

For use at 2:00 PM EST

Wednesday

December 1, 2021

# The Beige Book

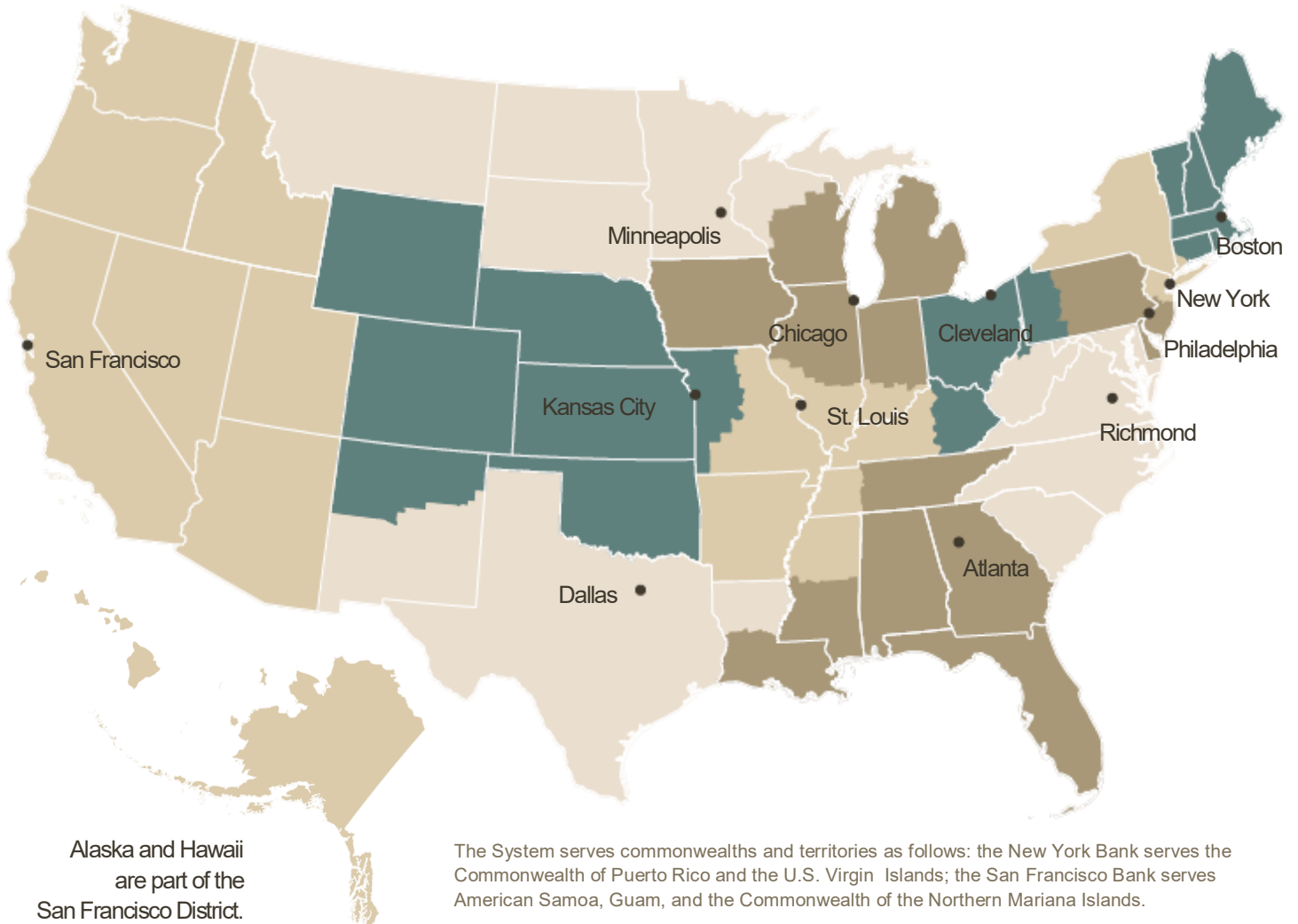
---

Summary of Commentary on Current Economic Conditions

By Federal Reserve District

November 2021

## Federal Reserve Districts



---

This report was prepared at the Federal Reserve Bank of Chicago based on information collected on or before November 19, 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.

---

<b>National Summary</b>	<b>1</b>
<b>Boston</b> First District	<b>A-1</b>
<b>New York</b> Second District	<b>B-1</b>
<b>Philadelphia</b> Third District	<b>C-1</b>
<b>Cleveland</b> Fourth District	<b>D-1</b>
<b>Richmond</b> Fifth District	<b>E-1</b>
<b>Atlanta</b> Sixth District	<b>F-1</b>
<b>Chicago</b> Seventh District	<b>G-1</b>
<b>St. Louis</b> Eighth District	<b>H-1</b>
<b>Minneapolis</b> Ninth District	<b>I-1</b>
<b>Kansas City</b> Tenth District	<b>J-1</b>
<b>Dallas</b> Eleventh District	<b>K-1</b>
<b>San Francisco</b> Twelfth District	<b>L-1</b>

## 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 ■ November 2021

## Overall Economic Activity

Economic activity grew at a modest to moderate pace in most Federal Reserve Districts during October and early November. Several Districts noted that despite strong demand, growth was constrained by supply chain disruptions and labor shortages. Consumer spending increased modestly; low inventories held back sales of some items, notably light vehicles. Leisure and hospitality activity picked up in most Districts as the spread of the Delta variant ebbed in many areas. Construction activity generally increased but was held back by scarce materials and labor. Nonresidential real estate activity increased widely, while residential real estate activity grew in some Districts but declined in others. Manufacturing growth was solid across Districts, though materials and labor shortages limited expansion. High freight volumes continued to strain distribution systems. Energy activity was generally higher, growth in professional and business services varied widely, and demand for education and health services was largely unchanged. Loan demand increased in almost all Districts, though some reported declines in residential mortgages. Agriculture saw improved financial conditions overall and rising land values. The outlook for overall activity remained positive in most Districts, but some noted uncertainty about when supply chain and labor supply challenges would ease.

## Employment and Wages

Employment growth ranged from modest to strong across Federal Reserve Districts. Contacts reported robust demand for labor but persistent difficulty in hiring and retaining employees. Leisure and hospitality and manufacturing contacts reported an uptick in employment, but many were still limiting operating hours due to a lack of workers. Contacts in several other sectors also noted labor-related constraints on meeting demand. Childcare, retirements, and COVID safety concerns were widely cited as sources that limited labor supply. Many Districts noted concerns that the federal vaccination mandate could exacerbate existing hiring difficulties. Nearly all Districts reported robust wage growth. Hiring struggles and elevated turnover rates led businesses to raise wages and offer other incentives, such as bonuses and more flexible working arrangements.

## Prices

Prices rose at a moderate to robust pace, with price hikes widespread across sectors of the economy. There were wide-ranging input cost increases stemming from strong demand for raw materials, logistical challenges, and labor market tightness. But wider availability of some inputs, notably semiconductors and certain steel products, led to easing of some price pressures. Strong demand generally allowed firms to raise prices with little pushback, though contractual obligations held back some firms from increasing prices.

## Highlights by Federal Reserve District

### Boston

Business activity in the First District expanded at a modest pace on balance, but results were mixed. Sales of single-family homes softened further relative to their frenzied recent pace. Labor demand was robust but hiring activity was modest in light of labor scarcity. Price increases were moderate. The outlook was mostly positive but marked by uncertainty.

### New York

The regional economy continued to grow at a modest pace in recent weeks, restrained by intensifying supply disruptions and labor shortages. Employment and wages increased, and businesses noted ongoing widespread escalation in both input costs and selling prices. Nevertheless, contacts continued to express optimism about future business prospects.

### Philadelphia

Business activity grew moderately during the current Beige Book period—faster than the prior period—but remained below pre-pandemic levels. Vaccination rates rose slightly, but COVID-19 cases also resumed rising, while the vaccine mandate hit a wall with some workers. Overall, employment growth picked up to a moderate pace, but wage and price growth picked up, and sharply.

### Cleveland

The District's expansion picked up a bit after slowing during the summer and early fall. Contacts reported that supply challenges continued to limit sales and output growth. Labor availability changed little recently, leaving many firms with open positions and unsatisfied demand. Ongoing shortages of inputs and labor put further upward pressure on costs, and more firms reported raising output prices over the past two months.

### Richmond

The regional economy continued to expand at a modest rate. Growth continues to be constrained by labor shortages and supply chain issues. Firms faced challenges filling open positions as well as increased turnover, leading to wage increases for new and existing workers. Price growth further intensified recently from an already elevated rate.

### Atlanta

Economic activity expanded at a moderate pace. Labor markets remained tight and wage pressures grew. Nonlabor costs rose. Retail sales strengthened. Domestic leisure travel remained solid. Residential real estate demand was strong. Commercial real estate conditions improved. Manufacturing activity was robust. Banking conditions were stable.

### Chicago

Economic activity increased moderately. Employment and business spending grew moderately; consumer spending and manufacturing were up modestly; and construction and real estate was flat. Wages and prices increased strongly, while financial conditions improved slightly. A larger than expected corn and soybean harvest pushed up anticipated 2021 farm income.

### St. Louis

Economic conditions have shown modest improvement since our previous report. Contacts reported continued difficulties hiring to meet increased consumer demand. Wage increases and supply chain shortages have led to price increases across several sectors. The overall outlook is optimistic due to anticipated strong demand.

### Minneapolis

The District economy saw moderate growth despite continued challenges related to labor, higher prices, and supply chains. Prices rose as firms passed higher input costs to consumers. Employment grew moderately, but tight labor precluded even stronger gains. Consumer demand grew, but the spread of the Delta variant slowed some activity. Ag conditions improved, but drought remained problematic. Minority- and women-owned business enterprises saw mixed activity.

### Kansas City

Economic activity continued to grow at a moderate pace. High expectations for future growth were supported by significant increases in orders for goods and services in the future. Several contacts noted that their business is booked out further than ever previously experienced. Most contacts attributed the backlogs in their businesses to both elevated demand and ongoing supply factors. Amid supply disruptions, desired inventory levels rose.

### Dallas

The District economy expanded at a solid pace, though supply-chain bottlenecks and staffing challenges remained headwinds. Employment gains were robust, and wage and price growth continued to be highly elevated. Housing and industrial demand remained solid, and office leasing ticked up. Outlooks were optimistic but uncertainty crept higher due to worsening supply-side constraints.

### San Francisco

Economic activity strengthened moderately over the reporting period. Employment rose at a moderate pace, while overall conditions in the labor market remained tight. Wages and price levels climbed significantly. Retail sales expanded markedly, while conditions in the agriculture and manufacturing sectors strengthened further. Lending activity increased modestly, and residential construction expanded at a brisk pace.



## Summary of Economic Activity

Business activity in the First District expanded at a modest pace on balance, but results were somewhat mixed. Retail sales softened slightly, while restaurant sales rebounded in September following weakness in August attributed to the Delta variant surge. Manufacturers saw moderate sales gains in the third quarter, and most staffing firms saw robust increases in revenues. Sales of single-family homes softened further relative to their frenzied recent pace. Commercial real estate contacts expected office leasing to pick up in early 2022 as more firms require in-person work, but footprints are set to fall. Labor demand was robust but hiring activity was modest in light of labor scarcity. Average price increases were moderate. The outlook was mostly positive, but contacts expressed uncertainty concerning inflation, supply chain disruptions, and the impact of vaccine mandates on the labor market.

### Employment and Wages

Labor markets remained very tight and wage increases ranged from moderate to very strong. Hiring advanced at a modest pace on average but increased churn—attributed in some cases to vaccine mandates—put a drag on headcounts. Manufacturing contacts managed to hire some workers despite the tight labor market, albeit with difficulty, and the inability to hire the desired number of workers was said to hold back growth at one firm. One manufacturer used large starting bonuses to attract workers rather than raising starting salaries, and others enacted modest pay increases. Labor scarcity led some restaurants and retail outlets to cut back hours of operation. Staffing firms' pay rates increased by moderate to large margins from the second quarter, in part to keep up with hefty starting wage increases by some large employers. Also, staffing firms faced increased competition for recruiters from client firms, putting moderate upward pressure on recruiter salaries.

### Prices

Information on pricing was relatively scarce but suggested that retail and manufacturing prices increased at a moderate pace on average. At Massachusetts restaurants, menu prices increased at an above-average pace that was nonetheless not enough to cover large increases in food, labor, and other costs, leaving profit margins somewhat lower. Manufacturers enacted slight-to-modest price increases, and complaints about input prices were surprisingly muted. One manufacturing

contact said that input price pressures had increased recently but that his firm had mostly offset them with efficiency improvements and had raised their own prices only slightly.

### Retail and Tourism

Retail contacts said that sales remained strong in the third quarter, but that performance had softened somewhat in comparison with either pre-pandemic or year-ago levels. Massachusetts tourism and hospitality contacts reported a rebound in sales in September and October following COVID-related weakness in August.

A discount and salvaged goods retail chain reported strong September and October sales that exceeded those of the same period in 2019 by about 3 percent, marking a slight decline in performance from its summer sales numbers. However, sales at the firm's outlets along the Canadian border increased modestly as restrictions on cross-border commerce eased. An online home-furnishings retailer said that recent sales remained well above pre-pandemic levels but declined relative to the very strong numbers of fall 2020.

Restaurants across Massachusetts experienced higher recent sales after a late-summer dip in response to renewed COVID outbreaks and restrictions. Despite improving for most of 2021, restaurant activity in Boston remained well below pre-pandemic levels. A contact on Cape Cod reported a strong fall season for hotels, res-

taurants, and main-street retail, up from weaker activity in August that was seen as fallout from a COVID cluster in July. Large wedding venues on the Cape continued to bounce back from the pandemic, with advanced bookings currently extending into 2024. Nonetheless, a lack of conferences and other large group travel has continued to weigh on the recovery.

### **Manufacturing and Related Services**

First District manufacturing contacts reported very strong sales in the 3<sup>rd</sup> quarter of 2021, although only three firms were reached this round. Two firms saw moderate-to-strong increases in revenue from the second quarter, including one with revenues at an all-time high, and one had roughly steady sales. Revenue gains reflected increased volume rather than higher prices. One manufacturer posted a year-over-year decline in sales but mainly because it had seen extraordinary sales in 2020Q3, and all enjoyed revenues that exceeded their respective pre-pandemic levels. Nonetheless, labor shortages and supply chain issues were said to hold back sales in relation to demand. One owner said that if he could hire as many workers as he needs to fulfill demand, he could finally return to his peak sales levels from before the 2007-2009 recession. Capital expenditure plans were unchanged. The outlook remained very positive on balance, but one contact expressed increased uncertainty related to ongoing supply chain disruptions.

### **Staffing Services**

Most staffing firms reached this round saw moderate to very large increases in revenues in 2021Q3 from the previous quarter, but one firm reported lower revenues, citing difficulties in filling manufacturing and light industrial positions. All firms described labor markets as very tight, especially for entry-level roles, and the share of direct hires increased relative to temporary positions. Factors seen as holding back labor supply included childcare and family care obligations, rising wage demands, and some workers' reluctance to comply with vaccine mandates. Contacts also reported increased attrition in response to vaccine mandates. Most contacts were optimistic, believing that robust labor demand will continue to drive strong performance at their businesses, but one firm was less sanguine in light of its weak recent results. Contacts held mixed views about the potential impact of vaccine mandates moving forward, with some seeing them as a major threat to labor supply and others expecting only temporary disruptions.

### **Commercial Real Estate**

Commercial real estate markets remained mixed and fundamentals were mostly unchanged. The life sciences and industrial sectors continued to enjoy very strong

demand for both leasing and investment, as rents and property values edged higher. Retail leasing activity was mixed, and investment in grocery-anchored retail increased moderately. In the office market, leasing volume was sluggish but improved slightly, and is expected to pick up further in early 2022 based on recent signals from tenants. However, the extent to which footprints will be reduced in any renewed leases remains highly uncertain. Office vacancy rates were flat in most submarkets but increased slightly in Connecticut. Office rents faced moderate downward pressure in Rhode Island but fell mainly through increased concessions rather than cuts in asking rents; elsewhere rents were roughly flat. Construction activity was stable and mostly limited to the life sciences sector and warehouse space. Commercial real estate lending activity slowed slightly, a move attributed to interest rate uncertainty. Most contacts were optimistic, but the outlook was clouded by uncertainty about office space demand, inflation, and interest rate movements. With many firms set to return to the office in January 2022, contacts expected greater clarity to emerge then about firms' space requirements.

### **Residential Real Estate**

Home sales slowed in September and October amid continued low inventory and high prices in New England's residential real estate markets. New Hampshire reported changes from October 2020 to October 2021. All other areas provided changes from September 2020 to September 2021. Connecticut data were unavailable.

While median sales prices are higher and inventories lower year-over-year in all reporting areas, both indicators are little changed from the previous report. For single family homes, closed sales fell by moderate to large margins, both on a year-over-year basis and compared with late summer results. Condo sales increased year-over-year in Massachusetts and Boston, representing a substantial acceleration in sales activity from the previous report. Contacts remarked that many buyers turned to the condo market after being priced out of the single-family home market. However, in the remaining condo markets, sales activity slowed in recent months and over-the-year. Several contacts remarked on the overall "cooling" of sales activity relative to the frenzied demand seen throughout the pandemic but noted that sales and prices were still historically high. ■

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





## Summary of Economic Activity

The Second District economy continued to expand at a modest pace, with contacts in most sectors continuing to express optimism about the near-term outlook. Both wages and prices have continued to accelerate, as supply disruptions and labor shortages have intensified. The job market has remained exceptionally tight, with businesses continuing to add staff and many looking to hire more workers. Consumer spending was steady, with sales of durable goods continuing to be restrained by severe supply shortages. The home sales market strengthened further, while apartment rental markets have continued to rebound; office markets have been stable. Both residential and commercial construction activity increased modestly, despite shortages of materials. Finally, contacts in the broad finance sector noted some pickup in activity, while regional banks reported some improvement in delinquency rates and higher loan demand from commercial customers.

### Employment and Wages

Employment has continued to increase modestly, restrained by ongoing labor shortages. Businesses reported widespread ongoing difficulty in both hiring new workers and retaining existing staff, as many employees are quitting to work for a different company or look for a new job. A New York City employment agency reported a marked pickup in job openings, particularly at small to medium sized firms, but a severe shortage of candidates. Labor shortages persist across a wide range of occupations but particularly in technology, sales, and human resources. Among the reasons cited for this shortage are ongoing COVID concerns, child care, and a reduced urgency to work due to fiscal support and accumulated savings.

Of note, leisure & hospitality businesses reported widespread increases in staffing levels, and firms in the manufacturing and distribution sectors also report fairly strong hiring. Businesses in most sectors also expect to ramp up staffing levels in the months ahead.

Wage escalation has been prevalent across all major industry sectors but particularly widespread among leisure & hospitality firms. An employment agency in upstate New York reported rapid escalation in wages and benefits, as well as increasing use of perks to attract workers. Looking ahead, businesses across all major sectors foresee continued widespread wage hikes.

### Prices

A large and growing proportion of firms reported escalation in input prices—particularly in the manufacturing, distribution, and construction sectors. A large majority of contacts in all sectors continue to anticipate rising input prices in the months ahead.

Hikes in businesses' selling prices have also grown increasingly widespread—most notably among manufacturers, wholesalers, retailers, and construction firms. Retailers reported more widespread price hikes than at any time in almost a decade. A majority of businesses in most sectors plan to raise their selling prices in the months ahead.

### Consumer Spending

Consumer spending has been mixed but fairly steady overall in the latest reporting period. Non-auto retailers reported steady to modestly higher sales in October and early November, and they were cautiously optimistic about the upcoming holiday season. Supply disruptions have caused scattered stockouts, particularly for furniture. One retail chain noted that New York City stores have seen some improvement due to the gradual return of office workers and tourists. While in-store business has remained well below normal levels, strong on-line sales in the metro area have boosted total business above pre-pandemic levels. Consumer confidence among New York State residents rebounded strongly in

October, after dropping in September.

New vehicle sales continued to weaken, mostly due to a lack of supply but also some drop off in buyer traffic. Many dealers have little or no inventory and expect this to continue through at least mid-2022 due to the micro-chip shortage, as well as general supply chain disruptions. Dealers noted that almost all cars coming off the production line have already been sold. Sales of used vehicles have picked up a bit due to a modest increase in inventory and continued robust demand.

### **Manufacturing and Distribution**

Manufacturing and transportation & warehousing firms saw continued solid growth in recent weeks, while wholesalers noted a pickup in growth to a brisk pace. However, many businesses in these sectors complained that ongoing labor shortages and supply disruptions are increasingly impeding business. Still, manufacturers and wholesalers continued to express fairly widespread optimism about the near-term outlook, while those in transportation & warehousing were moderately optimistic.

### **Services**

Service industry activity continued to expand at a modest pace in recent weeks. New York City subway ridership has increased steadily, though it is still about 40 percent below comparable 2019 levels. Leisure & hospitality businesses noted a pickup in growth. Contacts in the professional & business services and information industries reported more modest growth, while education & health businesses indicated little change in business. Service firms generally remained optimistic.

Tourism has continued to increase, helped by a series of events, most notably the New York City marathon. Weekend hotel occupancy rates have climbed above 80 percent, even as more hotels have re-opened, approaching pre-pandemic levels; mid-week rates have risen but remain well below normal at 50-60 percent. Increased occupancy, along with a gradual rebound in room rates, have boosted revenue. The re-opening of borders is expected to further buoy New York City's hospitality and related sectors, as well as bring some influx of Canadian visitors, which would benefit parts of upstate New York.

### **Real Estate and Construction**

Housing markets have continued to strengthen across most of the District since the last report. Home sales activity picked up noticeably across New York City, reaching its highest level in decades, while the inventory of unsold homes receded further. Inventory levels remain

somewhat above normal in Manhattan but are at exceptionally low levels across the rest of the District, where they have continued to restrain sales activity and push up prices. In Manhattan, home prices continued to climb, particularly at the high end of the market, where they now exceed pre-pandemic levels.

New York City's residential rental market has strengthened considerably in recent weeks, particularly in Manhattan where rents and occupancy rates have rebounded to around pre-pandemic levels—exceeding them at the higher end of the market but still lagging at the lower end.

Commercial real estate markets have been steady, on balance, across the District. In New York City, office rents and availability rates were little changed in recent weeks, and leasing activity has picked up. Across the rest of the District, office vacancy rates edged up in most areas, while rents were generally steady. The industrial market continued to strengthen, with vacancy rates steady to down slightly near record lows and rents continuing to escalate. The retail leasing market has shown scattered signs of a pickup.

Both multi-family residential and non-residential construction starts were steady, though there continues to be a good deal of ongoing construction. However, some industry contacts reported that activity slowed further in October, partly due to normal seasonal effects but also reflecting worker shortages and problems acquiring construction materials. Moreover, construction sector contacts have grown more pessimistic about prospects for the months ahead. A good deal of new apartment development (rentals and condos) is currently in the pipeline.

### **Banking and Finance**

Businesses in the broad finance sector indicated that activity has picked up modestly and were generally optimistic about the near-term outlook. Small to medium-sized banks across the District reported stronger demand for commercial mortgages and commercial & industrial loans but steady demand from households. Refinancing activity remained unchanged, on net. Credit standards were reported as unchanged across all categories. Loan spreads narrowed for consumer and commercial loans, but they widened for residential mortgages. Delinquency rates improved across all categories. Finally, bankers reported some reduction in leniency for consumer and commercial loan borrowers. ■

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



---

## Summary of Economic Activity

On balance, business activity in the Third District grew moderately – a faster pace than during the prior Beige Book period. Still, activity in most sectors had not yet returned to pre-pandemic levels. The rate of all persons being fully vaccinated against COVID-19 rose to about 64 percent. However, after falling through October, COVID-19 cases are rising again in November, with the highest incidence rates in rural areas. The earlier ability of large professional firms imposing vaccine mandates is now being offset by challenges faced at firms in other sectors in which the workforce is less amenable. There are ongoing reports of supply chain disruptions and labor shortages, both of which have taken a toll. While net employment growth picked up to a moderate pace, prices and wages have risen sharply. Still, optimism was more widespread, with nearly three-fourths of the nonmanufacturers and close to one-half of the manufacturers expressing positive expectations for continued economic growth over the next six months.

---

### Employment and Wages

Employment grew moderately, with service sectors providing the lift from the more modest pace of growth last period. The share of firms reporting employment increases rose to one-fourth of the nonmanufacturing firms and held steady at one-third among the manufacturers. Overall, one-third of the nonmanufacturers reported a rise in average hours worked – an increase since last period that converged with that of manufacturers.

Contacts noted an uptick in workers returning to the hospitality sector. However, most staffing firms and other employers continued to report significant difficulty attracting and retaining labor. Moreover, several contacts noted that baby boomers were leaving jobs and selling businesses to retire early – a trend that was due (1957 marked the peak year for births among baby boomers; those babies turn 65 next year) but has accelerated because of pandemic burnout.

The vaccine mandate has been met with varying levels of acceptance across the labor force. Many large employers in professional services, health care, and other similar sectors have described relatively high cooperation with those mandates, especially in urban areas. However, other large employers in manufacturing and retail, including staffing firms that service those sectors,

described vaccination rates of just 40 percent among their workforces and dire expectations for imposing the mandate or conducting weekly testing.

Wages rose substantially. The share of nonmanufacturing firms reporting higher wage and benefit costs per employee climbed to 60 percent. No firms reported lower compensation. Contacts reported significant salary increases for many professional jobs and also noted that job candidates would arrive for interviews with several offers in hand. Some speculate that remote work may be creating competition for workers living in outlying areas between jobs based in their areas and those in New York City and other high-cost areas. Since the prior quarter, firms reported a significantly higher expectation of the one-year-ahead change in compensation cost per worker, with a median of 5.8 percent.

### Prices

On balance, prices rose sharply over the period. The share of manufacturers reporting higher prices for factor inputs climbed above 80 percent, while those receiving higher prices for their own products rose to 65 percent. The share of nonmanufacturers reporting higher prices for their inputs rose to 66 percent, while the share receiving higher prices from consumers for their own goods and services exceeded 40 percent.

From our quarterly survey of firm price expectations, contacts reported further increases in the actual prices received for their own goods and services over the past year – the trimmed mean for actual price changes was 8.6 percent among manufacturers and 4.8 percent for nonmanufacturers. Actual price changes have risen steadily since the fourth quarter of 2020, when contacts reported increases of 1.3 percent and 1.4 percent for manufacturers and nonmanufacturers, respectively.

Looking ahead one year, the prices that firms anticipate receiving also rose further – the expected rate of growth was 6.8 percent among manufacturers and 5.9 percent for nonmanufacturers. However, for manufacturers this quarter marked the first – since prices began rising significantly – in which the expected future price increase was lower than the prior year’s change.

## **Manufacturing**

On average, manufacturing activity grew robustly – an increase over the prior moderate pace. However, the strongest net increases were for new orders, while shipments merely edged higher. Not surprisingly, net backlogs and delivery times also rose and were more widespread. Net inventories dipped.

## **Consumer Spending**

Retailers (nonauto) and restaurateurs reported modest growth. Contacts noted that ongoing supply chain disruptions and labor shortages continued to constrain growth.

Auto sales held somewhat steady at low levels, as supply chain issues continued to plague auto dealers. According to contacts, manufacturers are shipping so few new cars that most are presold and spend little time on dealer lots. Used cars are also becoming scarce.

Tourism resumed a modest pace of growth as the Delta variant wave ebbed. Contacts reported that leisure travel remained relatively robust, while business trips picked up again, especially among small and medium-sized firms.

## **Nonfinancial Services**

On balance, nonmanufacturing activity grew moderately – a faster pace than during the prior period. The share of firms reporting increases in sales rose significantly to nearly two-thirds.

## **Financial Services**

The volume of bank lending (excluding credit cards) edged lower during the period (not seasonally adjusted); during the same period in 2019, by contrast, loan volume growth was flat. Home mortgages grew modestly; however, commercial and industrial loans continued to contract significantly, while home equity lines and other

consumer loans fell modestly. Auto lending and commercial real estate were relatively flat. Credit card volumes grew modestly – an improvement over the slight decline during the same period in 2019.

Bankers, accountants, and bankruptcy attorneys have begun to note a small uptick in some delinquencies, but at very low levels. However, several contacts noted that homeowners who had faced untenable levels of forbearance debt exited their mortgages by selling without a foreclosure and renting elsewhere. The significant increase in home prices has enabled a more graceful exit from debt than during the Great Recession, when many homeowners were underwater on their mortgages. One accountant reported that three major clients sold their multimillion-dollar businesses and retired – citing fatigue stemming from uncertainty.

## **Real Estate and Construction**

Homebuilders noted little change. Demand remains strong, but sales are constrained by higher prices and longer delivery times; construction activity remains busy, but efficiency is challenged by supply constraints and contractor availability. One contact noted that the once critical task of scheduling has now become the critical task of rescheduling.

Existing home sales increased modestly as new listings improved. Sales continued to feature multiple offers and cash deals, but inspections were not waived as often. On average, closing prices remained above asking prices in many markets.

Construction activity for nonresidential projects held steady. According to contacts, industrial/warehouse and institutional projects remained strong, while multifamily projects continue to sell despite some concerns. However, the office market is uncertain and quiet. Leasing activity was also strong for industrial and lab space, while demand for office space continued to weaken. The office sublease market stayed active, and many lease renewals requested less space. ■

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



## Summary of Economic Activity

Economic activity in the Fourth District accelerated somewhat in recent weeks after having decelerated over the summer and early fall. While most businesses indicated that demand for their goods and services remained solid, some suggested that persistent supply-side disruptions (and associated higher costs) led some customers to put off spending until availability of products improved or costs came down. For example, one auto dealer said that only customers who need to buy a car are doing so, while others who want one may be sitting on the sidelines. A key factor limiting capacity was the ongoing labor shortage. A few contacts reported that labor availability improved a little in recent weeks, but they were clearly in the minority. Moreover, even those who had seen an increase in applicants noted that the increase was not sufficient to meet their staffing needs. Wages and other input costs continued to rise in recent weeks, and a larger share of firms reported output price increases. Looking forward, contacts were generally more optimistic about demand in coming months than they were in the prior report, even as they expected shortages and higher costs to persist.

### Employment and Wages

Staffing levels continued to trend modestly higher in the District. Demand for labor was strong across industries, but a dearth of available workers constrained hiring. Many firms continued to say that they needed to hire additional workers to keep up with current demand but were unable to do so, a situation leading to flat and often falling staffing levels. Some firms, including retailers, restaurants, and hotels, curbed hours of service because of a lack of workers. On balance, contacts said that labor availability has changed little since our last report, and they did not expect it to change meaningfully in coming months. Several firms indicated that they were reluctant to mandate vaccines because doing so would likely disadvantage them in an already competitive labor market.

Reports of wage increases were more frequent in recent weeks amid those persistent hiring challenges. Nearly 70 percent of our contacts reported that wages had risen over the prior two months, and the increases were broad based across industries. While wage increases were most notable for entry-level positions, contacts suggested that pay was increasing across the wage scale. Moreover, firms were reportedly enhancing other benefits such as hiring and retention bonuses and flexible work

arrangements to attract and retain workers.

### Prices

Nonlabor input costs continued to increase. Eighty percent of contacts reported higher nonlabor input costs over the prior two months, with the increases broad based across industries and inputs. As one logistics contact stated, “Gas, electric, food, raw materials, products, everything is going [up].” With broad-based supply disruption expected to persist into 2022, most contacts expected costs to continue rising in coming months. That said, a few contacts suggested that the availability of semiconductors, a key constraint in the production of many goods (including autos), had increased somewhat over the prior two months.

More firms reported higher selling prices since the last report. Approximately 65 percent of contacts said they increased prices over the prior two months, a share that has changed little over the past four reports. In most instances, firms suggested that they raised selling prices out of necessity to keep up with increased input costs. One restaurant owner said that she was trying to “control every other aspect [she] can before raising prices.” Several contacts who did not increase prices could not do so because they were bound by contracts. Some of these

firms plan to include escalation clauses in the future.

### **Consumer Spending**

Reports suggested that consumer spending increased modestly during the reporting period. General merchandisers and apparel retailers said that demand for goods remained strong, and they noted solid early holiday season sales. Hoteliers and restaurateurs reported continued improvement in activity, and one hospitality contact said that weddings and conferences that had been rescheduled from last year were taking place. Auto dealers reported a dip in sales despite generally strong demand as tight inventories and higher prices deterred buyers. Contacts expected a favorable holiday shopping season and were optimistic that nonauto consumer spending would continue to increase in the coming months. However, auto dealers suggested that sales will remain weak until inventory levels recover, with some expecting supply bottlenecks to begin to ease as early as next quarter.

### **Manufacturing**

Demand for manufactured goods remained solid, but the ability to meet that demand was hampered by continued supply chain disruptions. That said, some contacts reported that they saw increased demand for their products because their competitors were out of stock or had changed their product offerings. Several manufacturers noted sustained weakness in demand from auto-related customers as key inputs to that industry (including semiconductors) remained in short supply. Looking ahead, contacts were optimistic that activity would remain strong, and some noted that the passing of the infrastructure bill and an increase in auto production could boost demand.

### **Real Estate and Construction**

Homebuilders and residential realtors reported that housing demand remained strong despite persistent supply chain disruptions that have further increased lead times for new homes. One homebuilder attributed the heightened demand to the desire of individuals to lock in low interest rates. Going forward, contacts anticipated demand will remain elevated, though homebuilders expected supply constraints will continue to hinder construction activity.

Demand for nonresidential construction and real estate continued to rebound. Industrial and retail leasing activity remained strong, and an increasing number of individuals returning to in-person work further improved demand for office space. Nonresidential construction contacts also indicated that demand remained strong, though persistent supply chain disruptions led to further increas-

es in lead times. Overall, contacts were optimistic that demand would remain strong. However, a few construction contacts raised concern that the recently signed infrastructure bill could put further pressure on supply chains.

### **Financial Services**

Loan demand increased moderately. Contacts reported some growth in business lending, especially for commercial real estate loans, and many bankers reported a stronger loan pipeline. Contacts noted that demand for auto loans and mortgages was stable to slightly down as higher selling prices and limited inventories in both markets dampened activity. Lenders said that delinquency rates for consumer and commercial loans were still low and that core deposits increased. Looking ahead, bankers were optimistic that business lending would continue to improve as pipelines strengthen.

### **Professional and Business Services**

Contacts in professional and business services reported that demand remained robust. Firms attributed the strong demand to the overall health of the economy that has increased companies' desire to move forward with projects and acquisitions. One law firm noted that their clients' economic outlook remained optimistic and that challenges brought on by supply chain disruptions and labor shortages have been outweighed by favorable business opportunities. Going forward, demand is expected to remain strong as firms continue to ramp up business activity and actions from the federal government related to vaccine mandates and the infrastructure bill further increase the need for compliance and engineering solutions.

### **Freight**

Demand for freight and logistics services remained strong. A regional airport relayed that cargo volumes were up more than 20 percent year over year. Contacts reported that the availability of drivers remained limited. More often, equipment shortages also made it difficult to expand capacity. Because it was difficult to add capacity, contacts expected that demand in the coming months would continue to be stronger than the sector's ability to meet it. ■

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



## Summary of Economic Activity

The Fifth District economy continued to grow at a modest pace since our previous report. Manufacturing activity picked up modestly and lead times lengthened but producers struggled to keep up with demand due to supply and labor shortages. Ports and trucking companies saw modest to moderate increases in volumes from already high levels, and they had difficulty meeting demand due to capacity and labor constraints. Retail demand remained strong and stores continued to report inventory challenges and staffing shortages. Travel and tourism rose moderately, lifted by an increase in business and group travel. Residential real estate activity softened modestly but remained strong as prices held steady and homes sold quickly. Inventory remained low but increased slightly. Commercial real estate leasing rose modestly amid flat to slightly rising rental rates. Financial institutions reported modest loan growth, overall, as commercial real estate and business lending increased modestly while mortgage lending slowed slightly. On balance, nonfinancial services firms indicated modest growth. Employment rose moderately and demand remained strong. There were widespread reports of difficulty finding and retaining workers at all skill levels, leading to a moderate increase in wages. Prices increased further in recent weeks and remained elevated on a year-over-year basis.

### Employment and Wages

Total employment in the Fifth District increased moderately in recent weeks and demand for workers remained robust. Contacts from across sectors of the economy reported difficulties finding workers at all skill levels. Many also reported difficulties retaining workers and faced increased turnover. Several employers expressed concerns that their current workforce was being overworked. Some contacts had success recruiting young people into their training and apprenticeship programs while others were able to find workers more easily for fully remote positions. Wages continued to rise at a moderate rate as employers increased pay for both new and existing workers.

### Prices

Price growth intensified slightly in recent weeks from an already high rate. According to our surveys, average prices were up nearly five percent compared to last year in the service sector. Manufacturers reported even stronger growth in selling prices, above nine percent. In both sectors, selling prices rose as firms were able to pass along at least some of their rising costs for raw materials, intermediate and finished goods, and labor. Several contacts noted that strong demand, shortages of inputs, and elevated shipping and transportation costs contributed to input price growth.

### Manufacturing

Fifth District manufacturers reported a modest increase in shipments and new orders in recent weeks. However, lead times continued to lengthen as inventories remained low. Manufacturers struggled to find shipping for goods, and production was constrained by shortages of staff and inputs. A furniture manufacturer reported record shipments in recent weeks but struggled with machinery breaking down from overuse. Multiple contacts reported that long lead times for machinery parts limited production. Manufacturers saw high revenue but reported shrinking profit margins resulting from increased costs of materials, high shipping rates, and rising wages.

### Ports and Transportation

Fifth District ports saw moderate growth since our last report, as some handled record-breaking volumes. Import volumes drove growth, but export volumes rose as well. Imports of furniture, apparel, and other consumer goods were especially strong, as were agricultural exports. However, both imports and exports of autos were weak. Shortages of transportation equipment and warehouse space led imports to dwell at the ports for longer times, causing congestion. Contacts noted that many empty containers were being shipped back to Asia, before they could be loaded with exports as ocean carriers could get higher rates for import cargos.

Demand for trucking in the Fifth District increased modestly from already high levels in recent weeks. Contacts reported turning away business because of shortages of drivers and equipment. Volumes were high across most goods in both the industrial and retail sectors. Delays in getting new trucks led to companies to run old ones longer, leading to increased need for repairs, which, in turn, were delayed by long lead times for parts. One contact expected this issue to get worse, reporting that suppliers are not taking orders for next year because they are unsure what they will be able to produce.

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

Demand for retail in the Fifth District held fairly steady at high levels. Customer traffic was strong, but low inventories limited sales. Inventories of automobiles continued to shrink, but dealers saw strong profits because of high prices of vehicles. Retailers ordered goods early to allow time for inventories to arrive. Some contacts reported switching from ocean to air transport for goods from overseas, which was more costly but helped to replenish inventories. Many retailers limited operating hours because of staffing shortages, and businesses invested in automation where possible.

Travel and tourism in the Fifth District increased moderately since our last report. Contacts reported seeing more business and group travel than they had since the beginning of the pandemic, and air travel increased in many areas. Hotel occupancy and rates strengthened, but hotels limited the number of rooms offered and restricted services because of staffing shortages. A resort reported staggering services and activities offered throughout the week in order to operate with fewer staff. Restaurants saw strong demand but limited hours because of lack of staffing and implemented limited menu choices because of supply chain disruptions.

### **Real Estate and Construction**

Demand for Fifth District homes softened modestly in recent weeks, but remained strong. Inventories remained low but increased slightly. Prices were little changed, and realtors noted homes were still getting multiple offers, but fewer than in the past year. Average days on the market increased but remained low. Realtors noted that buyers are increasingly requesting inspections and offering smaller deposits, but many continue to buy homes sight-unseen. One contact added that buyers were increasingly willing to purchase homes in urban areas. Builders noted that long lead times for materials and appliances were slowing construction and delaying the availability of new homes.

Commercial real estate leasing in the Fifth District increased modestly in recent weeks. Office leasing improved slightly, but some businesses looked to downsize. Incentives and concessions increased, but rental rates for office space held steady. Companies saw an increase in retail leasing, particularly for restaurants and services, driving rental rates up and vacancies down. Contacts noted that vacated retail spaces were quickly occupied by new businesses. Demand for industrial space remained strong and continued to rise. Multifamily leasing remained strong, and contacts noted increasing multifamily construction.

### **Banking and Finance**

Loan growth was modest, overall, for this period due mainly to higher than normal credit payoffs. On balance, banks indicated a slight increase in demand for commercial real estate and business loans, and a slower pace of mortgage loan growth. Direct auto lending was almost nonexistent due to a lack of inventory on car dealer lots. Most financial institutions stated that deposits continued to grow moderately despite a further reduction in rates on interest-bearing accounts. Credit quality remained good, with a few respondents noting that delinquency rates continue to decline to well below pre-COVID levels.

### **Nonfinancial Services**

Demand and sales for nonfinancial services rose modestly in recent weeks. Firms engaged in mechanical repair services, such as automobile, elevator, and manufacturing equipment repair saw strong demand. Professional and legal services firms reported steady demand, overall. Health services providers saw continued demand for both COVID and non-COVID related services. For example, a behavioral health practice reported increasing demand and continued to provide services virtually. A North Carolina community college president noted that while enrollment remained below pre-pandemic levels, female and Latinx enrollment was up. ■

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 grew at a moderate pace from October through mid-November. Demand for labor remained strong amid a tight market. Reports of wage increases were pervasive. Nonlabor costs continued to rise, and pricing power strengthened. The pace of retail sales was robust; auto sales, however, remained challenged due to supply chain constraints. Strength in domestic leisure travel activity persisted, while business travel remained soft. Residential real estate sales increased even as mortgage interest rates rose. Commercial real estate conditions improved. Manufacturing activity was solid, though supply chain disruptions hindered production somewhat. Conditions at financial institutions were stable, and loan demand improved.

### Employment and Wages

Demand for labor remained strong over the reporting period, as the extremely tight labor supply persisted. Turnover rates rose as employees were lured away by competing firms offering significant wage increases and greater flexibility. Several firms lessened educational or work experience requirements, and one noted they are considering hiring “vocational graduates from the prison system.” A trucking company reported an easing of requirements for CDL drivers by covering more routes with smaller box trucks or pick-up trucks pulling trailers. Some large manufacturers lent workers to component suppliers to relieve labor-related bottlenecks. A technical college reported that there remains a disconnect for many students between the coursework they are taking and the skills needed by employers; too few are pursuing careers in high-demand occupations such as advanced manufacturing, skilled trades, construction, aviation, and automotive.

Upward pressure on wages to attract and retain talent remained relatively widespread. Several contacts mentioned that labor costs were already being passed along to consumers with little resistance, while others said plans were underway to do so. Many contacts noted that containing labor costs is a priority.

### Prices

Nonlabor costs continued to increase, and inputs such as raw materials, the availability of which remained exacerbated by supply chain disruptions, rose significantly. Several contacts reported that costs of freight and construction materials increased multiple times over the last year. Pricing power was strong, though contract negotiations were resulting in shorter terms. Most contacts expect cost pressures to ease steadily over 2022

but remain above pre-pandemic levels. The Atlanta Fed’s Business Inflation Expectations survey showed year-over-year unit costs were relatively unchanged in November at 3.6 percent. Year-ahead expectations increased to 3.3 percent in November, up from 3.1 percent in October. Both measures have increased sharply over the last nine months.

### Consumer Spending and Tourism

District retailers reported strong consumer demand and expectations for robust holiday sales. Some contacts with large bases of lower-income consumers cautioned that the drawing down of excess savings as fiscal supports expire could result in an eventual softening of demand among these consumers. Automotive dealer inventories remained challenged by supply chain issues; however, some manufacturers have excluded certain add-on features to expedite the delivery of vehicles to market.

While activity at limited-service hotels remained strong, contacts noted that a lack of available labor limited capacity and the ability to operate at pre-pandemic levels. Many contacts described the robust level of domestic leisure activity as pent-up demand that will normalize over the next 24 months. Business travel and convention bookings remained well below pre-COVID levels, but contacts expect activity to pick up in the first half of 2022.

### Construction and Real Estate

Although still strong, housing demand moderated further from the record highs experienced over the past year. Nonetheless, the recent uptick in mortgage interest rates led to an improvement in residential sales, spurred by homebuyers’ expectations that interest rates will rise

further. On a year-over-year basis, home prices increased sharply in markets like Atlanta, Nashville, and central and south Florida. Affordability contracted further throughout the District. Housing starts were up from year-earlier levels in most markets. Homebuilders noted elevated interest from institutional investors seeking to buy or build new homes for single-family rental units.

Commercial real estate (CRE) activity strengthened over the reporting period. Contacts reported improving conditions in the office sector as more businesses reopened. Activity in the multifamily sector accelerated, though uncertainty remained regarding future impacts from the lifting of the eviction moratorium. Contacts continued to report that competition is accelerating among CRE lenders. Smaller banks and non-bank lenders have been identified by contacts as some of the more aggressive CRE lenders.

### Manufacturing

District manufacturers continued to report healthy demand over the reporting period, with several noting record sales. Lead times for components were extended as supply chain interruptions persisted, hampering production for some firms. Most manufacturers anticipate stronger sales over the next 6-12 months; however, lingering labor shortages, rising input costs, and disrupted supply chains could challenge firms' ability to meet this demand.

### Transportation

Transportation activity remained robust over the reporting period. District ports reported continued growth in container volumes, noting that customers were buying safety stocks of inventories, citing a "just in case, rather than just in time" approach. However, containers were slow to move off port due to a lack of chassis and trucks. Inland waterways experienced improvement in the movement of energy-related cargoes as Gulf refineries recovered from damages caused by Hurricane Ida. Air cargo carriers reported higher demand as the cost of container shipping exceeded air freight rates, in some cases. Some transportation contacts do not anticipate a normalization of the overall supply chain until late 2022 or 2023.

### Banking and Finance

District banking activity remained steady. Financial institutions experienced stronger consumer and residential mortgage loan growth, and improved CRE loan demand. Although margin pressures remained due to the low interest rate environment, interest income rose as loan demand strengthened. Deposit levels were stable and remained elevated. Asset quality was unchanged with loan losses and net charge-offs still near historical lows.

### Energy

Activity across energy sectors picked up over the reporting period as global demand for energy products strengthened. While contacts reported sustained improvement in oil and gas production, some acknowledged that capital formation for exploration and production has become increasingly challenging. Chemical manufacturing surged in the region, however, high crude oil and natural gas costs and supply chain bottlenecks for numerous inputs continued to constrain growth. Utilities industry contacts noted a sizeable uptick in commercial activity, along with sustained strength in residential and industrial sales. Contacts also continued to report significant investment in renewable energy development and production, primarily in solar, wind, and carbon capture technologies.

### Agriculture

Agricultural conditions remained mixed. Most of the District remained drought free. Agriculture producers indicated supply chain issues and labor scarcity are putting pressure on margins. On a year-over-year basis, production forecasts for the District's corn and soybean crops were up while rice, peanuts, cotton, and sugarcane forecasts were down. The USDA reported year-over-year prices paid to farmers in September were up for corn, cotton, rice, soybeans, cattle, broilers, eggs, and milk. On a month-over-month basis, prices were up for cotton, cattle, broilers, and eggs but down for corn, rice, and soybeans while milk prices were unchanged. ■

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



## Summary of Economic Activity

Economic activity in the Seventh District increased moderately in October and early November, and contacts expected a similar pace of growth over the coming months. Labor and materials supply constraints as well as the spread of COVID-19 continued to weigh on the expansion. Employment and business spending grew moderately; consumer spending and manufacturing were up modestly; and construction and real estate was flat. Wages and prices increased strongly, while financial conditions improved slightly. A larger than expected corn and soybean harvest pushed up anticipated 2021 farm income.

### Employment and Wages

Employment increased at a moderate pace over the reporting period, and contacts expected a similar pace of growth over the next 12 months. Contacts across sectors again reported difficulty in finding workers at all skill levels. Many businesses continued to limit operating hours because of labor challenges, especially in the restaurant, retail, and manufacturing sectors. In addition, a few contacts in the professional services sector said labor constraints were slowing the completion of existing projects and delaying the start of new ones. Contacts pointed to childcare issues, school quarantines, retirements, and health safety concerns as factors limiting labor supply. There were also a few reports of workers quitting jobs to avoid vaccination requirements. The pandemic caused some companies to further delay plans to return to in-person work, and there were some reports of business closures after COVID-19 exposures forced workers to quarantine. Overall, wage and benefit costs increased robustly. A scarcity of applicants for open positions led numerous contacts to raise wage offers, yet not all were successful in filling open positions. With starting wages rising, many firms were boosting pay for existing workers in order to retain them. In addition, turnover rates were higher than usual.

### Prices

Overall, prices rose rapidly in October and early November, and contacts expected price increases to stay at a strong pace over the next 12 months. There were large increases in producer prices, driven by pass-through of higher materials, energy, labor, and transportation costs. However, contacts noted that some materials prices, particularly for lumber and certain steel products, had stabilized after very large increases earlier in the year. Consumer prices moved up robustly overall. Contacts pointed to solid demand, limited inventories, increased costs, and a greater ability to pass on cost increases to customers as sources of higher consumer prices.

### Consumer Spending

Consumer spending was up modestly over the reporting period from an already high level. Spending on leisure and hospitality declined some, notably at hotels, and especially in areas affected by convention cancellations. Restaurant sales were little changed. Nonauto retail sales increased moderately. Halloween-related sales were noticeably stronger than typical years. Contacts indicated that demand for furniture and electronics remained solid, though appliance and home supply sales were constrained by availability and prices. Sales at discount stores increased significantly, and spending at department stores was stronger than expected, especial-

ly for jewelry, apparel, and accessories. Grocery sales volumes were flat, but at a high level. After adjusting for inflation, most forecasts expect holiday spending to increase modestly versus last year. Light vehicle sales were little changed in recent weeks, as inventories remained extremely low. Dealer profit margins remained above their long run averages.

### **Business Spending**

Business spending increased moderately in October and early November. Retail inventories remained lean in many sectors due to ongoing supply chain and logistics challenges, and contacts expected the issues to continue into the second half of 2022. In manufacturing, for-sale inventories rose slightly but were still tight, and there were shortages of a wide range of inputs including certain metals, chemicals, resins, foam, adhesives, pallets, paper, and electrical components. Demand for transportation services remained elevated, with many contacts reporting continued domestic and international shipping delays and high cargo and freight rates. Capital expenditures increased moderately, and contacts expected a similar pace of expansion over the next twelve months. Lead times remained long for some types of equipment. Commercial energy consumption decreased slightly, particularly for smaller establishments, while residential energy consumption increased slightly.

### **Construction and Real Estate**

Construction and real estate activity was similar to the previous reporting period. Residential construction was unchanged. Builders indicated that demand was solid, but material and labor shortages continued to limit activity. Multifamily construction and redevelopment continued at high levels. Residential real estate activity was steady, and prices and rents moved up slightly. Nonresidential construction was mixed, and prices increased modestly. As with residential construction, materials and labor supply challenges held back growth in nonresidential construction. Commercial real estate activity was little changed on net. Industrial space remained in high demand. A contact based in southeast Michigan reported that many multifamily transactions were being completed despite rising costs. Overall, commercial real estate sales prices increased slightly, but rents were little changed. Vacancy rates were little changed as well.

### **Manufacturing**

Manufacturing production grew modestly in October and early November, and contacts reported high backlogs of unfilled orders. Manufacturers with strong demand were generally able to increase output, though ongoing labor and logistical challenges held back production gains for many. Auto production increased slightly, remaining at

low levels as assemblers and suppliers were constrained by the ongoing shortage of microchips and other materials. Heavy truck demand was strong, driving down inventories and driving up prices for used trucks. Contacts reported little change in steel demand, which stayed at a high level. Demand for steel from the automotive sector was low but picked up some. Building materials demand fell slightly yet continued to be strong, supported by solid orders from commercial construction.

### **Banking and Finance**

Financial conditions improved slightly over the reporting period. Business loan demand increased somewhat, with contacts reporting an increase in commercial loan demand for acquisition financing and lines of credit to cover higher inventory costs. Construction and multifamily financing also rose. Business loan quality increased slightly, while loan standards loosened. In consumer markets, loan demand was slightly higher overall. Contacts highlighted continued high levels of demand for auto financing, but mortgage activity weakened some from a solid level. Loan quality increased slightly, while standards remained unchanged on balance over the reporting period.

### **Agriculture**

Expectations for farm incomes in 2021 moved up, driven by stronger than anticipated corn and soybean yields. Contacts said the soybean harvest would likely set a District record, and the corn harvest would likely be the third largest ever. Despite a sizeable harvest, corn prices moved higher during the reporting period. Soybean prices languished but were still above year-ago levels. Farmers were reportedly purchasing inputs for 2022 ahead of their normal schedules because of concerns about future prices and availability of fuels, chemicals, fertilizers, and seeds. Prices for hogs and eggs edged lower. Cattle and dairy price movements were mixed. Agricultural land values moved sharply higher. ■

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



---

## Summary of Economic Activity

Economic conditions have shown modest improvement since our previous report. Employers reported difficulties adding workers to meet rising consumer demand, with significant wage increases increasingly common across industries. Supply chain constraints have contributed to moderate price increases, especially on raw materials. Retailers and nonfinancial services contacts reported increased activity, and banks reported an increase in loan demand. Manufacturing contacts reported production upticks and increased optimism about the coming quarter. While contacts are optimistic about continued strong demand in the short term, the rate of growth is expected to slow over the next 12 months.

---

### Employment and Wages

Employment has increased modestly since the previous report. Firms continued to recruit workers aggressively as the recovery continued and the holiday season approaches; two-thirds of contacts planned to increase the size of their workforce within the year. Worker shortages, however, remained endemic; half of contacts reported a decline in job applications since Labor Day, and a third did not expect to recover to pre-pandemic employment levels within a year. One large transportation firm held a job fair where recruiters frequently outnumbered job seekers; a Kentucky bank lamented that its only option was to hire individuals with the potential to perform key roles after a year or more of training.

Wages have grown strongly; on net, two-thirds of contacts reported wages had grown since a year ago—a new high. Three-quarters of hiring firms reported raising wages for most jobs to entice new hires; very few reported no such raises. One Arkansas pizzeria advertised \$15-20 an hour for delivery drivers; a large transportation firm, unable to fill its night shift, raised wages from \$13 to \$21 an hour.

### Prices

Prices have increased moderately since our previous report. Contacts in the construction industry reported

increased costs for input materials; one construction contact reported that prices have increased six times over the course of 2021. A contact in the residential real estate industry stated the cost of materials for new construction has raised new home prices out of the typical range for entry- and mid-level buyers. Contacts in the agricultural industry noted a “dramatic” increase in the cost of fertilizer due to international supply chain constraints. There have been moderate to robust increases in prices for raw materials such as coal and cotton string since the last report. Meat prices have increased in recent months because of high demand and higher input costs for materials, labor, and logistics.

### Consumer Spending

District general retailers, auto dealers, and hospitality contacts reported higher business activity since our previous report. October saw that real sales tax collections decreased in Arkansas, Missouri, and West Tennessee relative to September and increased in Kentucky. General retailers reported higher sales and a somewhat better outlook despite supply chain issues and labor shortages. Sales exceeded expectations for auto dealers, but they had a mixed outlook for the coming quarter. A Little Rock dealer expects the chip shortage to persist into 2022 based on their manufacturer and trade publications. A restaurant in St. Louis reported that

people have been more willing to dine indoors at restaurants and that they have been relying less on outdoor seating during colder months. Hospitality contacts reported increased activity in October and that business travel is starting to rebound.

### **Manufacturing**

Manufacturing activity has modestly increased since our last report. Survey-based indices suggest that production and capacity utilization have moderately increased, while new orders have slightly decreased. Firms in Arkansas and Missouri reported moderate upticks in production and slight declines in new orders. Automobile manufacturers, including two major manufacturing facilities in Louisville, continued to produce below capacity because of microchip supply shortages. Manufacturers in South Central Kentucky not reliant on these scarce inputs have seen their production exceed pre-pandemic levels. Firms have also been developing their own manufacturing of components for electric vehicles rather than relying on global supply chains. On average, firms expect strong increases in production, capacity utilization, and new orders in the coming quarter.

### **Nonfinancial Services**

Activity in the nonfinancial services sector has increased moderately since the previous report. More than 80% of nonfinancial services contacts reported that quarterly sales have met or exceeded expectations thus far. Airport passenger traffic has been steady since the previous report, remaining near 80% of pre-pandemic levels. A childcare contact in the St. Louis area mentioned that business has been negatively affected by several large employers not returning to in-person work. Several fitness center contacts noted that concerns about the Delta variant and corresponding government restrictions have hurt business. A logistics contact mentioned that the chip shortage and its impact on the automotive supply chain have hurt business. Several large parcel services have increased hiring in anticipation of the holiday season.

### **Real Estate and Construction**

The residential real estate market has weakened slightly since our previous report. Total home sales have decreased across the largest District MSAs, but home prices remain elevated and inventory remains low. Residential construction activity remains high, though contacts reported that the continued high cost of construction, long lead times on key building materials, and supply chain issues are still affecting the speed of new construction. Meanwhile, apartment rental rates across the District continued to rise slightly this month.

The commercial real estate market has remained mixed

since our previous report. Industrial real estate remains strong across the largest District MSAs. In St. Louis, asking rents for industrial space have increased 25% since this time last year, while industrial vacancy rates are at an all-time low. Contacts stated that grocery stores and mixed-use properties involving hotels, restaurants, and entertainment venues remain popular. A contact reported that interest in retail is increasing as returns on industrial and multifamily development shrink.

### **Banking and Finance**

Banking conditions have improved slightly since our previous report. District banks reported an increase in overall loan demand since the last survey period. Credit card lending increased moderately, while demand for commercial loans decreased slightly. A contact noted a slowdown in mortgage lending activity but cited the lack of inventory as a primary reason. Liquidity remained elevated and banks continued to report difficulties in finding investments to deploy excess funds. However, financial performance has remained strong as many banks are still recognizing income earned through the PPP loan program. Delinquency rates increased slightly, especially for auto and real estate loans, but remained relatively low. Creditworthiness modestly declined, and banks reported slightly tightening their credit standards.

### **Agriculture and Natural Resources**

District agriculture conditions have remained stable compared to the previous reporting period. Production forecasts for corn and soybeans have declined slightly, while forecasts for cotton remained unchanged and rice increased. On a year-over-year basis, however, production levels for corn and soybeans are expected to be moderately higher, while cotton and rice production is expected to moderately decline. While production has remained relatively steady, contacts in the District have expressed concern over rising input prices, specifically nitrogen and other fertilizers, and labor shortages, which they fear may cause production shortfalls next year.

District coal production improved modestly in October, with seasonally adjusted production increasing about 3 percent over the previous reporting period. Production has improved strongly over the previous year, increasing 20 percent over this time last year. ■



---

## Summary of Economic Activity

The Ninth District economy grew moderately since early October. Employment saw moderate growth, with labor availability holding back robust hiring demand. Wage pressures were strong, while price pressures increased moderately from elevated levels. Growth was noted in commercial and residential construction, commercial real estate, consumer spending, professional services, and manufacturing, while residential real estate fell. Ag conditions improved overall, though drought has negatively impacted certain areas and commodities. Business activity reports were mixed among minority- and women-owned businesses.

---

### Employment and Wages

Employment grew moderately since the last report, with tight labor constraints impeding what would otherwise be a robust employment market. Job postings remained at exceptionally high levels across the District. Surveys showed that a large share of firms expected to increase future employment, with only a very small share expecting workforce cuts; many firms cited overworked staff as a motivating reason to hire more employees. However, surveys also showed that firms were having increased difficulty filling open positions, particularly for lower-skill jobs. Some large firms reported a decline in staff over the past three months, possibly tied to the federal vaccine mandate. Firms also reported very little net increase in job applications since the ending of pandemic-era unemployment programs.

Wage pressures remained strong. The frequency and size of wage increases have steadily increased. A survey of District firms showed that nearly one-quarter of firms raised wages by 5 percent or more over the past year, a notable increase from the previous quarter. A large majority of firms also said they were increasing wages for most positions and were increasing wages more than usual. A tourism firm in Michigan's Upper Peninsula reported raising wages more than 5 percent, noting that it was "not possible to hire or retain employees at previous wages."

### Worker Experience

Labor supply remained tight across the District. A workforce development professional working mainly with immigrant populations shared that workers in customer-facing jobs were "no longer willing to deal with rude customers and difficult schedules" and were leaving for better-paying jobs. Reportedly, some took jobs as warehouse workers, but others invested in microbusinesses such as food trucks and cleaning services. "The pandemic has made people more comfortable with failure, workers want to feel productive, and they are taking risks," said another workforce contact. A nonprofit contact reported that immigrants in professional occupations have faced challenges remaining in a job, more so than getting hired, partly because of insufficient onboarding and difficulties penetrating the culture in a remote environment. Enrollment in nursing programs continued to drop, according to a health care professional in Minnesota, putting further pressure on supply of entry-level workers.

### Prices

Price pressures increased moderately from an elevated level since the previous report, as firms continued to pass on input cost increases to customers. More than a third of respondents to a survey of District businesses reported that nonlabor input costs were 10 percent higher than pre-pandemic levels; slightly fewer reported final prices increasing by more than 10 percent. Contacts

reported steep, ongoing increases in freight and transportation costs, particularly for imported goods. Manufacturers reported increases for inputs, but particularly for electronic components and raw materials such as plastic resin. Home heating costs were forecasted to increase sharply this winter, as natural gas prices were expected to rise by more in the region than the national average.

## **Consumer Spending**

Consumer spending grew modestly since the last report. Firms in accommodation and entertainment reported growth overall, but acknowledged that the Delta variant was negatively affecting sales. However, demand remains robust in some areas. Restaurants have reported robust sales for take-out and delivery meals. Same-store sales at a regional convenience chain have been higher and were expected to continue. Retailers reported missed sales due to supply chain problems and related inventory shortages. Vehicle sales dropped in October compared with a year earlier, thanks mostly to low inventory of new trucks and cars, which has also been a drag on trade-ins that drive used-car sales.

## **Professional Services**

Professional services activity across the District grew moderately. Respondents to a recent business conditions survey expressed difficulties hiring, and the majority reported having increased salaries to attract talent. Businesses reported challenges hiring experienced communications, IT, and medical professionals. “Staff is exhausted, patients are frustrated, and we’re unable to attract doctors to the area,” said a health care professional. Job openings in that sector have skyrocketed with vacancies across occupations.

## **Construction and Real Estate**

Commercial and residential construction grew moderately since the last report. Industry data showed that the value of construction starts this fall continued to trend higher. Firms reported good to very good project activity overall; some attributed lower activity to normal seasonal slowing. Contacts continued to report substantial challenges related to labor constraints, high materials prices, and supply chain disruptions. Firms also reported a slight increase in project cancellations compared with summer levels, and project delays continued to be a major problem.

Commercial real estate rose moderately overall. Office vacancy rates remained elevated, and the Delta variant has slowed leasing momentum. Industrial space remained strong, and low multifamily vacancy rates held

across the District despite significant new construction. Residential real estate was lower. Closed sales in October were consistently down by double digits in markets across the District.

## **Manufacturing**

District manufacturing activity increased briskly since the previous report, though contacts were concerned about the ongoing effects of supply chain disruptions. A regional manufacturing index indicated increased activity in Minnesota, North Dakota, and South Dakota in October relative to the previous month. Participants at recent meetings with manufacturers generally reported strong recent revenue and new order trends, with several noting that their firms were having record years even amid input cost and availability challenges. An electrical equipment producer reported that it was planning significant capital investments in capacity to meet demand, which it reported was up by 30 percent over last year.

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

District agricultural conditions improved overall, though drought took a heavy toll on certain areas and commodities. Responses to a survey of agricultural lenders indicated increased farm income, as producers continued to benefit from strong commodity prices and government payments. Drought damage was not as bad as expected in general, though ranchers saw heavy losses, and damage to crops was much more severe in the western Dakotas and Montana’s wheat-producing region. In other areas, though crop yields will decrease, timely rains for many were helpful, and higher crop prices appear to have more than offset the financial loss. Oil and gas exploration activity in North Dakota and Montana was stable since the previous report.

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

Business activity reports were mixed among minority- and women-owned business enterprises (MWBEs) in the region, but there was a general sense of optimism. A nonprofit that serves minority and women entrepreneurs reported that 95 percent of microloan recipients survived the pandemic and remained in business. Forty percent of MWBE entrepreneurs who responded to a recent survey reported an increase in sales and revenue in the past three months; an equal share reported a decrease. Slightly more than half of respondents said they raised wages to attract workers. One reported raising wages to “match rising prices at the pump and rent.” ■

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 continued to expand at a moderate pace through November. Activity at non-durable manufacturing facilities rose and durable goods production remained at high levels. Several contacts noted a shift in their approach to managing supply chain disruptions toward a strategy of holding larger inventories, adding demand for key inputs. Retail spending continued to grow generally, but event and entertainment businesses experienced a moderate decline in attendance and bookings. Conditions in the agricultural sector remained strong, supporting ongoing growth in farmland values. Job gains were broad-based. Demand for workers was driven by strong customer demand as well as a need to alleviate strains on current employees. Prices rose as labor costs, material costs and transportation costs remained elevated. Several contacts noted that wage pressures were particularly strong among low-skill and front-line workers, where competition among businesses has led to a significant number of workers switching jobs.

---

### Employment and Wages

Employment grew at a moderate rate in the Tenth District during October and November. Manufacturers of non-durables added jobs and significantly increased the number of hours worked after facing several months of anemic growth. Job gains at restaurants slowed initially at the emergence of the COVID-19 Delta variant, but picked back up in recent weeks. Contacts continue to report that demand for additional workers remains high.

Businesses reported numerous motives for adding jobs, including the need to meet elevated demand from customers as well as to alleviate strains on their current workforces and to address skill shortages. Hiring activity continues to be restrained by a lack of qualified candidates and a declining number of applicants. Most businesses reported that employment levels are at, or near, pre-pandemic levels. Of those that still have jobs outstanding, most expected employment levels to fully recover by the end of next year.

Wages grew at a robust rate over the last two months. While wage growth was broad-based, many contacts noted that wages and benefits paid to low-skill workers increased relatively more quickly.

### Prices

Nearly all businesses reported raising prices to customers. However, the extent to which those prices offset increasing cost pressures varied across industries and differed between small and large businesses. Price pressures came from a combination of rising labor costs, elevated material costs and high transportation costs. Several businesses also noted higher costs associated with holding or managing inventories amid supply chain disruptions.

### Consumer Spending

Retail spending expanded at a moderate rate and grew broadly across a number of categories. Two exceptions were spending on motor vehicles, which was mostly unchanged, and spending at entertainment venues, which declined slightly as cases of the Delta variant rose in number. Although growth in spending at restaurants slowed slightly in early October, most businesses reported a strong resurgence in patronage in recent weeks. Contacts indicated high confidence that consumer spending will further expand over the next six months and that demand remains elevated.

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

Manufacturing activity expanded at a robust pace in October and November. Growth in manufacturing over the past year has largely been attributable to durable goods producers. However, contacts at non-durable manufacturers reported an uptick in products shipped and new orders for goods. Expectations for growth over the next six months were near all-time highs across the manufacturing sector. Those expectations were supported by a significant booking of future orders, with several contacts across sectors noting that their business is booked out further than ever experienced previously.

Most contacts attributed the backlogs in their businesses to both demand and supply factors. For example, growth in demand for electronic equipment, motor vehicles and construction projects drove strong demand for microchips and steel products above pre-pandemic levels. Supply disruptions in those markets added to the backlogs in deliveries, but contacts indicated that they are not the sole driver. Regarding steel, contacts were attentive to the new tariff rate quota system negotiated with the European Union and noted that it could lead to additional logistical disruptions and uncertainty when implemented early next year.

Capital expenditures continued to rise at a robust rate across businesses. Some contacts noted that limited availability of vehicles and other heavy machinery are delaying some planned capital outlays. Several contacts indicated strong increases in demand for inventories of inputs to mitigate the consequences of ongoing disruptions, noting this runup is a strategic shift in how their specific supply chains are managed.

### **Real Estate and Construction**

Commercial real estate owners reported declines in vacancy rates in the Tenth District as new leasing activity picked up in recent months. However, most respondents continue to expect vacancy rates to rise over the next six months. Although most contacts commented that access to credit for new development projects and acquisitions was unchanged, some noted shifts in sources of funding and changes to covenants required by lenders.

Construction on commercial real estate projects picked up slightly during the October and November, but expectations for future activity have declined steadily over the past year. Falling again in October and November, contacts now report expectations for only slight growth in construction over the next six months.

### **Banking**

Overall loan demand increased modestly in recent weeks, but was mixed across categories. Commercial real estate loan demand increased modestly, with consumer lending and other commercial and industrial loan categories remaining stable. Bankers reported a slight decline in agriculture loan demand and in demand for residential real estate loans, consistent with seasonal patterns. Credit standards generally held steady. Bankers experienced modest improvement in loan quality compared to a year ago, although they anticipate a slight decline in loan quality over the next six months.

### **Energy**

Tenth District energy activity continued to grow at a moderate rate through November. The number of active oil rigs increased in Oklahoma, though declined slightly in Wyoming compared to the previous survey period. Revenues and profit levels increased considerably from a year ago. Regional contacts continued to report tight credit and lending conditions, limiting near-term production growth, despite high commodity prices.

Prices for oil and natural gas were within the average profitable price range for most firms operating across the District. Still, over half of firms did not expect U.S. oil production to return to pre-pandemic levels. Of those who expected U.S. oil production to recover fully, most expected it to rebound sometime in 2022. Wyoming recently shuttered its last underground coal mine, causing local losses of mining-related jobs. While the state still has several active surface mines, the closure is a further example of the secular decline in coal mining and production across Tenth District states.

### **Agriculture**

Economic conditions in the Tenth District's agricultural sector remained strong amid continued strength in commodity prices. The price of all major crops remained elevated and harvest estimates in November indicated that both corn and soybean production are expected to be at high levels across the District. Cattle prices increased modestly to above pre-pandemic levels in early November. With healthy conditions across the sector, farm real estate values increased sharply from a year ago. District contacts continued to express concerns about high input prices, yet farm income and credit conditions continued to improve and were expected to remain strong in the coming months. ■

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

Robust expansion continued in the Eleventh District economy, with gains generally broad based across sectors. Growth in the manufacturing and nonfinancial services sectors stayed strong, though retail sales were mixed. Home sales and single-family construction remained elevated; however, activity was being constrained by labor, lot, and materials shortages. Apartment demand rose, and office leasing ticked up as well. Loan volumes rose broadly. The energy and agricultural sectors saw continued expansion. Employment rose robustly, and wage growth remained elevated due to widespread labor shortages. Supply-chain bottlenecks continued to drive up costs and prices rose. Outlooks improved though uncertainty surrounding labor and supply-chain challenges increased.

### Employment and Wages

Employment expanded robustly. Hiring picked up in construction, manufacturing, and services despite persistent reports of labor shortages and a growing number of job openings. Several firms noted worsening issues with retention and hiring, with some noting having to terminate contracts or turn away business due to lack of capacity. While finding low-skill workers remained the most challenging, filling mid and high-skill positions was becoming increasingly difficult as well. One contact said that competition for tech workers was being further exacerbated by non-local companies looking for remote workers in cities like Austin. Some firms voiced concern that the vaccine mandate would make hiring more challenging in an already tight labor market.

Wage growth remained highly elevated, and numerous contacts noted continued difficulty retaining workers and filling vacancies even at much higher wages. An airline reported offering flight attendants triple pay to work during peak periods over the coming holiday season. A parcel shipping firm cited staffing issues despite having increased hourly pay by 16-25 percent for package handlers.

### Prices

Upward pressure on input and selling prices remained at historically high levels, with several contacts noting that persistent changes in pricing was posing a challenge in

planning for the future. Input costs rose broadly, led by increases in the manufacturing sector. Supply-chain constraints continued to be widely cited as a key factor driving up costs, with some firms reporting continued double-digit increases in the price of raw materials. There were several reports of rising freight costs. While most respondents in the retail, manufacturing, and construction sectors were able to pass on some portion of the higher costs to customers, numerous service firms reported holding prices steady and a few noted losing customers due to price hikes. Airlines said that leisure travel fares eclipsed pre-pandemic levels during summer, but weak business travel is a drag on overall fares. A few staffing firms anticipate reducing their markups for certain clients as a result of the sharp increase in wages.

### Manufacturing

Robust expansion continued in the Texas manufacturing sector. Output growth was elevated and broad based across sectors, led by durable goods manufacturing. Supply-chain disruptions or delays remained widespread, with many firms noting that the inability to secure raw materials was affecting their ability to meet demand. Several respondents said orders that would typically take weeks to fill were now taking months. Refiners cited higher utilization rates, and chemical manufacturers said that production had fully recovered from the impact of Hurricane Ida. Chemical margins slipped slightly but remained at healthy levels. Manufacturing outlooks were

positive though uncertainty edged higher due to supply-chain constraints.

### **Retail Sales**

Retail sales dipped in October but rebounded modestly in November. Growth was mixed across industries, with auto dealers continuing to report declining sales amid ongoing supply-chain issues and extremely tight used and new vehicle inventories. Retailers noted margin pressure due to rising costs. Outlooks were flat as supply-chain challenges weighed on sentiment.

### **Nonfinancial Services**

Texas service sector activity continued to expand at a solid pace. Revenue growth was broad-based, with strong increases seen in the transportation and warehousing, administrative support services, and accommodation and food services sectors. Staffing firms saw broad-based strength in demand and noted that job orders had surpassed pre-pandemic levels. In transportation services, a parcel shipping company cited rising shipments and record delivery volumes in September. Container activity at Texas ports experienced double-digit growth year-over-year in September, driven largely by increased consumer spending. There were reports of port congestion, with wait times for ships averaging around 60 hours. The slowdown at the ports was being made worse by a truck driver shortage and a lack of trucks to haul containers. Airlines said air travel picked up during the reporting period following a deceleration in August and September that was driven by the surge in Delta-variant infections. Holiday bookings were coming in quite strong, though overall demand for air travel is expected to be choppy through spring 2022. Service sector contacts cited rising prices, lengthening wait times, and greater regulatory risk as potential headwinds for future growth.

### **Construction and Real Estate**

Home sales held steady at above-average levels, though demand has softened relative to the highly elevated levels seen in spring and early summer. Construction capacity remained extremely constrained, resulting in lengthy delays in both lot development and home closings. Home inventories remained low and lot supply tightened further, nearing record lows in some areas. Builders' margins have widened, and outlooks were optimistic though there is widespread concern about lot supply and labor and material shortages.

Apartment demand rose further. Occupancy surpassed pre-pandemic levels, and rents continued their upward trend, with annual growth at or near record highs in most District metros. Demand for retail space was steady

since the last report. Office leasing activity picked up, but vacancies remained high, with little improvement expected through yearend. For industrial properties, e-commerce activity continued to drive robust growth in demand and construction, with Dallas–Fort Worth ranking among the top U.S. markets in both metrics.

### **Financial Services**

Loan demand picked up over the past six weeks, bolstering loan volumes. Commercial real estate lending led volume growth, eclipsing residential real estate lending, which continued to expand but at a decelerated pace. Volumes were largely unchanged for commercial and industrial loans and edged down for consumer loans. Nonperforming loans continued to decrease, and credit standards and terms remained unchanged. General business activity increased further, though contacts expressed concern over supply-chain disruptions, labor shortages, and inflation. Outlooks for loan demand and broader business activity six months from now remained optimistic, though contacts were less bullish on profitability.

### **Energy**

Oilfield activity rose steadily over the past six weeks. Optimism remained high among upstream contacts, boosted by high oil and natural gas prices. However, supply-chain delays worsened, with significantly larger backlogs, escalating costs, and material and equipment lead times as long as 10 months for some types of machinery. Access to capital was slowly improving, but firms did not expect this to alter drilling plans. Looking ahead, contacts anticipate a moderate increase in production and improved margins.

### **Agriculture**

Overall, the agricultural sector was doing quite well. Soil moisture remained mostly favorable, though some areas have begun getting dry over the past six weeks. Harvesting continued and production was strong, particularly for cotton and soybeans, far outstripping last year's numbers. Solid agricultural prices combined with high yields have boosted many farmers' financial positions this year. Contacts voiced concern going forward over higher input costs—fuel, fertilizer, machinery, etc.—and there were scattered reports of difficulty sourcing herbicides. On the livestock side, cattle prices rose, bolstered by solid beef demand. ■

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 October through mid-November. Employment rose at a moderate pace, while overall conditions in the labor market remained tight. The overall price level moved up significantly, driven by increases in employee compensation and other input prices. Sales of retail goods rose markedly while activity in consumer services increased at a tamer pace. Conditions in the agriculture and resource sectors as well as the manufacturing sector strengthened further. Activity in the residential real estate market expanded at a strong pace despite capacity constraints on construction, while commercial real estate activity was more mixed. Lending activity picked up modestly over the reporting period.

### Employment and Wages

Employment rose at a moderate pace, while overall conditions in the labor market remained tight. Demand for workers continued to significantly outpace supply across the District. Contacts across sectors reported substantial difficulties attracting and retaining qualified candidates, particularly for positions in the lower end of the wage distribution. Labor shortages reportedly affected production and service capacity in several industries, including hospitality, retail, food services, transportation, construction, and manufacturing. Some consumer service providers noted increased rates of voluntary quits and job offer rejections. In health care, contacts highlighted particular difficulties in hiring workers for non-standard shifts. A contact in education mentioned that inability to hire teachers forced some schools to close in the Pacific Northwest. In contrast, some bankers and energy providers observed ameliorated hiring conditions. One manufacturer mentioned increased efforts in hiring from nontraditional worker programs, such as previously incarcerated individuals. A few contacts expressed concern over workers' mental health and increased difficulties balancing work with family responsibilities.

Wages grew further over the reporting period due to intensified competition for talent, widespread labor shortages, and rising living costs. Annual percent increases in pay rates reportedly reached double digits in such sectors as hospitality, construction, and professional services. Many contacts mentioned the continued use of hiring bonuses, flexible work hours, part-time job offers,

and remote work arrangements as additional measures to attract qualified talent. Conversely, some employers in the technology sector mentioned more stable wage levels due to their ability to hire outside major metropolitan areas.

### Prices

Prices moved up significantly across the District. Widespread price hikes affected construction materials, retail food items, and energy, to name a few. Additional price pressures arose from business services, such as transportation and warehousing. Many contacts reported passing on increased wage and other input costs to consumers. One contact in business consulting mentioned rate increases beyond 30 percent for services that required consultants to travel to and work from clients' premises.

### Retail Trade and Services

Sales of retail goods rose markedly over recent weeks. Consumer demand for most retail products was reportedly strong even in the face of increasing prices. Several contacts mentioned continued robust e-commerce activity. Retailers observed labor shortages and rising costs, which were partly mitigated by an ongoing shift toward new technologies to substitute for labor, such as self-checkouts. Supply chain hurdles continue to hinder inventory building across the District, which retailers highlighted as an important risk for the high level of sales expected during the upcoming holiday season. A wood products provider mentioned that sales at retail home

centers were well above pre-pandemic levels. Sales of vehicles continued to be hindered by semiconductor shortages and other ongoing disruptions to inventory building.

Activity in the consumer and business services sectors rose slightly. Demand in travel, leisure and hospitality, event management, entertainment, and food services saw an uptick as the wave of infections driven by the Delta variant subsided in recent weeks. Business travel, relative to leisure travel, has been slower to recover from recent lows. Some contacts in the hospitality sector noted higher revenues despite lower occupancy rates, which was attributed to price effects. Demand for transportation services remained elevated but supply was constrained somewhat by labor shortages and other capacity-reducing factors. Demand for non-COVID-related health-care services rose quickly of late, while inventories for medical supplies were tighter. Demand for legal services was uneven, with more client interest for estate planning than for business formations services, for example.

### **Manufacturing**

Activity levels in the manufacturing sector rose further. Contacts noted a strong flow of new orders across industries, including metals fabrication, wood products, and processed foods. However, widespread supply chain disruptions and labor shortages continued to hold back production to a certain extent. As a response, manufacturers considered diversifying supply chains and stockpiling raw materials, despite reduced availability and rising costs for inputs. Some contacts additionally mentioned increased investment in new technologies and renewable energy as a way to improve resilience in the production process. Capacity utilization remained elevated overall.

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

Conditions in the agriculture and resource-related sectors strengthened over the reporting period. Demand remained strong domestically and, partly due to a more favorable foreign exchange environment, internationally, for the region's meats, produce, seafood, and lumber. Inventories were at satisfactory levels for most crops, although crop yields for tree fruit and wheat were relatively lower due to warmer temperatures and water shortages. Contacts highlighted underground water availability as being of particular concern. However, recent rains in Northern California eased drought conditions a bit in some regions. Contacts also noted that a general lack of readily available labor, continued logistical delays, interruptions related to the Delta variant, and

difficulties concerning equipment maintenance further restrained production. A contact in the logging sector mentioned rapidly rising costs and competition for timberland, as well as reduced supplemental availability of logs from fire salvages.

### **Real Estate and Construction**

Activity in the residential real estate market continued to increase at a brisk pace. Demand for both single-family and multifamily housing was strong across the District, although declining affordability in parts of the region reportedly pushed some potential single-family buyers into the multifamily market. Construction activity remained robust. However, labor and material shortages hampered the pace of construction somewhat. Building permit issuance remained solid, while the inventory of existing homes remained low. Additionally, a few contacts noted tighter availability of new lots for construction projects. A contact in Alaska highlighted that a large multifamily housing development project was postponed due to inflation uncertainty. A statement from Utah suggested that the real estate market stabilized somewhat in that region.

Commercial real estate activity was mixed. Demand for new office and retail space picked up in some areas, while it remained subdued in others. One contact in California expressed concern about permanently lower demand for office space related to a switch to hybrid workspaces. Demand for new hotel facilities was weak, partially due to the impact of the recent Delta wave. Manufacturing and warehousing spaces were in shorter supply and had high occupancy rates, especially near the busy West Coast ports where logistical delays were observed.

### **Financial Institutions**

Lending activity picked up modestly over the reported period. Consumer demand for credit card loans, home mortgage, and insurance products remained strong, while auto loan origination continued to be hindered by low vehicle supply. Demand for commercial real estate loans lagged those for their residential counterparts. Bankers across the District highlighted elevated deposit levels, but somewhat lower than in the previous reporting periods. Underwriting standards reportedly eased of late, as competition for loans tightened further and interest margins remained squeezed. Some contacts observed increased merger and acquisition activity among regional banks, as well as accelerated business investments in fintech companies. One contact in California mentioned that credit to small minority-owned businesses remained under tight availability. ■



