

For use at 2:00 PM EDT

Wednesday

October 20, 2021

# The Beige Book

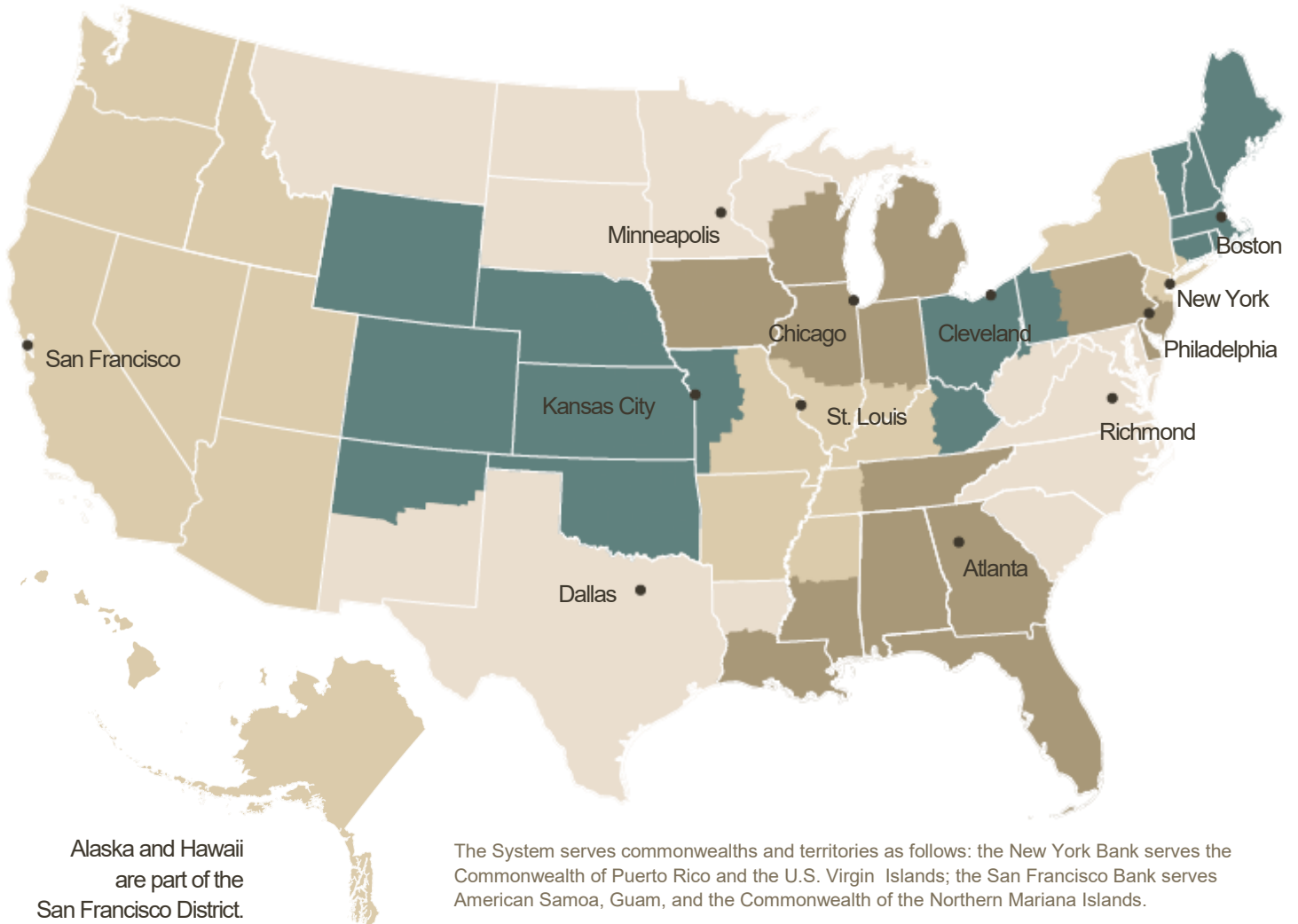
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Summary of Commentary on Current Economic Conditions

By Federal Reserve District

October 2021

## Federal Reserve Districts



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This report was prepared at the Federal Reserve Bank of Richmond based on information collected on or before October 8, 2021. This document summarizes comments received from contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.

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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 ■ October 2021

## Overall Economic Activity

Economic activity grew at a modest to moderate rate, according to the majority of Federal Reserve Districts. Several Districts noted, however, that the pace of growth slowed this period, constrained by supply chain disruptions, labor shortages, and uncertainty around the Delta variant of COVID-19. A majority of Districts indicated positive growth in consumer spending; however, auto sales were widely reported as declining due to low inventory levels and rising prices. Travel and tourism activity varied by District with some seeing continued or strengthening leisure travel while others saw declines that coincided with rises in COVID cases and the start of the school year. Manufacturing grew moderately to robustly in most parts of the country, as did trucking and freight. Growth in nonmanufacturing activity ranged from slight to moderate for most Districts. Loan demand was generally reported as flat to modest this period. Residential real estate activity was unchanged or slowed slightly but the market remained healthy, overall. Reports on nonresidential real estate varied across Districts and market segments. Agriculture conditions were mixed and energy markets were little changed, on balance. Outlooks for near-term economic activity remained positive, overall, but some Districts noted increased uncertainty and more cautious optimism than in previous months.

## Employment and Wages

Employment increased at a modest to moderate rate in recent weeks, as demand for workers was high, but labor growth was dampened by a low supply of workers. Transportation and technology firms saw particularly low labor supply, while many retail, hospitality, and manufacturing firms cut hours or production because they did not have enough workers. Firms reported high turnover, as workers left for other jobs or retired. Child-care issues and vaccine mandates were widely cited as contributing to the problem, along with COVID-related absences. Many firms offered increased training to expand the candidate pool. In some cases, firms increased automation to help offset labor shortages. The majority of Districts reported robust wage growth. Firms reported increasing starting wages to attract talent and increasing wages for existing workers to retain them. Many also offered signing and retention bonuses, flexible work schedules, or increased vacation time to incentivize workers to remain in their positions.

## Prices

Most Districts reported significantly elevated prices, fueled by rising demand for goods and raw materials. Reports of input cost increases were widespread across industry sectors, driven by product scarcity resulting from supply chain bottlenecks. Price pressures also arose from increased transportation and labor constraints as well as commodity shortages. Prices of steel, electronic components, and freight costs rose markedly this period. Many firms raised selling prices indicating a greater ability to pass along cost increases to customers amid strong demand. Expectations for future price growth varied with some expecting price to remain high or increase further while others expected prices to moderate over the next 12 months.

## Highlights by Federal Reserve District

### Boston

Business activity in the First District expanded at a modest to moderate pace in August and September 2021. Wages increased moderately as firms competed for scarce workers. Retailers and manufacturers posted moderate to steep price increases amid ongoing supply disruptions. The outlook was cautiously optimistic.

### New York

Growth in the regional economy slowed to a modest pace in recent weeks, as supply disruptions and labor shortages have impeded economic activity. Employment and wages increased. Businesses reported ongoing widespread escalation in both input costs and selling prices. Despite the slowdown, contacts continued to express optimism about future business prospects.

### Philadelphia

Business activity grew modestly during the current Beige Book period – slower than the prior period – but remained below pre-pandemic levels. Fear and uncertainty of the Delta variant continued to constrain growth, but contacts were most worried by ongoing labor shortages and supply chain disruptions. Overall, employment continued to grow modestly, while wages and prices continued to rise at a moderate pace.

### Cleveland

Economic activity remained strong in the District. While demand was still solid, supply chain disruptions tempered the pace of sales and output growth. The expiration of supplemental unemployment insurance benefits and a return to school did little to alleviate worker shortages, and wages continued to rise. This and higher nonlabor input costs put further upward pressure on selling prices.

### Richmond

The regional economy increased at a modest rate as growth was constrained by labor shortages and shortages and delays receiving goods and raw materials needed for business. Employers across sectors had difficulties finding and keeping workers, which led to offering higher wages and bonuses to recruit and retain staff. Prices remained elevated compared to year-ago levels.

### Atlanta

Economic activity expanded moderately. Labor markets remained tight and wage pressures intensified. Some nonlabor costs stayed elevated. Retail sales increased. Leisure travel was strong, but hotel occupancy levels declined. Residential real estate demand remained robust. Commercial real estate conditions were stable. Manufacturing activity expanded. Banking conditions were steady.

### Chicago

Economic activity increased modestly. Employment, manufacturing, and business spending grew moderately, but consumer spending and construction and real estate were little changed. Wages and prices increased strongly while financial conditions were flat. District corn and soybean harvests were larger than expected and near record levels.

### St. Louis

Economic conditions have continued to improve at a moderate pace since our previous report. Labor shortages and supply chain issues continue to be cited as primary issues. Increased input costs have led to cost pressures across industries, and firms with the power to do so report passing on increased costs to consumers.

### Minneapolis

District economic activity grew moderately since the previous report. Employment increased, though hiring demand continued to outstrip labor availability, and wage pressures were strong. Price pressures remained elevated; certain input prices eased, but firms were passing more of their input costs through to final prices. Manufacturing increased, with one contact noting that passing along higher prices hadn't hampered demand.

### Kansas City

Economic activity continued to grow at a moderate pace and was broad-based. Ongoing growth in manufacturing alongside renewed growth in the energy sector supported the regional economy. Consumer spending at restaurants and hotels was resilient through the recent surge in COVID cases. However, business travel did not resume as expected in September, with many large events being postponed.

### Dallas

The District economy expanded at a solid rate, with broad-based growth across sectors. COVID-19 and labor and supply-chain constraints remained headwinds. Employment growth was robust, and wage and price growth remained highly elevated. Outlooks stayed positive, with most contacts expecting stronger business six months from now, though uncertainty rose.

### San Francisco

Economic activity in the District strengthened moderately. Labor market tightened further as wages and price levels climbed up. Retail sales expanded moderately while activity in consumer services slowed down somewhat. Conditions in the agriculture and manufacturing sectors strengthened slightly. Lending activity increased further while residential construction expanded notably.



## Summary of Economic Activity

Business activity in the First District expanded at a modest to moderate pace. Software and IT firms posted moderate revenue gains on balance. Retail sales were stable or up modestly and easily exceeded pre-pandemic levels; demand for new and used autos continued to outstrip limited supplies. Air travel and hotel occupancy improved but stayed well below pre-pandemic levels. Manufacturers saw mixed recent results but most reported revenue gains on a year-over-year basis. Sales of single-family homes softened, but that may reflect the resumption of normal seasonal patterns following an unusual 2020, as home prices continued to climb. Commercial real estate markets were stable but the outlook for office leasing remained uncertain. Wages increased moderately amid widespread labor scarcity. Retailers and manufacturers posted moderate to steep price increases amid ongoing supply disruptions. The outlook was cautiously optimistic.

### Employment and Wages

The labor market remained tight across sectors. At several businesses, competition for new hires was intense, leading to robust increases in starting wages, new signing bonuses, and increased willingness to train, but one firm was not planning to increase wages despite facing hiring challenges. Wages were on the rise for existing workers as well, as a few firms planned for larger merit increases in 2022 and at least one offered retention bonuses as well as non-wage perks such as flexible work arrangements. In an exception, one manufacturer found it easier to fill positions recently than in the first half of the year. Manufacturing contacts reported higher labor turnover that some attributed to the lagged effects of the pandemic, and that others had seen in response to vaccine mandates—although one firm said that its vaccine mandate had not caused any quits. Most software contacts experienced normal turnover, however. Headcounts were mixed but in most cases were either flat or down, as turnover and hiring difficulties left firms below desired staffing levels.

### Prices

Prices were flat at software and IT firms but generally increased among manufacturing and retail contacts, in some cases by large margins. A furniture retailer enacted price increases of over 30 percent since February 2021, driven by increased shipping and materials costs. An apparel contact increased its usage of air freight—historically a very costly way to transport goods—as an

offset to skyrocketing shipping costs and delays. New and used car prices climbed further, as demand for autos continued to outstrip inventories and the chip shortage persisted. Hotel room rates increased moderately but remained 27 percent lower than in 2019. Manufacturers faced increased input prices—in the 10 to 30 percent range on a year-over-year basis—and two-thirds of firms raised output prices in the third quarter by moderate to robust margins, while the remainder held prices firm. Software contacts reported no changes in prices other than increases that were built into existing contracts, but one company is considering making price changes in 2022.

### Retail and Tourism

First District retailers reported ongoing strength in sales in the third quarter of 2021. A furniture seller enjoyed record-setting revenue this past summer despite a modest decline in units sold from the second quarter, outcomes that reflected the roughly 30 percent increase in the seller's prices since February. A clothing retailer recorded recent sales that exceeded its comparable pre-pandemic levels by low double-digit percentages, amid strength in both online and in-store sales despite a recent decline in foot traffic at its shops. Sales of both new and used automobiles held steady at a robust pace.

Travel industry respondents reported that airline passenger traffic through Boston picked up steadily in recent

months, and in August and September was off by “only” about 35 percent compared with the same months in 2019. Scheduled passengers in October are expected to narrow that gap further, although international and business travel continue to trail domestic leisure travel. Hotel occupancy rates and room rates in the greater Boston area also saw further modest improvements in recent months. Occupancy rates in August averaged around 65 percent, the highest rate since the start of the pandemic, despite still falling short of 2019 levels by about 20 percentage points.

### **Manufacturing and Related Services**

Manufacturers reported mixed revenue performance. Two saw modest declines in recent sales, two had stable results, and two registered at least modest revenue increases. Most contacts nonetheless said that sales were higher than they were one year ago, and most had sales above pre-pandemic levels. Most contacts continued to complain of supply-chain disruptions that either dulled recent sales or threatened to crimp future business. These included three firms that faced production delays and two that had trouble keeping inventories at their desired levels (due to input shortages as well as robust demand). Capital expenditures were stable at high levels, with no major revisions to spending plans moving forward. The outlook remained mostly positive, but some faced ongoing risks related to supply-chain issues.

### **Software and Information Technology Services**

Three out of four software and IT contacts in the First District reported higher sales in the third quarter, by modest to very large margins. Two contacts said that demand for their products enjoyed an ongoing boost from firms’ increased reliance on virtual business formats during the pandemic, shifts that were seen as largely permanent, but one firm said that pandemic-related supply issues presented an ongoing drag on their business. On a year-over-year basis revenues were up at two firms and were stable or down modestly at two others. Labor shortages threatened to delay the fulfillment of orders at one firm, and another reported increased wage pressures for new hires. Capital spending was mixed across firms—one was spending less after switching to less capital-intensive technologies, another was ramping up investments to tap new markets, and others had stable spending. Contacts were mostly optimistic looking ahead, but two perceived that COVID-19 presented ongoing risks to economic activity.

### **Commercial Real Estate**

Commercial real estate activity in the First District was mixed across submarkets and mostly unchanged in

recent weeks. The industrial and life sciences markets continued to enjoy strong leasing demand, with rents steady at high levels and very low vacancy rates. The life sciences market in Boston has maintained near-zero vacancies. Office leasing was flat at a sluggish pace, with mostly short-term lease renewals, as the Delta variant surge caused delays in return-to-office dates and added to uncertainty. Contacts still expect office tenants to reduce footprints permanently as they pursue hybrid work moving forward, but the size of such reductions remains unclear. Office rents were mostly flat and vacancy rates were flat or up slightly. Retail leasing activity remained weak in Boston and Connecticut and comparatively strong in Maine and Rhode Island. Grocery-anchored and experiential retail continued to outperform other categories. The lending market for commercial real estate stayed highly competitive, driven by banks and institutional investors flush with capital. Investment demand was robust across multiple markets, excepting office, but some contacts forecasted an uptick in office sales in 2022. The outlook for leasing in the weaker segments (big box retail and office) hinged on the resolution of uncertainty over the course of the virus in the coming months.

### **Residential Real Estate**

Low inventories and upward pricing pressure persisted in the residential real estate markets of the First District in August. Over-the-year changes to August 2021 were reported for all but two New England states; data from Connecticut and Vermont were not available.

As in the previous report, median sales prices increased, and inventories fell year-over-year in all reporting areas. Sales of single-family homes were down year-over-year, indicating a slight deceleration in activity from July. While condo sales once again increased year-over-year in Rhode Island, Massachusetts, and Boston, condo sales fell over-the-month in August in Massachusetts and Boston and fell over-the-year in New Hampshire and Maine. All contacts found the declines in sales noteworthy, and the slowdown was attributed to a combination of buyers’ frustrations over high prices and low inventories as well as to increased vacation-taking compared with August 2020. ■

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





## Summary of Economic Activity

Economic growth in the Second District slowed to a modest pace, as supply disruptions and labor shortages have impeded economic activity. Still, contacts remained largely optimistic about the near-term business outlook. The job market has remained exceptionally tight, as firms continued to add workers and raise wages. Businesses reported ongoing widespread escalation in both input costs and selling prices. Consumer spending was flat to slightly lower, pulled down by sharply weaker vehicle sales attributed to severe supply shortages. The home sales market was mixed but on balance a bit stronger, while rental markets have continued to rebound; there were scattered signs of improvement in office markets. Both residential and commercial construction activity increased modestly, despite shortages of materials. Finally, contacts in the broad finance sector reported flat activity, while regional banks reported steady loan demand and unchanged delinquency rates.

### Employment and Wages

The job market has remained exceptionally tight, with businesses continuing to add workers—particularly in the leisure & hospitality and transportation industries. Most contacts noted severe labor shortages despite federal supplementary jobless benefits expiring. Many businesses reported difficulty hiring and retaining workers, and some contacts noted that more people are retiring early. An upstate New York employment agency noted especially strong demand for tech workers and salespeople. A New York City agency reported more moderate hiring but expects a pickup as companies bring more people back to the office. Many businesses said they plan to continue hiring in the months ahead.

Wages have continued to grow strongly across all service industries except finance, where wage hikes are reported to be modest. A New York City employment agency similarly noted that its clients—mostly financial service firms—have been holding the line on wage gains. However, agencies in upstate New York reported sizable wage increases. Looking ahead, businesses across all major industries expect widespread wage hikes to persist.

### Prices

Firms continued to report broad-based escalation in input prices—particularly in goods production and distribution

industries. Rising prices were widely mentioned for steel, aluminum, lumber, gasoline, and freight-related services. Contacts in all sectors anticipate widespread input price hikes in the months ahead.

Selling prices continued to climb, with particularly widespread price hikes again reported by manufacturers and wholesalers. Notably, more retailers than at any time in recent years indicated that they have raised prices. A sizable proportion of contacts in most sectors plan to hike prices in the months ahead.

### Consumer Spending

Consumer spending weakened in the latest reporting period. Non-auto retailers reported steady to lower activity in recent weeks and have grown somewhat less optimistic about the upcoming holiday season. One retail chain indicated that sales at New York City stores continued to lag well below pre-pandemic levels, largely due to the lack of office workers and international visitors. Consumer confidence among New York State residents, though still fairly high, fell to its lowest level of the year in September.

An intensifying dearth of new vehicle inventories has led to a sharp drop-off in sales. Most of the incoming inventory has already been pre-sold. Ongoing severe microchip shortages have constrained inventories of new vehicles and replacement parts, and dealers expect this situation to continue at least through the end of the year.

Moreover, the decline in new sales has also led to a dwindling supply of used autos and a subsequent drop in sales due to fewer trade-ins.

### **Manufacturing and Distribution**

While wholesale trade businesses indicated some further moderation in growth, manufacturers continued to report fairly solid growth, and those in the transportation & warehousing sector noted ongoing brisk growth. Contacts noted that their businesses have been increasingly constrained by widespread supply delays and disruptions and worker shortages. Looking ahead to the next six months, companies in these sectors remained widely optimistic about business prospects, despite concerns about labor shortages and supply bottlenecks.

### **Services**

Service industry contacts reported some deceleration in activity to a modest pace of growth in recent weeks. Contacts in the leisure & hospitality and information sectors have become somewhat less upbeat about both recent trends and the near-term outlook. However, businesses engaged in professional & business services and education & health services remained positive about future business prospects.

Tourism has continued to increase since the last report. Rochester's major convention center recently re-opened to hosting major events, giving a lift to local tourism. However, in much of upstate New York, a dearth of Canadian visitors, due to the ongoing border closure, has constrained growth. In New York City, tourism activity picked up in September, buoyed by the UN General Assembly and the U.S. Open, as hotel occupancy rates climbed to their highest levels since the start of the pandemic. While domestic leisure visitations are roughly back to normal levels, business and international travel to the city have remained moribund—the latter driven largely by ongoing travel restrictions.

### **Real Estate and Construction**

Housing markets have been steady to slightly stronger, on balance, in recent weeks. Sales activity picked up noticeably across New York City, far exceeding pre-pandemic levels; the inventory of unsold homes receded but remained higher than normal, especially in Manhattan. Across the rest of the District, sales activity slowed somewhat, constrained by very low inventories. Home prices continued to rise, approaching pre-pandemic levels in Manhattan but far exceeding them across the rest of the District.

New York City's rental market has continued to rebound,

with vacancy rates declining and leasing activity remaining brisk, though a bit less so than during the summer. Rents have continued to rebound, though a local industry expert noted a striking divergence in Manhattan between the lower and higher ends of the market—underscoring this point, rents are up roughly 2 percent from 2019 levels in doorman buildings but down roughly 15 percent in non-doorman buildings. A good deal of new apartment development (rentals and condos) is currently in the pipeline.

Commercial real estate markets have improved somewhat across the District. New York City's office market, which had been weakening steadily throughout the pandemic, appears to have stabilized in recent weeks with availability rates and asking rents leveling off. Across the rest of the District, office vacancy rates were steady to slightly lower, and rents were steady to up modestly. The industrial market continued to strengthen, with vacancy rates declining to near record lows and rents rising at a 5-10 percent pace across the District. The retail leasing market, in contrast, has remained sluggish.

Both multi-family residential and non-residential construction starts have picked up further in recent weeks, and there continues to be a substantial amount of ongoing construction. However, industry contacts reported that activity slowed somewhat in September, citing major delays in acquiring construction materials, as well as disruptions from tropical storm Ida in early September, which caused extensive flooding. Still construction sector contacts continue to be cautiously optimistic about prospects for the months ahead.

### **Banking and Finance**

Businesses in the broad finance sector indicated that activity has flattened out since the last report. Some contacts have expressed growing concern about cyber- and ransom-ware attacks, both in their own industry and among customers and borrowers. Small to medium-sized banks across the District reported that loan demand was flat overall—stronger for commercial mortgages and commercial & industrial loans but weaker for consumer loans and residential mortgages. Refinancing activity remained little changed, on net. Loan spreads narrowed for consumer loans and commercial & industrial loans. Credit standards and delinquency rates were little changed across all categories. ■

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



## Summary of Economic Activity

On balance, business activity in the Third District grew modestly – a slower pace than during the prior Beige Book period. Moreover, activity in most sectors had still not returned to pre-pandemic levels. The rate of all persons being fully vaccinated against COVID-19 was about 60 percent. However, COVID-19 cases rose throughout most of the period, which was widely cited by contacts as prompting confidence to slump and activity to flag. Many firms reported imposing vaccine mandates with relatively few resignations. Generally, contacts expressed greater concerns about ongoing supply chain disruptions and persistent labor shortages. Net employment continued to grow modestly, while prices and wages rose moderately. About one-half of the nonmanufacturers and one-third of the manufacturers expressed positive expectations for continued economic growth over the next six months – a further narrowing of optimism. Numerous firms indicated that they had learned to produce with fewer employees and, therefore, did not expect to refill all prior positions.

### Employment and Wages

Employment continued to grow modestly overall. The share of firms reporting employment increases held steady at one-fifth of the nonmanufacturing firms but edged below one-third among the manufacturers. Overall, increases in average hours worked edged lower among nonmanufacturers (to one-fifth) but rose among manufacturers (to one-third).

Despite the return of children to school and the end of enhanced unemployment benefits, staffing firms and other contacts reported only a slight uptick in new applicants, at best. Many interview candidates were arriving with other offers in hand. Firms are also working harder to retain workers by raising wages. Contacts noted that childcare issues, early retirements, and general burnout continued to depress the labor supply.

Apart from labor supply issues, many contacts do not expect to employ as many workers for the same level of output as they had before. Manufacturers, builders, retailers, and hospitality managers all note that operational changes and automation are allowing their businesses to function with fewer workers.

Wages continued to rise moderately. The share of non-manufacturing firms reporting higher wage and benefit costs per employee held steady at two-fifths – compara-

ble with pre-pandemic levels. Only a few firms reported lower compensation. Wage pressures remained high for lower-wage jobs; one staffing firm wouldn't accept new clients that offer below \$15 an hour. Wage pressures are rising for higher-wage positions as well. One firm is now offering up to \$90,000 for a second-year CPA position that might have commanded \$65,000 before the pandemic.

### Prices

On balance, prices continued to rise moderately over the period. The share of manufacturers reporting higher prices for factor inputs edged lower to about 70 percent, while those receiving higher prices for their own products remained near one-half. The share of nonmanufacturers reporting higher prices for their inputs remained near one-half, while the share receiving higher prices from consumers for their own goods and services edged lower to below one-fourth.

About 60 percent of the manufacturing contacts reported they expect to pay higher prices over the next six months, and slightly more than that expected to receive higher prices for their own goods. According to contacts in manufacturing, construction, and finance, there is too much uncertainty and too little labor to pursue capital expansions that might address the product scarcity and high prices resulting from the supply chain disruptions.

## **Manufacturing**

On average, manufacturing activity continued to grow moderately. However, while net increases of shipments continued, new orders fell further from the prior period's level. Net backlogs and delivery times continued to increase, but among fewer firms. Net inventories rose again after a brief period of decline.

Contacts reported no end in sight to the ongoing supply chain disruptions. Many firms reported long delays for obtaining key factor inputs while also noting unreliable delivery service of completed orders via their distributors. Overall, production levels and employment remained below pre-pandemic levels.

## **Consumer Spending**

Retailers (nonauto) and restaurateurs reported slight, incremental growth. Some noted that consumers had retreated a bit as COVID-19 cases rose again. Supply chain disruptions and labor shortages continued to limit shelf inventories and hours of operation.

Once again, supply chain issues were most severe for auto dealers. Contacts reported that new car sales were down sharply – inventories on dealers' lots were numbered in single digits or the teens rather than dozens or hundreds as is the norm. The disruptions were no longer limited to microchips. Contacts noted numerous other components that have been held up by plant shutdowns and bottlenecks throughout the global supply network.

Tourism continued to decline modestly. Contacts noted that the Delta variant wave further delayed business travel plans just as leisure travel entered its seasonal downturn. While domestic tourism remained strong at resort locations, contacts in various sectors noted that conferences and trade shows were still being canceled.

## **Nonfinancial Services**

On balance, nonmanufacturing activity grew modestly – a bit slower than last period. The share of firms reporting increases in sales and in new orders held steady; however, the share reporting decreases rose significantly.

Moreover, output remained below pre-pandemic levels for most sectors. Even as some entertainment venues reopened for the first time, other firms reported that consumers had pulled back as Delta variant cases rose. Many firms also delayed their return to the office; one reversed its prior return.

## **Financial Services**

The volume of bank lending (excluding credit cards) held steady during the period (not seasonally adjusted); during the same period in 2019, by contrast, loan volume

growth was strong. Commercial and industrial loans continued to contract significantly, while home equity lines fell modestly. Auto lending, home mortgages, and other consumer loans grew modestly, and commercial real estate lending grew slightly. Credit card volumes grew moderately – faster than the slight pace during the same period in 2019.

Bankers, accountants, and bankruptcy attorneys continued to report few problems with bad debt. However, they noted increased mergers and acquisitions, or closings, as small business owners seek early retirement at increasingly younger ages. A dry cleaner closed on the expectation that demand would not return. A bar owner was worried because fewer people were staying between 10:00 p.m. and closing – a period that previously provided a healthy percentage of its profits.

## **Real Estate and Construction**

Homebuilders continued to note a slight decline in sales but still describe the overall market as strong. The number of serious buyers remains limited by higher prices and patience, as most current contracts are for delivery in mid-2022. Existing home sales held steady with no significant increase of new sellers, but somewhat less frenzy from buyers. Multiple offers and cash deals are still common but offers are not as high above asking price as earlier.

Construction activity for nonresidential projects ebbed slightly. While warehouse, institutional, and multifamily projects remain strong, the overall pipeline of new projects narrowed as uncertainty clouds the office market. Likewise, while leasing activity was strong for industrial and lab space, demand for office space fell. Expectations that some firms will downsize their workforces and others will shift to more permanent remote workforces are being realized as the office sublease market has become more active. ■

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

Economic activity in the Fourth District remained strong in recent weeks, although the pace of growth moderated somewhat amid persistent supply chain disruptions. Broadly speaking, demand for both consumer and business goods and services remained solid, but contacts in some sectors suggested that product shortages were resetting customers' expectations. For example, one auto dealer said that customers weren't coming into showrooms because they knew inventories were limited, and a manufacturer said that demand for its products was shifting based on the availability of close substitutes. On net, contacts expect demand for their goods and services to increase in coming months, but their optimism has been moderating since early summer as supply disruptions intensified and COVID cases rose. That waning optimism was accompanied by lowered expectations for capital spending. Meanwhile, most contacts indicated that input costs (labor and nonlabor) increased in recent weeks, and a majority had raised selling prices. Finally, in a now familiar refrain, labor demand remained solid, but many contacts continued to suggest that hiring was limited by a dearth of job applicants.

### Employment and Wages

Employment increased modestly in recent weeks. More than 40 percent of our contacts reported increases in staffing, and half said that employment was steady. Many of those who reported no change said that they would hire more workers if workers were available. Several contacts noted that turnover had increased. In fact, some of those who reported declines in staffing said they could not fill recently vacated positions. Many firms said worker shortages hindered their ability to meet demand, thereby exacerbating supply chain disruptions. But one auto dealer said that supply chain disruptions were causing his labor challenges, adding, "nothing to sell makes it hard to keep employees." Contacts noted very little change in labor availability since supplemental unemployment insurance benefits programs expired and many children went back to in-person instruction.

Heightened competition for workers pushed wages up for more firms. Nearly 60 percent of contacts raised wages recently, while the remaining 40 percent said that wages had not changed. Increasingly, firms raised wages to retain employees "as a preventive measure after losing some to poachers," as one contact stated it. In addition, many firms reportedly enhanced other parts of compensation (such as health insurance, tuition reim-

bursement, and time off) to attract and retain workers.

### Prices

Nonlabor input costs continued to rise. Nearly three-quarters of our contacts reported cost increases in the prior two months, while a quarter saw no change. Reports of cost increases were widespread across industry sectors but were most prominent in manufacturing and construction, in which supply chains were most disrupted. Many contacts in these sectors suggested that prices were rising "across the board." The remaining firms often reported that just as some input costs decreased, others rose, resulting in higher overall costs. Looking forward, two-thirds of contacts expected costs to rise in the months ahead because they did not anticipate meaningful relief from supply chain disruptions.

Selling prices continued to rise. Nearly 65 percent of all contacts, and 75 percent of retailers, said they increased prices in the prior two months. Many contacts argued that they increased prices to protect margins amid rising input and labor costs. However, others said that strong demand conditions allowed them to raise prices and boost margins. One manufacturer said that some of his largest multinational customers had recently initiated conversations with him offering "generous" price increas-

es in order to secure delivery of product in the future. He said this is the first time a customer has come to him offering to pay higher prices.

### **Consumer Spending**

Consumer spending increased modestly. General merchandisers and apparel retailers said that demand for goods remained strong, and many noted solid back-to-school sales. Hoteliers and restaurateurs that cater to regional leisure customers reported continued improvement in activity, though one hospitality contact said that business travel continued to lag behind leisure travel. Auto dealers reported a dip in sales despite generally strong demand as tight inventories and higher prices deterred some buyers. Contacts were optimistic that nonauto consumer spending would continue to improve in the coming months. However, auto dealers suggested that sales will remain weak until inventory levels recover.

### **Manufacturing**

Demand for manufactured goods grew strongly, though manufacturers' ability to meet that demand varied by sector. For example, steelmakers said that orders from automakers fell as chip shortages constrained vehicle production, while orders from agricultural equipment manufacturers rose as output in that sector increased. Supply chain disruptions remained broad, motivating some customers to order inputs ahead of time as a precaution against future delays or price increases. Some producers continued to sit on goods for which they could not secure shipping or could not finish assembling because of a shortage of labor or parts. On net, contacts expected conditions to improve in coming months, although the continued shortage of microchips, rising materials prices, and inflation fears tempered expectations.

### **Real Estate and Construction**

Demand for residential real estate and construction remained strong. One real estate agent noted that home sales experienced a typical seasonal slowdown in recent weeks, but demand was stronger than usual for this time of year. Homebuilders also reported that demand was solid despite persistent supply chain disruptions that have led to price increases and extended lead times. Overall, contacts anticipated that activity would remain robust throughout the remainder of the year.

Nonresidential construction and real estate activity continued to increase as firms revisited expansion plans previously put on hold. One developer suggested that many clients have begun to move forward with new construction projects despite elevated prices to avoid losing their market share. Overall, contacts were optimis-

tic that demand would remain robust, though many expressed concerns that persistent supply shortages could delay projects and dampen activity.

### **Financial Services**

Banking activity increased modestly, although growth cooled somewhat from that of recent reporting periods. Contacts noted that demand for auto loans and mortgages remained somewhat elevated even though limited inventories in both markets dampened activity. While business lending remained relatively soft, multiple contacts reported an improvement in demand and a stronger loan pipeline. Lenders said that delinquency rates for consumer and commercial loans were still low and that the number of active forbearance agreements for each continued to decline. Looking ahead, bankers were optimistic that loan demand, especially business lending, would continue to improve in the near term as the economy continues to grow.

### **Professional and Business Services**

Demand for professional and business services remained robust as their clients' outlooks for the overall economy continued to improve. Technology firms experienced robust demand as businesses furthered their investments in technology software and solutions. The need for authentication services also remained strong as consumers continued to favor remote transactions. Contacts expected demand to increase further throughout the remainder of the year as more businesses look to plan for the future and invest in additional technology.

### **Freight**

Freight activity grew moderately from an already high level both because of an increase in international trade flows and continued economic recovery in the United States. Contacts reported that continued shortages of truck drivers and tractor trailers limited the sector's ability to meet demand, fueling the poaching of workers from competitors and preemptive wage increases. Looking forward, there is general optimism that strong demand will continue into next year and that carriers will maintain their above-prepandemic levels of pricing power. ■

For more information about District economic conditions visit:  
<https://www.clevelandfed.org/en/region/regional-analysis>



## Summary of Economic Activity

The regional economy grew modestly in recent weeks. Firms across a variety of sectors noted that demand outpaced their ability to meet it because of shortages in labor, finished goods, parts, and raw materials. Manufacturers saw a slight slowdown in activity amid strong demand due to labor and input constraints. Ports and trucking companies continued to report robust volumes and difficulties delivering those shipments because of labor and equipment shortages. Retail sales increased modestly and saw low levels of inventory, some of which were due to the microchip shortage. Travel and tourism slowed slightly but remained strong, overall. Restaurants struggled to keep up with demand and also faced challenges with the availability of labor and ingredients. Demand for nonfinancial services rose moderately and firms struggled to meet demand amid labor and input shortages. Residential real estate demand remained strong, but sales decreased modestly in recent weeks. Commercial real estate leasing rose modestly, with growth mainly coming from the industrial and multifamily segments. Financial institutions saw modest growth in loan activity, overall. Employment rose modestly, but the demand for workers strengthened. On balance, wages grew moderately and employers continued to offer bonuses to recruit and retain workers. Price growth held steady at an elevated rate.

### Employment and Wages

Total employment in the Fifth District rose modestly in recent weeks. The demand for workers strengthened from an already robust level, and employers increasingly reported difficulties filling open positions. Many firms also saw increased turnover, leading some to offer both monetary and nonmonetary incentives, such as flexible work arrangements, to retain staff. A few employers expressed concern that federally mandated COVID regulations, such as vaccine requirements, could exacerbate their workforce challenges. Average wages increased moderately as firms offered higher starting pay and increased wages to recruit and retain staff. Many also continued to provide sign-on and stay-on bonuses.

### Prices

Price growth was little changed in recent weeks but remained significantly elevated on a year-over-year basis. According to our surveys, service sector firms reported, on average, slightly more than four percent growth in their selling prices compared to last year. Services firms continued to report strong price growth for inputs as well, but those prices moderated slightly in recent weeks. Manufacturers, on the other hand, reported a slight increase in their selling prices and a sharp increase for input costs.

### Manufacturing

Fifth District manufacturers reported a slight slowing of activity since our last report. While many manufacturers still saw strong demand, labor constraints and shortages of materials limited production. Long lead times and high prices of inputs led some manufacturers to substitute inputs or halt production of certain products. Additionally, many manufacturers were unable to obtain packaging or saw shipping delays on finished products. A cabinet manufacturer reported that customers were not able to accept orders on schedule because of construction delays. Some manufacturers also reported that delays in obtaining parts to repair machinery slowed production.

### Ports and Transportation

Fifth District ports saw strong growth in recent weeks, as volumes continued to break records. Growth was largely driven by imports, but exports grew as well. Imports of furniture, food, and machinery showed especially strong growth while agricultural products drove much of export growth. While auto parts held steady, finished auto imports dropped amid the microchip shortage. One contact noted that vessels normally used for finished new vehicles are now being used to ship trailers of goods. Port operations were smooth on the vessel side, but delays in inland transportation left imports sitting at the ports for extended times. These delays were caused largely by

shortages of chassis and drivers as well as rail delays and warehouse space constraints. One contact noted that companies are increasingly storing products on chassis, exacerbating the problem.

Fifth District trucking companies reported moderate increases in demand from already high levels since our last report. Volumes were high in nearly all areas of both retail and industrial shipping. Truckers were unable to meet demand and had to turn away business from both new and existing customers, as a shortage of drivers constrained capacity. Some companies also struggled with shortages of trucks and trailers as new vehicles and repair parts were delayed.

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

Fifth District retailers reported a modest increase in demand since our last report. However, lack of inventories often limited actual sales. Supply of automobiles was especially low, which contacts attributed to the microchip shortage. High prices led to record profits for some auto dealers, but contacts believed profits were not sustainable, as inventories continue to drop. Other retailers also struggled with long lead times for and limited availability of products as well as high shipping costs. Supply chain disruptions disproportionately affected smaller retailers who were often unable to secure containers for imports.

Travel and tourism in the Fifth District were strong but decreased slightly in recent weeks. The seasonal shift from leisure to business travel led to this slowdown, as many businesses have not resumed normal travel operations. Despite the slowdown, hotels saw strong bookings and high rates, but many limited services and the number of rooms offered because of staffing shortages. Restaurants also were unable to meet high demand and had to cut operating hours because they did not have enough employees. Many restaurants struggled with availability of ingredients and were forced to change their menus daily, depending on what ingredients they received.

### **Real Estate and Construction**

Demand for Fifth District homes remained robust but decreased modestly in recent weeks. Realtors reported they continued to get multiple offers on homes but fewer offers than in the past year. Sale prices rose overall, but sellers increasingly had to sell for under listing price. Inventories and average days on the market were low but increased somewhat as more homes came onto the market. Builders continued to struggle with low inventories and supply chain disruptions that delayed construction. Many sellers of existing homes also experienced

delays getting new appliances, paint, or other materials they wanted for improving homes before showing them.

Commercial real estate leasing increased modestly since our last report. More companies looked to lease office space, but many remained hesitant because of uncertainty surrounding space needs, and occupancy was little changed. Rents held steady, and concessions and incentives remained high, mostly consisting of free rent at the beginning of a lease and increased tenant improvement allowances. Demand and rental rates for industrial leasing remained high. Contacts reported rising demand for restaurant space, as new restaurants opened and existing ones added locations. Multifamily leasing was strong, as landlords saw high occupancy and rising rental rates.

### **Banking and Finance**

Overall, respondents reported that loan activity was modest this period, with moderate growth in residential mortgages amid continued low rates. Financial institutions indicated a slight increase in demand for commercial real estate and business loans, but noted that firms are reluctant to make capital investments due to uncertainty related to the Delta variant and supply chain shortages. Auto lending has decreased due to lack of inventory on car lots. Deposit growth was moderate despite many banks further lowering rates on interest-bearing accounts. Credit quality remained excellent, but a few respondents noted increased rate competition on loans.

### **Nonfinancial Services**

Nonfinancial services firms reported a moderate increase in demand in recent weeks, but many businesses indicated that they were not able to fully meet demand due to shortages of workers as well as shortages and delays in receiving other business inputs. In many cases, those shortages also led to higher costs. Community college enrollment remained below pre-pandemic levels. Meanwhile, nonprofit organizations generally saw strong giving and were hiring, but they had to compete with for-profit companies for workers. ■

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 at a moderate pace from mid-August through September. Demand for labor was strong, and worker supply remained extremely tight. Reports of wage increases, along with signing and retention bonuses, were widespread. Some nonlabor costs continued to rise, and pricing power improved. Retail sales activity strengthened, but the pace of new car sales slowed due to supply chain constraints. Domestic leisure travel activity remained strong. Demand for housing was robust, inventories declined, and home prices rose. Commercial real estate conditions were mixed. Manufacturing activity was robust, but production slowed as labor shortages caused more idle time. Conditions at financial institutions were stable, and consumer and residential loan demand improved.

### Employment and Wages

District contacts continued to report strong demand for labor and the supply of available workers remained extremely tight. Turnover increased as staff left jobs for higher wages, greater flexibility, and better work environments. At the same time, the number of retirements increased. A few firms noted that recent surges in COVID-19 cases caused higher rates of absenteeism than in previous waves. Several employers said they have been forced to make daily evaluations on which operations can be supported based on the number of employees who came to work. The most severe shortages were among hospital nurses who were noted as migrating to other practices where they can have a stable schedule, or to traveling positions where they can earn multiples of their prior hourly rate. Most employers shared that they would like to implement COVID-19 vaccine mandates but were concerned about losing employees. Worries about employee mental health, burnout, safety, and vaccine mandates impacting company culture were mentioned.

Upward pressure on wages intensified over the reporting period and reports were relatively widespread. Several contacts mentioned that escalating living expenses have become a part of wage negotiations. Wage increases continued to be noted along with signing and retention bonuses. Employers were offering greater flexibility to retain and attract workers when possible and several noted new hires negotiating for more paid time off.

### Prices

District contacts reported persistent increases in some nonlabor costs. In particular, steel and freight costs rose markedly. The volatility of these and other input costs, exacerbated by supply chain constraints, delayed con-

struction projects across sectors, with uncertainty around expected completion timelines. Food prices also rose. Contacts continued to note an ability to pass through input cost increases. The Atlanta Fed's Business Inflation Expectations survey showed year-over-year unit costs were relatively unchanged in September at 3.2 percent, from 3.3 percent in August. Year-ahead expectations also remained generally stable at 3.1 percent in September, compared to 3 percent in August.

### Consumer Spending and Tourism

District retailers reported strong demand since the previous report. However, several cited missed sales opportunities due to a lack of inventory and persistent labor shortages that resulted in reduced hours of operation. The pace of new vehicle sales continued to slow due to supply chain constraints.

Domestic leisure travel continued to drive tourism activity for much of the District, though occupancy at limited-services hotel properties declined due to a rise in COVID-19 cases and the start of school. In New Orleans, tourism plummeted following Hurricane Ida; however, the city has since opened, and contacts expect activity will improve over the balance of the year. Some contacts indicated further deterioration in business travel and convention bookings due to rising COVID-19 cases and expressed uncertainty over the next three months.

### Construction and Real Estate

Demand for housing throughout the District remained strong, though activity moderated slightly from record highs. Real estate contacts noted multiple offers on properties for sale. On a year-over-year basis, inventory levels declined, and home prices rose by double digits in most markets. Declining home ownership affordability

was a growing concern for some buyers, resulting in more moderate growth in sales and declining homebuyer sentiment. The decline in affordability was widespread, with markets in Central and South Florida experiencing the sharpest decline in the District.

Commercial real estate activity was mixed. Conditions in the multifamily sector improved notably from last year, though there was growing uncertainty regarding future effects from the end of the eviction moratorium. Activity in the retail segment continued to improve. The office sector remained challenged as employers expressed uncertainty about future space needs. Negative rates of absorption and new deliveries pushed office vacancies upward. Contacts report that competition is accelerating among CRE lenders. Smaller banks and non-bank lenders have been identified by market contacts as some of the more aggressive CRE lenders.

### Manufacturing

District manufacturers reported robust demand over the reporting period. However, materials shortages and longer supply delivery times continued to slow production, and some firms experienced increased down time due to higher absenteeism caused by COVID-19 illnesses. Several manufacturers anticipate further strengthening in demand but expressed uncertainty about future production levels.

### Transportation

Activity in the transportation sector strengthened, on balance, since the previous report. Logistics contacts reported robust demand as the peak shipping season commenced. East coast ports saw record container volumes. However, growing numbers of container ships idled off the coast, as short supplies of chassis, trucks, and labor slowed throughput. Operations resumed for Gulf coast ports after Hurricane Ida caused shutdowns due to damaged facilities and power outages. Air cargo contacts reported a resumption of cargo-only flights to capitalize on bottlenecks at ports. Contacts expect gridlocks at ports and other supply chain disruptions to continue into 2022.

### Banking and Finance

Conditions at District financial institutions remained stable. Margin pressures persisted as a result of the low interest rate environment, weak loan growth, and elevated liquidity. Loan balances declined for multiple loan portfolios, including commercial and industrial loans. Banks reported improvements in consumer and residential loan demand. Deposit levels remained high but growth moderated, causing some institutions to increase short-term borrowings. Asset quality remained healthy without notable increases to nonperforming loans or

charge-offs.

### Energy

Energy industry contacts reported damage to infrastructure servicing production in the Gulf of Mexico as a result of Hurricane Ida. However, some indicated that resiliency efforts made since Hurricane Katrina in 2005, including the hardening of energy infrastructure and investments in diesel-driven power generation, accelerated the recovery. Reduced oil and gas output was primarily attributed to challenges in redeploying workers since reentry into some communities was difficult or impossible after the storm. However, collaboration with private entities and state government helped alleviate immediate post-hurricane labor tightness. Some contacts expressed concern about short-term natural gas supply and pricing pressures resulting from reduced output. Further, reduced investment in oil and gas exploration and production in recent months is anticipated to result in long-term cutbacks in supply. Utilities contacts continued to cite strengthening residential, commercial, and industrial sales, as well as significant investment in renewables, particularly wind and solar power.

### Agriculture

Agricultural conditions remained mixed. Widespread rain kept the District free of drought, but left parts of the District in abnormally moist to excessively wet conditions. Producers continued to assess damages from Hurricane Ida; initial estimates indicated damage to row and vegetable crops, sugarcane, timber, livestock, and infrastructure. On a year-over-year basis, production forecasts for corn, soybean, peanut, and cotton crops were up while rice and sugarcane forecasts were down. The USDA reported year-over-year prices paid to farmers in August were up for corn, cotton, soybeans, cattle, broilers, and eggs, but down for rice and milk. On a month-over-month basis, prices were up for corn, rice, cattle, broilers, and eggs but down for cotton, soybeans, 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)



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## Summary of Economic Activity

Economic activity in the Seventh District increased modestly in late August and September, and contacts expected growth to continue at that pace in the coming months. Labor and materials supply constraints as well as the spread of COVID-19 continued to weigh on the expansion. Employment, manufacturing, and business spending grew moderately, but consumer spending and construction and real estate were little changed. Wages and prices increased strongly while financial conditions were flat. District corn and soybean harvests were larger than expected and near record levels.

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### Employment and Wages

Employment increased moderately over the reporting period, and contacts expected a similar pace of growth over the next 12 months. Contacts across sectors reported continued difficulty in finding workers at all skill levels, though a few contacts noted an uptick in the number of job applicants. Some businesses, particularly in the restaurant and manufacturing sectors, continued to limit operating hours because of a lack of workers. Contacts pointed to childcare challenges, retirements, COVID-19 health safety concerns, and vaccination requirements as factors limiting labor supply. Many contacts indicated that they were delaying the return to in-person work because of high numbers of COVID-19 cases. In addition, absences due to COVID-19 exposure were higher than a few months ago. Overall, wage and benefit costs increased strongly. A scarcity of applicants for open positions led numerous contacts to raise wage offers, and many reported giving additional pay raises on top of regular annual increases to retain their existing workforce. Some contacts said they did not hire applicants because asking wages were higher than their business models could support. There were reports of workers shifting sectors to pursue higher compensation and preferred working conditions.

### Prices

Overall, prices rose strongly in late August and September, though contacts expected increases to slow to a moderate pace over the next 12 months. There were large increases in producer prices, driven by passthrough of higher materials, energy, labor, and transportation costs. A few contacts noted that they were changing prices more frequently than usual. Consumer prices moved up robustly overall. Contacts pointed to solid demand, limited inventories, increased costs, and a greater ability to pass cost increases on to customers as sources of the higher consumer prices.

### Consumer Spending

Consumer spending was little changed over the reporting period, but remained at a high level. Spending on leisure and hospitality declined, especially at hotels and restaurants. In contrast, nonauto retail sales increased moderately. Contacts indicated that demand for furniture and home furnishings, appliances, and electronics remained robust. Spending for home improvement and groceries was flat but continued at high levels. Light vehicle sales decreased somewhat, as declines in new vehicles outweighed a rebound in used vehicle sales. Auto dealer profit margins remained high but dropped further from their summer peak. Contacts reported that ordering vehicles according to customers' preferences

was likely to become standard practice, allowing for lower dealer inventories. Auto service and parts sales were reported to be up moderately.

### **Business Spending**

Business spending increased moderately in late August and September. Retail inventories remained at low levels in numerous sectors due to supply chain bottlenecks, and contacts expected the issues to continue into the second half of 2022. New and used light vehicle inventories were incredibly low, as auto production remained hampered by supply constraints. In manufacturing, for-sale inventories were very low, and there were shortages of a wide range of inputs including certain metals, plastics, and microchips. Demand for transportation services remained elevated, with many contacts reporting continued domestic and international shipping delays. Capital expenditures increased moderately, and contacts expected a similar pace of expansion over the next twelve months. Commercial and industrial energy consumption was flat but remained higher than pre-pandemic levels.

### **Construction and Real Estate**

Construction and real estate activity was similar to that of the prior reporting period. Residential construction was unchanged, as shortages of materials and labor continued to slow projects. Residential real estate activity was also little changed. Home sales were flat, while prices increased moderately. One contact pointed to rising inventories as a source of cooling price growth. Rents were up modestly, and contacts noted that signing bonuses were now lower than before the pandemic. Non-residential construction activity increased slightly. Growth was concentrated in the industrial segment, with contacts highlighting strong demand for facilities to house inventory close to company operations and customers. In contrast, office construction was reportedly weaker. Commercial real estate activity was unchanged. Leasing and sales of industrial and multi-family properties remained steady at high levels. Meanwhile, leasing and sales activity within the office segment remained substantially below pre-pandemic levels. That said, office property showings increased in recent weeks, and some offices moved to new spaces to avoid the costs of reconfiguring to accommodate COVID-19 protocols.

### **Manufacturing**

Manufacturing production grew moderately in late August and September, and contacts reported growing order backlogs. The majority of manufacturing contacts indicated that business was at or above pre-pandemic levels, with most running at full capacity subject to ongoing labor and logistical challenges. Auto output remained flat at low levels as shortages of microchips and other

materials limited production, leading to some order cancellations for auto parts suppliers. Demand for heavy machinery grew moderately, led by higher sales in the agriculture and construction industries. Heavy truck demand was strong, particularly for used trucks. Contacts reported higher steel demand from most industries, particularly for specialty products. Steel service center inventories increased, but were expected to stay below pre-pandemic levels over the long term. Building materials demand remained solid, supported by homebuilding and remodeling projects.

### **Banking and Finance**

Financial conditions were flat on balance over the reporting period. Participants in equity and bond markets reported little net change in conditions. Business loan demand was also about the same, with contacts reporting continued strong demand for M&A loans. Business loan quality was unchanged overall, though standards loosened somewhat. In consumer markets, there was a mild increase in loan demand. Contacts noted that residential mortgage activity continued to be strong. With all-time low delinquency rates in the housing, auto, and credit card markets, both loan quality and standards were unchanged.

### **Agriculture**

In spite of drought in some areas, corn and soybean harvests in the District were larger than expected and near record levels. More plentiful supplies of both crops were putting downward pressure on prices. That said, corn and soybean prices were higher than a year ago. Cattle prices were flat, while milk prices recovered some. Facing higher feed costs, dairy farm margins tightened. Rising energy prices and logistical problems were creating concerns about the cost and availability for 2022. Farmland prices and rents continued to grow. Cash from government programs and product sales were holding back demand for agricultural lending. ■

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



## Summary of Economic Activity

Economic conditions have continued to improve at a moderate pace since our previous report. Contacts continued to cite labor shortages and supply chain disruptions as primary issues. Increased input costs have led to cost pressures across industries, and firms with the power to do so reported passing along these costs to their customers. Consumer spending has remained steady since our previous report. Residential real estate inventories increased slightly, but prices remained high. Industrial real estate has experienced strong growth, with major projects launched around the District. Banks reported declines in lending activity due to increased uncertainty related to the COVID-19 Delta variant.

### Employment and Wages

Employment has increased modestly since our previous report, with widespread hiring attempts hindered by the continuing labor shortage. Firms reported various strategies to attract scarce workers. Some redesigned open positions to be more attractive; others held job fairs; others turned to offshoring; and many reported sign-on and retention bonuses. One large retailer planned to raffle off a car to seasonal employees with good attendance. Several firms emphasized a new focus on students and young workers: One contact at a transportation technical institute remarked that, in contrast to typical years, every student graduating this year has already found a job. Other contacts simply reported adapting to worker shortages—automating jobs, cutting down on business hours, or turning to contractors as necessary. One Indiana school district, lacking bus drivers, temporarily returned to remote learning.

Wages continued to increase strongly in the tight labor market, with small firm wages rising more slowly. One real estate contact reported giving employees raises every pay period, which they feared was unsustainable; an agriculture employer reported that a 20% wage increase still left them with significantly fewer workers than they wanted.

### Prices

Prices have increased moderately since our previous report. Contacts across industries reported increased input costs. Some industries, such as construction, have been able to pass these cost increases to consumers, whereas contacts in the healthcare industry noted difficulty passing along increases in input costs. One contact noted double-digit price increases on farming equipment. In the construction industry, contacts reported lower lumber prices but noted the high cost for items such as steel and shingles. One contact reported that steel suppliers will honor discussed prices only for a day.

### Consumer Spending

General retailers, auto dealers, and hospitality contacts reported that activity has been unchanged since our previous report. September seasonally adjusted credit and debit card spending increased in Illinois, Indiana, Mississippi, and Missouri relative to August and decreased in Arkansas and Tennessee. In West Tennessee, consumer perceptions of the current economic situation declined slightly and expectations for the future of the economy declined significantly. Auto dealers and restaurants continued to report that supply chain issues and labor shortages are restraining sales. A truck dealer reported record demand and all-time high profitability. A St. Louis hospitality contact reported that revenue per

available room exceeded 2019 levels in early October for the second time since the pandemic began.

### **Manufacturing**

Manufacturing activity has seen a moderate increase since our previous report. Firms in both Arkansas and Missouri reported upticks in new orders and production, although the rate of growth has slowed slightly. Supply chain delays and availability have continued to be issues, affecting the prices of intermediate goods in steel, concrete, and timber. Manufacturers are beginning to explore producing these goods domestically to address shortages. Contacts are still optimistic about future growth but remain concerned over global supply chains and wage inflation. The industry is undergoing significant physical expansion in the District, with plans for a paper mill in Henderson, KY, battery plants in Kentucky and Tennessee, and a speculative industrial warehouse in St. Louis.

### **Nonfinancial Services**

Activity in the nonfinancial service sector has increased slightly since our previous report. Airport passenger traffic remains near 80 percent of pre-pandemic levels due to strong leisure travel; several airport contacts were optimistic about business travel as more firms return to in-person work. Several transportation contacts noted that demand is strong, but shortages of shipping containers and barges remain an issue. A healthcare contact noted that, while revenue has improved since this time last year, surgery and emergency room revenues have not returned to pre-COVID levels. Several healthcare contacts mentioned that hospitals are busy, in part due to COVID patients, and face staffing issues.

### **Real Estate and Construction**

The residential real estate market has remained strong since our previous report. Inventory remains restricted, but there are some increases in inventory across all price ranges. Prices remained steady, but there are fewer bidding wars and some price reductions. Residential construction has remained strong since our previous report, but the industry is struggling with supply chain shortages and retaining workers. Many input materials continued to have extended lead times. Some buyers who purchased a property and planned to build on it have elected to delay construction until supply chain issues are resolved.

The commercial real estate market has remained mixed since our previous report. Industrial real estate remains strong, and many major firms are buying build-to-suit and spec industrial space across the District. The office market is improving, but prices and vacancy rates have

not returned to pre-pandemic levels. One contact reported companies are more willing to sign leases but are still wary of signing full five-year lease contracts. There is very little financing available for office space, which is causing delays as landlords and tenants disagree over who should pay for repairs and improvements. The market for retail space struggled last year, but demand has improved rapidly since February. A contact in the healthcare sector noted that rising construction prices are hindering infrastructure updates for rural hospitals.

### **Banking and Finance**

Banking conditions have worsened slightly since our previous report. Contacts noted a pause in lending activity due to uncertainty surrounding the Delta variant. Consumer, commercial, and industrial loans declined moderately, while real estate loans increased modestly. A contact in Kentucky reported strong growth in residential real estate lending due to higher construction costs. Delinquency rates remained low, but some lenders are concerned that delinquencies will increase as unemployment benefits have expired. Loan pricing remained competitive, and multiple contacts cited concerns over elevated deposit levels and interest margin compression.

### **Agriculture and Natural Resources**

Agriculture conditions have slightly improved since our previous report. Overall crop yields have increased moderately over the previous year. Contacts are very optimistic about the current conditions in the District. Farmers have reported a strong harvest season combined with high prices, which have contributed to a strong season overall. Hurricane Ida caused some slight delays but was not a major disruption to the District's agribusiness. There is, however, some concern about rising input prices, global supply chain disruptions, and the lack of labor necessary for both low- and high-skilled agriculture work. ■



## Summary of Economic Activity

The Ninth District economy grew moderately since late August. Employment saw moderate growth, with hiring demand continuing to outpace labor availability. Wage pressures were strong, while price pressures increased slightly from an already elevated level. Growth was noted in commercial construction and manufacturing, while consumer spending, commercial real estate, and energy activity were stable. Residential construction and real estate activity decreased, while agricultural conditions deteriorated. Business activity reports were mixed among minority- and women-owned businesses.

### Employment and Wages

Employment saw moderate growth since the last report, with hiring demand continuing to outpace labor availability. Job postings rose further in September in District states, and recent surveys and sector contacts report strong hiring demand. At a September business conference in west-central Minnesota, “every person ... raised their hand saying that they are currently trying to hire people,” according to a workforce contact. Minnesota staffing firms reported that both total clients and job orders were up; placements were also higher, but unfilled job orders were rising even faster. Firms continued to struggle finding labor. Overall, Minnesota staffing firms reported a modest increase in labor availability after pandemic-era unemployment benefits stopped. However, other business workforce contacts reported little increase in labor supply. Federal vaccine mandates were expected to exacerbate labor problems, though in most cases the number of quits induced by the mandate has been smaller than anticipated.

Wage pressures were strong. A majority of firms across several surveys reported wage increases of 3 percent or more. Wage increases were strongest in retail, hospitality, health care, and construction. A North Dakota retail contact noted that recent wage growth was strong and that “the highest increase was at the lowest-paying jobs.” However, contacts also noted that higher wages were not always attracting more applicants.

### Worker Experience

Labor supply remained tight across the District. Initial unemployment claims in District states in September were flat overall compared with August; however, recent levels were still 70 percent higher than similar pre-pandemic levels. Continuing claims fell about 20 percent over this same period in the District, but remained elevated, particularly in Minnesota and Wisconsin. Labor contacts in the construction trades reported strong enrollment in apprenticeships for workers to be trained as drywall installers, electricians, and iron workers. According to a labor contact, employment of sheet metal workers was “pretty much normal for this time of year.” A workforce development contact said some companies have adopted more flexible and tolerant practices to retain existing employees; for example, one company has provided means for workers to observe their religious practices. The absence of large conferences and meetings continued to affect hospitality workers. Lack of child care or reliable transportation, fears over COVID exposure, and uncertainty with school schedules continued to influence people’s employment decisions.

### Prices

Price pressures increased slightly from an already elevated level since the previous report, while prices for certain inputs eased. Surveys and comments from contacts indicated that firms were passing more of their input costs through to final prices. Half of respondents to

a survey of Ninth District firms characterized their nonlabor input costs as up significantly in the third quarter, while about a fifth said they had increased their output prices significantly. Contacts in manufacturing continued to report significant price increases for metals, electronic components, and shipping, while other contacts reported that the pace of increase had slowed recently, though prices remained much higher than a year ago. Retail fuel prices increased slightly in most District states since the previous report.

## **Consumer Spending**

Consumer spending was flat overall since the last report, sustaining a high overall level, but held back by low product inventories and some evidence that the delta variant was negatively influencing some consumer behavior. Hospitality and tourism firms reported strong activity through the end of summer, but many were more cautious regarding their fall outlook. Convention and other large-group activities have reportedly softened just as the sector was seeing some growth. A large Minnesota resort said it was seeing more inquiries on large group events “until delta hit, and then I think it shook people’s confidence again.” Labor difficulties, supply chain problems and higher input prices were also forcing many restaurants and other retailers to pull back on hours and even days of operation. Retail contacts reported solid demand but also delays in product delivery and sometimes receiving less than ordered.

## **Construction and Real Estate**

Commercial construction grew moderately since the last report, despite continued challenges. Industry data showed that new project starts grew across District states toward the end of summer. Available permit data also showed growth in August and September compared with last year in many of the District’s larger cities. Sector contacts, however, continued to note concern over higher input prices, supply chain disruptions, and labor constraints which, in turn, have increased project delays and negatively affected demand. Residential construction fell slightly, with single-family permits falling in September compared with last year in many markets. Contacts said rising input prices were beginning to have material effects on project timelines, cancellations, and new demand, and the sector in general was slowing from very strong levels earlier in the year.

Commercial real estate was flat overall. Office subleasing and vacancy rates increased in many markets as larger firms continued to reconsider their space needs. However, multifamily markets were healthy, with vacancy rates holding or declining in many markets while rents saw solid increases despite strong

activity in new multifamily construction. Retail contacts reported improved conditions; a mall contact noted an increase in store openings and overall leasing, though rent levels and lease terms “continue to be a challenge.” Residential real estate conditions softened slightly. Closed sales in August and September were lower in many locations compared with last year due to tight inventory and rapidly rising prices.

## **Manufacturing**

District manufacturing activity increased moderately since the previous report. A regional manufacturing index indicated increased activity in Minnesota, North Dakota, and South Dakota in September relative to the previous month. Several contacts reported record performance in the third quarter, even though supply chain problems were constraining their ability to meet demand. Regarding input cost pressures, one respondent commented, “Passing along rising prices does not seem to be denting demand.”

## **Agriculture, Energy, and Natural Resources**

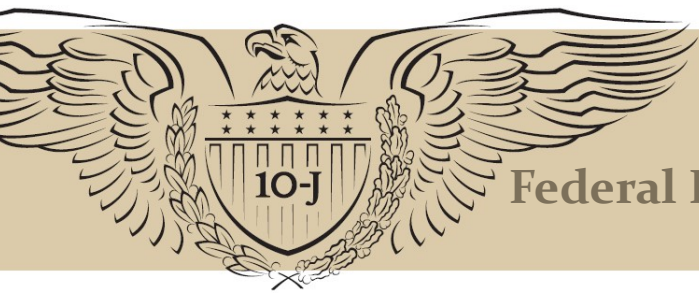
District agricultural conditions deteriorated somewhat since the previous report. While producers continued to benefit from solid commodity prices, most of the District remained in severe or worse drought condition. Yields and production of wheat and other small grain crops in District states for 2021 will be sharply lower than the previous year. Most of the District’s corn and soybean crops were rated in fair or poor condition. District oil and gas exploration activity was unchanged since the previous report. District iron ore mines continued to operate at full capacity.

## **Minority- and Women-Owned Business Enterprises**

Business activity reports were mixed among minority- and women-owned business enterprises (MWBEs) in the region. Tight labor markets continued to put pressure on MWBEs, and some found it difficult to compete with the higher wages offered by larger businesses. “We cannot find enough workers, and short staffing is impacting our productivity,” said an entrepreneur. Three-quarters of respondents to a recent survey targeting MWBEs said that their input costs were higher, and almost half reported having increased prices for their final products or services. Entrepreneurs expressed caution as the delta variant has disrupted momentum in the recovery and uncertainty as the immediate future has become harder to predict, but they also raised their need and willingness to innovate and adapt. Some expected an increase in capital expenditures in the next quarter. ■

*For more information on the Ninth District economy, visit: [minneapolisfed.org/region-and-community](https://minneapolisfed.org/region-and-community)*





## Summary of Economic Activity

The Tenth District economy expanded at a moderate pace through September. Ongoing growth in manufacturing alongside renewed growth in the energy sector and steady consumer spending supported the regional economy. Increases in oil and natural gas prices led to an expansion of energy activity in several locations throughout the Tenth District. Consumer spending continued to grow during the most recent surge in COVID cases. Unlike previous experiences during the pandemic, the growth in consumer spending was resilient at restaurants and other leisure and hospitality businesses. Business travel did not resume as expected in September, and many large events were postponed. Conditions in the agricultural sector remained strong, except in cattle markets where drought conditions and cost pressures adversely affected ranchers. Employment gains were broad based with jobs being added at a moderate pace. Contacts continued to report rising costs for materials, and also highlighted rising transportation costs as significant and persistent price pressure.

### Employment and Wages

Tenth District employment gains were moderate and broad-based over the past month. The number of hours worked increased at most manufacturing and service businesses, including at restaurants and hotels. Entertainment venues were an exception where employment declined more than is attributed to seasonal shifts.

Comparing current labor market conditions to earlier in the summer, the majority of businesses reported difficulties filling open positions have not eased. Contacts noted recruiting for entry-level and low-skill positions remains just as difficult compared to a few months ago. Despite the challenges recruiting qualified workers, most businesses have not changed their hiring plans from earlier this summer. Those that have changed their plans now expect to add more workers than before.

Wages continued to rise broadly in September. Contacts noted increases in other labor expenses such as benefits and job training to attract and retain workers. Furthermore, contacts in several sectors reported using more premium pay for temporary workers as they sought to offset labor shortages.

### Prices

Output prices rose across most sectors of the Tenth District economy during September. Material input prices also increased, but contacts were mixed on their ability to pass on higher material and labor costs to their customers. Businesses either reported being able to pass along the majority of higher costs to their customers or only a small portion. Price pressures from transportation costs also expanded in recent weeks. Construction materials continued to be an exception to rising input prices, declining further over the past month.

### Consumer Spending

Retail spending growth picked up moderately in September, including spending at restaurants. Demand at other leisure and hospitality businesses grew modestly, but contacts noted that the consumer segment of the hospitality industry is growing at a robust rate. Expectations for a resumption of business travel in September were not realized and several event bookings were postponed, which held down overall travel-related spending somewhat. Businesses reported broad confidence that consumer spending will continue to grow over the next six months.

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

Manufacturing activity continued to expand at a robust pace in September due to increased production of durable goods. Expectations for growth in durable good production over the next six months increased again as new orders from District businesses rose. Several contacts noted that an inability to find sources of steel products and higher steel prices were substantial constraints on overall activity. Labor shortages also weighed on manufacturing activity. Overall production of nondurable goods was unchanged in recent weeks, yet most contacts continue to expect conditions to improve over the next six months.

Transportation costs for Tenth District manufacturing businesses increased in recent weeks, both for domestic and international shipping. Several contacts cited transportation costs as a significant cost pressure being passed to customers and suggested this cost pressure may linger into 2022. Material shortages and delays in deliveries of inputs worsened over the last month.

Capital expenditures are expected to increase at a robust rate among both manufacturing and services businesses. Several contacts noted investments in labor-saving technologies amid worker shortages as well as investments in equipment to scale production amid higher demand.

### **Real Estate and Construction**

Residential real estate activity declined slightly, which most contacts attributed to seasonal factors and a low supply of homes for sale. Home prices continued to rise, with several contacts noting that home price growth in resort areas continues to exceed other parts of the market. Lot prices for new construction also rose during the past month.

Vacancies in commercial real estate properties throughout the Tenth District increased slightly, turning from their slow decline during past months. Expectations for vacancy rates over the next six months also rose. However, commercial property values and underlying rents continued to rise at a robust rate. Demand for industrial and warehouse space continued to grow and exceeds available supply. Contacts across segments of commercial real estate reported that their ability to access credit did not change over the last month.

Sales of construction materials declined at a robust rate, with selling prices and inventory levels also declining. Contacts reported difficulties finding qualified drivers for deliveries and workers for fabrication of materials.

### **Banking**

Bankers in the Tenth District reported slight growth in overall loan demand in recent weeks. Changes in conditions were mixed across individual loan categories, with contacts indicating a slight increase in commercial real estate loan demand, but a slight decrease in consumer and agricultural lending. Demand for residential real estate loans declined modestly in September but remained at a high level. Bankers reported steady commercial and industrial loan demand at low levels, as PPP loan forgiveness diminished demand for credit by businesses. Deposits levels have grown slightly over the last six weeks. Credit standards held steady for most categories, except commercial real estate and agricultural lending, which underwent a slight tightening. Overall loan quality has improved moderately compared to a year ago and is expected to hold steady over the next six months.

### **Energy**

Tenth District energy activity expanded at a moderate pace in September. The number of active oil and natural gas rigs increased in several areas including Oklahoma, New Mexico, and Wyoming. While contacts reported that access to credit expanded slightly in recent months, they also noted investor and lender preferences limiting credit flows to the sector were significant factors constraining further expansion of activity. A majority of firms reported higher revenues and profits as commodity prices increased considerably. Surveyed respondents indicated prices needed for drilling to be profitable increased on average, which some businesses attributed to rising labor costs. Most contacts expected natural gas prices to remain high in coming months. Over half of firms reported minor delays or disruptions due to COVID-19 infections over the past quarter.

### **Agriculture**

Conditions in the Tenth District agricultural sector remained strong. Prices for corn, soybeans and hogs decreased slightly since August, but, along with wheat and cotton prices, remained at multi-year highs. Contacts reported ongoing concerns about rising inputs costs putting downward pressure on farm incomes in coming months. Some contacts also noted a desire to hold larger inventories of inputs over the coming year. Weakness in the cattle industry persisted as concerns about drought and higher input costs intensified. Low cattle prices continued to limit profit margins for ranchers. ■

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



## Summary of Economic Activity

Solid expansion continued in the Eleventh District economy, though COVID-19 and labor and supply-chain constraints remained headwinds. Growth in the manufacturing and nonfinancial services sectors was strong, and retail sales rose at an average pace. Home sales were steady at elevated levels. Overall loan volumes rose broadly, and the energy sector continued to experience robust growth. Agricultural conditions were quite strong. Employment growth was robust, and wage growth remained highly elevated amid widespread labor shortages. Notable price increases were seen across sectors, with contacts noting that ongoing supply-chain disruptions continued to drive up costs. Outlooks improved, with most contacts expecting stronger business six months from now, though uncertainty increased.

### Employment and Wages

Employment expanded robustly overall, though job growth moderated slightly in the service sector. Hiring picked up in manufacturing, energy, and retail despite continued reports of difficulty finding workers. These labor shortages continued to pervade other industries as well, perhaps most acutely for entry-level workers. Numerous firms said restrained headcounts were hampering expansion plans or even the ability to meet current demand. Some contacts noted delays and difficulties in bringing workers back onsite, either due to the resurgence of COVID-19 or increased pushback from employees to remain remote. Some staffing services contacts expect recruiting to become easier in upcoming months now that federal unemployment benefit programs have ended.

Wage growth remained highly elevated, and numerous contacts said they were having difficulty filling vacancies even at much higher wages. Multiple contacts cited entry-level wage increases of 15 to 20 percent over the past six months.

### Prices

Prices continued to rise strongly, with upward pressure on both input costs and selling prices holding near historically high levels. Input costs rose fastest in the manufac-

turing sector, followed by oil and gas support services and retail. Supply-chain bottlenecks were widely cited as a key factor driving up costs. Many contacts reported passing on at least a portion of the higher costs to customers, though some noted their profit margins continued to be pressured by selling price increases not matching cost increases. Contacts in the construction industry noted elevated but fairly stable input costs overall, with declining lumber costs offsetting rises in other materials. Looking ahead, most contacts expect elevated price increases to continue for at least the next six months.

### Manufacturing

Robust expansion continued in the Texas manufacturing sector, though the vast majority of firms noted supply-chain disruptions or delays. In many cases these disruptions have been going on for a while, and firms have yet to see relief—nearly 90 percent say supply issues are the same or worse now versus a month prior. Despite these challenges, output growth was widespread across sectors, led by nondurable goods manufacturing, primarily food and chemicals. Optimism waned amid rising uncertainty and continued labor and supply-chain constraints, though a majority of contacts still expect higher output six months from now.

## Retail Sales

Moderate sales growth continued in the retail sector. Growth was led by wholesalers, while auto dealers continued to report declining sales amid particularly acute supply-chain issues and tight inventories. Numerous contacts said transportation problems—a shortage of containers, trucks, and truck drivers—were exacerbating other supply-chain issues like limited product availability and extended lead times. Outlooks were slightly more bullish than six weeks ago, but retailers note it will take time to get out of the supply issues they are experiencing.

## Nonfinancial Services

Texas service sector activity continued to grow at a slightly above-average pace, with revenue growth strongest among professional, scientific and technical services firms. Solid revenue growth was also seen in the health care sector after some weakness in prior months. Leisure and hospitality firms saw a decline in revenues over the reporting period, citing cancellations and slowed business due to the Delta variant. Staffing firms reported strong demand across industries, with particularly robust demand in healthcare, construction, and information technology. An airport said summer passenger volume in 2021 was more than double that of 2020, but down about 15 percent from summer 2019. The contact also noted that August domestic ecommerce air cargo volumes were higher than any August in the past 20 years, though international cargo volumes have yet to recover to pre-pandemic levels. Shipping cargo volumes at Texas ports also pushed to a record high in August, driven by increased consumer spending and retailers trying to build up inventory. Overall, outlooks remained strong with most firms expecting higher revenues six months from now, though uncertainty continued to creep higher.

## Construction and Real Estate

Housing demand remained strong. Contacts noted that sales were levelling off at above-average levels, in part due to tight inventories, buyer hesitancy and declining affordability. Home price appreciation moderated, but land and lot prices continued to accelerate. Labor challenges and supply shortages remained widespread, resulting in delays in lot development and home closings. Builders' margins have widened, however, and outlooks were optimistic.

Apartment demand increased further, with leasing activity rising in both urban and suburban locations. Annual rent growth was at a record high in many Texas markets. For industrial properties, contacts noted robust growth in demand and construction. Net absorption of office space

was mixed, but availability of sublease space and vacancies remained high, with little improvement expected in the near term. Activity in the retail space market was generally positive since the last report. Investment sales activity was elevated for industrial and multifamily properties.

## Financial Services

Loan demand growth remained solid, pushing up overall loan volumes. Residential real estate loans led volume growth over the past six weeks, followed closely by commercial real estate, and commercial and industrial lending picked up notably from the prior period. Nonperforming loans continued to decrease, and credit standards and terms remained largely unchanged. According to financial industry contacts, general business activity continued to increase, though respondents cited concerns that supply-chain disruptions, labor shortages, and the Delta variant were disrupting businesses and increasing uncertainty. Outlooks for loan demand and broader business activity six months from now remained optimistic.

## Energy

Elevated growth continued in the oil and gas sector. Optimism improved among contacts, spurred by higher oil and natural gas prices, though supply-chain problems continued to worsen. Contacts said current prices are conducive to increasing production, and drilling and well completion activity rose steadily over the past six weeks. Orders for new equipment were up, though availability is narrower, lead times longer, and prices higher. Looking ahead, contacts expect rising production and noted more upside risk than before.

## Agriculture

Soil conditions remained mostly adequate in Texas, though drought conditions persisted in parts of southern New Mexico. Crop conditions were quite favorable, boosting expectations for substantially higher production this year than last across a variety of crops, including cotton, sorghum, and corn. Agricultural prices generally softened slightly over the reporting period. Pasture conditions were fair to good, and promising soil moisture conditions for the planting of winter wheat increased optimism for crop performance. ■

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 strengthened moderately during the reporting period of mid-August through September. The overall price level moved up notably, driven by increases in transportation and input costs. Conditions in the labor market tightened further as modest increases in employment were accompanied by strong upward wage pressures in almost all sectors. Retail sales moderately expanded while activity in consumer services slowed down somewhat. Conditions in the agriculture and resource sectors as well as the manufacturing sector strengthened somewhat, as consumer demand remained solid. Activity in the residential real estate market expanded at a strong pace, while commercial real estate activity was largely subdued. Lending activity picked up further over the reporting period.

### Employment and Wages

Conditions in the labor market remained tight while overall employment levels expanded modestly. Demand for workers continued to be exceptionally strong. Contacts across the District reported having substantial difficulties finding qualified candidates, particularly for lower-skilled positions. Industries reporting the tightest constraints included hospitality, retail, and food services. In fact, a few contacts in these sectors noted that they did not see any significant improvement after the expiration of supplemental benefits or the start of the school year. Worker shortages were also noted in manufacturing, higher education, nonprofit organizations, and financial institutions. Most contacts mentioned needing longer time for filling open positions, although some reported they were having an easier time finding remote workers, especially those from nonurban areas.

Wage growth climbed further due to intensified competition for talent and workers' willingness to switch jobs, with one contact from the banking sector characterizing it as a wage war. Apart from increasing starting salaries as much as 20 percent by some employers' estimates, most contacts across sectors reported offering hiring bonuses, gift cards, and other incentives. Conversely, wages in the entertainment and energy sectors remained mostly flat. In addition, an entertainment industry contact in California reported an upcoming union vote to decide whether its members will go on strike to oppose low wages and long working hours.

### Prices

Prices moved up notably over the reporting period. Construction material costs, such as steel, asphalt, and wallboard, increased sizably. Lumber prices, despite receding and stabilizing during the summer months, started noticeably increasing in some areas recently. Robust demand for the regions' agricultural products together with lower crop yields continued to drive food prices up. Additionally, price pressures arose from increased transportation, energy, and labor costs. One banking sector contact noted rising labor costs as having the biggest impact on their business and prices.

### Retail Trade and Services

Sales of retail goods, notably for food and beverage, picked up over the reported period. Several contacts mentioned strong e-commerce sales. High demand, labor shortages, and supply chain disruptions have kept inventories low, in some cases restricting retailers from meeting consumer demand. Sales of vehicles and electronics were hindered by semiconductor shortages and other ongoing disruptions to inventory building.

Activity in the consumer and business services sectors slowed down somewhat. Although demand in travel, leisure and hospitality, and food services had been rising, the recent spike in Delta variant cases has dampened growth in these sectors. Hospitality services related to business travel also continued to underperform. One contact noted many reservations were cancelled as in-person business events were switched to only being held

virtually. On the supply side, reports across the District noted that labor shortages in hospitality and food services have constrained business capacity. One contact reported that many hotel rooms remained vacant due to the lack of staff to service them. Demand for health-care services remained high, particularly for COVID-19 testing. Several contacts noted an increase in clinical volumes especially due to pent-up demand for elective procedures that had been delayed by COVID-19.

### **Manufacturing**

Activity levels in the manufacturing sector rose slightly. Operational disruptions due to the pandemic have eased somewhat, normalizing manufacturing activity and capacity utilization. Nonetheless, supply-chain bottlenecks and labor shortages continued to hold back many manufacturing processes. Manufacturers expecting disruptions to persist mentioned plans to stockpile raw materials and find suppliers closer to their production sites. High demand for renewable energy continued, although with some delays in orders as customers await more clarity on new federal policies.

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

Conditions in the agriculture and resource sectors strengthened somewhat. Demand for the regions' agricultural products continued to be robust both domestically and internationally. Crop yields on tree fruit, wheat, and grapes were lower due to warmer temperatures and water shortages. A few contacts reported farmers leaving a portion of their acreage fallow to use water on more profitable crops. As a result, some fruit inventories were reduced. Several contacts noted price pressures coming from increased transportation and labor costs. Some producers in the Pacific Northwest highlighted that labor shortages led them to hire most of their seasonal workers through the temporary workers visa program as opposed to locally. Supply chain disruptions and shipping delays continued to weigh on producers with one contact reporting about 25 percent of orders being unshipped. The overall sales volume for the energy sector remained at normal levels, despite the shift in customer

usage from commercial to residential during the pandemic.

### **Real Estate and Construction**

Activity in the residential real estate market expanded at a brisk pace. Demand for both single and multifamily housing was strong across the District. Lack of affordable single-family housing is further increasing the demand for multifamily houses, with several contacts observing growth in new construction to meet current demand. Additionally, a few contacts noted increases in building permit activity and construction loan requests for single-family and multifamily projects. Reports from Alaska point at continuing delays in construction due to uncertainty about the availability and cost of labor and materials. House prices continued to increase across the region. Several Southern California contacts reported noticeably strong price surges in recent weeks, including rents. However, a report from Arizona suggested that prices have stabilized somewhat in the region, yet at a higher level.

Commercial real estate activity was largely subdued. The spread of the Delta variant as well as labor shortages hindered the recovery of office, retail, and hotel sectors. Consequently, rents and leases in commercial real estate were noted to have fallen, and vacancy rates increased largely in California. Conversely, conditions in the industrial real estate sector strengthened, partially due to increased demand from manufacturers.

### **Financial Institutions**

Lending activity picked up further over the reported period. Consumer demand for loans remained strong, with most origination stemming from residential loans and credit card lending. At the same time, auto lending was muted due to inventory restrictions. Bankers across the District highlighted that loan competition was reportedly at record highs, as liquidity levels remained elevated and interest margins were further squeezed. Business investments were largely muted due to uncertainty faced by business owners. ■



