agricultural and manufacturing sectors strengthened modestly. Residential construction and lending activity continued to be strong.



## Summary of Economic Activity

Economic activity was decidedly mixed in the First District, with moderate growth on balance. Manufacturers reported strong to very strong results, while restaurants and hotels experienced very weak demand. Retail sales were robust across a variety of outlets, and auto sales made a sharp rebound in late 2020. Performance at staffing firms was mixed but most saw growth that exceeded expectations. The commercial real estate market was split between very strong activity for industrial and laboratory space and sluggish to very weak demand for office, retail, and hotel properties. Residential real estate sales and prices continued to climb but low inventories remained a problem. The outlook took a more optimistic turn among many contacts in response to the vaccine rollout and the pending arrival of warmer weather.

### Employment and Wages

According to reports from staffing firms, labor demand was strong from manufacturing, legal services, health care, and scientific and technical firms, while the market for lower-skilled services workers exhibited significant slack. A staffing firm described the markets for health care and scientific/technical workers as being at full employment, making it difficult to find qualified workers in those fields. Among manufacturing contacts, all but one planned to add workers. Most of those were engaging in light to modest hiring but two planned on dramatic increases in headcounts, including a life sciences firm hoping to hire 12 to 15 times as many workers in 2021 as in a typical year. Several manufacturers reported having difficulties finding qualified workers and two also said that absenteeism was a problem. About half of manufacturing contacts remarked that labor costs had increased and a few had raised or were planning to raise salaries by around 3 percent in 2021. Staffing firms said that wages were up for highly skilled temporary employees and that both the duration of temporary employment and the conversion rate from temporary to permanent employment had increased for high-skilled occupations.

### Prices

Pricing reports were mixed. Some manufacturers reported higher nonlabor input prices, including one who

faced extreme upward pressure on petrochemicals prices due to shortages that were exacerbated by the winter storms in the south-central US, two who said that shipping costs had increased substantially, and another that paid more for gold. Nonetheless, none of those contacts planned to raise their output prices. Most other manufacturing contacts experienced level (nonlabor) input prices, but two had seen a recent easing of costs. One manufacturer planned to increase its output prices on the strength of demand for its products. Outside of manufacturing the only report on prices was that daily room rates at Boston-area hotels were down 40 percent from one year ago.

### Retail and Tourism

Retail contacts noted continued strength in sales in early 2021 in automobiles, RVs, winter sports equipment, salvaged goods, and online sales of home furnishings. Hospitality contacts said that restaurant sales and hotel stays slumped further during the winter months amid the renewed surge in COVID-19 cases. Nonetheless, the same contacts were optimistic for the first time since the pandemic began, as they expected that more widespread vaccine distribution and warmer weather would result in a release of pent-up demand in the spring and summer. All Boston-area conventions originally scheduled to take place by summer 2021 have been postponed.

Automobile sales in 2020 broke records at many dealerships despite steep declines last spring. Stronger-than-expected auto sales have exacerbated the pre-existing shortage of semiconductor chips and could crimp an otherwise strong 2021. A salvaged goods chain reported strong sales despite persistent weakness in stores near the Canadian border. Online sales of home furnishings remained robust.

### **Manufacturing and Related Services**

All ten firms contacted this cycle reported higher sales, and three said their company had seen its best performance ever in recent quarters. Semiconductor industry contacts reported exceptionally strong demand, coming from both the auto industry and manufacturers of personal computers and other electronic devices. Combined with supply-chain hiccups that began in 2019 and were exacerbated by the pandemic, the surging demand has led to shortages in the chips used in automobiles in particular. Other manufacturers, producing everything from almond milk to bulk chemicals to veterinary diagnostics to lab equipment, also reported very strong sales.

Most contacts planned to increase their capital expenditures in 2021. Some of these increases were intended to compensate for COVID-19 related disruptions to investment activity in 2020. Surprisingly, however, some contacts revised their capital expenditure plans down for 2021 because they had completed more investment in 2020 than originally expected. Contacts were generally optimistic about 2021, despite expressing uncertainty about the evolution of the pandemic and vaccinations. One contact expressed concern that some of the demand increases they had experienced in 2020 would recede along with the pandemic. For example, a veterinary care products maker said that COVID-19 had led people to spend more time with pets and to adopt new ones, a pattern that could reverse in the coming months.

### **Staffing Services**

A few New England staffing firms reported negative year-over-year revenue growth, but the majority experienced stronger-than-expected growth in Q4 of 2020. The demand for labor was strong in most sectors, including manufacturing and legal services, but one contact noted a surplus of lower-skilled services workers. Both bill and pay rates increased for most firms, but without any substantial changes to mark-ups, as client organizations were willing to pay higher wages. In addition, most contacts reported incurring greater costs in order to attract candidates, such as expanding their advertising efforts and/or hiring additional recruiters. Contacts were unanimous in expressing greater optimism about the coming

quarters, as they expect that vaccine rollouts will allow more people to reenter the workforce.

### **Commercial Real Estate**

Commercial real estate conditions in the First District were mostly unchanged since December. Throughout the District there remained significant disparities between the industrial sector—which saw robust demand and extremely low vacancy rates—and the retail and hospitality sectors, both of which continued to register very weak demand and declining property values. The life sciences industry, concentrated in greater Boston, extended its boom in the leasing and construction of lab space. Although office leasing was mostly sluggish, a Providence contact reported a slight uptick in leasing activity that was noteworthy in that tenants expressed interest in longer-term leases. The same contact noted that concessions on Providence office space had increased, lowering effective rents if not asking rents. Contacts expect demand for office space to remain muted or to improve modestly in the first half of 2021, and to improve significantly in the second half. Hotel demand is expected to rebound in mid-to-late 2021 as well. Nonetheless, contacts are forecasting a permanent decrease in office occupancy of 20 percent or more in the post-pandemic economy, and a glut of lab space in greater Boston remains a risk at the two-to-three-year horizon.

### **Residential Real Estate**

The residential real estate market in New England showed no signs of slowing in December and January. (Rhode Island and Vermont reported over-the-year changes to December 2020; Massachusetts, Boston, New Hampshire, and Maine reported over-the-year changes to January 2021; Connecticut data were unavailable.) The number of closed sales increased in all reporting areas. However, the inventory of homes for sale continued to fall well below year-earlier levels in all markets except the Boston condo market, which saw an uptick in inventory. The median sales price rose in all markets, but the increase was greater for single-family homes than for condos. Contacts from Massachusetts, Rhode Island, and Maine saw high numbers of out-of-state buyers, especially for homes in vacation communities. The Massachusetts contact said low interest rates and flexible work arrangements had likely provided a boost to demand for vacation homes. ■

For more information about District economic conditions visit: [www.bostonfed.org/regional-economy](http://www.bostonfed.org/regional-economy)





## Summary of Economic Activity

Economic activity in the Second District has declined modestly in the latest reporting period. However, with vaccinations rising and the spread of COVID on a steady decline, business contacts have grown considerably more optimistic about the near-term outlook. While the labor market has remained sluggish, with employment flat to down modestly in almost all industries, wage growth and hiring plans have picked up. Input price pressures have continued to expand, and more businesses are raising their own prices or planning price hikes in the months ahead. Consumer spending has remained lackluster in early 2021, though auto sales have firmed. Tourism has picked up and prospects for the months ahead have improved. Housing markets have generally remained robust, whereas markets for office and retail space have continued to weaken. Finally, contacts in the broad finance sector continued to indicate weakening conditions, though regional banks reported increased loan demand and modest improvement in delinquency rates.

### Employment and Wages

The labor market has remained sluggish since the start of the year. A major New York City employment agency characterized hiring activity as moribund, noting that it is hard to on-board and train new staff remotely and that there is still a great deal of uncertainty. On the other hand, an upstate employment agency reported a pickup in hiring activity in recent weeks and noted that it has been difficult to fill lower-wage jobs. A major upstate New York employer indicated that it has had difficulty retaining IT workers, losing them to remote work opportunities in other parts of the country.

Businesses in most sectors—particularly construction and leisure & hospitality—have continued to report weakening employment. The exceptions were manufacturing, information, finance, and retail, where employment was reported to be little changed. Looking ahead, however, a growing proportion of businesses reported plans to add staff, on net, especially in the leisure & hospitality sector.

Wages have accelerated further, with more businesses raising wages than at any time since the start of the pandemic. Wage increases were most widespread in the education & health, retail, finance, and transportation sectors. A number of contacts stated that the January 1st minimum wage hike across much of the District, as well as generous unemployment benefits, have put

upward pressure on wages. Looking ahead, a growing number of businesses also plan to raise wages—most notably in leisure & hospitality and retail & wholesale trade.

### Prices

Firms' input prices have accelerated since the beginning of the year, particularly among businesses in the manufacturing and construction sectors. In particular, prices of metals and construction materials are said to have escalated substantially. Businesses in most sectors expect fairly widespread increases in the prices they pay in the months ahead.

Selling prices have picked up modestly, primarily among retailers, wholesalers, and manufacturers. Looking ahead, businesses in these same sectors plan further price increases.

### Consumer Spending

Consumer spending has remained sluggish thus far in 2021. Retailers largely report that sales have been flat at depressed levels. However, retail contacts have become substantially more optimistic about the near-term outlook.

New vehicle sales were mixed but, on balance, up slightly, with scattered reports of improvement across upstate

New York. In contrast, used auto sales have weakened. Contacts reported lean inventories and expressed concern about inventory issues related to a shortage of microchips used in new vehicles.

Consumer confidence among residents of the Middle Atlantic region (NY, NJ PA), which had fallen to a multi-year low in November and December, rebounded moderately in January.

### **Manufacturing and Distribution**

Manufacturing activity picked up somewhat in January and early February, expanding at a moderate pace. In contrast, wholesale trade contacts reported flat activity, and businesses in transportation & warehousing noted some weakening. A large and growing number of firms in these sectors reported supply disruptions and delays—particularly in getting shipments from overseas.

Looking ahead, manufacturers and wholesalers remain widely confident about business prospects for the first half of 2021, while transportation & warehousing contacts have now also become more optimistic.

### **Services**

Service industry contacts noted ongoing weakening in business activity in the latest reporting period. Contacts in the information, and leisure & hospitality sectors continued to report fairly widespread declines in activity, while those in education & health and professional & business services reported more moderate declines. Looking ahead, professional & business service firms expressed widespread optimism about prospects for the first half of 2021, while those in other industries have grown somewhat more optimistic and expect moderate improvement.

Tourism in New York City has shown more signs of picking up, though from depressed levels. The decline in the spread of the pandemic and increased vaccinations in recent weeks have prompted some easing in restrictions on indoor dining. The closing of many hotels catering to business travelers has contributed to a nearly one-third reduction in hotel capacity since the pandemic began. Hotels that have remained open have reported rising occupancy rates on weekends, reflecting increased leisure travel. In fact, the occupancy rate over Presidents' weekend exceeded 60 percent—the highest since the start of the pandemic. Museums that are open have reportedly been at or near capacity, albeit reduced capacity. A local travel industry expert anticipates a strong rebound in leisure visitors by summer but expects business travel to lag.

### **Real Estate and Construction**

Housing markets have remained mixed but generally robust in the latest reporting period. Sales markets in upstate New York have remained solid in early 2021, with homes selling quickly and lean inventories continuing to drive up prices. Home-sales activity in areas around New York City has remained strong, though restrained by record-low inventory levels, with prices up considerably from a year ago but leveling off.

New York City's co-op and condo market has picked up noticeably in terms of volume, but with prices running 5-10 percent below year-earlier levels, as inventory remains elevated. Both the steepest price drops and the strongest activity have been at the high end of the market. New York City's residential rental market has continued to slacken, with rents down 10-15 percent from a year ago in Brooklyn and down 20-25 percent in Manhattan and Queens. Rental vacancy rates across New York City are reported to be at multi-decade highs. However, leasing activity has been increasingly robust, with this January being the liveliest in more than a decade.

Commercial real estate markets have weakened further, across the District. Retail and office markets have been particularly weak in New York City, where vacancy and availability rates have soared and asking rents have continued to decline, with landlords reportedly offering increased concessions.

New construction activity has remained sluggish in both the residential and commercial segments. Contacts in the construction industry noted widespread weakening in activity, possibly exacerbated by harsh weather, and they remain somewhat pessimistic about the near-term outlook. Contacts continued to report sharp increases in the cost of materials, as well as supply disruptions.

### **Banking and Finance**

Contacts across the broad finance sector continued to report weak conditions but expressed somewhat more optimism about the near-term outlook. Separately, small to medium-sized banks in the District reported increased loan demand across all categories except consumer loans. Banks reported no change in credit standards on consumer loans but tightening standards for all other categories. Finally, delinquency rates held steady for C&I loans but improved across all other categories. ■

For more information about District economic conditions visit:  
[www.newyorkfed.org/regional-economy](http://www.newyorkfed.org/regional-economy)



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## Summary of Economic Activity

On balance, business activity in the Third District rebounded to a modest pace of growth during the current Beige Book period – the first significant growth since midsummer. However, activity in most sectors remained below levels observed prior to the onset of the COVID-19 pandemic. Net employment appeared to rise slightly after falling slightly in the prior period. Positive wage and price growth trends increased to modest and moderate paces, respectively. Economic gains appeared to reflect waning COVID-19 cases and the relaxation of some business restrictions. However, firms continued to cite disruptions at production sites, consumer outlets, and along supply chains. Moreover, wintry weather conditions have constrained growth in several sectors. More than half of the firms expressed positive expectations for modest growth over the next six months – the percent broadened further among nonmanufacturing firms but narrowed among manufacturers.

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### Employment and Wages

Employment appeared to increase slightly overall – rebounding from a slight decrease in the prior period. The share of nonmanufacturing firms reporting employment increases for full-time employees just edged out those reporting decreases. Among the manufacturers, employment increases broadened to nearly one-third of the reporting firms, while reported job declines waned. Moreover, average hours worked rose for a larger share of all firms.

Staffing firm contacts reported that strong demand continued for new orders, while qualified job candidates remained a challenge to hire and retain. Employers confirmed data reports that a significant portion of the potential labor force remains sidelined by childcare responsibilities, especially women. Contacts also noted some loss of experienced employees to other firms. Moreover, staffing firms noted an increase in the number of their own temp placements that are being hired by clients into full-time positions.

Wages picked up modestly, after maintaining a slight pace of growth since midsummer. The percentage of nonmanufacturing firms reporting higher wage and benefit costs per employee broadened to nearly one-third. Just over half of the firms reported no change. Staffing firms reported that wages were increasing across the

salary spectrum. While several contacts worry about a potential minimum wage increase, one contact said that wages were rising because of demand for labor – “the \$15.00 minimum is already here.” Another pointed to job ads offering \$23 an hour for warehouse jobs.

### Prices

On balance, prices appeared to rise moderately over the period – following a modest increase in the prior period and modest increases over most of the prior year. Over half of the manufacturers reported higher prices for factor inputs, but less than one-third received higher prices for their own products. Similarly, about one-third of the nonmanufacturers reported that prices rose for their inputs, and less than one-tenth noted higher prices received from consumers for their own goods and services. Most firms noted no change in prices.

Most respondents continued to cite COVID-related disruptions in production and supply chain logistics as primary reasons for shortages and price spikes of various commodities, including some agricultural products, building materials, cleaning products, and microchips.

Looking ahead one year, firms now anticipate receiving moderately higher prices for their own goods and services – a significant increase from one quarter earlier. Firm expectations also pegged compensation paid to

workers as moderately higher; firm expectations for consumer inflation were somewhat lower.

### **Manufacturing**

On average, manufacturing activity appeared to pick up to a moderate pace of growth following a period of no growth. More than 40 percent of the firms reported increases of shipments and new orders. Although some firms have reported increased demand for their products through the pandemic, manufacturing activity as a whole remained below pre-pandemic levels.

Several contacts noted that demand was increasing across most sectors from countries throughout the world. Plant operations continued to be plagued by COVID-19 outbreaks and supply chain disruptions. Contacts noted that backlogs have grown and delivery times have lengthened.

### **Consumer Spending**

Nonauto retail sales appeared to rebound slightly as COVID-19 cases and operating restrictions eased. However, wintry weather limited the snap back in consumer spending.

Auto dealers cited snowstorms as they reported modest declines in year-over-year sales. Much more positive comparisons are anticipated over the next half year against months in which operations were restricted by states. However, dealers are concerned about the supply of new models because of the shortage of microchips needed for production.

Overall, tourism appears to have rebounded slightly but remains constrained by travel and operating restrictions. Contacts noted significant pent-up demand and drew confidence from increases in advanced bookings. Activity is expected to grow as herd immunity is achieved – first for trips to see the grandchildren and for other leisure travel by the initial wave of senior vaccine recipients.

### **Nonfinancial Services**

On balance, nonmanufacturing activity appeared to pick up to a modest pace of growth following a modest decline in the prior period. About one-fourth of the firms reported increases of sales and new orders. On balance, the firms continued to report that output remains below pre-pandemic levels.

### **Financial Services**

The volume of bank lending fell modestly during the period (not seasonally adjusted); in the same period in 2020, by contrast, loan volumes grew modestly. Commercial real estate and auto lending were flat, while

home mortgages fell slightly. Commercial and industrial loans fell modestly, while home equity lines continued to fall moderately. Other consumer loans rose modestly. Seasonal factors drove credit card volumes down sharply – at a greater pace than over the same period in 2020.

Bankers, accountants, and bankruptcy attorneys continued to report relatively few problem loans. The Paycheck Protection Program and other stimulus programs were often credited for keeping firms and households afloat. However, most contacts anticipate delinquencies and bankruptcies to increase in the future. In another sign of stress, Pennsylvania utilities have reported that nearly 1 million customers are late on payments, but they are shielded from cutoffs by a routine winter moratorium in effect until the end of March.

### **Real Estate and Construction**

Homebuilders reported moderate growth in contract signings stemming from strong demand across all demographics. Contacts noted challenges to production, ranging from land acquisition to cost of lumber to availability of window packages to scheduling of specialized tradespeople. Existing home sales continued to grow modestly. Limited inventories continued to constrain otherwise strong demand and drive prices higher.

Philadelphia's commercial construction activity appeared to have slowed slightly. The project pipeline and COVID-19 safety protocols continue to support levels at about 80 percent of the prior year.

Commercial leasing activity slowed slightly after falling moderately in the prior period. Contacts continued to note uncertainty about the future demand for office space and don't expect clarity until large downtown offices are able to resume normal operations. ■

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



## Summary of Economic Activity

The District's economy regained momentum after it had slowed in the previous reporting period. Customer demand in the current period proved to be better than what contacts had expected, reflecting declining numbers of coronavirus infections and various fiscal relief measures. That said, activity remains below prepandemic levels for most firms. In addition, many firms, particularly those in construction, retail, and manufacturing, reported that delayed deliveries from suppliers and coronavirus-related employee outages constrained their output. Hiring activity was modest, even though customer demand improved, and wage pressures increased moderately. Nonlabor costs rose strongly as supply chain disruptions coincided with stronger demand for inputs. Selling prices rose moderately as firms attempted to keep up with mounting input costs. Looking ahead, contacts expected moderate improvement in customer demand over the next couple of months, and they expected stronger gains in the second half of the year as coronavirus vaccines are more widely distributed.

### Employment and Wages

Staff levels increased modestly, on balance, and hiring activity cooled somewhat despite the pickup in business activity. Labor demand varied across sectors. In the freight sector, labor demand was especially strong, and many firms noted they would like to hire more drivers but experienced shortages. By contrast, labor demand was weakest in financial services, wherein several firms reported they were cutting costs and reducing their physical footprints. Consistent with activity in the last several reporting periods, a number of firms in manufacturing, retail, and construction noted that they wanted to add staff but found it difficult to fill open positions. Aside from typical staffing challenges, one in four firms reported that coronavirus-related staff outages impeded their ability to meet customer demand. Such reports were more common among manufacturers and construction firms where close to one third of firms expressed these difficulties.

Overall, upward pressure on wages was moderate, and more firms reported increasing wages than at any point in the pandemic. Pay raises were often between 2 percent and 3 percent, although several retailers and manufacturers commented that there were pockets of more sizeable increases for lower-wage workers and some skilled tradespeople such as machinists.

### Prices

Reports suggest that upward pressure on costs and selling prices increased since the last report. Nonlabor costs rose strongly during this period, a change from the last several periods when costs were reported to have risen moderately. Manufacturers and construction firms indicated that steel and lumber costs continue to increase significantly. Other input costs also rose, including for aluminum, copper, resins, and some concrete products. Many firms attributed these price increases to supply chain disruptions occurring at the same time as demand was improving. Finally, firms in a range of sectors reported that transportation costs were up significantly because of capacity constraints among shippers and higher fuel costs.

Selling prices rose moderately, on balance, and a greater share of firms reported they increased their prices as compared with the share in the previous report. Price hikes were most prevalent among freight haulers, who, faced with very strong demand and tight capacity in the industry, were able to command higher prices with ease. Many construction and manufacturing firms raised their prices to keep up with escalating input costs, although several of them were concerned that doing so would not be adequate to preserve their margins. Price changes for consumer goods and services were less pronounced

than for goods producers and transportation firms. Auto dealers commented that low inventories of vehicles continue to push up prices for new and used cars. Department stores and apparel retailers said they reduced their sales promotions. By contrast, most restaurants and hotels held their prices. Professional services firms broadly held their prices, as they have done for several reporting periods.

### **Consumer Spending**

Reports suggest that consumer spending improved following weaker activity in the previous reporting period. The lifting of government-mandated restrictions on operating hours improved business activity somewhat for restaurateurs. Sales for general merchandisers and apparel retailers were slightly better recently, although some noted that in-store sales remained soft. Auto dealers said that low inventories were limiting sales, while hoteliers indicated that the lack of business travel continued to delay the sector's recovery. Contacts were cautiously optimistic that consumer spending will continue to recover in the coming months thanks to additional fiscal stimulus and the apparent drop in coronavirus infections.

### **Manufacturing**

Manufacturing orders increased moderately, on balance, although demand varied by industry segment. Contacts noted that demand for home goods, shipping materials, construction equipment, and logistics equipment was particularly strong. By contrast, demand for products related to commercial aerospace and to oil and gas production remained depressed. Many manufacturers experienced delayed deliveries of inputs, which impeded their ability to meet demand. Most manufacturers expected that demand will improve over the coming months, although many were concerned about rising input costs and turnover of entry-level employees.

### **Real Estate and Construction**

Housing demand remained strong, thanks partly to low interest rates. Homebuilders also indicated that low inventories of existing homes motivated consumers to move forward with new-home construction. One contact commented that demand for suburban homes had increased. Despite the strong level of activity, a significant share of homebuilders experienced delayed deliveries from suppliers that resulted in extended lead times. Contacts anticipated sales would remain strong through the spring as pent-up demand is released. However, there was some concern that rising prices would eventually price some buyers out of the market.

Nonresidential construction and real estate activity edged higher, on balance, as demand for industrial and

distribution space increased. By contrast, activity in the office and retail segments remained weak. Contacts anticipated that nonresidential construction and leasing activity would improve modestly in the next few months.

### **Financial Services**

Banking activity increased moderately. Contacts noted that low interest rates continued to support demand for mortgages. Also, the current round of the Paycheck Protection Program (PPP) boosted lending to businesses, although some bankers commented that demand for the program was not as strong this round as it was in the first round. Aside from the PPP, demand for business loans was reportedly flat. Lenders indicated that delinquency rates for commercial and consumer loans were still low because of forbearance agreements and various fiscal relief measures, although some noted that delinquency rates were slightly up from those of two months ago. Multiple contacts reported that core deposits increased as customers deferred spending and investment. Looking ahead, bankers were optimistic that loan demand would pick up in the near term and even more so later in the year as more coronavirus vaccines are distributed.

### **Professional and Business Services**

Demand for professional and business services continued to increase, albeit at a slower pace than in the last reporting period. Authentication and cloud services and human resources and payroll software providers all continued to benefit from the shift toward more remote work and online purchases. One contact noted that demand for the firm's cloud offerings increased significantly because many firms have begun to outsource certain functions to software vendors rather than investing in their own IT resources or equipment. Contacts anticipated further increases in activity in the coming months as the economy continues to recover and more firms shift to remote channels of commerce and communication.

### **Freight**

Demand for freight services increased strongly, and contacts expect the high level of activity to persist in the near term. Contacts commented that activity was driven by stronger import volumes, continued demand from home construction suppliers, and customers' replenishing their inventories. On the downside, several firms said their deliveries to customers were delayed because they struggled to find qualified drivers. ■

For more information about District economic conditions visit: [www.clevelandfed.org/region](http://www.clevelandfed.org/region)



## Summary of Economic Activity

The Fifth District economy continued to grow at a modest rate. On balance, manufacturers reported modest growth in shipments and new orders, with some food and furniture manufacturers experiencing strong growth. Port volumes increased further from already-high levels. Trucking volumes rose modestly and were constrained by shortages of drivers and trailers. Retail sales declined modestly as many stores experienced low foot traffic and supply chain issues affecting inventories. Travel and tourism picked up modestly and short term rentals saw increased occupancy rates. Sales of both existing and new houses increased, as did prices, but sales growth was limited by low inventory levels. Commercial real estate leasing rose modestly and contacts saw new interest in vacant restaurant spaces. Lending activity declined slightly as demand for commercial real estate loans remained soft and residential demand slowed down due to the low inventory of available homes for sale. Demand for nonfinancial services increased moderately, overall, with some sectors seeing strong demand, such as technology consultancy services. Employment rose slightly as firms struggled to find employees to fill open positions and were reluctant to raise wages. Only a few manufacturers reported slight increases in wages in recent weeks. Prices increased at a moderate rate as firms faced increased costs of raw materials and non-labor inputs. Food manufacturing inputs and construction materials prices were particularly high and increased further in recent weeks.

### Employment and Wages

Employment in the Fifth District rose slightly since our previous report. Many contacts reported having difficulties finding workers, with several of them noting that fewer women were returning to their jobs due to child-care and homeschooling needs while others cited skills mismatches as a hinderance. One contact said that there were many hospitality workers out of a job and manufacturers who need workers, but those skills don't easily translate. Additionally, a staffing agency contact believed that workers were hesitant to change jobs right now and firms were unwilling or unable to raise wages. Indeed, there were few reports of firms raising wages outside of a few manufacturers that reported slight wage increases.

### Prices

Prices rose moderately in recent weeks. According to our most recent surveys, manufacturers and service sector firms reported increases in over-the-year growth of prices received, which slightly exceeded two percent. Manufacturers experienced a sharp increase in input prices paid, some of which were explained by supply shortages and some by strong demand. Food manufacturers noted rising prices for some raw materials while meat prices remain at historically high prices. Construction materials prices, lumber in particular, rose from already-high levels.

### Manufacturing

Manufacturing in the Fifth District grew modestly since our last report as shipments and new orders increased. Furniture and food manufacturers had particularly strong business and were often unable to meet demand. Many firms reported supply chain disruptions as shortages of materials and packaging, both domestic and imported, led to longer lead times and higher input prices. Some manufacturers were also constrained by labor shortages and employee absences. Several manufacturers reported transportation delays and high prices both from trucking and from sea transport.

### Ports and Transportation

Shipping volumes strengthened somewhat from already high levels since our last report, with import volumes remaining well above export volumes. Contacts reported strong growth in imports and modest growth in exports, noting export growth was constrained by a shortage of shipping containers. Import volumes of furniture, perishable food, and toys were particularly high. Autos and lumber showed strength on the export side. An airport contact reported that there are not enough cargo planes to meet demand, leading companies to use passenger planes for cargo shipments.

Fifth District trucking volumes rose modestly in recent

weeks. Companies were unable to meet demand and had to turn away business as driver shortages and delays in acquiring new and replacement trailers limited capacity. Shipping rates increased, and customers offered to pay extra to have their goods shipped. Firms saw increased shipments in a broad range of goods, with particular strength in home goods such as furniture, appliances, and building materials. Meanwhile, spot market demand and rates remained high.

### **Retail, Travel, and Tourism**

Retailers in the Fifth District saw modest declines in business in recent weeks, and sales remained well below pre-pandemic levels for most retailers. Many contacts reported supply chain issues, including longer lead times and higher prices of inventories. Several retailers, such as clothing and jewelry stores, saw very low foot traffic and depressed sales. However, hardware stores, food providers, and furniture shops reported strong demand, and some looked to expand. Meanwhile, auto sales were constrained by low inventories of new vehicles, but low supply increased profit margins

Travel and tourism in the Fifth District increased modestly since our last report but remained below pre-pandemic levels. Restaurants saw healthy demand but struggled with capacity constraints on indoor dining and cold weather affecting outdoor dining. Outdoor attractions such as ski resorts saw strong visitation, and some indoor attractions reopened with limited hours. Hotel rates and occupancy remained low. Lack of business travel and conventions persisted, but one contact noted increased travel for weddings and athletic events. Short term rentals saw increased occupancy, and in some beach destinations, rentals were already booked through the summer.

### **Real Estate and Construction**

Home sales in the Fifth District increased modestly since our last report and were well above pre-pandemic levels. Inventories of both new and existing homes were very low, as demand exceeded supply. Prices continued to increase sharply, and average days on the market decreased. Realtors reported that houses frequently sell within an hour, often sight-unseen. Many builders limited the number of houses they sold each week so as to have some inventory available in the spring market. Construction of new homes was strong, but long lead times for appliances led to delays and some houses closing before appliances arrived.

Fifth District commercial real estate leasing increased modestly in recent weeks but was below year-ago levels. While retail vacancies remained elevated, more

businesses looked to add locations, and vacated restaurant space sparked interest. Office tenants continued to ask for short-term lease renewals, and many downsized, but others added space and some landlords found new clients. Industrial leasing was very strong, as inventories were low and new construction continued. Multifamily leasing remained soft, with some landlords upping incentives and reducing rent.

### **Banking and Finance**

Overall, loan activity declined slightly for this period. Respondents indicated tepid conditions for commercial real estate lending. Business lending picked up slightly despite companies being uncertain about economic conditions and less demand for round three of PPP funding. Mortgage volume remains strong but down from previous periods due to the limited supply of available homes for sale. Deposit growth was tempered as financial institutions reduced rates on interest bearing accounts. Overall credit quality and delinquencies remained good despite an ending of most deferrals and forbearances. The respondents reported increased competition as financial institutions are struggling for loan growth.

### **Nonfinancial Services**

On balance, the demand for nonfinancial services increased moderately in recent weeks. A technology consulting firm saw robust growth and the demand for health services remained high. A digital marketing contact noted a recent uptick in radio advertising from local restaurants and small businesses, particularly from home improvement and repair companies. College enrollment, on the other hand, was down considerably. The president of a community college in North Carolina said that majority of the students not returning were black or Hispanic and enrollment in high school equivalency programs was down the most substantially. ■

For more information about District economic conditions visit:  
[www.richmondfed.org/research/data\\_analysis](http://www.richmondfed.org/research/data_analysis)





## Summary of Economic Activity

Economic activity in the Sixth District expanded modestly, on net, from January to mid-February. Labor markets improved some as employers added to headcounts, and wage pressures remained muted. Increases in certain nonlabor costs were noted, and pricing power among firms was mixed. Retailers reported continued strong demand in home furnishings and recreational products. Online sales continued to outpace brick-and-mortar sales. Auto sales increased, exceeding expectations. Tourism contacts saw an uptick in activity over the reporting period as domestic travel rebounded slightly. Demand for housing remained robust, inventories of new and existing homes fell, and home prices rose. Commercial real estate markets were mixed. Manufacturing activity accelerated as new orders and production levels increased. Conditions at financial institutions were stable, but loan demand weakened.

### Employment and Wages

On balance, contacts indicated that employment levels and hours worked rose modestly over the reporting period. Most reported that employment levels were even with or below pre-pandemic levels, and about half of contacts expect to increase employment levels slowly as demand improves. Large leisure and hospitality firms reported a strong willingness from furloughed employees to return to work when called back. Among firms planning to reduce employment levels over the coming months, most planned to downsize through attrition rather than layoffs. Those hiring indicated that most jobs were easy to fill with the exception of lower-skilled positions, nurses, and long-haul drivers. The remote work stance was largely unchanged since the previous report, and several noted that this has allowed them to fill higher-skilled positions more easily. Many firms indicated that they planned to encourage employees to get the COVID-19 vaccine but at this point would not require it. Some contacts were offering paid time off to get the vaccine or were looking to provide the vaccine onsite.

Most contacts noted that wage pressure remained subdued. Shortages of nurses, skilled trades workers, warehouse workers, and commercial drivers were putting upward pressure on wages in those occupations according to several contacts. In Florida, most employers anticipate little impact from the mandated increases in the minimum wage (by 2026), although a few noted they were investing in capital to replace some of this labor. Many expect normal merit increases during 2021, with higher increases in critical and high-demand fields.

### Prices

Consistent with previous reports, input costs, particularly for lumber and steel, continued to rise notably over the reporting period. Transportation and shipping costs continued to increase as well, with some contacts noting supply chain constraints creating upward cost pressures. Reports on pricing power were mixed. Sectors such as construction, manufacturing, and transportation that were affected by rising input costs implemented increases, while others were unable or unwilling to raise prices. The Atlanta Fed's Business Inflation Expectations survey showed year-over-year unit costs increased notably to 2.1 percent in February, up from 1.8 percent in January. Year-ahead expectations remained relatively unchanged at 2.2 percent.

### Consumer Spending and Tourism

Home furnishings and recreation goods retailers reported a continuation of strong demand that began last March. Online sales continued to grow at a faster pace than brick and mortar sales. Auto sales in January outpaced expectations, and dealers reported a positive outlook for the balance of 2021; however, suppliers to the industry noted that shortages of semiconductors could impact future volumes.

Travel and tourism contacts reported a slight uptick in activity since the previous report. Domestic travel rebounded slightly and is expected to continue to strengthen as the COVID-19 vaccine is more widely distributed. Contacts expect that leisure travel will begin to normalize towards the end of summer, while business travel is

expected to pick up in the fourth quarter of 2021 but remain well below pre-pandemic levels.

### Construction and Real Estate

The District's housing market maintained its momentum as rising home sales continued to be fueled by low interest rates. In many markets, sales increased sharply from a year ago. Inventory shortages were prevalent as available homes for sale did not keep pace with demand. New home construction also fell short of market demand, and shortages of lots, materials, and labor increased costs for builders. As a result, both existing and new home prices have experienced significant upward pressure. Though low rates have helped offset rising prices, home ownership affordability declined overall. The level of mortgage delinquencies, while elevated due to the pandemic, remained stable over the reporting period.

Commercial real estate (CRE) contacts reported that the sector continued to be hampered by the effects of the pandemic; however, some areas of CRE showed improvement. Conditions in the retail sector improved modestly and rent collections recovered from the dismal results experienced in mid-2020. Multifamily conditions were mixed; however, leasing activity appeared to be picking up in some of the harder hit areas. The hospitality sector continued to be negatively impacted by low levels of tourism. Banks reported that financing for commercial projects was available and demand for new construction rose.

### Manufacturing

Manufacturing firms indicated that business activity accelerated since the previous report. Contacts reported an increase in new orders and production levels, while purchasing managers continued to see longer supply delivery times and slightly elevated finished inventory levels. Expectations for future production remain optimistic, with almost two-thirds of contacts expecting higher levels of production over the next six months.

### Transportation

On balance, transportation activity was consistent with the previous report. Railroads noted further improvements in overall traffic buoyed by double-digit increases in intermodal shipments. Freight brokerage firms reported robust demand and revenue growth as limited trucking capacity boosted rates per mile. Port contacts noted record container volumes amid surges in imports and an uptick in exports. Trucking contacts continued to benefit from strong demand for consumer staples; however, driver shortages remained a constraint in the industry despite rising wages. Inland barge and relocation contacts, however, continued to experience challenges due to COVID-19, and a return to pre-pandemic levels of activity is not expected until 2022 or beyond.

### Banking and Finance

Conditions at financial institutions were steady. Net interest margins stabilized even as loan yields declined due to lower funding costs. Earnings also improved slightly as a result of lower provisions for credit losses. Loan growth declined due to tepid demand, especially among commercial customers, resulting in higher balances in banks' cash accounts and securities portfolios amidst healthy deposit growth. Despite concerns that increased unemployment levels might negatively impact loan payments, credit quality stayed strong at most banks. Customer loan payment performance continued to improve, with some banks reporting extremely low past due loan levels; however, retail delinquencies were still elevated in comparison to other commercial borrowers.

### Energy

In parts of the District, residents and businesses grappled with power outages and rolling blackouts during mid-February winter storms. Refiners, chemical manufacturers, and liquefied natural gas producers in Southwest Louisiana were forced to idle production. Fuel carriers in the region reported a severe backlog of deliveries as hazardous road conditions, power outages, and terminal shutdowns created delivery congestion and delays. Crude oil production was steady, and oil and gas rig counts gradually picked up. Contacts described a moderate recovery of consumer demand for petroleum products. However, refiners continued to experience low utilization resulting from weak global demand for refined products. Some refiners took production offline while others were forced to consolidate or shut down completely. Renewables remained strong, with considerable solar, wind, and battery storage projects in the works across the country. Within the utilities sector, contacts noted energy usage remained sensitive to COVID-19 conditions. More broadly, though, energy contacts continued to express optimism about COVID-19 vaccinations stimulating economic activity.

### Agriculture

Agricultural conditions remained mixed. Abnormally dry conditions prevailed across much of the District. On a month-over-month basis, the February production forecast for Florida's orange crop was up while the grapefruit production forecast was unchanged; both forecasts were below last year's production. The USDA reported year-over-year prices paid to farmers in December were up for corn, cotton, rice, and soybeans but down for cattle, broilers, eggs, and milk. On a month-over-month basis, prices increased for corn, cotton, rice, soybeans, cattle, and broilers, but decreased for eggs and milk. ■

For more information about District economic conditions visit: [www.frbatlanta.org/economy-matters/regional-economics](http://www.frbatlanta.org/economy-matters/regional-economics)



## Summary of Economic Activity

Economic activity in the Seventh District increased modestly in January and early February but remained below its pre-pandemic level. Contacts expected growth to pick up in the coming months, but most did not expect to see full recovery until at least the first half of 2022. Manufacturing and consumer spending increased moderately; business spending and construction and real estate increased slightly; and employment was little changed. Wages and prices rose modestly. Financial conditions were little changed. Contacts expected agricultural income to be solid in 2021.

### Employment and Wages

Overall, employment was little changed over the reporting period, though contacts expected a moderate increase over the next 12 months. Contacts reported that staffing challenges related to COVID-19 cases or exposures and childcare needs had become less severe. In addition, a staffing firm that primarily supplies manufacturers with production workers noted that reduced risk of contracting COVID-19—because of modifications to worksites, training, and falling case counts—was helping support the supply of workers. That said, many contacts continued to experience difficulty in hiring workers, especially at the entry level. One electronics manufacturer was still struggling to fill open positions despite implementing training programs and building relationships with technical schools. Several contacts expressed concern that unemployment benefits were putting a damper on worker availability. Wages across skill levels and benefits costs increased modestly.

### Prices

Prices increased modestly overall in January and early February, and contacts expected a moderate increase in prices over the next 12 months. Consumer and producer prices both increased modestly. Input costs, however, increased moderately, driven by rising prices for raw materials, shipping, and energy. Numerous manufactur-

ing contacts reported large price increases for primary metals and metal products, particularly copper and steel. Energy prices increased, with some prices spiking because of cold weather.

### Consumer Spending

Consumer spending increased moderately on balance over the reporting period. Nonauto retail sales increased moderately, supported by robust demand in the home improvement, appliances, furniture, and sporting goods segments and a pickup in sales at apparel and discount stores. Contacts said that stimulus checks received as part of the federal coronavirus relief bill passed in December helped increase activity. While e-commerce continued to be strong, contacts also noted an increase in brick-and-mortar sales as the decline in COVID-19 cases made some consumers feel safer shopping in-store. Light vehicle sales were up modestly, with low inventories of many popular models leading to price increases. Demand for travel, hospitality, and other leisure-related activities remained weak.

### Business Spending

Business spending increased slightly in January and early February. Inventory levels continued to be lean in many retail segments due to high demand. Contacts anticipated that vehicle inventories would decline even

further because a shortage of microchips had slowed production, and dealers expected inventory levels to be uncomfortably low until at least the second half of the year. Manufacturing inventories were generally at comfortable levels, though several contacts reported supply chain issues related to raw materials (particularly steel and copper), microchips, and specialty parts. Capital expenditures were little changed overall. And while some said they were holding back because of uncertainty over the pandemic, contacts overall expected a moderate increase in their capital spending over the next twelve months on the anticipation that the pandemic will continue to recede. Demand for transportation services increased slightly on top of a high level. Contacts continued to report that bottlenecks in shipping, particularly at West Coast ports, were causing delayed deliveries. There was a small increase in commercial and industrial energy consumption.

### **Construction and Real Estate**

Construction and real estate activity increased slightly on balance over the reporting period. Residential construction was flat, but the level of activity remained high. Contacts noted that difficulties in obtaining building materials, especially steel and lumber, were pushing up costs and slowing construction activity. Residential real estate activity increased slightly, with reports that tight inventories were holding back sales. Home prices and rents increased modestly on balance, though contacts in parts of the District reported that some homes were receiving multiple offers and selling for well over asking price. Nonresidential construction activity increased modestly. Contacts in southeast Michigan said there was a noticeable increase in industrial and warehouse construction in vacant areas of Detroit. Commercial real estate activity was flat. The office sector continued to struggle. Contacts indicated that some office tenants were downsizing their footprint in response to the pandemic. There were also reports of leasing deals that included long periods of free rent. Prices and rents fell slightly, and the availability of sublease space increased slightly.

### **Manufacturing**

Manufacturing production increased moderately in January and early February, with overall activity approaching pre-pandemic levels. Auto output slowed despite solid demand because of supply chain problems. Production of steel and aluminum increased moderately, responding to a broad increase in demand across most manufacturing subsectors. Manufacturers' sales of specialty metals increased moderately, driven by demand from the automotive, construction, and agriculture sectors. Demand

for heavy machinery remained flat, while demand for heavy trucks increased moderately.

### **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, with declines concentrated in commercial real estate and in leisure and hospitality. That said, contacts noted that round two of the Paycheck Protection Program was supporting activity. Business loan quality edged down, with declines reported in the commercial real estate, hospitality, and retail sectors. Business loan standards tightened slightly overall. In consumer markets, loan demand decreased slightly, though residential mortgage activity remained strong. Standards for consumer loans tightened slightly and loan quality remained unchanged on balance. A contact at an organization that assists consumers in obtaining home loans noted that many clients who were participating in the federal government's COVID-19 mortgage forbearance program were concerned about whether their incomes would recover enough for them to resume making payments in June, when the program is set to expire.

### **Agriculture**

Contacts expected agricultural income to be solid in 2021, though down some from 2020's strong results: Direct income from agricultural products could be higher in 2021, but federal government payments were expected to be lower. Corn, soybean, and wheat prices moved up during January and early February. Higher crop revenues helped boost demand for farm equipment, and there were reports of low inventories of new equipment in some areas. Cattle and hog prices also moved up from the prior reporting period. Dairy prices were generally down, and producers faced uncertainty regarding demand from government food programs and schools. Looking ahead, recent adverse weather was expected to support prices, particularly for milk and cattle. Cold weather boosted costs for District farmers; more generally, contacts reported rising input costs for both crop farmers and livestock producers driven by higher fertilizer and feed prices. Farmland values continued to increase strongly. ■

For more information about District economic conditions visit: [chicagofed.org/cfsbc](http://chicagofed.org/cfsbc)



## Summary of Economic Activity

Reports from contacts indicate that economic conditions have been generally unchanged since our previous report. Firms continue to report mixed changes in employment levels. Firms reported difficulties attracting candidates for positions despite increasing wages. Inflation pressures have increased, as contacts reported moderate increases in prices; however, most contacts believe it will be difficult to pass on further price increases. Overall, contacts' outlooks continued to improve and are generally optimistic. Most cited a high degree of uncertainty about the pace of recovery, which related primarily to the pace and efficacy of vaccinations.

### Employment and Wages

Employment trends have been mixed since the previous report. On net, 12 percent of respondents reported employment levels lower than a year ago. Contacts noted stagnant or declining employment, especially among small businesses and leisure and hospitality firms, with continuing closures in a slower-than-expected recovery. Transportation and manufacturing firms reported their desire to expand their workforce has been stymied by a scarcity of workers. Many contacts ascribed this scarcity to unemployment benefits and other government aid: A grocery store contact expects some warehouse workers will quit when they receive another stimulus check, looking to return to work at a later time. Some reported turning to automation, with one contact emphasizing that robots were doing jobs for which they couldn't find workers. COVID-19 exposure has also depressed existing workers' hours: One manufacturer reported more than 10 percent of his workforce was quarantined on any given day.

Wages grew slightly. On net, 23 percent of respondents reported wages higher than a year ago. Many contacts emphasized the need to raise wages while workers remained scarce; some, however, reported more stagnant wages, especially in the worst-hit sectors. One restaurant owner reported recently giving his workers much-delayed raises, fearing they would otherwise be lured away by other businesses as the recovery continues.

### Prices

Prices charged to consumers have increased moderately since our previous report. However, contacts believe they have less ability to further increase prices. A regional grocer reported lowering some prices due to competitive pressures and making up profits on higher volumes. A restaurant contact reported an inability to increase prices amid already slow business. A supplier for a contact in the graphic design industry unexpectedly increased the prices for paper and packaging products. Multiple contacts noted the price of silver has increased. A contact in the jewelry industry reported this increase will lead to higher prices to consumers but is allowing customers to switch to brass. A manufacturing contact noted the increase in silver prices has increased the costs of producing its antimicrobial products. Contacts also noted that ocean freight costs have more than doubled, which a warehouse contact believes will lead to higher prices for consumers. A retail industry contact is passing increased shipping costs to consumers. Contacts also reported higher steel and soft-lumber prices since our previous report. A warehouse contact expects the elevated price of steel to increase the cost of maintenance and replacement for the company's forklift fleet.

### Consumer Spending

Reports from general retailers, auto dealers, and hospitality contacts indicated that consumer spending has

been mixed since our previous report. General retailers reported sales met or fell short of expectations over the past six weeks, but they have an improved outlook for the coming quarter due to vaccines and stimulus payments. A local furniture store reported that sales increase the same weekend that customers receive stimulus checks. Auto dealers reported that sales over the past six weeks generally fell short of expectations. The outlook for auto sales for the coming quarter was mixed, with contacts citing stimulus, low inventories, and interest rates as determining factors. Restaurants continue to struggle. A local restaurant owner expects conditions to hold steady until at least the third quarter. Hospitality contacts reported low business activity but remain optimistic that when vaccines are widely distributed the industry will recover quickly.

### **Manufacturing**

Manufacturing activity has modestly increased since our previous report, though the change from firm to firm varied considerably. Contacts reported that production and capacity utilization remained unchanged, while new orders have modestly increased. However, some firms reported strong upticks in production and new orders. Several firms in the region reported labor force shortages have inhibited production. Beyond that, auto manufacturers in the region reported the semiconductor shortage has led to temporary production shutdowns. On average, firms reported they expect moderate increases in production, capacity utilization, and new orders in the second quarter. One salt products manufacturer in the region reported the expected closure of a mine poses future supply chain challenges.

### **Nonfinancial Services**

Activity in the nonfinancial services sector has decreased slightly since our previous report. Passenger traffic at regional airports remains depressed, down 60 percent from one year ago. Half of all nonfinancial services contacts reported sales below expectations this quarter, reflecting clients who are cautious to spend due to uncertainty about the near-term economic recovery, as well as pandemic-related difficulties meeting new clients. Revenues at several small regional colleges have fallen due to declines in enrollment. Logistics contacts reported first-quarter sales were stronger than expected despite the post-holiday slowdown. Most contacts expect sales next quarter to be at least as good as this quarter given vaccinations are becoming more widespread.

### **Real Estate and Construction**

Residential real estate activity has slipped since our previous report. Pending home sales in St. Louis, Memphis, and Louisville have fallen slightly while pending

sales in Little Rock have dropped sharply since early January. Contacts reported that home inventory remains low and expect it to remain so. A contact in Arkansas reported local rents are rising at an unreasonable rate.

Residential construction activity has risen this quarter, with many expecting further increases. A contact in St. Louis reported residential construction projects are severely backlogged due to labor and material shortages. Contacts also reported problems and price increases stemming from high lumber and steel prices. Also, shipping delays and production issues have increased lead times on most building supplies and appliances.

Commercial real estate activity has been mixed since our previous report, as office and retail demand are lower this quarter. A contact in Louisville reported the increase in telework has decreased demand for office space, and, going forward, contacts are uncertain if and how telework will continue to impact demand. Meanwhile, demand for industrial properties is up due to e-commerce and micro-fulfillment facilities. Commercial construction is similarly mixed, as multi-family projects, warehouses, and logistics facilities are the main projects currently being built. Some developers also reported switching hotel projects for apartment buildings.

### **Banking and Finance**

Banking conditions have been unchanged since our previous report. Banking contacts continued to report a slight decrease in overall loan demand. Consumer loan demand declined modestly, particularly for credit cards, while commercial and industrial (C&I) loan demand rose slightly. Low loan demand, combined with consistently high deposit levels, further increased reserves held at District banks. A contact reported trying to deploy excess funds through bond purchases but faced challenges as bonds were harder to obtain due to high demand. Overall delinquencies decreased primarily in auto and C&I loans. All bankers contacted expect this year to be a relatively slow year but hope activity will pick up toward the end of 2021.

### **Agriculture and Natural Resources**

Agriculture conditions have improved moderately relative to the previous reporting period. The number of acres of winter wheat planted this season throughout the District increased sharply relative to the previous year, although acres planted declined slightly in Kentucky. Despite pessimism in early 2020, farmers expressed optimism after a strong finish in 2020, with prices and sales up well above what was expected. ■



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## Summary of Economic Activity

Economic activity in the Ninth District increased modestly since early January. Employment was flat, with rising labor demand offset by labor supply constraints. Wage and price pressures were both modest. Sources reported growth in consumer spending, residential construction and real estate, manufacturing, energy, and agriculture. Commercial real estate was mixed, and commercial construction activity declined. Conditions for minority- and women-owned businesses were difficult.

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### Employment and Wages

Employment was flat since the last report, though hiring demand appeared to be picking up. Job postings increased steadily across the District through the first five weeks of the year. Staffing firms also reported healthy demand in job orders but reported difficulty filling available jobs. “There are way more job orders than available workers,” especially for jobs paying less than \$20 an hour, said a Minnesota staffing contact. A mid-January survey (with more than 1,000 respondents) found that nearly 30 percent of firms Districtwide had reduced staff since October, while just 8 percent added staff. However, small firms were much more likely to report staffing cuts and large firms to add staff, balancing net employment levels to some extent. Recent employment losses continued to be more prevalent in entertainment, hospitality, and retail firms, while firms adding staff were more evenly spread across sectors, led by finance and manufacturing.

Wage pressures were modest overall, but stronger in some sectors seeing higher labor demand. Construction firms reported the strongest wage pressure, followed by finance and manufacturing firms. Wage pressures in many other sectors were soft but were expected to increase modestly over the coming year. Staffing firms consistently reported growing wage pressures due to healthy hiring demand but persistent lack of interested workers.

### Worker Experience

Despite increased job openings, labor supply constraints contributed to a continued disconnect between workers and opportunities. Multiple workforce contacts noted greater demand for employees to fill 12-hour and/or rotating shifts. But prospective employees continued to find these shifts unattractive for a variety of reasons—family care responsibilities, remote learning in many school districts, fears of infection—that have increased the relative cost of work and imposed limits on flexibility. Other contacts noted that transportation remained a hurdle for low-wage workers. A staffing contact reported that there was less migration of laid-off hospitality workers to opportunities in fields like manufacturing than they expected. A job service contact suggested that some of the inertia may be due to employers providing false hope that workers will be called back to their previous jobs. Some contacts said the prospective continuation of enhanced unemployment benefits created a disincentive to return to work; however, others noted that the closure of workforce offices also eliminated a high-touch opportunity to push job openings and other services to the unemployed when applying for or collecting benefits.

### Prices

Price pressures increased moderately since the last report. According to the January survey of District businesses, half of respondents reported that prices for

final goods and services were unchanged compared with pre-pandemic levels, but more than a third reported that nonlabor input prices were up by more than 5 percent. Contacts in manufacturing reported greater ability to pass on increases in costs for transportation and certain other inputs to customers. Retail fuel prices in District states have increased briskly since the previous report. Prices received by farmers increased in December from a year earlier for corn, soybeans, wheat, chickpeas, and hogs, while prices for potatoes, dry beans, hay, milk, chickens, eggs, and cattle decreased.

## Consumer Spending

Consumer spending rose moderately, likely spurred by federal stimulus to households. January gross and taxable sales both grew robustly in South Dakota. Vehicle sales were strong. A dealership in the western part of the District reported robust sales of new vehicles in December and January. Minnesota vehicle sales taxes through the first six weeks of the year were notably higher than last year. Winter and other recreational vehicle sales were also positive, held back in some cases by lack of inventory. Firms catering to outdoor recreation generally reported good traffic. However, extreme cold for an extended period in February dampened activity Districtwide. Increased sales were reported at eating and drinking establishments in Minnesota and Montana after COVID-19 infection rates fell and operating restrictions were lessened, but conditions in that sector remained difficult. Passenger activity out of the District's eight largest airports remained flat at low levels through the first seven weeks of the year.

## Construction and Real Estate

Commercial construction continued to slow overall. Total active, major construction projects across the District were lower than a year earlier. A majority of contacts reported that recent revenue fell compared with both 2019 and fall of 2020, and expectations for the first quarter of this year were similar. The frequency of project delays and cancellations has potentially peaked, according to sources; however, more reported a decrease in new projects out for bid than those reporting increases. Some places, like Rapid City, S.D., and certain subsectors, like utilities, reportedly have not seen a similar slowdown. Residential construction also remained a bright spot, with contacts reporting healthy demand and January permitting activity seeing increases over last year in many locations.

Commercial real estate was mixed. Industrial property remained generally stable, with steady leasing activity and low vacancy rates in many markets. However, other

sectors like office and retail saw increases in vacancy rates and available sublease space. Residential real estate saw strong growth. January home sales grew by double digits over last year across much of the District.

## Manufacturing

District manufacturing activity increased moderately since the previous report. Respondents to the Minneapolis Fed's annual survey of manufacturers indicated that orders, production, employment, profits, productivity, and investment all decreased in 2020 on average (with substantial variability among firms). Expectations for 2021 called for growth to resume, likely due to stronger activity in recent months. However, nearly half of respondents reported that they don't expect to return to pre-pandemic activity levels for six months or longer. An index of regional manufacturing activity indicated brisk expansion in North Dakota in January compared with the previous month; activity in Minnesota and South Dakota grew more moderately.

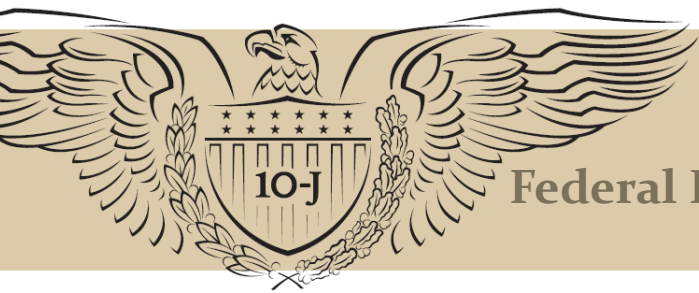
## Agriculture, Energy, and Natural Resources

District agricultural conditions improved moderately since the previous report, due to continued rallies in commodity prices and to government support programs. Respondents to the Minneapolis Fed's fourth-quarter (January) survey of agricultural credit conditions reported increased farm income and capital spending compared with a year earlier, and the outlook for the next quarter was for continued growth in farm incomes. District oil and gas exploration activity increased slightly compared with the previous report. Iron ore mines continued to operate at normal capacity since a previously idled plant resumed operations in mid-December.

## Minority- and Women-Owned Business Enterprises

Most minority- and women-owned business enterprises (MWBEs) reported negative revenue trends compared with the same period last year and with the previous quarter. Some expected modest improvement for the first quarter of 2021. A strong majority said federal stimulus programs have helped their business to some degree; among those not benefiting, most did not either qualify or apply for assistance. Contacts noted hesitancy among immigrant business owners to apply for assistance out of concern for jeopardizing the immigration status of themselves or family members. Financial instability was high among these firms. In a survey across the District, a significantly higher share of MWBEs said they would be insolvent within three months if current economic conditions persisted compared with non-MWBEs. They were also more likely to have cut wages, for staff or for themselves. ■





## Summary of Economic Activity

The Tenth District economy expanded slightly in January and February, with conditions strengthening in most sectors. Contacts in almost every sector anticipated stronger activity in the months ahead, although the majority also noted that the COVID-19 vaccine rollout was somewhat or very important to their outlook. Consumer spending increased slightly in January—driven by gains in retail, restaurant, and healthcare spending—but fell in February. Manufacturing production and new orders expanded modestly, with gains at both durable and nondurable plants. Contacts reported modest gains in professional and high-tech sales and moderate gains in wholesale trade sales. Residential real estate activity rebounded after slowing in December, and commercial real estate conditions showed signs of stabilizing, albeit at levels below a year ago. Energy activity edged higher amid stronger commodity prices and demand for natural gas. Agricultural conditions also strengthened, with the majority of contacts indicating that farm income had moved above year-ago levels. Employment continued to expand slightly, and wages rose modestly. Input prices continued to rise faster than selling prices, and a large majority of firms reported being negatively affected by higher materials prices or a lack of available materials.

### Employment and Wages

District employment continued to increase at a slight pace but remained slightly below year-ago levels. Overall employment growth in the services sector was driven by moderate gains in retail and wholesale trade, while employment fell slightly in the transportation, tourism and restaurant sectors. Looking ahead, contacts from all service industries expected employment to remain unchanged or to increase in the coming months. Manufacturers noted slight increases in employment levels and hours and expected similar gains in the next few months.

The majority of contacts reported labor shortages, with strong demand for technicians, truck drivers, and information technology professionals. More generally, contacts reported severe shortages for skilled hourly workers and notable shortages for unskilled hourly positions. Wages rose modestly since the last survey, and contacts expected wages to rise at a slightly faster pace in the coming months. Although the majority of firms expected vaccinations to affect their business outlook, less than one-third of firms anticipated that the COVID-19 vaccine rollout would impact their hiring plans this year.

### Prices

Input prices in both the services and manufacturing sectors continued to rise at a faster pace than selling prices. More than 80 percent of manufacturing firms and

60 percent of services firms reported being negatively affected by the rise in materials prices or the lack of availability. Prices of raw materials for manufactured goods rose moderately over the survey period, while selling prices increased modestly. Selling prices also increased modestly in the services sector, with slightly faster growth for input prices. Construction supply contacts noted a moderate increase in selling prices, and they expected prices to increase at a slightly faster pace in the next few months. Manufacturing and services contacts expected both input and selling prices to rise in the months ahead and anticipated that stronger input price growth would continue to put pressure on profit margins.

### Consumer Spending

Overall consumer spending increased slightly in January but declined modestly in February. Sales rose moderately in retail, restaurant, and health services sectors in January as additional stimulus payments were distributed, but then declined in February. Restaurant sales remained modestly below year-ago levels as the pandemic continued to suppress in-person dining. Sales in the auto and tourism industries fell moderately in January, but tourism sales rose slightly in February. Contacts expected moderate gains over the next few months in the retail, health services, and tourism industries, while auto sales were expected to pick-up modestly. Restau-

rant contacts expected sales to remain roughly flat in the coming months. A large majority of contacts indicated that widespread COVID-19 vaccination was somewhat or very important to their firm's overall business outlook.

### **Manufacturing and Other Business Activity**

Manufacturing activity expanded modestly since the previous survey, and activity levels rose slightly above year-ago levels. Production and new orders increased modestly for durables and slightly for nondurables. Capital expenditures rose for both durable and nondurable goods to a level slightly above a year ago. Durable and nondurable manufacturing activity was expected to increase moderately in the next few months, but the vast majority of manufacturing firms indicated that widespread COVID-19 vaccination was somewhat or very important to their firm's overall business outlook.

Outside of manufacturing, sales rose modestly in professional and high-tech services and moderately in the wholesale trade sector. Transportation sales rose slightly in January but contracted in February. Contacts noted that sales remained below year-ago levels within the transportation and professional and high-tech services sectors, but wholesale trade sales were moderately higher than a year ago. Capital expenditures rose modestly in the transportation and wholesale trade sectors but edged lower in professional and high-tech services. Respondents from all industries expected sales to increase modestly in the coming months.

### **Real Estate and Construction**

Residential real estate activity expanded moderately, while the deterioration in commercial real estate conditions stabilized somewhat. All residential real estate contacts reported an increase in home prices and the majority indicated a decrease in inventories. Home sales also increased modestly, following a moderate decline during the previous survey period. Home sales were expected to rise further in the coming months despite low inventories and higher prices. Commercial vacancy rates decreased for the first time in over a year, and absorption rates remained flat. In addition, commercial construction activity increased slightly. However, sales, prices, and rents fell modestly, and developers' access to credit became modestly more difficult. Overall, commercial real estate conditions remained worse than a year ago. Expectations for further declines in vacancy rates and increases in absorption and construction pointed to a gradual improvement in the commercial real estate sector over the next few months.

### **Banking**

District bankers reported modest growth in loan demand

in January and February, driven by increased demand for residential and commercial real estate loans. However, demand fell for agricultural, consumer, and commercial and industrial loans. In the past few weeks, many banking respondents indicated that interest rates charged on new commercial and industrial loans moved moderately lower. Overall credit standards generally remained stable, although standards tightened slightly for commercial and residential real estate and for agricultural lending. Consumer loan standards eased slightly. Bankers reported a slight increase in loan quality compared to a year ago and expected similar quality over the next six months. Deposit levels continued to expand robustly.

### **Energy**

District energy activity edged higher since the previous survey period but continued to slightly lag year-ago levels. Revenues and profits varied by firm, while employment levels continued to decline. The number of active oil and natural gas rigs was flat across the District overall, with a slight uptick in active oil rigs in Colorado. Oil and natural gas stocks eased somewhat lower in early 2021 after expanding in 2020. Commodity prices rose further since the last survey period, due in part to stronger demand for natural gas across the District and country. Moving forward, regional firms indicated that the changing regulatory landscape may impact business activity and profitability in the future. Expectations for future drilling and business activity were generally positive though as District firms anticipated widespread vaccination rollouts to boost mobility and transportation activity in the coming year.

### **Agriculture**

The Tenth District farm economy strengthened alongside a sharp rebound in farm income and agricultural credit conditions. In the most recent survey period, a majority of District contacts indicated that farm income was higher than a year ago for the first time since 2013, leading to increased loan repayments and slight increases in farm real estate values. Crop prices rose modestly since January and remained considerably higher than a year ago. Contacts located in regions more dependent on livestock revenues and exposed to severe drought, however, were less optimistic. Although cattle prices also increased modestly since January, they remained lower than a year ago, and higher crop prices could lead to higher feeding costs for livestock producers in the coming months. ■

For more information about District economic conditions visit:  
<https://www.kansascityfed.org/research/regional-research/>



## Summary of Economic Activity

The Eleventh District economy expanded at a moderate pace, though output in most industries remained below normal levels. Growth in the manufacturing and nonfinancial services sectors picked up in early February after stalling in January, while retail activity remained flat. Unprecedented winter storms and widespread power outages in mid-February severely disrupted economic activity, though the impact is mostly expected to be transitory. The housing market continued to be a bright spot, with vigorous new home construction. Overall loan volume decreased slightly, though real estate lending continued to rise. Energy activity improved further. Employment rose and wages increased moderately. Marked price increases were seen in the manufacturing and retail sectors, due in part to supply chain disruptions. Outlooks were generally positive, but uncertainty persisted.

### Employment and Wages

Employment was up overall, with solid hiring continuing in manufacturing and service-sector hiring picking up in February after easing in January. Employment reports were mixed in the energy sector, with some reporting lingering layoffs and others reporting hiring to meet needs for drilling and completion activity. Modest job losses were seen in the retail sector, where work hours also dipped. Some firms reported short-term problems maintaining workflow while others closed temporarily amid widespread power outages and water problems from winter storms. Roughly 47 percent of contacts say headcounts are down from pre-COVID levels, by about 25 percent on average, according to a Dallas Fed survey of over 300 Texas businesses in February. Twenty-one percent of firms reported increased headcounts, and 32 percent reported no change from February 2020 levels.

Wage growth was moderate, though there were some reports of more significant wage pressure in segments experiencing difficulty finding and retaining workers. An investment firm said they had to increase wages 5–15 percent to keep employees from being lured away. Several contacts voiced concern over the prospect of a \$15 minimum wage.

### Prices

Input costs continued to increase at a moderate pace overall, except in the manufacturing and retail sectors where supply chain disruptions drove prices up more strongly. Some contacts also noted substantial increases in agricultural commodity prices, as well as lumber and steel. Selling prices were flat to up slightly outside of the retail and manufacturing sectors where above-average price growth was seen. A wholesaler noted that cost increases were happening so fast that they could not raise prices fast enough to keep up, and margins were suffering as a result.

### Manufacturing

The Texas manufacturing recovery slowed dramatically in January but picked up pace in early February, with production and demand growth accelerating markedly. February growth was widespread and led by nondurables, particularly food and chemicals. Petrochemical contacts noted strong demand for consumer packaging, PPE, and construction materials like PVC. Refineries said fuel demand was decent over the past six weeks but still down year over year. A majority of manufacturers noted supply chain shortages were disrupting business, as was worker absenteeism due to COVID-19 quarantines. The full impact of the mid-February winter storms is not yet known, but some contacts reported temporary

facility shutdowns. Outlooks improved further, though some contacts voiced concern about the prospect of adverse effects resulting from increased oil and gas regulation.

### Retail Sales

Texas retail activity remained fairly flat over the past six weeks. Auto sales were weak, in part from low new vehicle inventories due to supplier issues. Demand for building materials was booming, but sales growth was limited by supply constraints. Overall, more than 60 percent of retail contacts said they were experiencing supply chain disruptions, which they noted were driving up costs and delaying order fulfillment. Severe winter storms in mid-February depressed sales activity, and outlooks worsened overall.

### Nonfinancial Services

Growth in the nonfinancial services sector stalled out in January amid rising COVID-19 cases but resumed at a modest pace in early February. Despite the ongoing recovery, more than half of contacts report that revenues were still down from normal, though this share has slowly but steadily declined over the past eight months. Professional and technical services continued to outperform other segments, with generally robust revenue growth. Staffing firms reported increased demand as business among customers broadly recovered, with particular strength in healthcare, IT, and construction. In transportation services, air cargo volumes were up over the past six weeks with growth driven by e-commerce, while small parcel volumes were down seasonally but well above year ago levels. Airlines reported flat demand at low levels.

Severe winter storms and power outages in mid-February significantly and adversely impacted many businesses in the short term, but overall outlooks improved, with some contacts pointing to the COVID-19 vaccine as a particular driver of optimism.

### Construction and Real Estate

Activity in the single-family housing market remained robust. New home construction continued to be vigorous, though there were reports of delays due to increased lead times for building materials and appliances, skilled labor shortages, and permitting delays. As a result of these production constraints, several builders noted capping sales and putting prospective buyers on wait lists. Lot supply remained very tight, and one contact said buyers camped out for lot selection at a subdivision in suburban Austin. Builders continued to increase prices to offset rising construction costs, particularly for lumber, and to slow down sales as backlogs remained high.

Outlooks were favorable, with some concern about tight lot supply, labor and material availability and costs, and an unexpected rise in mortgage rates.

Apartment demand was mostly steady, and rent collections were generally holding up in major Texas markets. Industrial construction and leasing activity remained strong. Office leasing stayed weak, but contacts said market conditions appeared to be slowly stabilizing.

### Financial Services

Overall loan volume decreased slightly over the past six weeks, with increases in commercial and residential real estate loans offset by declines in consumer loans and commercial and industrial loans. Loan pricing continued to decline, and credit standards tightened further. General business activity increased, and contacts expect higher loan demand and general business activity six months from now.

In a Dallas Fed survey of more than 70 Eleventh District financial Institutions, 80 percent were issuing loans through the current round of PPP, though the majority expect the total number and total value of these loans to be substantially lower than the PPP loans they issued last year.

### Energy

Activity in the oil and gas sector improved somewhat, and sentiment was very cautiously optimistic. Drilling and completion activity were more robust than contacts had expected. The number of new executive orders aimed at the oil and gas industry was concerning to some contacts. Many smaller firms that operate on federal lands will not be able to shift to private lands, but most mid-sized and larger firms will. The lack of permitting and leasing in the Gulf of Mexico, if sustained, could be a more significant issue. The looming threat of tighter federal regulations and depressed global demand weighed on contacts' minds, but improving COVID-19 statistics, OPEC production discipline, and higher oil prices were tailwinds.

### Agriculture

Precipitation over the reporting period eased drought conditions somewhat. Higher crop prices boosted optimism among farmers heading into spring planting, though there was some concern over higher input costs. The extent of the losses from the severe winter storms are not yet known, but will likely span the livestock and dairy sectors, produce, and wheat. ■

For more information about District economic conditions visit: [www.dallasfed.org/research/texas](http://www.dallasfed.org/research/texas)



## Summary of Economic Activity

Economic activity in the Twelfth District expanded at a modest pace during the reporting period of January through mid-February. Employment levels decreased somewhat, while wages increased slightly on net. Inflation has picked up, driven largely by increases in energy prices. Retail sales continued to expand, while activity in the consumer and business services sectors declined moderately due to ongoing pandemic-related restrictions. Manufacturing activity continued to expand modestly, and conditions in the agriculture sector improved marginally. Contacts reported ongoing strength in residential real estate markets, but weak conditions in the commercial sector. Lending activity continued to grow robustly, mostly concentrated in origination of second-round PPP loans.

### Employment and Wages

Employment levels decreased slightly, although conditions varied significantly by region and industry. Employers in the hospitality and tourism sectors generally reduced their workforce and extended furloughs due to the ongoing effects of the most recent wave of COVID-19 infections. An increasing number of contacts reported difficulty filling open positions, both for high-skilled and low-skilled workers. Employers in the construction, manufacturing, auto mechanics, and healthcare sectors continued to be constrained by shortages in qualified labor. Rising employee turnover was another commonly cited concern, mainly due to workers switching industries, moving, or leaving the workforce altogether. A few contacts in financial services, energy, and logistical services reported implementing hiring freezes or plans to reduce their workforce later in the year. On the other hand, demand for labor in consulting, legal services, technology, and healthcare sectors remained stable.

Wages increased marginally on balance. In addition to mandatory minimum wage increases in some areas, a few contacts also reported increasing compensation for frontline essential workers. Employers in manufacturing, construction, and health-care services also noted upward wage pressures, mainly due to labor supply issues. By contrast, a few contacts in the financial services and hospitality sectors mentioned plans for decreased wages and merit-based bonuses compared to previous years. Most other reports mentioned little to no change in wages.

### Prices

Inflation picked up modestly over the reporting period. Most of this increase was driven by hikes in oil and electricity prices, with only a few firms being able to pass on the higher costs to final consumers. Prices of building materials, such as lumber, wallboard, steel, and asphalt, continued to rise from already high levels. Select agricultural products also saw modest price increases, including wheat, corn, and soybeans. Contacts in the hospitality and financial services sectors reported either flat or decreasing prices.

### Retail Trade and Services

Retail sales growth has improved overall, partly owing to the effects of the second round of fiscal relief transfers to households. Online sales continued to be strong, as did sales by brick-and-mortar grocery and convenience stores. Although most contacts reported reduced foot traffic in retail centers, a contact in Southern California noted that thrift and secondhand stores experienced a rise in demand. Auto sales have continued to increase, although more purchases are being made online rather than in person at auto dealerships. Contacts across the District noted ongoing supply chain disruptions and port delays, especially for imports from China.

Activity in the consumer and business services sector declined moderately. Conditions in the tourism, leisure, and hospitality industries continued to be severely impacted by ongoing restrictions due to the pandemic, with one contact in Southern California anticipating its weak-

est quarterly performance since the onset of the pandemic. Many restaurants continued to only offer delivery or pickup services to limit operating costs. Automotive service providers continued to see decreasing sales volumes, reflecting a general trend in reduced vehicle miles driven. Some production work in the entertainment industry returned in February, but many producers chose to further delay projects halted in January. The inability to secure business insurance coverage against pandemic-related risks continued to limit activity in the film, television, and sports production industries. In health care, activity has mostly rebounded back to pre-pandemic levels, with increasing demand for mental health and related services. Demand for logistics and transportation services continued to be strong. A medical laboratory in the Mountain West noted that demand for COVID-19 testing has substantially fallen in recent weeks as vaccines and point-of-care rapid testing has reduced the reliance on traditional testing.

### **Manufacturing**

Activity in the manufacturing sector continued to strengthen modestly, although the pace of expansion has slowed somewhat since the last reporting period. Demand for metals and wood products remained strong, driven by the continued expansion in residential construction. Sales of recycled metals and fabricated steel products have declined somewhat since their multi-year highs at the end of 2020, which one contact attributed to the potential effects of chip shortages in the auto manufacturing industry. Capacity utilization rates in renewable energy and steelmaking industries picked up, although they are still below U.S. historical averages. Energy usage has returned to pre-pandemic levels for most manufacturers, except for those in the aerospace sector.

### **Agriculture and Resource-Related Industries**

Agricultural activity expanded marginally across the District. Demand for wheat, fruits, and nuts increased among both domestic and international consumers. Most growers benefitted from a depreciating dollar, although a few noted the ongoing negative effects of international trade restrictions on U.S. exports. Several contacts in the Pacific Northwest and California mentioned that COVID-related labor and supply chain disruptions continued to put upward pressure on costs and to reduce inventories in some cases. A large energy provider in Southern California reported that lower-than-normal revenue from non-residential customers was mostly offset by higher-than-normal revenue from residential customers, although the number of overdue payments has increased.

### **Real Estate and Construction**

Residential construction activity continued to grow at a brisk pace. Demand for residences continued to increase, especially for multifamily homes, although inventories were at historically low levels. Construction of single-family homes continued to fail to meet the high demand. Home prices climbed further, which raised some concern among contacts in California and the Pacific Northwest about the decrease in affordable housing, especially in coastal metropolitan areas. Contacts across the District noted ongoing constraints due to shortages of construction labor, raw materials, and available land. As a result, several in the Pacific Northwest noted that construction projects are sold as soon as they are started, and most builders are at capacity. Demand for remodeling projects was also noted to have increased. Rents fell in metropolitan areas but increased slightly in suburban areas. One contact in Oregon noted that the upcoming enforcement of stricter green codes for energy consumption might put even greater upward pressure on construction costs.

Activity in the commercial real estate market weakened slightly on net. Demand for retail spaces, office buildings, and hospitality real estate continued to be negatively affected by disruptions stemming from the pandemic. On the other hand, demand for warehouse and industrial properties remained strong, and a few contacts also noted a rise in public construction projects. One contact in the Mountain West reported that demand for office space held steady in the area, partly due to the redesign of some offices to better accommodate social distancing measures.

### **Financial Institutions**

Lending activity grew robustly during the reporting period. Most banks reported significant growth in new loan originations, concentrated in second-round PPP loans. Several contacts noted that demand was lower compared with the first round of PPP loans, primarily due to changes in eligibility requirements and the increasing ability of businesses to remain open through the pandemic. Demand for residential mortgages also remained strong, particularly for refinancing. Banks reported ample liquidity, high asset quality, and low delinquency rates, which a few contacts attributed to individuals using stimulus checks to pay down existing loans. One contact in Hawaii noted the increasing importance of community development financial institutions (CDFIs) in providing access to capital and technical assistance to low-income communities. ■



