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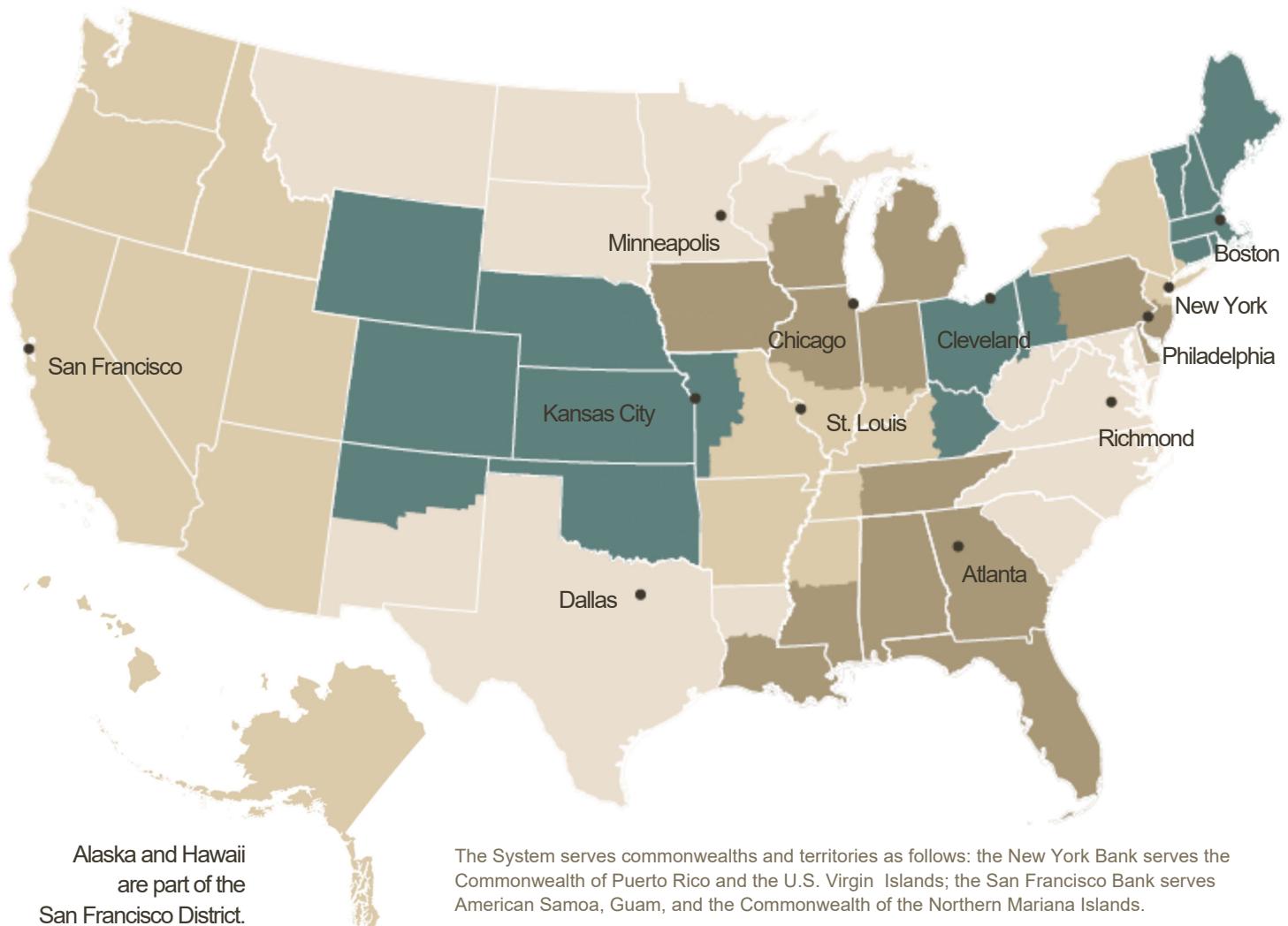
The Beige Book

Summary of Commentary on Current Economic Conditions

By Federal Reserve District

August 2021

Federal Reserve Districts



This report was prepared at the Federal Reserve Bank of New York based on information collected on or before August 30, 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.

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



National Summary

The Beige Book ■ August 2021

Overall Economic Activity

Economic growth downshifted slightly to a moderate pace in early July through August. The stronger sectors of the economy of late included manufacturing, transportation, nonfinancial services, and residential real estate. The deceleration in economic activity was largely attributable to a pullback in dining out, travel, and tourism in most Districts, reflecting safety concerns due to the rise of the Delta variant, and, in a few cases, international travel restrictions. The other sectors of the economy where growth slowed or activity declined were those constrained by supply disruptions and labor shortages, as opposed to softening demand. In particular, weakness in auto sales was widely ascribed to low inventories amidst the ongoing microchip shortage, and restrained home sales activity was attributed to low supply. Growth in non-auto retail sales slowed a bit in some Districts, rising at a modest pace, on balance, across the nation. Residential construction was up slightly, on balance, and nonresidential construction picked up modestly. Trends in loan volumes varied widely across Districts, ranging from down modestly to up strongly. Reports on the agriculture and energy sectors were mixed across Districts but, on balance, positive. Looking ahead, businesses in most Districts remained optimistic about near-term prospects, though there continued to be widespread concern about ongoing supply disruptions and resource shortages.

Employment and Wages

All Districts continued to report rising employment overall, though the characterization of the pace of job creation ranged from slight to strong. Demand for workers continued to strengthen, but all Districts noted extensive labor shortages that were constraining employment and, in many cases, impeding business activity. Contributing to these shortages were increased turnover, early retirements (especially in health care), childcare needs, challenges in negotiating job offers, and enhanced unemployment benefits. Some Districts noted that return-to-work schedules were pushed back due to the increase in the Delta variant. With persistent and extensive labor shortages, a number of Districts reported an acceleration in wages, and most characterized wage growth as strong—including all of the midwestern and western regions. Several Districts noted particularly brisk wage gains among lower-wage workers. Employers were reported to be using more frequent raises, bonuses, training, and flexible work arrangements to attract and retain workers.

Prices

Inflation was reported to be steady at an elevated pace, as half of the Districts characterized the pace of price increases as strong, while half described it as moderate. With pervasive resource shortages, input price pressures continued to be widespread. Most Districts noted substantial escalation in the cost of metals and metal-based products, freight and transportation services, and construction materials, with the notable exception of lumber whose cost has retreated from exceptionally high levels. Even at greatly increased prices, many businesses reported having trouble sourcing key inputs. Some Districts reported that businesses are finding it easier to pass along more cost increases through higher prices. Several Districts indicated that businesses anticipate significant hikes in their selling prices in the months ahead.

Highlights by Federal Reserve District

Boston

Economic activity in the First District expanded at a modest to strong pace over the summer of 2021. Contacts reported higher prices and wages but complained more about an inability to get supplies and to hire workers. Contacts were optimistic and hoped supply issues would ease in 2022.

New York

Growth in the regional economy moderated, though contacts remained optimistic about the near-term outlook. Employment and wages increased, with businesses reporting widespread labor shortages. Tourism leveled off, and service-sector businesses reported some deceleration in activity. Input price pressures remained widespread, and more businesses have raised or plan to raise their selling prices.

Philadelphia

Business activity continued at a moderate pace of growth during the current Beige Book period – still below levels attained prior to the pandemic. The rise of Delta variant cases has trimmed growth in some sectors, while labor shortages and supply chain disruptions continued apace. Overall, wage growth increased to a moderate pace, while prices continued growing moderately and employment continued to grow modestly.

Cleveland

Economic activity grew solidly, but supply constraints limited many firms' ability to meet demand. Staff levels increased modestly amid intense labor shortages. Reports of rising nonlabor costs, wages, and prices continued to be widespread. Firms expected demand would remain strong in the near term, but they were less optimistic that labor and supply challenges would abate enough to ease the upward pressure on wages and costs.

Richmond

The regional economy expanded moderately, but many firms faced shortages and higher costs for both labor and non-labor inputs. Port and trucking volumes picked up from already high levels, but manufacturers and services firms experienced delays and long lead times for goods. Employment rose moderately as labor shortages and wage increases were widely reported. Price growth picked up and was robust compared to last year.

Atlanta

Economic activity expanded moderately. Labor markets improved and wage pressures became more widespread. Some nonlabor costs rose. Retail sales increased. Leisure travel was strong and hotel occupancy levels rose. Residential real estate demand remained solid. Commercial real estate conditions were steady. Manufacturing activity expanded. Banking conditions were stable.

Chicago

Economic activity increased moderately. Employment increased strongly, manufacturing grew moderately, business spending was up modestly, construction and real estate rose slightly, and consumer spending decreased slightly. Wages and prices increased strongly while financial conditions slightly improved. There was some retreat in prospects for agricultural income.

St. Louis

Economic conditions have continued to improve at a moderate pace since our previous report. Across all industries, contacts are concerned about the Delta variant and its economic impact. Contacts continued to report that labor and material shortages. Overall inflation pressures remain elevated, but firms reported varying degrees of pass-through to customers.

Minneapolis

The District economy saw moderate growth despite continued inventory shortages and higher prices. Employment grew strongly but hiring demand continued to outstrip labor response by a wide margin. Consumer demand remained strong, leveraging growth in services, tourism, and manufacturing. Drought took a growing toll on agriculture, though higher prices benefitted farmers. Minority and women-owned business enterprises saw moderate growth in activity.

Kansas City

Economic activity continued to grow at a moderate pace through August. Demand remains elevated for most businesses, and a majority of contacts expect activity to remain elevated amid the recent surge in COVID cases. Wages grew at a robust pace, but labor shortages persist. As a result of widespread drought, pasture and range land in several states was in poor or very poor condition.

Dallas

The District economy expanded at a solid rate, with broad-based growth across sectors. Employment growth was robust, with a pickup seen in the service sector. Wage and price growth remained elevated amid widespread labor and supply chain shortages. Outlooks stayed positive, though surging COVID-19 cases has added uncertainty to outlooks.

San Francisco

Economic activity in the District expanded moderately. Hiring activity intensified further, as did upward pressures on wages and inflation. Retail sales increased modestly, while conditions in the services sector deteriorated somewhat. Activity in the manufacturing and agriculture sectors increased slightly. Residential construction edged down somewhat, while lending activity remained largely unchanged.



Federal Reserve Bank of **Boston**

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Summary of Economic Activity

Business activity continued to grow at a modest to strong pace in the First District in the Summer of 2021. Contacts across a wide cross-section of the economy reported strong demand. Residential real estate markets across the region continued to experience exceptional strength characterized by high prices and low inventories. One contact characterized the current situation in the semiconductor industry as a “golden age.” Even in-store retail and restaurants in the region were upbeat. The main constraint on sales appeared to be shortages of parts and logistics problems. Supply issues have translated in some pricing pressure but mostly disrupted delivery of products and services. Labor markets remained very tight but employers complained more about unfilled openings than about high wages. Firms continued to be optimistic. Some contacts thought increases in demand were temporary but have revised their views.

Employment and Wages

Contacts continued to report tight labor markets with strong labor demand but limited labor supply and employment growth. Reasons varied. Some attributed this to expanded Unemployment Insurance (UI) benefits but others said that hiring was equally difficult for high wage workers and workers in states which had discontinued expanded UI. Contacts indicated that labor market tightness was most felt on the extensive margin, complaining more about an inability to hire at all versus having to pay higher wages. Some contacts said that pay equity across workers made it difficult to raise wages for new hires. Salaries for specific occupations have gone up with one contact saying that pay for logistics specialists had doubled since the start of the pandemic.

Prices

Contacts reported generally higher input prices but, as with labor, they were mostly concerned about getting the supplies they needed versus the price. Firms did raise prices to offset higher costs but also said they tried to cut costs to maintain margins. Restaurants indicated that they were raising prices to cover higher costs.

Retail and Tourism

Retail contacts noted continued strength in apparel, home decor, salvaged goods, and online sales of home furnishings. Travel restrictions along the Canadian border have limited sales for some contacts. Online sales of home furnishings have remained well above pre-

pandemic levels and revenue increased last quarter from the prior quarter, but year-over-year sales reflect a modest decline relative to the very strong sales last summer. In-store sales of home goods and apparel continued to rebound since the spring with same store sales up nearly 20 percent relative to summer 2019 in some cases.

Tourism and hospitality respondents noted strong restaurant sales throughout the summer, but they reported disruptions related to COVID-19 with some restrictions reinstated since the last round. Menu prices have continued to rise since the spring as food, delivery, and labor costs have all continued to increase in recent months. Higher menu costs have resulted in modestly larger tips for front of the house staff, and efforts have been made to increase wages across restaurants to attract more workers.

Manufacturing and Related Services

Most of our contacts reported higher sales versus the same period one year ago. Firms connected to the semiconductor industry reported exceptional strength with one referring to the current period as a “golden age” for the industry. A furniture manufacturer said sales were high by normal standards but low relative to the summer of 2020. Several contacts said that supply constraints limited growth. Specifically, they claimed that shortages and supply chain disruptions had a relatively small effect on prices but mostly affected their ability to make promised deliveries on schedule. Almost all con-

tacts mentioned that logistics continued to be a problem. Most contacts said that they had limited price increases to customers and had dealt with higher input prices by cutting costs and increasing productivity. Hiring remained challenging. Contacts reported wage pressure especially for specific occupations. One contact said that pay had doubled for logistics specialists. Several contacts reported revising capital expenditures higher because of strong demand since the start of the pandemic. Contacts were generally optimistic although some had made downward revisions to their forecasts due to shortages of parts. Contacts expected supply disruptions to ease in 2022.

Staffing Services

Staffing firms reported strong performance during the summer months, with quarterly increases as high as 20 percent following a strong 2021Q1. Demand for labor remains high across all sectors and supply is tight. Contacts said clients were lowering their required qualifications and experience for job candidates and offering on-the-job training and opportunities for upward mobility. Reliability stands out as the primary concern for these employers. Pay rates remain elevated, and several contacts reported bidding wars to attract qualified candidates. While several contacts cited continued UI benefits as a cause of the worker shortage, other contacts cited childcare options as the primary obstacle. Pandemic-related health concerns remained an issue. Contacts were generally optimistic about their performance the rest of the year, with several firms expecting growth in labor supply as increased recruitment efforts continue and UI benefits expire.

Commercial Real Estate

Commercial real estate sales and leasing in the First District remains mixed with strength in industrial and life science while uncertainty continues to surround retail and office space. The industrial and life sciences markets continue to be characterized by high leasing demand with high rents and near-zero vacancy levels. Lack of availability has led to reductions in industrial and life science leasing activity in part of the district. Development and construction activity in these sectors have remained strong throughout the district but continue to be affected by high construction costs, and many new projects now incorporate an “escalation factor” into budgets. Contacts described slow and even “anemic” conditions in the office market—departing from greater optimism during the previous calling cycle. Concerns about the Delta variant has increased uncertainty and many tenants opt to sign short-term renewals only when necessary. Office rents remained mostly flat, with landlords

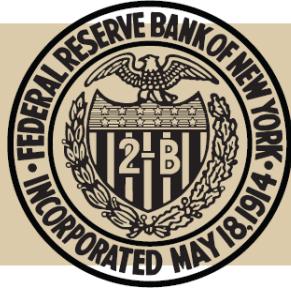
continuing to offer some non-rent concessions. Sales activity continues to be limited in the office market, as office property owners prefer to wait rather than discount or sell their properties. Retail real estate activity is mixed with strong demand for grocery- and gas-anchored retail along with lifestyle retail and experiential restaurants. Contacts still hold generally optimistic outlooks, but also expressed greater uncertainty regarding the office and retail markets.

Commercial real estate lending and investment have been characterized by highly competitive and loose market conditions for warehouses, multi-family housing, and life sciences products. Banks and institutional investors, that are flush with cash and under pressure to invest, are driving robust price increases. In competitive final bidding rounds, price increases have been 10 to 20 times greater than in normal market conditions. Loan and capitalization rates alike have compressed by a further 5 to 25 basis points from the previous cycle.

Residential Real Estate

Low inventory continued to push prices upward in the First District's residential real estate markets in July. Sales levels for single family homes were unchanged or lower year-on-year and sales of condos were unchanged or slightly up. Inventory is down by double digit percentages for all reporting markets year-over-year but the inventory declines have moderated. Median sales prices are higher for all types of residential real estate but price growth has slowed slightly since last cycle. Contacts expect high demand to continue to outpace supply into the fall and winter for as long as mortgage rates remain low. ■

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



Federal Reserve Bank of **New York**

The Beige Book ■ August 2021

Summary of Economic Activity

Economic growth in the Second District returned to a more moderate pace in the latest reporting period, as the Delta variant has become more prevalent. Still, contacts continued to express fairly widespread optimism about the business outlook. The job market has remained exceptionally tight, as firms continued to add workers and raise wages amidst extensive reports of labor shortages. Input price pressures have continued to broaden, and a large majority of businesses report that they have continued to hike selling prices. Consumer spending has leveled off, reflecting a combination of decelerating demand and extensive supply bottlenecks. Home sales and rental markets have been strong, while office markets were steady in much of the District but remained weak in New York City. Construction activity has picked up. Finally, contacts in the broad finance sector reported modest growth in activity, while regional banks reported steady loan demand and ongoing declines in delinquency rates.

Employment and Wages

The job market has remained exceptionally tight, with businesses continuing to add workers and planning further hiring in the months ahead, but worried about widespread labor shortages. A major New York City employment agency reported an increase in job postings, noting that employers and job candidates remain far apart not only on compensation but also on flexibility regarding hybrid work arrangements. An upstate New York employment agency indicated a slight increase in hiring activity—particularly for salespeople—and also reported ongoing labor shortages, noting that businesses have been increasingly looking outside the region for candidates.

Businesses anticipate further widespread hiring in the months ahead, especially in the professional & business services and wholesale trade sectors. In particular, businesses are expected to hire more administrative support people if and when business travel picks up. Many firms that have been operating remotely have pushed back a return to the office from September to later in the year.

Wage growth has picked up further, particularly in the leisure & hospitality and retail trade sectors. An upstate New York employment agency noted a sharp increase in wages, while a New York City agency reported moderate wage growth. Looking ahead, fairly widespread wage hikes are anticipated across all major industries.

Prices

Firms have continued to report exceptionally widespread increases in input prices—particularly in the construction, manufacturing, wholesale trade, and transportation & warehousing industries. Contacts in all sectors anticipate widespread input price hikes for the remainder of 2021.

Selling prices accelerated further, with particularly widespread price hikes reported by manufacturers and wholesalers. Retail prices have risen to varying degrees: effective prices for both new and used vehicles are up sharply, while prices for general merchandise have risen moderately. A sizable share of contacts in all sectors plan to increase prices over the next six months.

Consumer Spending

Consumer spending has leveled off in the latest reporting period. Non-auto retailers reported some plateauing in activity in recent weeks, though one major chain did note continued improvement in sales in August, led by brisk back-to-school spending. In New York City, sales have continued to trend up, as mask and vaccine mandates have alleviated some safety concerns, but they remain well below pre-pandemic levels, hampered by an ongoing dearth of international visitors and office workers. Retailers have grown somewhat less optimistic about prospects for the remainder of 2021. Consumer confidence among New York State residents remained near record highs in July.

An increasingly severe shortage of auto inventories has led to weakening sales of new vehicles in recent weeks. Dealers perceive no end in sight to the microchip shortage that has severely limited their inflow of new vehicles. At this point, new cars being delivered to dealers are largely already spoken for. Sales of used autos have also weakened somewhat but remain at high levels.

Manufacturing and Distribution

Contacts in the manufacturing and wholesale trade sectors indicated that growth has slowed markedly in recent weeks, while those in the transportation & warehousing sector noted a pickup in growth. Contacts continued to note that their business has been constrained by supply disruptions and worker shortages. Looking ahead to the second half of this year, companies in these sectors remained widely optimistic about business prospects, though labor shortages remained a major concern.

Services

Service industry contacts reported continued growth in activity but at a slower pace than in recent months. The information and leisure & hospitality industries, which had looked overwhelmingly positive in the prior report, grew more moderately. Similarly, firms in professional & business services and education & health services reported moderate improvement. Looking ahead, contacts in all these sectors continued to express optimism about business prospects.

Tourism has been mixed but slightly softer, on balance, since the last report. Across upstate New York, major outdoor events, such as the state fair, have been well attended, contributing to a brisk summer tourism season. But the extension of restrictions on visitors, especially from Canada, has dampened activity in some areas.

In New York City, rising concerns about the Delta variant and the extension of federal restrictions on foreign visitors have constrained activity and led to the cancellation of summer events, such as the Fancy Foods Show and the Auto Show. Still, as hotels have re-opened, occupancy rates remained above 50 percent, and a number of major events, such as the U.S. Open and ComicCon, are still on.

Real Estate and Construction

Housing markets have been mixed but, on balance, steady in recent weeks. Sales markets outside New York City have remained robust, though volume has receded somewhat—largely reflecting a lack of supply and a typical summer lull. Inventories have remained excep-

tionally lean, and prices are up fairly dramatically from pre-pandemic levels and have continued to rise, though bidding wars have become less prevalent and overbids have become more subdued. In New York City, market conditions have been mixed but mostly stronger. In Manhattan, prices have trended up but are still down 7 percent from 2019 levels, while inventory remains elevated; sales volume is reported to be 16 percent higher than before the pandemic. In the rest of the city, conditions are more akin to suburban markets, with prices at record highs and inventories lean.

New York City's rental market has continued to rebound, with leasing activity reported to be exceptionally brisk and vacancy rates retreating. Rents have continued to rebound but are still down 10 percent from early-2020 levels in Manhattan and down 3-5 percent across the rest of New York City. Rents have generally rebounded more strongly on larger than on smaller units. A substantial supply of new apartments (rental and condo) is currently in development.

Commercial real estate markets have remained mixed across the District. New York City's office market has continued to slacken, with record-high sublet space available and rents still trending down. While some firms, notably large tech companies, have leased more space, many others have reduced their footprint in Manhattan or plan to do so. In suburban markets around New York City, market conditions have stabilized, with availability rates leveling off and rents steady to down slightly. Office markets across upstate New York have shown signs of rebounding.

In New York City, a sizable amount of space is currently under construction, and new construction has picked up for both office and multifamily structures. Construction sector contacts expect business to improve in the months ahead but have continued to express concern about the cost and availability of materials and labor.

Banking and Finance

Businesses in the broad finance sector indicate that activity has increased moderately since the last report. Bankers reported a slight pickup in overall loan demand, with increased demand for commercial mortgages but slightly weaker demand for consumer and commercial and industrial loans. Refinancing activity decreased on net. Credit standards were reported as unchanged across all categories, while loan spreads decreased across the board. Finally, delinquency rates continued to improve across all categories. ■

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



Summary of Economic Activity

On balance, business activity in the Third District continued to grow moderately during the current Beige Book period; however, activity in most sectors has not yet returned to pre-pandemic levels. The rate of adults being fully vaccinated against COVID-19 slowed but rose above 55 percent. Contacts noted that the rise in Delta variant cases has impacted activity in retail, restaurants, and travel. Meanwhile, supply chain disruptions grew worse. Net employment continued at a modest pace of growth, while prices, and now wages, grew moderately. About two-thirds of the nonmanufacturers and less than half of the manufacturers expressed positive expectations for continued economic growth over the next six months. Optimism has narrowed as the Delta variant has disrupted plant production, delayed a return to many offices, and increased uncertainty about the success of school reopenings this fall.

Employment and Wages

Employment continued to grow modestly overall. The share of firms reporting employment increases held steady at one-fifth of nonmanufacturing firms and over one-third among the manufacturers. Overall, average hours worked rose for about one-fourth of all firms.

Hiring and retaining workers remained a challenge for many firms across all sectors. Contacts at staffing firms continued to report better candidate flow and are hoping for greater availability as schools reopen. However, contacts at other firms tended to report a decline in applicants per job since May – citing early retirements, career changes, childcare issues, and enhanced unemployment benefits. Reports of burnout are rising among workers and owners alike. The ongoing lack of workers has forced smaller retail and restaurant owners back to the register, the kitchen, and the dish room.

Wages rose moderately overall – somewhat more so than in the prior period. Wage pressure remains greatest for lower-wage jobs. The unusually high degree of labor market churn makes it difficult for firms to find an attractive wage. Two manufacturing firms reported opposing results from offering a \$20 an hour wage – one noted improved hiring at all locations, another reported no applicants.

Over two-fifths of the nonmanufacturing firms reported higher wage and benefit costs per employee – comparable with pre-pandemic levels. Almost no firms reported lower compensation. The rate of growth in total compensation that firms expect over the next year has nearly doubled since last year.

Prices

On balance, prices continued to rise moderately over the period. The share of manufacturers reporting higher prices for factor inputs edged down to three-fourths, while those receiving higher prices for their own products edged a bit above one-half. However, the share of nonmanufacturers reporting higher prices for their inputs remained at about one-half, while the share receiving higher prices from consumers for their own goods and services edged below one-third.

About two-thirds of the manufacturing contacts reported they expect to pay higher prices over the next six months, and slightly more than that expected to receive higher prices for their own goods.

Looking ahead one year, the prices that firms anticipate receiving for their own goods and services rose further still – the expected rate of growth has nearly tripled among manufacturers since last year and has more than doubled for nonmanufacturers.

Manufacturing

On average, manufacturing activity continued to grow moderately. However, net increases of shipments and of new orders waned further from the prior period's level. Firms also reported lower net levels of backlogs and delivery times, while inventories turned negative. Contacts continued to note strong demand; however, production levels and employment remained below pre-pandemic levels.

Labor shortages continued and supply chain disruptions grew worse, according to many contacts. Many firms are still searching for an acceptable wage, others are waiting for government benefits to expire, and some continue to pursue automation where they can.

Consumer Spending

Retailers (nonauto) and restaurateurs continued to report modest growth. Labor shortages continued, and supply chain disruptions worsened – prompting one firm to rent its own refrigerated trucks to deliver food to its restaurant locations when the large distributors delay scheduled deliveries. Some contacts also noted a rising number of belligerent customers.

Auto dealers reported that new car sales fell significantly as factories have cut production predominantly because of the ongoing microchip shortage. Contacts opined that this situation may continue until at least next summer. Meanwhile, the lack of supply is driving prices (and margins) higher for new and used cars; the latter continue to sell at high levels.

Tourism contacts noted modest declines in activity as concerns about the Delta variant rose. Domestic tourism remained strong at mountain and shore destinations; however, some business and group bookings were canceled or postponed.

Nonfinancial Services

Nonmanufacturing activity continued to grow moderately; however, firms reporting increases in sales or revenues fell well below half. Moreover, on balance, output remained below pre-pandemic levels. A large service-sector firm noted steady growth and a low rate of non-payment among its customers.

Financial Services

The volume of bank lending (excluding credit cards) fell modestly during the period (not seasonally adjusted); during the same period in 2019, by contrast, loan volumes grew modestly. Once again, commercial and industrial loans contracted significantly, while home equity lines and other consumer loans fell modestly. Auto lending and home mortgages grew modestly, and commer-

cial real estate lending was flat. Credit card volumes grew moderately – faster than the modest pace during the same period in 2019.

Bankers, accountants, and bankruptcy attorneys continued to report that very few problems with bad debt have emerged. Their concerns over personal and small business bankruptcies have waned; however, some still expect an uptick of small business bankruptcies after passage of another six months. Contacts continued to note the value that government assistance provided in keeping businesses afloat through the pandemic. However, they also noted that some businesses that were in trouble before the pandemic and were kept alive are beginning to fail now.

Real Estate and Construction

Homebuilders reported a slight drop-off in sales activity since the spring – attributed to rising prices, limited inventory, and less urgency from buyers. Many builders now have contracts to build houses that extend well into 2022. However, supply chain problems have worsened and are expected to continue for another year.

Existing home sales held steady, and availability remained low, but the market may have cooled a bit. Sellers still receive multiple offers, but with prices that are not as high above asking price as before. Contacts reported that the for-sale inventory ticked up from June to July (measured as months of supply), and one broker noted that sellers are currently waiting until the fall to list their houses.

Construction and leasing activity remained steady for nonresidential projects. Warehouses, institutional, and multifamily projects remain strong, while demand for office space has paused. ■



Federal Reserve Bank of **Cleveland**

The Beige Book ■ August 2021

Summary of Economic Activity

Economic activity grew solidly, albeit at a somewhat slower pace than in the previous reporting period. Customer demand was solid for firms across a broad range of industries. That said, supply constraints limited many firms' ability to keep up with growing demand. This challenge was particularly acute for homebuilders, manufacturers, and auto dealers, many of which reported shortages and delays in receiving key items. Staff levels increased modestly, despite reports of strong customer demand. Labor shortages remained intense, and many firms raised wages for new hires and current employees. Reports of rising nonlabor costs and prices were widespread. Firms generally attributed the higher prices to the persistence of supply chain disruptions and worker shortages. Firms were generally upbeat that customer demand will remain strong during the rest of the year, but they were less optimistic that labor shortages and supply chain disruptions would abate enough to alleviate some of the upward pressure on wages and input costs.

Employment and Wages

Staff levels increased modestly, and many firms commented that it was difficult to fill open positions for a wide range of occupations and skill levels. Contacts generally indicated that the flow of job applicants had not improved in recent months, despite some District states' early ending of supplemental unemployment benefits. Businesses also struggled to keep up with the high pace of employee turnover and retirements. One metalworking firm remarked that one-fourth of its staff had been with the firm for three months or less because of high turnover of new employees. Many contacts were pessimistic about their ability to fully staff up in coming months. One producer of industrial robots expected it would take four to five months to hire 20 semi-skilled manufacturing techs, a timeline which would be far longer than typical.

Reports of wage increases remained widespread. About two-thirds of survey respondents increased wages during the past two months, the highest share since we began keeping records in 2016. More so than in recent surveys, contacts commented that pay increases were needed, not just to attract new hires, but also to retain current employees and to prevent poaching. Several contacts indicated that they were raising wages across pay grades. Also, several contacts said they were giving more frequent raises than usual. One trucking company

said it had already given five pay raises this year.

Prices

Reports of rising nonlabor costs were widespread, and many firms expected sizeable cost increases in the coming months. Just over 80 percent of contacts reported that their nonlabor costs had increased in the last two months, a slightly higher share than in the previous survey. Contacts highlighted higher costs for a wide range of inputs, including meat, steel, packaging, electronics, office supplies, and freight services. Cost increases were often attributed to ongoing supply disruptions, which in some cases had worsened. A dairy farmer said that his food service distributors were now routinely out of a dozen or more items. These disruptions caused him to seek alternative suppliers at greater cost.

Reports of firms' raising their selling prices were also widespread. About two-thirds of respondents raised prices, a similar share to that of the previous reporting period. Many contacts indicated they were passing through higher labor costs to customers, not just higher costs for materials and freight services as in recent surveys. Some firms noted they were increasingly using surcharges to cover higher costs. Contacts are expecting larger increases in their prices during the next year than they previously anticipated because of rapid changes to

costs and the longer-than-expected persistence of supply constraints. One freight hauler was told by a truck producer that all 2022 orders were being canceled and repriced because costs were changing so quickly.

Consumer Spending

Consumer spending increased moderately. The spread of the Delta variant had mixed impacts on high-contact services. While contacts observed cancellations of group events and weaker demand for air travel, hospitality firms that cater to regional leisure customers reported continued improvement in activity and stronger demand for local getaways. Demand for goods remained strong. General merchandisers and apparel retailers said that in-store traffic picked up in recent weeks. One department store noted that early back-to-school sales were stronger than in 2020 and were in line with 2019 sales as most schools announced a return to in-person instruction. Auto dealers noted that demand remained elevated but that sales dipped as tight inventories and higher prices deterred some buyers. Contacts were optimistic that consumer spending would continue to improve in the coming months, although the spread of the Delta variant clouded their outlooks for high-contact services.

Manufacturing

Manufacturing orders increased strongly across a range of end-user markets. Many producers said they were unable to meet demand because of worker shortages and delayed deliveries of inputs. A sizeable minority of firms noted that capacity utilization was below desired levels because of such challenges, and some moved out their own delivery schedules. Contacts noted some customers were accelerating their orders in anticipation of future delays and shortages. Capital expenditures increased modestly, with firms directing additional spending towards automation. On balance, manufacturers expected demand to continue to rise in the coming months.

Real Estate and Construction

Housing demand remained robust. However, the limited supply of homes continued to put upward pressure on home prices, and homebuilders were concerned that persistent supply chain disruptions were inhibiting new home construction. Contacts anticipated that activity would level off because the intensely competitive buyer's market and rapidly rising prices have led some potential homebuyers to postpone purchasing a home. One real estate agent predicted that "instead of super-hot, it will be a warm market where things will start to balance out."

Nonresidential construction and real estate activity increased moderately, although there was variation across

segments. Demand for industrial space remained robust, while demand for retail space and office space was dampened somewhat by the increase in coronavirus infections and rapidly changing workplace requirements. Contacts were optimistic that activity would continue to improve, although some were concerned that frequent cost increases and shortages of materials could hinder activity.

Financial Services

Banking activity increased moderately, although it cooled somewhat from that of recent reporting periods. Contacts noted that demand for auto loans and mortgages remained somewhat elevated even though limited inventories in both markets dampened activity. A few lenders reported stronger demand for commercial real estate loans. That aside, business lending was relatively soft, and some bankers said loan payoffs and cash balances were high. Contacts reported that delinquency rates for consumer and commercial loans were still low and that the number of active forbearance agreements continued to drop. Looking ahead, bankers expected loan demand to remain stable in the near term but noted that the spread of the Delta variant tempered their prior optimism.

Professional and Business Services

Professional and business services firms continued to report robust demand. Technology firms experienced increased activity as clients resumed software investments that had previously been put on hold. Firms also noted that the labor market's ongoing recovery led to heightened demand for human resources- and payroll-related software. Contacts were optimistic that activity would remain strong as the economy continues to grow, although some firms were concerned that the recent increase in coronavirus infections may begin to dampen overall economic activity and ultimately demand for their services.

Freight

Demand for freight services grew modestly from already high levels. One contact attributed the increased activity to customers' adding to their supply stockpiles and some firms' storing their products offsite when customers further down the supply chain were behind schedule. Several freight haulers reported that shortages of drivers or equipment led them to turn away some orders. Looking forward, contacts expected demand for freight services to remain elevated. ■

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



Federal Reserve Bank of **Richmond**

The Beige Book ■ August 2021

Summary of Economic Activity

The regional economy continued to grow at a moderate rate in recent weeks, but firms across a variety of sectors reported constraints to growth. Manufacturing activity picked up moderately, but some manufacturers were unable to keep up with demand due to shortages of inputs and labor. Ports and trucking companies continued to report strong demand growth from already high volumes. Retailers reported moderate growth in sales but faced low inventory levels, longer lead times, and higher costs. Travel and tourism remained strong, largely driven by consumer travel. Home sales slowed slightly, and more homes came on the market, but the market remained strong overall. Commercial real estate activity picked up moderately in recent weeks although office vacancies remained high. Reports from financial institutions echoed that demand for mortgages eased but was somewhat offset by moderate commercial loan growth. Nonfinancial services reported little change in recent weeks as several firms cited labor and inventory shortages constraining growth. Employment rose moderately and demand for workers intensified, giving way to moderate wage growth. Price growth picked up in recent weeks and was robust compared to a year ago as many firms increased prices in response to higher costs.

Employment and Wages

Employment in the Fifth District increased moderately since our previous report. Demand for workers intensified with contacts across industries reporting an acute shortage of labor. In several cases, the shortage of workers constrained growth and led some firms to modify business operations by reducing hours or services. Some employers noted that the rise of COVID cases due to the Delta variant led to delays and challenges bringing workers back to the office. Wages rose moderately, on balance, as contacts reported increasing wages to both recruit and retain workers. One manufacturer noted that they not only increased starting wages but also offered guaranteed raises after three and six months.

Prices

Price growth increased moderately in recent weeks and, compared to a year ago, price growth was robust. According to our surveys, both manufacturing and service sector firms reported a substantial rise in prices paid for non-wage inputs in recent weeks, particularly for materials in short supply due to global supply chain disruptions. Gas and freight prices also rose from already high levels. Many firms reported raising their prices in response to higher input costs for materials, energy, transportation, and labor.

Manufacturing

Fifth District manufacturers saw moderate growth in shipments and new orders in recent weeks. Furniture, food, and packaging manufacturers saw especially high demand, which they were often unable to meet. Inventories of both materials and final products declined. Lead times continued to lengthen, and many manufacturers of perishables turned away business. Low and unpredictable supply of inputs as well as labor shortages constrained production. Contacts also noted increasing difficulty finding transportation, both domestically and internationally, which was delaying shipments of finished products as well as arrivals of materials.

Ports and Transportation

Fifth District ports saw robust growth in volumes since our last report, mostly driven by imports. Furniture imports were especially strong, along with food, machinery, and textiles. Auto parts imports showed some strengthening. Ships were delayed arriving at ports but port operations ran smoothly upon arrival. Rail delays, along with a chassis and truck driver shortage, left containers waiting at ports for an extended time before being shipped inland. An airport contact noted that passenger planes that had helped with excess imports during the pandemic are now being used for passenger flights thereby decreasing the number cargo flights.

Trucking companies in the Fifth District reported that demand remained robust in recent weeks. Volumes were high across most goods, with contacts noting particular strength in home goods. Truckers reported turning away business amid high demand as a lack of drivers restricted capacity. Contract and spot market rates were high, giving many companies record margins despite high operating costs. Contacts also noted that a long backlog of parts for repairs is leaving trucks and trailers out of use for extended periods of time.

Retail, Travel, and Tourism

Fifth District retailers reported moderate sales growth in recent weeks. Demand for cars continued to exceed supply while inventories were low, leading to lower carrying costs and increased margins for auto dealers. Clothing sales rose, and demand for furniture and home goods remained strong. Retailers noted shortages of and increased lead times for merchandise, particularly on foreign-made goods. One contact reported refunding several bridal parties because dresses did not arrive on time for weddings. Many retailers were able to maintain margins despite increases in costs of products and shipping.

Travel and tourism remained strong and were little changed in the Fifth District since our last report. Hotels and short-term rentals had solid bookings, and daily rates remained strong. Leisure travel remained strong through the summer, and outdoor attractions continued to see high visitations. However, some contacts expressed concerns as they saw delays in bookings for conferences, businesses travel, and group travel, resulting from uncertainty surrounding COVID variants. Hotels continued to limit services because of lack of staffing, and some restaurants temporarily shut down because they were unable to find workers.

Real Estate and Construction

Fifth District home sales remained strong but decreased modestly since our last report. Sale prices continued to rise, but growth of prices slowed. Days on the market remained low but increased in some areas. Buyer traffic softened slightly, which contacts reported could be partly seasonal. Listings of resale homes rose, boosting inventories. However, builders remained sold out of lots. New construction was strong, but builders faced delays and rapidly rising costs resulting from supply chain disruptions in materials and appliances. Realtors reported an increasing number of investors in the market for homes to remodel and resell.

Commercial real estate leasing grew moderately in recent weeks. Demand for industrial space remained

high, driving rental rates higher. Both speculative and built-to-suit industrial construction were strong, but developers struggled to find space. Multifamily occupancy and rents rose. Contacts reported new multifamily construction was filling quickly and was increasingly including office space for one- and two- bedroom apartments. Retail rental rates were strong, with especially high occupancy for restaurants as new restaurants replaced ones that had closed during the pandemic. Office vacancies remained high and were little changed despite landlords offering increased incentives and concessions.

Banking and Finance

Overall, loan growth was moderate this period reflecting solid underlying economic conditions but was tempered by uncertainty related to COVID variants. Financial institutions indicated modest demand for conventional commercial lending, but a slowdown in mortgage lending activity due to a cooling of the housing market with some lenders also noting fewer refinancing requests. Competition remains strong for A-rated commercial loans, particularly around lower fixed rates and longer maturity terms. Deposit growth was modest despite the low interest rates paid on accounts. Credit quality continued to be excellent and delinquencies remained at historically low levels.

Nonfinancial Services

Nonfinancial service firms saw little change in revenues in recent weeks despite continued strong demand. Several firms noted that revenue growth was being suppressed by supply side factors, such as low inventories and labor shortages and turnover. Several business across a variety of professional and legal services said that they recently lost employees to competitors, which impacted their ability to meet demand. ■

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



Federal Reserve Bank of Atlanta

The Beige Book ■ August 2021

Summary of Economic Activity

Economic activity in the Sixth District expanded moderately from July through mid-August. Demand for labor intensified, and worker availability remained extremely tight. Reports of increasing wage pressures continued and were more widespread. Some nonlabor costs continued to rise, and pricing power strengthened. Retail sales activity improved, but new car sales declined due to supply chain constraints. Leisure travel activity remained robust. Demand for housing was solid, inventories remained low, and home prices rose. On balance, commercial real estate activity was steady. Manufacturing activity increased and supply delivery times grew. Conditions at financial institutions were stable, on net, but deposit growth slowed, and loan demand declined.

Employment and Wages

Overall, employment in the District strengthened since the previous report. Contacts indicated that labor supply remained extremely tight. Many noted that the expiration of unemployment benefits and the start of the school year in many parts of the District had not increased the supply of applicants as hoped. The recent uptick in COVID-19 cases further constrained worker availability as absenteeism increased due to illness or quarantine. Workers were also less willing to work overtime hours. Several employers noted that applicants did not have the skills they were looking for. Labor shortages continued to hold back activity for many firms—production had been curtailed, projects placed on hold, store hours reduced, and menus at restaurants had been slimmed down. Some childcare centers facing workforce shortages have chosen to close infant rooms because they require a greater number of caregivers. Retention continued to be a growing problem for firms. Restauranteurs noted concerns over “ghosting coasting,” where a new hire works for a few days and moves on to the next restaurant without notice before they are let go due to lack of skills. Another growing concern for many employers was described as a “gray wave” of early retirements, particularly among nurses. Employers continued to expand efforts to attract and retain employees.

Wage pressures intensified over the reporting period and upward pressure on wages was relatively widespread. Wage pressure was most notable among entry-level positions. Additionally, mentions of sign-on bonuses was more prevalent. Several firms were actively re-evaluating salary ranges or adjusting wages in reaction to competitor pay increases to retain their workforce.

Prices

District contacts continued to cite increasing nonlabor costs, especially for steel and freight, with multiple contacts referencing record increases in shipping container rates. The price of lumber stabilized but remained elevated relative to pre-pandemic levels, while mentions of increased food product costs became more widespread. Contacts cited the ability to pass through price increases with greater frequency, and with minimal resistance. With the exception of labor costs, most contacts still expect cost pressures to ease by 2022. The Atlanta Fed's Business Inflation Expectations survey showed year-over-year unit costs increased significantly to 3.3 percent on average in August, up from 2.9 percent in July. Year-ahead expectations increased to 3 percent in August, up from 2.8 percent in July.

Consumer Spending and Tourism

Retail contacts reported strong sales and per capita spending, particularly in leisure travel destinations in the District. Due to persistent labor shortages, restaurants and retailers remained challenged with meeting demand. The pace of new vehicle sales slowed further due to supply chain constraints, and the forecast for 2021 annual sales was revised downward.

Leisure travel activity was solid, on balance, with some hospitality contacts reporting occupancies near 2019 levels. Recent COVID-19 surges are expected to curb activity for the balance of August and increase uncertainty for the Fall season.

Construction and Real Estate

Demand for housing remained strong. However, real estate contacts noted that buyers have become more reluctant to buy as home prices continued to reach peak

levels and housing affordability declined in most markets throughout the District. Inventory shortages continued to create upward price pressure, especially in Florida, where prices rose by over 20 percent in some markets.. After limiting sales earlier this year, some builders, as a way to stay ahead of rising costs, have shifted to building more speculative inventory rather than preselling. Although lumber costs have declined, labor and other material costs continued to rise.

Commercial real estate (CRE) activity was steady over the reporting period. Conditions in the retail and hotel sectors improved modestly. Multifamily activity strengthened, though contacts expressed growing uncertainty over the future impacts of the lifting of the eviction moratorium on the sector. The office sector remained challenged as low demand and new deliveries pushed office vacancies further upward. Contacts reported that competition among lenders for a small segment of CRE loans accelerated. Smaller banks and non-bank lenders were noted as the more aggressive CRE lenders.

Manufacturing

Manufacturing contacts indicated that demand improved since the previous report. Supply delivery times lengthened as supply chain disruptions continued, which coupled with worker shortages, continued to impede production for many manufacturers. Expectations for future production levels remains optimistic.

Transportation

District transportation activity remained strong over the reporting period, and contacts noted that demand for transportation services continued to exceed supply amid prolonged labor shortages and constrained container, trailer, and truck capacity. Port contacts reported record container volumes of imported goods. Trucking companies saw robust freight shipments. Railroads experienced significant increases in intermodal traffic; however, dwell times in rail yards increased. Air cargo contacts noted steady demand, though there was growing uncertainty surrounding the impact of COVID-19 outbreaks on activity. Transportation contacts anticipate further strengthening in activity but no relief from supply chain disruptions over the next 3-6 months.

Banking and Finance

Conditions at District financial institutions were stable. Net interest margins remained compressed, though earnings improved due to noninterest income generated through asset sales and increased transactions. Deposit levels remained elevated, but deposit growth slowed. On balance, lending activity decelerated. Commercial and industrial loan balances on institutions' balance sheets declined as new Paycheck Protection Program (PPP)

originations ended and balance runoffs increased due to streamlining of the forgiveness process. Demand for consumer loans also declined. Residential real estate balances increased slightly amid increased competition for loans. Additions to allowances for loan losses slowed as delinquency rates held steady.

Energy

Activity in the energy sector remained solid over the reporting period, however, contacts expressed uncertainty about the impacts of COVID-19 on global demand for oil and gas products, and consequently, refinery utilization. District contacts reported sustained improvement in oil and gas production and continued efforts to incorporate efficiencies into drilling activity. Utilities industry contacts noted stronger than expected residential sales, which were offset by weaker than expected commercial and industrial sales. They also continued to report power generation upgrades and significant investment in renewable energy development and production.

Agriculture

Agricultural conditions remained mixed. Widespread rain relieved the District of drought conditions. With planting completed, the District's corn, cotton, soybean, peanut, and rice crop conditions were mostly on par with this time last year. District crop production forecasts were up on a year-over-year basis for cotton, soybeans, corn, and peanuts but down for rice. On a month-over-month basis, the production forecast for Florida's orange crop was up in July while the grapefruit production forecast was unchanged; both forecasts remained below last year's production levels. On a year-over-year basis, the USDA reported cropland values were up across the District states. The USDA reported year-over-year prices paid to farmers in June were up for corn, cotton, soybeans, cattle, broilers, eggs, and milk, but down for rice. On a month-over-month basis, prices were up for corn, cotton, rice, cattle, and broilers but down for soybeans, eggs, and milk. ■



Federal Reserve Bank of **Chicago**

The Beige Book ■ August 2021

Summary of Economic Activity

Economic activity in the Seventh District increased moderately in July and early August and contacts expected growth to continue at that pace in the coming months. Labor and materials supply constraints as well as rising COVID-19 cases weighed on the expansion. Employment increased strongly, manufacturing grew moderately, business spending was up modestly, construction and real estate rose slightly, and consumer spending decreased slightly. Wages and prices increased strongly while financial conditions slightly improved. There was some retreat in prospects for agricultural income.

Employment and Wages

Employment increased strongly over the reporting period, and contacts expected a similar pace of growth over the next 12 months. Contacts across sectors reported increased difficulty in finding workers at all skill levels despite ramping up recruiting efforts. Some businesses, particularly in the restaurant and manufacturing sectors, were limiting operating hours because of a lack of workers. A contact at a workforce development agency noted that, with the ease of finding new positions, workers were being more discriminating about workplace environment, scheduling flexibility, and pay when choosing a new job. Contacts pointed to childcare challenges, retirements, and financial support from the government as important factors limiting labor supply. A number of contacts indicated that they were delaying the return to in-person work because of rising COVID-19 cases. Overall, wage and benefit costs increased strongly. A scarcity of applicants for open positions had forced a number of contacts to raise wage offers. And some noted that applicants were asking for higher wages than they could afford to pay. In addition, many contacts who usually raise pay annually had given mid-year raises to their existing workforce.

Prices

Overall, prices rose strongly in July and early August, though contacts expected a moderate increase in prices over the next 12 months. There were large increases in producer prices, driven by passthrough of higher materials, energy, labor, and transportation costs. Contacts highlighted significantly higher freight costs as well as price increases for a wide range of materials including metals, metal products, petroleum-based products, chemicals, electronics, and paper. At the consumer level, prices moved up robustly overall. Contacts pointed to solid demand, limited inventories, and increased costs as sources of consumer price increases.

Consumer Spending

Consumer spending decreased slightly over the reporting period but remained at a high level. Spending on leisure and hospitality slowed, with contacts attributing the decline to the spread of the Delta variant. Nonauto retail sales increased slightly. Sales at home improvement, furniture, appliance, electronics, and grocery stores remained at solid levels. Contacts indicated that back to school shopping started strong. A service that analyzes consumer foot traffic in brick-and-mortar stores indicated that activity in the Midwest had recovered to pre-pandemic levels. Light vehicle sales decreased again as new vehicle inventory became even more

scarce. Dealer profit margins fell from their recent highs but remained at strong levels. Dealers continued to sell vehicles from their future allotments by automakers.

Business Spending

Business spending increased modestly in July and early August. Retail inventories remained lean in many sectors, and contacts expected inventories to stay lean through the holiday season and into early 2022. New and used light vehicle inventories were very low as auto production continued to lag. In manufacturing, for-sale inventories were moderately low and there were shortages of a wide range of inputs including aluminum, steel, copper, plastics, paints, pallets, paper, glue, and microchips. Some contacts said they were stocking up on inputs in the hopes of avoiding future shutdowns, and several had expanded their vendor portfolio to reduce the risk of supply chain problems. Demand for transportation services outpaced supply, with many contacts reporting delays and sharp increases in rates. Capital expenditures rose some, and contacts expected a similar pace of expansion over the next twelve months. Many contacts noted that lead times for capital equipment were much longer than usual. One contact again said higher inventory expenses were crowding out their capital purchases. Energy demand from commercial customers increased modestly, but demand from industrial customers declined slightly.

Construction and Real Estate

Construction and real estate activity moved up slightly from the prior reporting period. Residential construction was unchanged. Contacts said that higher costs for labor and materials were pushing up prices beyond what some buyers were willing to pay and forcing builders to pause projects. Residential real estate activity was also little changed as low inventories put a ceiling on sales volume. Prices continued to rise. Nonresidential construction activity was unchanged as well, as many existing projects remained hampered by long lead times for materials. Commercial real estate activity ticked up, with both sales and prices slightly higher in recent weeks. Demand for industrial and multi-family properties remained strong. In addition, demand for retail space in high-traffic corridors increased noticeably, as retailers that were able to survive the pandemic expanded their operations.

Manufacturing

Manufacturing production increased moderately in July and early August. Most manufacturing contacts reported that business was above pre-pandemic levels, and many were running at full capacity. Labor and supply chain challenges were widely reported as the primary factors

limiting further growth. Auto output decreased as shortages of microchips and other materials hampered production. Demand for heavy machinery grew robustly, led by higher sales in construction and agriculture. Demand for heavy trucks was also strong. Contacts reported higher steel demand from most industries. Steel service center inventories were low, but not as tight as early in the year. Specialty metals and chemical manufacturers reported a moderate increase in sales. Although orders were up for some kinds of building materials, shipments of others moderated as home builders were squeezed by labor and materials costs.

Banking and Finance

Financial conditions improved slightly over the reporting period. Participants in equity and bond markets said there was little change in conditions. Business loan demand increased slightly. Banking contacts noted that loan growth was a challenge as many potential borrowers had sufficient cash and others had nonbank sources of funds. Business loan quality increased some, with improvements reported across all sectors. Business loan standards loosened slightly on balance. There were reports of a pickup in M&A activity. In consumer markets, loan demand increased slightly, led by growth in vehicle and credit card volumes. Consumer loan quality improved, with one contact noting that quality was at an all-time high. High prices for vehicle repossessions helped reduce loan losses. Loan standards were unchanged on balance.

Agriculture

Although most agriculture prices were higher than a year ago, farm incomes were expected to be down in 2021 with the end of pandemic-related government support payments. Cattle and egg prices increased during the reporting period. Milk producers faced lower margins as transportation costs rose and output prices mostly moved sideways. Contacts hoped reopening schools would boost bottled milk demand. Hog, corn, and soybean prices retreated from their recent highs. Relatively tight supplies of crops helped support corn and soybean prices. District corn and soybean harvests were expected to be near record levels, though parts of the region still faced a drought. Concerns grew that strained logistics would lead to shortages of parts for farm equipment during harvest and clog the movement of crops to markets. Farmland values kept climbing. ■

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



Federal Reserve Bank of St. Louis

The Beige Book ■ August 2021

Summary of Economic Activity

Economic conditions have continued to improve at a moderate pace since our previous report. Contacts reported that ongoing labor and raw material shortages are holding back growth. Customer spending has been unchanged since the previous report. The rise in COVID-19 Delta variant cases was cited as a reason for increasing consumer wariness. Cost pressures remain high, with around half of firms reporting increased prices and additional increases anticipated. The residential real estate sector saw volumes slow slightly, but home and rental prices remained high. Despite high demand, new construction projects continued to be hampered by supply disruptions. Banks reported a slight decline in overall loan demand. Contacts remained optimistic, although less so than the last time they were surveyed in mid-May. On net, 11 percent of contacts expect economic conditions during the remainder of 2021 to be better or somewhat better than the same period one year ago.

Employment and Wages

Employment has increased slightly since our previous report, though smaller firms reported more mixed trends. Worker scarcity was frequently cited as the limiting factor in firm growth; contacts reported a net decline in applicants per job since May. Firms struggled to hire and retain workers; contacts reported offering on-the-job training, sign-on and retention bonuses, and other benefits. Firms again presented mixed evidence that some states' discontinuation of federal UI enhancements affected their pool of applicants.

Wages have grown strongly, though small firm wages continued to rise more slowly. On net, 60% of contacts reported raising wages—well above historical values. One manufacturer reported attracting few workers despite increasing starting wages above \$17 per hour.

Prices

Prices have increased moderately since our previous report. About half of contacts have increased prices to consumers this quarter. Half of contacts plan to increase prices to consumers in the near future. A regional boat dealer reported new boat prices have increased 10% on average since last year and will likely increase another 10% over the next year. Over two-thirds of contacts reported increased input costs, including robust year-

over-year increases specifically in the transportation and construction industries. Several construction contacts reported pausing some projects until the rapid increases in materials costs decline or stabilize. A contact reported that the price for concrete has increased about 20% over the past few months and the price for electric wire has rapidly increased. Contacts reported that lumber prices have recently declined. A contact in the auto repair industry reported price increases in the range of 30-60% for certain auto parts. A contact that sells electrical signs and billboards reported that prices for input materials such as polycarbonate, aluminum, steel, wood, and electrical parts are "skyrocketing." A regional brewery reported that their supplier increased prices twice between order and delivery for a pallet of aluminum.

Consumer Spending

General retailers, auto dealers, and hospitality contacts reported mixed business activity since our previous report. July real sales tax collections decreased slightly in Arkansas, Kentucky, and West Tennessee and increased in Missouri relative to June. General retailers reported mixed sales over the past six weeks. Auto dealers reported mixed sales, with continued high demand but low inventories and limited availability of low-cost units. Restaurants reported severe supply and staffing shortages. A St. Louis hotel contact reported that

business is slightly down relative to early July. In August, an outdoor concert venue in Arkansas held its first significant event since 2019. The venue was pleased with ticket sales but surprised only half of tickets were punched for entry, which they attributed to the rise in coronavirus cases.

Manufacturing

Manufacturing activity has strongly increased since our previous report. Survey-based indices suggest production, capacity utilization, and new orders have strongly increased. Production continues to be below operating capacity due to labor shortages, and retailer order windows have lengthened as a result. Worker scarcity has also led to issues in quality control, with surges in retail returns and auto repairs due to product defects. Firms have increased their focus on technological innovation to increase labor productivity and product quality. On average, firms reported they expect strong increases in production, capacity utilization, and new orders in the coming quarter.

Nonfinancial Services

Activity in the nonfinancial services sector has been mixed since our previous report. Airport passenger traffic has increased slightly since our previous report. Several large health care providers have increased their minimum pay rates for workers. Nursing shortages have been an issue as COVID cases rise. A hospital contact reported increased cancelations of elective procedures. Several contacts reported increased transportation costs; a distribution contact noted that it has been difficult to find trucks and hire new drivers. A health and wellness contact noted that COVID concerns continue to hurt business. A large public university in Arkansas reported record enrollment this fall due to a large freshman class and increased graduate student enrollment.

Real Estate and Construction

Residential real estate activity has decreased slightly since our previous report, with some contacts reporting the residential market is cooling off. Total home sales have dipped slightly, and available inventory has increased. Home prices and median days on the market remain stable. Most contacts expect the market to improve slightly or remain roughly the same in the next quarter. Demand for multifamily homes increased and is expected to continue. Rental prices continue to increase across the District. The overall average rent in Memphis is up 17% since last year. A contact in St. Louis observed that the eviction moratorium has prevented landlords from removing problem tenants with past due rent.

Commercial real estate activity has remained mixed

since our previous report. Demand for and speculative building of industrial properties continued to increase, while the office and retail markets remain mixed. Industrial property inventories remained high in Memphis and Little Rock. While demand for new industrial properties remains elevated, supply chain issues, increased prices for building materials, and labor shortages are preventing projects from continuing. One contact reported that steel joists ordered now will not arrive until roughly the middle of the second quarter of 2022. Some contacts report that previously planned projects are being put on hold or cancelled due to these problems.

Banking and Finance

Banking conditions have been unchanged since our previous report. Banking contacts reported a slight decrease in overall loan demand since the past survey period. Auto loan demand declined modestly and demand for credit cards fell moderately. But contacts noted a continued modest growth in real estate lending. Creditworthiness improved slightly in mortgage and commercial and industrial lending. Delinquency rates also declined modestly across all major loan types and credit standards remained largely unchanged. District banks reported that about three-quarters of PPP loans have been forgiven. Outlooks were positive, although the spread of the Delta variant has increased uncertainty.

Agriculture and Natural Resources

Agriculture conditions have remained unchanged from our previous report. Relative to early July, the percentage of corn and soybeans rated fair or better has decreased slightly while the percentage of rice increased slightly and cotton experienced no change. Contacts indicated that both nonlabor and labor costs have increased but income is up as well. One contact noted the drought in South America has raised grain prices. They also noted COVID-related shortages of maintenance parts.

Natural resource extraction conditions fell slightly from June to July, with seasonally adjusted coal production decreasing just under 2%. But production is up 14% from a year ago. ■



Federal Reserve Bank of Minneapolis

The Beige Book ■ August 2021

Summary of Economic Activity

Ninth District economic activity grew at a moderate pace since mid-July. Employment saw strong growth, though hiring demand continued to outpace labor's response. Wage and price pressures were strong, with wholesale price pressures remaining higher than those for consumer prices. Growth was noted in consumer spending, construction, manufacturing, agriculture, and energy. Real estate activity slowed slightly. Minority- and women-owned businesses in the District reported moderate improvements in business activity.

Employment and Wages

Employment saw strong growth since the last report. Large firms reported strong net staffing growth, while growth at smaller firms was softer overall. Larger firms also reported comparatively higher wage increases, which was likely helping their recruitment. Firms of all sizes were upbeat regarding future hiring. A mid-August survey of construction firms across the District found that 70 percent have been hiring in some capacity of late. One Minneapolis-St. Paul firm said it needed workers “now, and a year from now, and two years from now based on what we have lined up.” Another survey found that three-quarters of hospitality and tourism firms in Minnesota were hiring to either expand staffing or replace turnover. Firms in every sector reported continued difficulty attracting labor.

Wage pressures were strong. District-wide, about one-third of all firms, and almost half of large firms, said wages had risen by 3 percent or more over the last year. Surveys of construction and hospitality firms also showed strong wage growth. A Minnesota hotelier said housekeeping wages were increased from \$13 to \$15 an hour. “It didn't attract labor, but it made our current [staff] very happy and felt great to be able to afford this increase.” Two of Minnesota's largest public employee unions settled new contracts with 2.5 percent wage increases.

Worker Experience

Labor supply remained tight across the District. Initial unemployment claims continued to decline through mid-August and claims in traditional unemployment insurance programs fell as of early August relative to earlier in the summer, particularly in the Dakotas and Montana. Claims in pandemic-era unemployment programs in Minnesota and Wisconsin only were modestly lower at the end of July compared with earlier in the summer. A workforce development contact in northern Minnesota pointed out that labor scarcity was causing some currently employed workers to be overworked and tired. Two recent surveys revealed that people want higher wages, flexibility, and better benefits in current or future positions as they continued to confront other life challenges. Low-wage workers in Minneapolis-St. Paul expressed concerns with being able to pay for housing, utilities, and food. Workforce development professionals in Montana also highlighted housing and childcare affordability as major challenges faced by job seekers. COVID-19 exposure remained a big concern among workers and job seekers.

Prices

Price pressures remained elevated since the previous report. One-third of respondents to a general business survey reported that non-labor input costs were up by more than 10 percent relative to pre-pandemic levels; one-quarter said that they had increased prices charged

to customers for their products or services by more than 10 percent over the same period. Hospitality firms reported steep input price pressures, but flat final prices on balance. While some lumber and wood prices retreated from recent highs, a construction survey found steep increases for most building materials. Retail fuel prices were little changed in most District states except Montana, where they rose moderately.

Consumer Spending

Consumer spending was moderately higher since the last report, sustaining a high overall level. Summer tourism has been strong, with contacts reporting record activity in western District states. Hospitality and tourism firms in northern and central Minnesota reported strong overall activity, with many exceeding 2019 levels; those in Minneapolis-St. Paul saw recent gains but remained far below normal seasonal levels. Passenger traffic at District airports continued to improve, reaching 80 percent of normal seasonal levels in August. In Minnesota, vehicle sales in July and August were mostly flat. A Montana vehicle dealer said August sales were slower due to very low inventory, and reduced trade-in volume also negatively affected used-car sales. "We can't build up any ground stock, but demand is solid."

Services

Activity in the services sector increased moderately since the previous report. Contacts in accounting remained busy. A majority of professional services respondents to a recent survey reported steady to increased revenues in the most recent quarter. Conditions were more mixed among transportation and warehousing firms, as they continued to deal with supply-chain disruptions.

Construction and Real Estate

Commercial construction grew moderately since the last report. Firms across the District reported that recent activity and sales were higher both year-over-year and quarter-over-quarter. However, firms doing infrastructure work reported slower activity. There were fewer reports of project cancellations, but project delays increased. Firms also reported a slowing of new projects out for bid, particularly for public projects. Labor availability, supply chain constraints, and high costs for materials were widely cited for project delays, the slowing of new projects out for bid, and lower firm profits. Residential construction grew moderately overall, but firms also reported more cancellations due to rising costs, as well as significant increases in project delays. However, the outlook for future projects remained positive.

Commercial real estate was flat overall. Industrial property continued to be strong. Retail and office sectors were poised to improve before the recent increase in Delta variant infections, which has affected return-to-office plans for many downtown employers and was likely to influence future leasing and new-construction demand. Residential real estate slowed. Closed sales in July were lower in many larger District markets compared with a year earlier, thanks to very low inventories of homes for sale and steeply rising prices.

Manufacturing

District manufacturing activity increased moderately since the previous report. A regional manufacturing index indicated increased activity in Minnesota, North Dakota, and South Dakota in July relative to the previous month. Manufacturing respondents to recent surveys reported solidly increased revenues over the previous three months and a positive outlook for the coming quarter. Industry contacts described continued strong demand, with most concerns related to input costs, supply-chain disruptions, and difficulty finding workers.

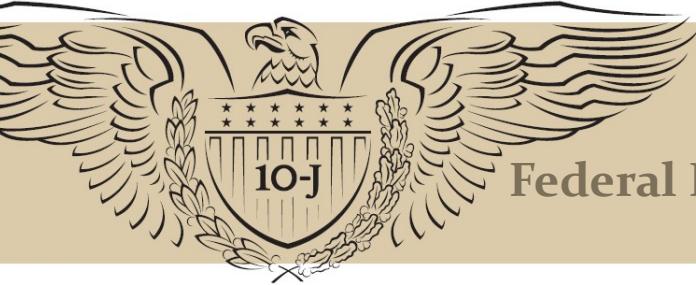
Agriculture, Energy, and Natural Resources

While extreme drought conditions were taking a toll in many areas, District agricultural producers continued to benefit from strong commodity prices. Agricultural bankers indicated broadly increased farm income and spending in the second quarter, with a positive but more moderate outlook for the third quarter. However, livestock and dairy producers were suffering from the drought's impact on hay availability and pasture conditions, while corn and soybean crop conditions were deteriorating. District oil and gas exploration activity increased modestly since the previous report.

Minority- and Women-Owned Business Enterprises

Minority and women-owned business enterprises (MWBEs) in the region reported moderate growth in business activity. Labor supply continued to challenge businesses' ability to sustain operations, and many continued to report having raised wages to retain workers and/or attract applicants. Entrepreneurs also reported that increased nonlabor input prices and supply chain disruptions were major challenges for their business. A considerable number of MWBE survey respondents reported having passed on increased costs to customers by raising their own prices. A non-profit contact in Minnesota reported an increase in the number of aspiring entrepreneurs. Access to funding and information remained a challenge for some startups. ■

For more information on the Ninth District economy, visit: minneapolisfed.org/region-and-community



Federal Reserve Bank of Kansas City

The Beige Book ■ August 2021

Summary of Economic Activity

The Tenth District economy grew at a modest pace through August, as the pace of growth in the services sector slowed slightly. Most businesses indicated they do not anticipate changes in activities due to the recent surge in COVID cases, but many did note that they altered their business operations in some way and expect overall activity to decrease in coming months. Retail spending grew in August at a slower pace than in recent months, primarily due to a decline in spending on motor vehicles. Consumer spending on other services continued to grow at a modest pace, as activity at leisure and hospitality businesses expanded over the last month. Growth in manufacturing remained robust, and expectations for conditions over the next six months continued to be elevated. Energy activity increased modestly but without gains in employment. Declines in oil prices contrasted with increases in natural gas prices left revenues and profits mixed among District contacts. Conditions in the agricultural sector were generally strong, but drought conditions adversely affected several states in the Tenth District. Wage growth remained elevated, and employment expanded amid broad labor shortages. Across sectors contacts reported higher prices for materials, and anticipated higher selling prices.

Employment and Wages

District employment gains were mixed across sectors. Within services, contacts at motor vehicle dealers, health care providers, and accommodation businesses reported declines in employment. These losses were more than offset by hiring within other service sectors and gains in employment at manufacturing businesses. Most contacts expected to further expand the size of their workforces in coming months.

Wage growth continued at a robust pace across most sectors of the Tenth District economy. Contacts indicated that they expect wage growth to continue over the next six months.

The number of workers leaving their jobs for other employment was elevated and labor shortages continued to restrain hiring. Firms adopted a variety of strategies to attract and retain workers, including wage increases, sign-on bonuses and on-the-job training, particularly when recruiting for entry-level occupations. Several contacts indicated that rising wages for new hires led to wage compression among existing employees, causing them to raise wages across much of their workforce.

Although rising COVID cases led some firms to alter their operations, few contacts reported reducing employee hours in response to the recent surge.

Prices

Contacts across sectors reported robust increases in input prices that are being passed on, at least in part, to customers, as selling prices also rose. Most contacts also noted expectations for further price increases over the next six months. Lumber prices were a notable exception to rising input prices as contacts at construction supply businesses reported declining prices. Across manufacturing sectors, several contacts pointed to rising prices and limited availability of steel products as constraints on meeting business demand.

Consumer Spending

Consumer spending grew modestly throughout July and August. Demand at restaurants and hotels expanded. However, several contacts noted that reservations were down in recent weeks more than anticipated, and others reported expectations for activity at food and accommodation businesses to decline in coming months due to the rising number of COVID cases. Retail activity rose, but at a slower pace than in recent months. Auto sales declined, as did activity at health services businesses. Sales at wholesale businesses continued to grow at a moderate pace, and few contacts in the sector expected headwinds from the recent surge in COVID cases.

Manufacturing and Other Business Activity

Manufacturing activity expanded at a robust pace in July and August, particularly for producers of durable goods. Contacts expect demand to remain elevated for durables and the number of new orders remains high. Durables manufacturers increased employment despite facing difficulties in recruiting and retaining workers. Supply constraints continue to beleaguer businesses, yet contacts reported that they expect the backlog in orders to diminish somewhat in coming months. Inventories of materials grew modestly from June levels. Activity among producers of nondurable goods declined slightly, however expectations for growth over the next six months remained elevated. In particular, activity at food manufacturing plants declined slightly despite strong demand because of difficulties maintaining a workforce. Expectations for future capital expenditures were unchanged and continued to be high across manufacturing firms.

Outside of manufacturing, activity grew at a slight pace. Conditions were mixed across businesses, though professional and high-tech services and transportation services expanded generally.

Contacts continued to point to labor shortages as constraints on activity. Across manufacturing and other businesses, the number of workers leaving their jobs for higher compensation was elevated, as was the number of workers who reported leaving for retirement. When attempting to recruit new workers, businesses noted that the number of applications for open positions was low, and that applicants often lacked requisite qualifications or were not willing to accept offered levels of compensation.

Real Estate and Construction

Residential real estate activity expanded slightly and expectations for the next three months were somewhat lower than reported previously. Buyer demand remained elevated but the inventory of homes for sale remained flat, resulting in robust growth in home prices. Contacts reported new starts for construction of homes were targeted toward middle-income buyers and that both material costs and lot prices for new projects increased in recent months. Vacancies at commercial real estate properties continued to decline, while both sales and prices of commercial properties grew at a moderate pace. Contacts reported robust growth in demand and valuations for warehouse properties. Activity at construction supply businesses exceeded expectations in July and August.

Banking

While overall loan demand showed modest growth in recent weeks according to Tenth District banking contacts, that growth was due solely to increases in demand for commercial real estate loans. All other categories, including commercial, industrial, residential real estate, consumer installment, and agriculture lending, faced a slight decline in demand. Credit standards remained stable across all categories. Average loan quality has increased strongly compared to a year ago, although bankers expect it to decline slightly over the next six months. Deposit levels continued to increase at a moderate rate, with anecdotal evidence suggesting the growth has been concentrated in demand deposit accounts.

Energy

District energy activity expanded modestly during July and August. The number of active oil and natural gas rigs ticked up slightly in Oklahoma, New Mexico, and Wyoming. Production levels were relatively steady across most district states compared to a year ago but increased more in New Mexico. However, contacts reported that oil and natural gas inventories are lower than a year ago. Energy employment was mostly unchanged compared to the previous survey period and is still below pre-COVID levels. Oil prices declined somewhat, while natural gas prices increased moderately. Thus, depending on the composition of activities, contacts reported varying levels of revenues and profits as compared to recent months. Most firms continued to expect higher commodity prices moving forward over the next six months.

Agriculture

In the Tenth District agricultural economy, farm income and credit conditions continued to improve despite weakness in the cattle industry and severe drought in some areas. Crop and hog prices remained at multi-year highs, and the condition of corn and soybeans was slightly better than the national average in most District states through early August. However, profit opportunities for cattle producers remained limited. Contacts in the meat packing industry also reported that tight labor markets were slightly constraining production capacity at some facilities. As a result of widespread drought, over 60% of pasture and range land in Wyoming was in poor or very poor condition as of early August; compared with about 30% in Colorado and New Mexico and 20% or less in all other states. ■

For more information about District economic conditions visit: www.KansasCityFed.org/research/regional-research



Federal Reserve Bank of Dallas

The Beige Book ■ August 2021

Summary of Economic Activity

Solid expansion continued in the Eleventh District economy, though surging COVID-19 cases has added uncertainty to outlooks. Growth in the manufacturing and nonfinancial services sectors remained strong, and retail sales rose in August after holding steady in recent months. Home sales remained solid but eased. Overall loan volumes rose broadly, led by commercial real estate lending. Energy activity rose steadily, and agricultural conditions were very strong. Employment growth was robust, and wage growth remained elevated amid widespread labor shortages. Ongoing supply chain disruptions continued to drive up prices, though pressures eased slightly over the reporting period. Outlooks improved, though uncertainty increased.

Employment and Wages

Employment expanded robustly overall, with a marked pickup in service sector job growth. Retail employment was mostly flat. Difficulty hiring remained widespread across skill levels and was quite severe for many contacts, particularly small businesses. A Dallas Fed survey of more than 350 Texas businesses showed that about 70 percent were trying to hire in August, and the vast majority named a lack of applicants as an impediment. Staffing shortages were particularly acute in health care and especially among nurses, exacerbated by the recent surge in COVID-19 cases. Hospitals also reported a lack of a large-scale return of applicants for low-wage positions, despite the end of federal unemployment benefits.

Wage growth remained elevated, and numerous contacts noted significant wage pressure to attract and retain employees. Among firms trying to hire, about half said a key impediment was applicants looking for higher pay than what was being offered. Energy industry contacts reported substantial pressure on wages and benefits, with some firms increasing wages as much as 15 to 20 percent to keep workers from defecting to competitors or adjacent industries.

Prices

Prices continued to rise, albeit at a slightly slower pace in July and August than in June. Rising input prices continued to outpace selling price growth, compressing margins. Input costs rose particularly fast in the manufacturing sector, where supply chain disruptions were widespread. Contacts noted unprecedented increases in steel and aluminum prices, and others noted that material cost increases were happening more frequently than before. Construction materials were also seeing sizeable price increases, though builders noted some reprieve in lumber costs. Looking ahead, expectations for future cost increases abated slightly in the service sector but picked up among manufacturers.

Manufacturing

Texas factory activity continued to expand at an above-average pace in July and August. Growth was led by nondurables manufacturing, particularly food. Refiners saw increased demand as motor fuel consumption rose seasonally but noted that margins were still muted. Petrochemical firms reported strong demand, with one noting record earnings. Many contacts noted persistent materials shortages and extended lead times. Nearly three-fourths of manufacturers said supply chain disruptions were restraining their revenues, according to a Dallas Fed survey of 90 manufacturing executives. Labor

availability issues also hampered firms' ability to meet orders. Overall, outlooks among manufacturers remained optimistic, though the Delta variant and surging COVID-19 cases were driving up uncertainty.

Retail Sales

Retail sales were fairly flat in July but rose in August, despite widespread supply chain issues and tight inventories, particularly among auto dealers. A Dallas Fed survey of 42 Texas retailers showed that nearly three-fourths of respondents cited supply chain disruptions as a primary factor restraining revenues. Outlooks were mildly positive, though uncertainty continued to increase.

Nonfinancial Services

Broad-based, solid expansion continued in nonfinancial services. Growth was led by transportation services. Airlines said air travel continued to surge in July and in early August, boosted by pent-up demand for leisure travel, but has eased more recently, driven by rapidly rising Delta-variant infections, seasonality, and a delay in the return of business travel. Cargo tonnage through Texas seaports set new records in July, as businesses worked to build up inventory amid elevated levels of consumer demand and persistent supply chain disruptions. Staffing firms report slightly slower growth, with some contacts pointing to uncertainty caused by the Delta variant as a contributing factor to the deceleration. Leisure and hospitality firms noted revenues rose in July but were fairly flat in August, and restaurants said worker shortages were constraining operations. Overall, outlooks were positive, though less optimistic in August than in prior periods as the surging Delta variant, persistent labor and supply shortages, and rising costs are expected to dampen the economic recovery. Previous forecasts for a strong return of business travel and events this fall have been adjusted downward by the pandemic resurgence.

Construction and Real Estate

Activity in the single-family housing market moderated during the reporting period. Sales were still generally solid but not as frothy as they had been earlier in the year, partly due to seasonality. Several builders were no longer capping sales, and some cited reintroducing incentives or slight discounting. Construction backlogs remained large, and completion times were elongated due to labor challenges and supply shortages for items like windows, bricks, and appliances. Home prices have begun to stabilize. Outlooks were generally positive.

Apartment leasing activity remained solid, strengthening occupancy and rents. Buyer interest in multifamily properties was near record highs. Activity in the industrial

market was still booming. Demand for office space continued to languish due to the fallout from work-from-home policies, and contacts do not expect much improvement in the near term.

Financial Services

Loan demand continued to increase at a robust pace, pushing up overall loan volumes. Commercial real estate lending continued to lead growth, while growth in commercial and industrial lending abated over the last six weeks. Nonperforming loans continued to decrease and credit standards remained largely unchanged. Loan pricing remained competitive, with multiple respondents citing concerns regarding too much liquidity and margin compression. Outlooks remained optimistic, though less so than the previous reporting period. Multiple bankers expressed concern that the Delta variant could slow spending and growth.

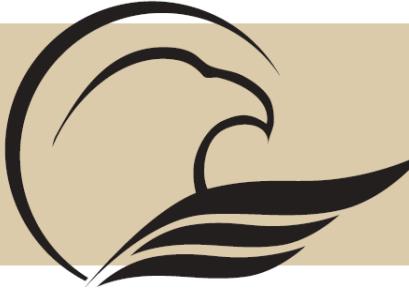
Energy

Drilling and completion activity rose steadily over the past six weeks. Orders for new equipment were up. Contacts generally felt that current oil and gas prices are sufficient for producers to meet capital expenditures goals and even slightly grow production. Optimism among contacts was largely unchanged, and most contacts discounted the impact of the current surge in COVID-19 on the demand outlook.

Agriculture

Texas was nearly drought free by the end of the reporting period, though drought conditions persisted in New Mexico. Sufficient soil moisture boosted crop conditions for wheat and row crops alike, allowing many producers to reap strong yields. Preliminary reports point to higher production this year versus last year for Texas' major crops—cotton, sorghum, corn and soybeans. Crop prices remained strong, supporting profitability. Rising production costs are a concern going forward, but outlooks were generally optimistic. In the livestock sector, pasture conditions were favorable, and prices rose for cattle and poultry. ■

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



Summary of Economic Activity

Economic activity in the Twelfth District increased at a moderate pace during the reporting period of July through mid-August. Employment levels continued to expand despite labor shortages, and upward wage pressures intensified in almost all sectors. Prices rose substantially, driven by rising input costs and continued supply chain disruptions. Retail sales increased modestly, while conditions in the services sectors deteriorated somewhat due to the spread of the Delta variant. Manufacturing activity strengthened slightly, as did activity in the agriculture and resources sectors. Conditions in the residential real estate market deteriorated somewhat, while activity in the commercial real estate sector picked up slightly. Lending activity was largely unchanged.

Employment and Wages

Overall employment levels continued to increase at a moderate pace. Employment gains were led by agriculture, leisure, hospitality, and government, as well as education as schools reopened for the fall 2021 semester. However, almost all employers across the District reported significant challenges in attracting and retaining talent at all skill levels. In particular, contacts in the transportation, manufacturing, construction, hospitality, and retail sectors mentioned having many unfilled positions. Employment levels in energy and financial services were more stable. Employee turnover was noted to have increased, with one contact in the hospitality sector observing that almost half of new employees quit after only one or two months on the job. Several employers across the District mentioned implementing vaccine mandates for all new hires. Some contacts in the financial services sector highlighted increased reports of skilled workers demanding more flexible work arrangements. A few contacts noted a rise in Delta variant outbreaks among employees, which led to an increase in absenteeism, reinstatement of indoor face covering requirements, and delays in return-to-office plans.

Wage pressures intensified further, especially for entry-level service jobs. To combat low availability of labor and high turnover rates, many employers significantly increased wages, including those in the leisure, hospitality, manufacturing, technology, and health-care services. In addition, employers reported offering sign-on and retention bonuses, overtime pay, and one-time cash benefits

such as gift cards. Several contacts in the health-care and financial services sectors mentioned planning further wage increases across the board in 2022.

Prices

Prices rose substantially over the reporting period. Although lumber prices have dropped significantly, prices for other building materials, such as metals, cement, and wallboard have continued to climb. Other price increases were noted for energy, information technology, textiles, airline tickets, and agricultural products, such as fruits, meats, and seafood. The reported biggest drivers of these price hikes included higher shipping and logistical costs, continued supply chain disruptions, and rising labor costs. One contact in California noted that recent import tax changes in Europe have also added to e-commerce costs domestically.

Retail Trade and Services

Retail sales increased modestly in the past several weeks. Online spending, as well as shopping at big box retailers and grocery stores, strengthened further, driven by pent-up demand and excess savings. However, foot traffic at large shopping centers retreated a bit due to the spread of the Delta variant. In addition, reports across the District mentioned widespread shortages of various goods, such as paper products, food products, and hardware equipment, which limited sales growth. These shortages were caused by continued supply chain disruptions, especially at ports in China and Europe. Sales at home improvement stores and specialty retailers

decreased as more consumer spending shifted from goods back to services.

Conditions in the consumer and business services sectors deteriorated somewhat. The spread of the Delta variant and reinstated social-distancing restrictions have led to a slowdown in demand for travel, leisure, hospitality, and food services. Labor shortages have severely reduced capacity at some hotels, airlines, and restaurants, with one hotel in the Mountain West having to close off several floors due to a lack of housekeeping staff. Demand for health-care services and medical testing increased with the spread of the Delta variant. The entertainment industry, which had been recovering well during the summer, was also affected recently by the spread of the variant, causing some production shoots to shut down.

Manufacturing

Manufacturing activity continued to strengthen, albeit slightly. New orders grew further for fabricated metals, renewable energy equipment, and aerospace manufacturing. Capacity utilization rates at metal and steel manufacturers were noted to have exceeded pre-pandemic levels. However, supply chain disruptions and raw material shortages continued to be a major problem, causing lean inventories and delays in order fulfillment. These obstacles were further exacerbated by outbreaks of the Delta variant in Asia, which caused some auto manufacturers to curb production heading into the fall. A wood product manufacturer in the Pacific Northwest noted that after a year of strong growth, supply has now exceeded demand, and sawmills in the District have curtailed hours and shifts in the past several weeks.

Agriculture and Resource-Related Industries

Conditions in the agriculture and resource sectors improved modestly on net. Domestic and international demand for meats, fruits, vegetables, nuts, and seafood remained strong. Supply chain disruptions continued to hinder trade with Asia, although shipping delays were noted to have eased somewhat in the past several weeks. At the same time, several growers in the Pacific Northwest noted that extreme heat and drought conditions have caused considerable damage to this year's wheat and tree fruit yields, which is projected to reduce available inventory even further. A contact in California observed that recalls of poultry, fish, and other food products caused temporary disruptions in final sales.

Real Estate and Construction

Activity in the residential real estate market edged down somewhat compared to the previous reporting period. The spread of the Delta variant and rapid home price increases have led some potential buyers to delay their purchases. Despite the recent drop in lumber prices, homebuilders across the District continued reporting delays in construction due to shortages of labor and other raw materials. Additionally, several contacts in the Pacific Northwest noted a shortage of undeveloped land. Growth in home prices was noted to have slowed down a bit. Order backlogs remained high, as did new permit issuances. Demand for multifamily homes increased further, with one contact noting a surge in apartment permitting heading into the fall. A housing developer in Alaska observed that, although rental applications have increased, there has also been an increase in less qualified applicants, with some of them moving to new housing to forestall the impact of the end of eviction moratoriums.

Demand for commercial real estate picked up slightly on balance. Sales of office and retail spaces were noted to have increased in the Mountain West and California. On the other hand, demand for new hospitality spaces decreased following the spread of the Delta variant. Demand for industrial, warehouse, manufacturing, and other mixed-use spaces continued to be strong. Many contacts across the District noted that they have postponed or reversed their return-to-work plans until 2022 due to the Delta variant, causing some to reconsider their office space needs.

Financial Institutions

Lending activity was largely unchanged over the reporting period. Most new loan origination concentrated in mortgage refinancing, construction activities, and commercial real estate purchases. Credit card activity among consumers increased slightly, while demand for commercial and industrial loans was muted. Reports from across the District mentioned increased competition for loans, although credit quality and liquidity levels remained healthy. A contact in Southern California observed that while SPAC (special purpose acquisition companies) activity decreased dramatically in recent months, investor interest in sustainability and clean energy technology remained high. ■



