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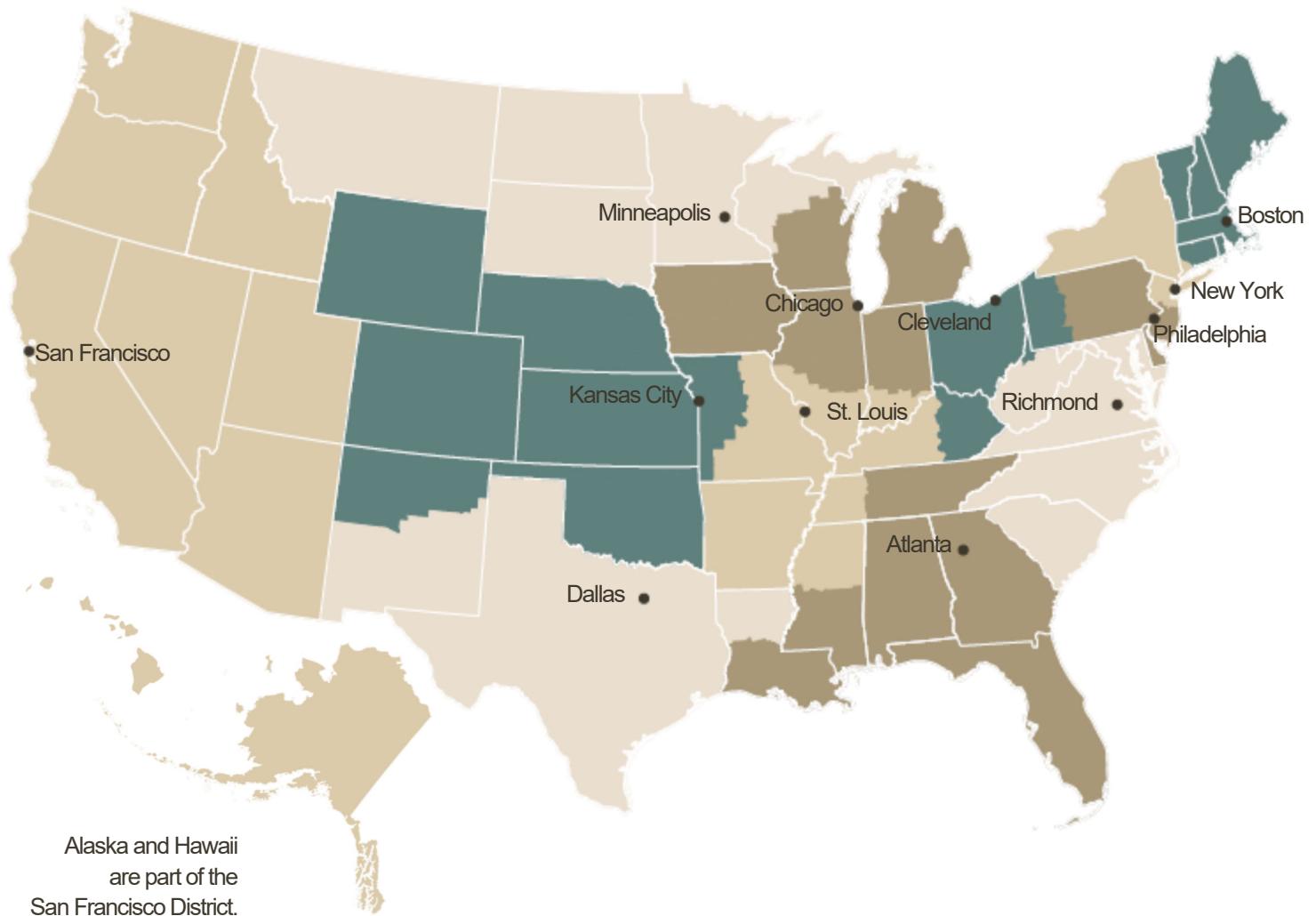
# The Beige Book

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Summary of Commentary on Current Economic Conditions  
By Federal Reserve District

April 2020

## Federal Reserve Districts



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

<b>National Summary</b>	<b>1</b>	<b>What is The Beige Book?</b> 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 District sources.
<b>Boston</b> First District	<b>A-1</b>	
<b>New York</b> Second District	<b>B-1</b>	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. Because this information is collected from a wide range of business and community contacts through a variety of formal and informal methods, the Beige Book can complement other forms of regional information gathering.
<b>Philadelphia</b> Third District	<b>C-1</b>	
<b>Cleveland</b> Fourth District	<b>D-1</b>	<b>How is the information collected?</b> Each Federal Reserve Bank gathers anecdotal information on current economic conditions in its District through reports from Bank and Branch directors, plus phone and in-person interviews with and online questionnaires completed by businesses, community contacts, economists, market experts, and other sources.
<b>Richmond</b> Fifth District	<b>E-1</b>	
<b>Atlanta</b> Sixth District	<b>F-1</b>	<b>How is the information used?</b> The anecdotal information collected in the Beige Book supplements the data and analysis used by Federal Reserve economists and staff to assess economic conditions in the Federal Reserve Districts. This information enables comparison of economic conditions in different parts of the country, which can be helpful for assessing the outlook for the national economy. The Beige Book also serves as a regular summary of the Federal Reserve System's efforts to listen to businesses and community organizations.
<b>Chicago</b> Seventh District	<b>G-1</b>	
<b>St. Louis</b> Eighth District	<b>H-1</b>	
<b>Minneapolis</b> Ninth District	<b>I-1</b>	
<b>Kansas City</b> Tenth District	<b>J-1</b>	
<b>Dallas</b> Eleventh District	<b>K-1</b>	
<b>San Francisco</b> Twelfth District	<b>L-1</b>	This report was prepared at the Federal Reserve Bank of Boston based on information collected on or before April 6, 2020. 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

The Beige Book ■ April 2020

## Overall Economic Activity

Economic activity contracted sharply and abruptly across all regions in the United States as a result of the COVID-19 pandemic. The hardest-hit industries—because of social distancing measures and mandated closures—were leisure and hospitality, and retail aside from essential goods. Most Districts reported declines in manufacturing, but cited significant variation across industries. Producers of food and medical products reported strong demand but faced both production delays, due to infection-prevention measures, and supply chain disruptions. Some other manufacturing industries, such as autos, mostly shut down. The energy sector, suffering from low prices, reduced investment and output. Districts reporting on loan demand said it was high, both from companies accessing credit lines and from households refinancing mortgages. All Districts reported highly uncertain outlooks among business contacts, with most expecting conditions to worsen in the next several months.

## Employment and Wages

Employment declined in all Districts, steeply in many cases, as the COVID-19 pandemic affected firms in many sectors. Employment cuts were most severe in the retail and leisure and hospitality sectors, where most Districts reported widespread mandatory closures and steep falloffs in demand. Many Districts said severe job cuts were widespread, including the manufacturing and energy sectors. Contacts in several Districts noted they were cutting employment via temporary layoffs and furloughs that they hoped to reverse once business activity resumes. The near-term outlook was for more job cuts in coming months. No District reported upward wage pressures. Most cited general wage softening and salary cuts except for high-demand sectors such as grocery stores that were awarding temporary “hardship” or “appreciation” pay increases.

## Prices

The general direction of price inflation was down for both selling prices and non-labor input prices, as Districts reported either slowing price growth, flat prices, or modest to moderate declines in prices on balance. These trends were seen as reflecting weaker demand for many goods and services in the wake of the COVID-19 pandemic. Four Districts also reported further declines in energy prices. In contrast, supply chain disruptions and shifts in the composition of demand led to significant price increases for some essential services—such as freight—and some agricultural commodities and consumer goods. While expectations concerning agriculture prices were mixed, the outlook calls for further downward pressure on prices on average.

## Highlights by Federal Reserve District

### Boston

Economic activity slowed markedly in March, except among manufacturing firms in the region whose products saw increased demand because of the pandemic. Retailers and tourism contacts cited dramatic fall-offs in demand and they laid off customer-facing workers. Software and IT services firms continued to see strong demand, but few new customers. Real estate activity in the region paused in March.

### New York

The regional economy deteriorated sharply since the last report, with many companies implementing partial temporary shutdowns and widespread staff reductions, and some reducing wages. Selling prices were flat to down modestly. The leisure & hospitality and retail sectors were particularly hard hit, while the wholesale trade and information sectors showed more resilience. Financial firms reported weaker activity.

### Philadelphia

Business activity fell severely during the current Beige Book period, as the COVID-19 pandemic gripped the mid-Atlantic. No sector was spared. Rapidly rising joblessness has not made hiring easier, as contagion fears and child care needs keep workers at home. Prices tend to be falling, but the wage path is muddied, and firm outlooks are clouded by uncertainty.

### Cleveland

Economic conditions deteriorated rapidly in the second half of March as COVID-19 mitigation efforts curbed demand across a wide array of industries. In response, firms sought to conserve cash by cutting staff and capital spending. Looking forward, business contacts generally expected conditions to worsen further in coming months.

### Richmond

The Fifth District economy contracted as negative effects of the coronavirus outbreak were reported across most segments of the economy, leading to many businesses to scale back operations and employment. The few positive reports mainly came from producers and transporters of essential supplies. Overall, employment declined sharply and price growth remained muted.

### Atlanta

Economic activity declined, and the labor market deteriorated due to COVID-19. Non-labor costs remained stable. Retail sales for non-discretionary products grew as sales of non-essential items fell. Tourism and hospitality contacts reported significant declines in activity. Housing activity softened, and commercial real estate decelerated. Manufacturing declined, but new orders held steady. Banking activity was mixed.

### Chicago

Economic activity declined, but the intensity of decline varied by industry. Consumer spending decreased sharply; business spending, construction and real estate activity, and manufacturing production decreased moderately. Retail and hospitality payrolls plunged. Wages edged up and prices were little changed. Financial conditions deteriorated substantially, as did prospects for agricultural income.

### St. Louis

Economic activity has declined sharply since February. Many firms reported moderate to severe temporary layoffs, furloughs, or paid time off. Reports from District banks indicate substantial and widespread increases in demand for banking services.

### Minneapolis

Ninth District economic activity decreased sharply due to the pandemic. Employment fell significantly, and wage pressures declined as a result. While effects varied widely, most sectors contracted, with tourism and hospitality seeing effects sooner. Though designated an essential industry in most District states, many commercial construction projects were put on hold due to uncertainty about viability or supply chain disruptions.

### Kansas City

After holding fairly steady in the first half of March, economic conditions declined sharply in recent weeks. Consumer spending slowed significantly as auto, restaurant and tourism sales plummeted. Manufacturing activity contracted sharply, and energy and agricultural sectors deteriorated as commodity prices fell sharply. Employment levels fell slightly, but layoffs accelerated late in the month.

### Dallas

Economic activity contracted broadly, but declines were the steepest in energy, retail, and non-financial services. Home sales rose through mid-March but have dropped off since then. Employment fell sharply, resulting in downward wage pressures, and selling prices buckled amid falling demand for most products and services. Outlooks deteriorated rapidly as the economic impact of the coronavirus pandemic intensified.

### San Francisco

Economic activity in the Twelfth District contracted notably. Employment declined due to virus related disruptions. Price inflation fell a bit. Sales of retail goods and vehicles fell precipitously, and consumer and business services activity declined sharply. The manufacturing sector contracted moderately, and activity in the agriculture sector slowed somewhat. The residential real estate market was mixed, but grew slightly overall. Lending actively declined moderately.



# Federal Reserve Bank of **Boston**

The Beige Book ■ April 2020

## Summary of Economic Activity

The coronavirus pandemic slowed business activity markedly in some First District sectors, notably retail and tourism, while having mixed effects on others, as of the end of March. Most responding retailers closed stores and saw sales drop significantly in recent weeks, while tourism plummeted. Software and information technology services firms reported first-quarter growth above expectations, but a sharp drop-off in orders from new customers. Almost all the First District manufacturers responding in this round said their sales were rising, in large part because of pandemic-related demand; a furniture maker, by contrast, shut down production because demand fell to zero. Commercial real estate activity halted abruptly across the region in March. First District residential real estate contacts expect March data to show a pause. Manufacturers had cautiously positive outlooks, but other sectors expressed considerable uncertainty.

### Employment and Wages

Employment and wage changes across sectors largely reflected demand patterns. The retailers who closed brick and mortar stores furloughed the store workers. Two retail contacts reported pay reductions for corporate staff; one progressively from 5 percent to 30 percent based on pay level, and the other 20 percent across the board, which came with a four-day work week rather than five. Only one manufacturer, a furniture maker who halted production, reported laying off workers. Most manufacturing contacts had not revised their employment plans as a result of COVID-19. A packaging firm said headcount fell but that was planned long before the pandemic. A frozen fish manufacturer was hiring to meet added demand but was concerned -- because they were union workers -- that the firm would not be able to reduce headcount when demand returned to normal. Employment at software and IT services firms remained steady through the first quarter, although most contacts reported plans to do replacement hiring only for critical roles as they moved into the second quarter. All the responding software and IT firms have moved to a work-from-home posture which, so far, has allowed them to maintain full employment and full salaries.

### Prices

Contacts cited few changes in the pricing environment. No responding manufacturers noted any unusual pricing pressure. A frozen fish firm said that it eliminated substantial promotions in response to much stronger

demand, meaning that prices to consumers were higher. A drug company said that the COVID-19 pandemic led it to cancel a planned price increase. Despite pockets of softness in demand, software and IT services contacts said they currently had no plans to alter selling prices.

### Retail and Tourism

Retail respondents for this round mostly reported substantial drop-offs in sales, which were attributable to COVID-19 store closings. A contact who closed stores during the third week of March saw online sales quadruple in the final week of March, which had traditionally been a small portion of their total sales, but the increase did not fully offset the in-store decline. Another contact who closed stores in the third week of March reported a decrease in online sales of roughly 25 percent. One contacted retail chain could keep all stores open, and their sales were up dramatically in the first three weeks of March; by contrast, sales in the final week of March dropped by mid-single-digit percentages from a year ago. An online retailer saw sales grow more than 50 percent as workers settled into working from home and demanded more home-office furnishings as well as other home goods. All contacts reported they had stronger sales in January and February than in recent years.

Travel industry contacts reported that the volume of passengers and flights fell drastically in March. Hotel occupancy and room rates in the Boston area dropped dramatically throughout March as large conferences and

other travel plans were canceled. One tourism contact reported that coastal communities that rely on seasonal business are cautiously optimistic about a snap-back in visitors who are driving-distance away soon after advisories are lifted, reflecting pent-up demand from cancellation of planned vacations throughout the spring.

### **Manufacturing and Related Services**

Of 11 firms contacted this cycle, 10 reported higher sales despite, or in many cases, because of the pandemic. The one exception was a furniture manufacturer who sells largely through company-owned stores; as of March 27, they had shut down manufacturing and closed all their retail stores because of COVID-19. Other contacts saw rising sales for a variety of reasons, most linked to COVID-19 and its associated effects on the economy. A frozen fish manufacturer and a cardboard box company attributed recent strong results to brisk sales in grocery stores. The fish company said that the increase in demand had left it with essentially no inventories. A toy company said sales were good because social distancing meant people were spending more time at home with children. A medical goods manufacturer had a ten-fold increase in orders for portable ventilators. A manufacturer of membranes used in ventilators and N-95 masks, not surprisingly, had strong sales. The membrane manufacturer also sells into the auto industry and said that declining auto production freed up production for the medical market.

The outlook was generally positive. Even the furniture maker was hopeful that workers could return soon and was also investigating government programs for relief. Several contacts were generally optimistic but said they were more cautious than before the pandemic.

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

Software and IT services firms reported growth that exceeded expectations for the first quarter, but indicated there was uncertainty looking ahead to the second quarter. Two contacts reported that first quarter revenues were up 20 percent to 24 percent year-over-year, and all respondents noted strong demand in the first two months of 2020. During March, new bookings declined drastically across-the-board and one contact mentioned that they had zero new bookings for that month. While contacts remain cautious about maintaining cash flow, they plan to reduce operating expenses by limiting travel and canceling large annual events through the end of the year. Overall, firms expressed uncertainty regarding the duration of this downturn but remain cautiously hopeful in their relationships with existing customers and the decisions they have made to limit expenses going forward.

### **Commercial Real Estate**

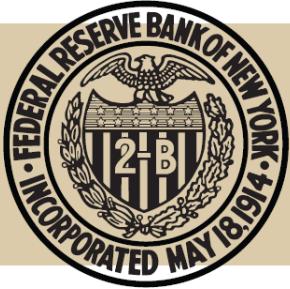
Commercial real estate activity in the First District had continued to strengthen before the COVID-19 outbreak but fell sharply afterwards. Before the outbreak, the Boston leasing market was robust in both the office and industrial sectors, and rents were increasing. In the Providence leasing market, vacancies were low and rents were steady. In the Greater Hartford area, both the leasing and investment sales markets were slow but steady. The COVID-19 outbreak began affecting commercial real estate markets across the District in mid-March, with a near-total freeze in new office leasing activity, collapse of some sales in progress, growing disturbances in credit markets, and steep declines in construction activity. Retail tenants were especially hard hit, enacting store closures and mass layoffs, and many have received at least temporary forbearance on rent payments. In contrast, the industrial sector experienced increased demand for warehouse space to support e-commerce in response to the outbreak. Contacts on balance were cautious and observant, but all expressed significant concerns about the near-term outlook for commercial real estate activity in light of the COVID-19 pandemic.

### **Residential Real Estate**

Residential real estate markets in the First District continued to experience very low inventory levels in February (the latest data available for Rhode Island, Massachusetts, Boston, New Hampshire, and Maine, with no data available for Connecticut and Vermont). For single family homes, sales were up in February from a year earlier in Rhode Island and Maine but down in Massachusetts, Boston, and New Hampshire. For condos, sales rose in Rhode Island, Massachusetts, and Boston while dropping moderately in New Hampshire and Maine. Median sales prices generally increased and inventory declined substantially for both single family homes and condos. Contacts from Rhode Island, Massachusetts, Boston, and Maine all noted that inventory levels have been “desperately” low.

Contacts said they expect March 2020 data to show a pause in housing market activity caused by the COVID-19 outbreak, a pause they expect will continue throughout the pandemic-related economic slowdown. ■

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



# Federal Reserve Bank of **New York**

The Beige Book ■ April 2020

## Summary of Economic Activity

The Second District economy deteriorated sharply in the latest reporting period, amidst widespread shutdowns related to the coronavirus pandemic. The job market weakened substantially, and wages were flat to lower. Businesses reported that input prices leveled off and that selling prices were flat to down modestly. Activity fell sharply in nearly every sector, except wholesale trade, where activity was essentially flat. Business contacts in manufacturing and most service industries also expressed fairly widespread pessimism about the outlook. In general, there is great uncertainty and concern about the duration of the coronavirus pandemic and its economic effects. Consumer spending has fallen sharply, with a significant proportion of purchases going online. Tourism and travel ground to a halt, with many hotels closing, and those still open seeing sharp drops in occupancy rates. Home sales and rentals, commercial leasing, and construction activity have all largely stopped. Finally, financial sector contacts noted deteriorating conditions, and banks reported widespread weakening in loan demand, tighter credit standards, and higher delinquency rates but have been more lenient on existing loans.

### Employment and Wages

The labor market has weakened sharply, as hiring largely stopped and layoffs were widespread. A major New York City employment agency, specializing in finance and professional services, noted that most activity has ground to a halt, but that they have not seen many layoffs other than temp workers. An upstate agency described it as business as usual for many essential businesses, while other businesses have eliminated their temporary staff and some have shut down. A major payroll firm noted that its business has remained steady but is expected to slip in the months ahead.

Reports from business sectors were mostly quite negative to varying degrees. Contacts in manufacturing, retail, and leisure & hospitality reported particularly widespread staff reductions, while businesses in the information, finance, wholesale, and professional & business services indicated steady to modestly declining staffing levels. Many contacts noted that these reductions were largely furloughs or temporary layoffs.

Looking ahead, contacts in manufacturing, finance, and professional & business services said they expect

staffing levels to hold steady from current levels, but businesses across all other sectors expected further staff cuts, on net.

Wages have been flat to lower since the last report. Businesses in the hard-hit leisure & hospitality and retail trade sectors reported fairly widespread reductions in wages, while contacts in other service industries indicated that wages were generally flat to down slightly.

### Prices

Firms generally reported that input costs were flat, while their selling prices were steady to down modestly. Businesses in construction & real estate, finance, information, and leisure & hospitality noted declines in their selling prices, while firms in other industries generally reported steady prices. Looking ahead, businesses in most sectors projected that their prices would be little changed in the months ahead. However, information and finance businesses anticipated lower selling prices, while those in education & health services said they expect to raise prices modestly.

## Consumer Spending

Retailers reported widespread drops in sales in March, and the vast majority reported at least a partial temporary shutdown. However, most do not anticipate a full shutdown, with many shifting to mostly or completely online sales. Non-essential retail storefronts across the District were ordered to close in the latter part of March. Food and personal care stores tended to fare better but even these were seeing mixed results. Retailers expected sales to weaken further in the months ahead.

Vehicle sales dropped to near zero in the second half of March, according to auto dealers in upstate New York, as the state shut down non-essential businesses. Many of these dealers hope to at least partially re-open before the end of April. While essential dealer service departments remained open, business for these services also slowed considerably.

## Manufacturing and Distribution

Manufacturers reported a widespread drop-off in business activity and new orders in recent weeks. Transportation firms also reported widespread declines, but wholesalers reported that activity was flat, on balance.

Looking ahead, manufacturers said they expect activity to be unchanged from current levels, on balance, while wholesalers and transportation firms anticipate weakening activity. Businesses generally have slashed capital spending plans, with potential implications for some durable goods producers.

## Services

Service industry contacts reported weakening activity to varying degrees. Leisure & hospitality business fell particularly sharply, as tourism plummeted and restaurants shut down for dining-in service. Health service contacts noted a comparably widespread drop-off in activity and revenues. Businesses in education, professional & business services, and information reported more moderate, but still fairly widespread, declines in both activity and revenues. Contacts in all these sectors report that a majority of their staff is working from home—ranging from about half in leisure & hospitality to nearly everyone at information firms.

Stay-at-home directives have largely brought both leisure and business travel to a halt. An expert on New York City's tourism sector noted that almost nobody is visiting the city, and that New York City's hotel occupancy fell from roughly 72 percent to 15 percent by the end of March. Many hotels have closed temporarily, while others have re-purposed some rooms as excess hospital space, and some as isolated office space.

Looking ahead, business contacts expressed great uncertainty, though there was fairly widespread pessimism. Those in leisure & hospitality expressed the bleakest expectations, while those in professional & business services tended to be the least pessimistic.

## Real Estate and Construction

Home sales and rental markets across the District have largely paused, and many residential rental and sales listings have been removed, reflecting stay-at-home directives. Real estate agents were reclassified as essential in early April, though traffic has been weak and largely limited to virtual showings.

A major appraiser noted that selling prices of New York City co-ops and condos were continuing to decline through mid-March, especially at the high end. Given the lack of activity since, though, it is difficult to gauge more recent changes in prices and rents. Landlords are reportedly concerned about how many tenants are going to be delinquent on their April rent—particularly in New York City, where a majority of residents are renters.

Commercial real estate markets across the District have also ground to a halt, with office, industrial, and retail leasing activity largely ceasing. Office availability rates and rents have not changed noticeably thus far, but real estate contacts have noted concern about collecting rent from commercial tenants.

New construction starts have essentially fallen to zero, and ongoing construction projects have paused, except where considered essential.

## Banking and Finance

Financial service businesses have noted widespread declines in activity and revenues. Though only moderately pessimistic about the near-term outlook, finance sector contacts expressed widespread concern about maintaining adequate cash flow and collecting payables from customers. A majority of small-to-medium-sized banks across the District reported lower loan demand across all categories. Bankers also reported tighter credit standards and narrowing loan spreads across the board. Higher delinquency rates were reported across all categories—particularly commercial & industrial loans. Bankers were also asked, in light of the coronavirus pandemic, if they had adopted more lenient policies on loan repayments. The vast majority said they had done so on residential mortgages, compared with about half on commercial & industrial loans, and a somewhat over half on commercial mortgages.■

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



## Summary of Economic Activity

Third District business activity fell severely during the current Beige Book period, as the COVID-19 pandemic gripped the mid-Atlantic region. From March 19 through March 24, our three states ordered all nonessential businesses to close; by April 1, statewide stay-at-home orders were in place. As of March 29, over two-thirds of the firms reported that their new orders (or sales) had fallen in excess of 5 percent – one-fifth in excess of 30 percent – and one-fourth had shut down. Declines varied by sector; none were spared. Manufacturers were more likely to be essential and operating, but some closed after employees tested positive. Firms furloughed or laid off workers in record numbers. Still, contagion fears and at-home child care needs contributed to no-shows at existing jobs and kept workers from filling open jobs. The wage path is unclear – some firms offered hardship pay, while others imposed salary cuts. Price pressures eased as oil prices cratered and demand slumped. Uncertainty clouds outlooks as firms wait for the COVID-19 threat to subside.

### Employment and Wages

Employment contracted sharply. At the end of March, one-fourth of the firms reported that they had shut down – a few shutdowns were permanent. In other responses to the crisis, one-half of the firms ceased all hiring. Employee furloughs, reductions of temporary or contract workers, and reductions of employees' average work hours were mentioned in equal measure by one-fourth of the firms.

On average, payrolls of staffing firms' placements appear to be down 40 to 50 percent across the District. Even business associated with essential food manufacturing and distribution was down over 10 percent. A Pennsylvania contact noted that a food manufacturer shut down for two weeks after an employee tested positive. Some staffing firms have trimmed their own staff; others have guaranteed staff full pay through June.

Multiple staffing contacts and firms from varied sectors reported that rising layoffs have not made it easier to attract and retain labor. Contagion fears and at-home child care needs have led some workers to stop showing up for work; those concerns plus unemployment benefits are also keeping workers from seeking other jobs.

Firms have reported a mix of wage strategies. Some firms reduced pay for their executives and/or managers;

some issued annual raises and bonuses early. Other firms have added "appreciation" pay or "hazard" pay for hourly workers who must still report to work. Many salaried workers can telecommute – three-fourths of the firms noted an increase in their use of telecommuting. Contacts expect wage growth to moderate in the future.

### Prices

In contrast to wages, firms were more unified in their belief that prices were stabilizing, if not falling. At mid-March, firms reported moderating prices compared with the prior period. Since then, prices have eased further. Aside from occasional price gouging, most commodity prices have stabilized; some construction materials have begun to fall. Contacts pointed to low oil prices and slumping demand as factors supporting their expectations that prices would moderate further.

### Manufacturing

As March progressed, manufacturers reported weaker new orders – resulting in a moderate overall decline. At mid-March, one-half of the firms reported no change; of the remainder, twice as many noted decreases as noted increases. By the end of March, one-third of the firms reported no change; of the remainder, five times as many noted decreases (or shutdowns) as noted increases. Almost one-fifth of the firms saw orders drop by more

than 30 percent of prior expectations. Nearly one in 10 firms shut down.

According to several firms with global perspectives, supply chain issues with China have eased, and China is mostly back to work. One contact did note that a few plants shut down again, as demand from foreign customers waned. These contacts noted substantial declines of demand in southern Europe and several weakening sectors across the U.S., including oil field services, light metals, and food production and distribution that was oriented toward restaurants and group dining facilities.

## Consumer Spending

Nonauto retail sales plummeted, as a majority of retail stores and restaurants closed, plus essential stores and takeout restaurants faced limited demand under statewide stay-at-home orders. One food and beverage chain furloughed 700 employees without pay or benefits; another lost 90 percent of its usual sales overnight – it hopes to grow its takeout service to recoup a fraction of its sales. Two food-oriented retail chains were able to stabilize sales with losses of 30 percent or less.

Sales of new and used cars appear to have fallen by as much as 50 percent from February to March. From March 19 through March 26, our three states ordered dealers to stop sales, although they permitted selling parts and servicing vehicles. Delaware and New Jersey subsequently allowed limited sales.

Tourism has virtually stopped. A majority of hotels, resorts, and attractions have reported closing and laying off tens of thousands of employees. Most of Atlantic City's 26,450 casino workers were laid off when the casinos were shut down. As of March 28, a tourism analyst estimated that weekly travel spending had fallen 80 percent in New Jersey and Pennsylvania, and 70 percent in Delaware.

## Nonfinancial Services

Like manufacturers, broad service sectors also reported weaker new orders/sales as March progressed – resulting in a severe overall decline. At mid-March about one-fourth of the firms reported no change; of the remainder, one and a half times as many noted decreases as noted increases. By the end of March, a tenth of the firms reported no change; of the remainder, six times as many noted decreases (or shutdowns) as noted increases. Almost one-fifth of the firms saw orders drop by more than 30 percent of prior expectations. Nearly one in three firms shut down.

## Financial Services

By March 25, reports from financial firms were starting to show signs of financial stress among firms and households. Volumes of credit card debt and of auto loans began falling after March 11. In contrast, over the same two weeks, volumes grew rapidly for two lending categories in which firms and households are able to draw down on or request extensions of existing lines of credit: commercial and industrial loans and home equity lines.

Commercial real estate lending and home mortgages did not appear to be impacted yet. Bankers and brokers indicated that most deals that were already scheduled were completed. However, contacts expect fewer deals to be brought to the table going forward.

Banking contacts were busy negotiating loan modifications and loan deferrals, while deciphering new Small Business Administration rules and other programs available in the Coronavirus Aid, Relief, and Economic Security Act recovery package, as fast as the regulations were being written. The bankers stated that liquidity was not a problem but would be a concern if the shutdown dragged on.

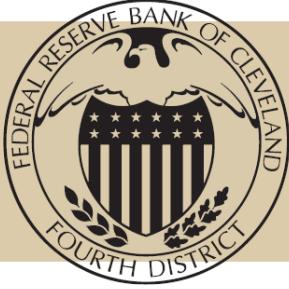
## Real Estate and Construction

Homebuilders were sidelined in Pennsylvania, but construction continued in Delaware and New Jersey. Nevertheless, projects were slowed by supply disruptions, transactions that were complicated by disrupted local government services, and a reluctant workforce facing contagion fears. Buyers have not canceled existing contracts, but new orders are nonexistent.

Real estate firms also noted extra hurdles with title work and inspections required to close transactions. However, most scheduled closings were finalized. Showings and sales have dropped off considerably in Pennsylvania despite switching to virtual showings. Contacts note that activity has held up in Delaware.

Philadelphia's commercial real estate construction fell 70 percent by the end of March – some contractors have no projects. After initially being shut down in Pennsylvania, commercial construction was allowed an exemption. Unfortunately, worker attendance is less than 50 percent on some projects. On the commercial leasing side, tenants are seeking lower rents, whether they need it or not. As with residential construction, deals already in the works have been finalized, but fewer new projects are coming forward now. ■

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



# Federal Reserve Bank of **Cleveland**

The Beige Book ■ April 2020

## Summary of Economic Activity

The Fourth District economy contracted sharply in the second half of March as business disruptions resulting from COVID-19 mitigation efforts spread quickly. Consumer spending decreased materially, with restaurants, tourism, and nonessential retail spending particularly hard hit. Residential realtors and builders noted that stay-at-home orders curbed walk-in traffic, and pending home sales fell. Meanwhile, many new nonresidential projects were delayed, and commercial realtors expressed concern that cash flow will suffer as tenants defer rent payments. Manufacturers' orders declined amid virus-related work stoppages along with pullbacks in capital equipment spending. Banking and a few business services sectors saw activity pick up as a result of the pandemic, but, on balance, service sector activity was down. Reports from freight and logistics firms were mixed. Looking forward, contacts generally expected economic conditions to worsen further in coming months. Consequently, many planned to conserve cash by reducing capital spending and cutting staffing levels in the months ahead. Weakening demand across industries generally resulted in less upward pressure on costs and prices.

## Employment and Wages

Fourth District employment fell significantly in recent weeks as firms realigned their staff with suddenly diminished demand for their goods and services. There was very little new hiring taking place, and contacts in most industries reported cutting hours, staff, or both. Of those firms that were cutting staff, the majority indicated that they were furloughing workers rather than firing them outright, with the hope of bringing them back once business activity resumes. Employers appeared eager to do everything in their power to help underutilized workers. Many reportedly increased wages temporarily for essential workers whose hours had been cut, while others were extending healthcare benefits to furloughed workers or offering them help finding new employment. Banks, grocery stores, and health services firms were among the few industries that were not cutting back on staffing. Outside of the temporary pay increases, upward wage pressures generally diminished. Looking forward, greater than one in two surveyed firms expected staffing levels to fall in coming months, compared to fewer than one in 10 that expected them to rise.

## Prices

Selling prices generally declined in recent weeks, while nonlabor input costs increased at a noticeably slower

pace. For the first time since late 2015, more contacts reported that selling prices had declined compared to those who said they had increased. Those who said that prices decreased generally cited reduced demand resulting from COVID-19 mitigation efforts. While this trend was evident across most industries, it was particularly pronounced among nonessential retailers, many of which had been seeing increased pricing power during the past several reports. By contrast, freight haulers noted higher selling prices. At the same time, a considerably smaller share of contacts reported higher prices for nonlabor input costs compared to the prior Beige Book period. While firms in most industries expected cost pressures to remain muted in coming months, some manufacturers and construction contacts said that supply chain disruptions may push prices up for some materials.

## Consumer Spending

Retail activity in the Fourth District declined sharply as a result of social distancing measures taken to mitigate the spread of COVID-19. With a large number of dine-in restaurants and nonessential retailers ordered to close, many establishments lost a significant portion of their expected revenue. A national restaurant group indicated that revenues were lower by 60 percent year over year, even as stores remained open for takeout and delivery,

while a smaller regional holding group shut down all of its establishments because costs far exceeded revenues. Meanwhile, one luxury auto dealer reported that while its doors remained open with reduced hours, it had not sold a car in the second half of March. By contrast, a handful of essential grocery stores saw a large spike in demand recently as consumers stocked up on food and home supplies. Contacts in the retail sector generally expected economic distress to persist into the summer, followed by a slow and gradual recovery.

### **Manufacturing**

Manufacturing conditions worsened as more than half of contacts reported that demand had declined during the last two months. Contacts noted a pullback in capital spending along with work stoppages because the spread of COVID-19 reduced orders. Several contacts noted in particular that the two-week shutdown of US auto production would have ripple effects throughout their supply chains. More than a third of manufacturers reported that capacity utilization was below a normal range because demand had weakened and because employees were increasingly missing work because of illness, concern about the virus, and school closures. Although a few contacts noted an uptick in demand because of precautionary behavior, they expected that demand would drop off in the future as customers work through their built-up inventory.

### **Real Estate and Construction**

Reports from realtors and builders (residential and non-residential) indicated that activity fell sharply in mid-March. On the residential side, real estate professionals suggested that sales in 2020 had been off to a very strong start through the first half of March, but they weakened subsequently. Thus, while existing home sales were relatively robust in the first quarter, pending sales fell notably in March. Builders indicated that work on homes under contract continued, although sales had slowed. However, one builder noted that cancellation rates had increased, and another was concerned that homes under contract may not close in coming months if rising unemployment befalls some of his buyers. Non-residential real estate professionals indicated that demand fell recently. Moreover, several contacts suggested that tenants have reached out to ask for rent deferrals or concessions. Nonresidential builders reported that work continued on large projects that were underway in areas that allowed it, but they have seen some job postponements and cancellations. Contacts on both the residential and nonresidential sides expected demand to weaken further in coming months.

### **Financial Services**

Loan demand grew substantially; one banker described it as “unprecedented,” saying that one-month growth was likely to match what would typically be expected in a year. Corporate clients drew down credit lines to keep cash on hand in light of COVID-19-related revenue shocks, while consumers rushed to refinance home mortgages at lower rates. This activity largely offset declines in demand for auto loans. Delinquency rates remained low as banks worked to assist clients in these unusual times, although many contacts speculated that delinquency rates will climb in the coming months as economic duress persists.

### **Professional and Business Services**

Contacts in the professional business services sector reported a significant decline in demand for their services in recent weeks. Multiple firms indicated that clients have delayed the implementation of new projects in addition to cancelling some projects already underway. However, there were a couple of firms that provide legal, human resources, and online commerce consulting services that reported an increase in demand in recent weeks. Overall, the majority of firms interviewed expected economic conditions to remain significantly subdued through the second quarter.

### **Freight**

Reports from the freight sector were mixed. While freight activity as a whole had declined since the onset of COVID-19, firms that ship consumer staples such as food, cleaning supplies, and medical supplies saw a significant increase in demand. However, freight firms that typically ship manufactured or imported goods continue to see reduced volumes. Because manufacturing output is expected to remain weak and the elevated demand for consumer staples is expected to wane, contacts in the freight sector generally anticipated that business conditions will worsen further in the second quarter.■

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



# Federal Reserve Bank of **Richmond**

The Beige Book ■ April 2020

## Summary of Economic Activity

Fifth District economic activity declined across many sectors, quite sharply in some, due in large part to the measures taken by businesses and consumers to slow the spread of the coronavirus outbreak. Manufacturers reported a slowdown in shipments and new orders but most were able to keep plants open, albeit at lower levels of production. Producers of essential supplies and food saw an increase in demand. Port contacts reported a moderate decline in import volumes, particularly from China and Europe. Trucking companies saw steady demand as the decline in retail shipments was offset by increases in shipments for other essential supplies. Retail, travel, and tourism firms saw sharp declines in demand and occupancy rates and many restaurants closed or shifted to take-out or delivery only. Residential real estate contacts reported a slowdown in foot traffic and sales while new home construction faced delays. Commercial real estate leasing fell and some tenants looked to break leases or sought relief due to economic hardship. Bankers, on the other hand, saw a moderate increase in demand, mainly coming from residential construction and refinance loans. On balance, nonfinancial services firms saw a modest decline in revenue. Some farmers reported increased demand and more favorable selling prices. Low oil and natural gas prices led energy companies to reduce activity. Employment fell sharply, overall. Price growth remained muted.

### Employment and Wages

On balance, employment declined sharply; however, individual firm experiences varied considerably. Some manufacturers cut production and reduced staff. Others, such as food and personal care products manufacturers, increased hours and employment in response to stronger demand. Some business-to-business services firms reduced weekly hours for employees and cut temporary positions. Many consumer facing businesses like hotels, restaurants, and retail shops reduced staff sharply due to steep declines in demand owing to social distancing guidelines. An outdoor recreation establishment said that they normally hire three to four hundred seasonal staff at this time of year but right now all hiring was on hold. No changes to wages were reported.

### Prices

Overall, price growth remained muted since our previous report. According to our most recent surveys, manufacturers reported a slight deceleration in growth of prices paid. A couple of producers pointed to recent declines in oil and gas prices as contributing factors to slower input price growth. Service sector firms saw an acceleration in growth of prices paid and prices received. Some agricultural commodity prices, such as soy, wheat, beef, poultry, and eggs rose, in recent weeks.

### Manufacturing

Manufacturers in the Fifth District reported declines in shipments and new orders since our last report. Many manufacturers had drops in demand resulting from retailers closing, which led some firms to slow production. Manufacturers also experienced supply chain disruptions, involving inputs from China or Europe. Some were hopeful that supply from China would improve soon but were concerned that demand would decrease further in the U.S. A cabinet manufacturer had a sharp drop in demand, and made plans to consolidate and downsize operations. A food manufacturer, on the other hand, experienced strong demand.

### Ports and Transportation

Fifth District port volumes fell moderately since our last report, driven largely by a decline in imports, especially from China and Europe. Import levels continued to exceed export levels although the gap between the two narrowed. Exports remained strong, particularly agricultural products and lumber. Despite softer imports, inventories built up at ports as companies, particularly car dealers, refused deliveries. Port revenues were hurt by the cancellations of cruises. However, a Fifth District airport saw a slight increase in international cargo flights, which was attributed to a decrease in passenger flights on which some goods are normally transported.

Fifth District trucking companies reported fairly steady business in recent weeks as declines in retail shipments were offset by increased demand from other parts of the market. Shipments of food, laptops, and cigarettes were particularly high. Spot market rates rose slightly as demand shifted across sectors. Some companies struggled to find enough drivers, as a small number of drivers were quarantined and newly trained drivers could not get their licenses while the DMV was closed. Also, low fuel prices helped lower operating costs.

## Retail, Travel, and Tourism

Fifth District retail sales declined sharply since our last report. Many stores were forced to close, and others saw decreased demand. Retailers looked for creative ways to remain open. A clothing store allowed for appointment-only in-store shopping, and a florist switched to curbside pickup. Stores lowered prices and offered free shipping to attract customers and move inventories. Grocery store sales increased. They added workers to stock shelves and warehouses, but struggled to maintain inventories. Retailers that remained open also reported increased cleaning efforts.

The tourism industry contracted significantly in the Fifth District in recent weeks. Hotel occupancy fell to unprecedented levels, leading several hotels to close and others to operate with minimal staff. However, some people continued to visit rentals and vacation homes. Many restaurants closed when dining in was disallowed, while others tried to remain open for take-out and delivery. For many restaurants, especially those not structured for takeout, this was not a long term solution but a way for them to sell their perishable inventory.

## Real Estate and Construction

Fifth District home sales declined modestly in recent weeks. Buyer traffic decreased, but some who viewed houses were serious about buying quickly. Inventory levels remained low, as showings decreased since prospective sellers were reluctant to let others into their homes. Builders worried about excess inventories if demand slowed further. Sale prices and days on the market held fairly steady. Construction projects continued but at a slower pace, and new starts fell. One realtor mentioned that appraisals and inspections were delayed as fewer workers were in the field.

Fifth District commercial real estate leasing decreased moderately since our last report. Office and retail leasing declined sharply as companies reported no new leases. Existing office and retail tenants looked to break leases or asked for rent reductions and deferments, with many claiming force majeure. However, industrial leasing

remained fairly strong, as companies looked for extra storage space for accumulating inventories during temporary closures. Brokers reported mixed conditions in multifamily. Existing construction projects continued, but new construction starts declined.

## Banking and Finance

Overall, loan demand grew moderately mainly due to an increase in construction financing and mortgage refinance loans. Respondents indicated tepid demand for commercial real estate and C&I loans, though several banks mentioned that they anticipate strong demand for CARES Act SBA loans. Auto loans declined sharply in recent weeks. Most banks reported that deposits grew moderately despite lower interest rates paid on all accounts; however, they also reported rate compression. Financial institutions noted that credit standards, delinquencies, and credit quality remained solid; however, they expect an uptick in delinquency rates within the next 60 days due to deterioration in the economy caused by the coronavirus outbreak.

## Nonfinancial Services

Overall, nonfinancial services firms indicated a modest decline in revenue and demand in recent weeks, which many attributed to the coronavirus outbreak. Several business-to-business service providers said that clients were putting work on hold or delaying new projects. An HR outsourcing firm in Northern Virginia said that only about half of their field staff had security clearances to work remotely, thereby reducing billable hours. In contrast, a law firm said that they saw an increase in business as clients were looking for help understanding recently passed coronavirus aid legislation.

## Natural Resources

Reports from agriculture and energy contacts were mixed. Some farmers reported increased demand from grocery stores and rising commodity prices. One egg farmer said that this probably saved many farmers as selling prices had been depressed in recent months. Energy contacts, on the other hand, saw declines in extraction and new exploration due to sharp declines in oil and gas prices. ■



# Federal Reserve Bank of Atlanta

The Beige Book ■ April 2020

## Summary of Economic Activity

On balance, economic activity in the Sixth District deteriorated from mid-February to late March, and the outlook diminished as a result of the COVID-19 pandemic. Labor market conditions weakened significantly as businesses reported widespread layoffs and furloughs. Nonlabor costs were stable. Retail contacts noted plunging sales of discretionary goods, and surges in spending on essential items. Hospitality and tourism contacts reported significant declines in activity as conventions were canceled and attractions were temporarily shuttered. Activity in residential and commercial real estate slowed somewhat. Manufacturing activity deteriorated, but new orders held steady or increased as a result of changes in product demand. Overall transportation activity declined. District bankers reported mixed conditions.

### Employment and Wages

District labor market conditions deteriorated over the reporting period as the spread of COVID-19 precipitated a sharp contraction in activity leading to layoffs and furloughs, especially in retail, tourism and hospitality. Grocery, home improvement, and discount stores, along with home delivery services, experienced a surge in demand resulting in a strong increase in hiring. Growing restrictions on public gatherings forced many restaurants to pivot to take-out and delivery services in an effort to stay in business and preserve some jobs. Manufacturing and distribution workforces remained largely intact and those producing high-demand products indicated working longer hours. Most firms with the ability to do so transitioned to remote working. In response to a sharp drop in demand, the region's energy sector experienced a contraction in employment. Some businesses noted actively working to connect laid-off or furloughed employees with firms that were hiring.

Some District firms reported cutting pay, eliminating bonuses, and reducing hours, in efforts to retain employees. However, high demand sectors, such as grocery, distribution, and warehousing announced increases in hourly wages or bonuses. Some companies still hiring have postponed pre-employment background checks like drug tests and finger printing, largely in an effort to reduce physical contact. Many contacts reported relaxing attendance policies and increasing paid time off and leave allowances. Some noted an extension of premium pay to essential workers or employees who deal directly with the public.

### Prices

Most contacts reported stable input costs over the reporting period with expectations that prices may drop as a result of lower overall demand due to the COVID-19

pandemic. With considerable uncertainty regarding supply chains and demand, most sectors reported an effort to avoid raising prices. Oil price declines benefited businesses outside of the energy sector, helping defray the rising cost of freight. The Atlanta Fed's Business Inflation Expectations survey showed year-over-year unit costs were up 1.6 percent in March, virtually unchanged from February. Over the next twelve months survey respondents, on average, indicated they expect unit costs to rise 1.9 percent.

### Consumer Spending and Tourism

District retailers reported sales growth of grocery and household products, office equipment, and home improvement goods, which partially offset some of the steep decline in discretionary consumer spending activity due to COVID-19. E-commerce activity accelerated as brick-and-mortar sales plummeted. There were some reports of supply chain bottlenecking as high-traffic retailers such as grocers, big box, and warehouse chains struggled to manage the influx of shipments to fill empty shelves.

Tourism and hospitality contacts reported a massive decline in activity across the District as a result of COVID-19. By mid-March, most major conferences and conventions had been cancelled or postponed, the majority of tourist attractions were temporarily shuttered, and hoteliers reported historically low occupancy rates. Several contacts noted that hotels with locations close to hospitals were being considered for conversion for medical use and shelters for COVID-19 patients or hospital staff.

### Construction and Real Estate

After a strong start to the year, District housing activity was significantly disrupted by the COVID-19 pandemic. Contacts indicated that since their sales pipeline was

strong prior to the outbreak, recent transactions were solid and cancellations were muted. However, market participants anticipate a contraction in second quarter sales as in-person traffic and new sales activity declined significantly since early March. Expectations for potential disruptions in functions such as permitting, appraisals, deed filings, and notarizations due to social distancing were noted, and some reports indicated a tightening of credit and lending standards. Construction and development activity slowed and builders began strengthening cash reserves and guarding balance sheets.

Commercial real estate (CRE) contacts reported a deceleration in new leasing inquiries amid the COVID-19 pandemic. However, leasing activity that was already in the pipeline appeared to be moving forward. Declining tourism and travel activity significantly impacted CRE in the hospitality and retail sectors. Investment property sales slowed markedly due to issues associated with the slowing of financing from commercial mortgage backed securities and non-bank lenders; however, contacts reported that capital was readily available at banks for the financing of CRE projects. Banks reported that originations continued in the CRE space. Reports of tenants seeking rent relief have begun to emerge.

## **Manufacturing**

Manufacturing firms reported solid overall activity in late February, but indicated conditions rapidly deteriorated in early March due to the COVID-19 pandemic. Despite the decline in activity, some firms suggested that new orders were holding steady or even increasing due to changes in product demand. Supply delivery times were reported to be increasing.

## **Transportation**

District transportation contacts continued to report varying levels of activity, and the majority noted some degree of negative impacts to business due to COVID-19. Activity for logistics, trucking, and freight brokerage firms held steady on average as consumer demand for discretionary products declined and demand for essential items increased. However, according to railroad contacts, overall rail traffic fell by near double digits as compared with year-earlier levels, driven by declines in the movement of grain, coal, aggregates and iron and steel scrap, and motor vehicles and parts. Intermodal traffic also fell. Air cargo contacts cited a continued deterioration in freight volumes over the reporting period. Sizeable declines in revenue and massive shifts in costs, including implementing pay cuts across the board to help offset some of the revenue losses, were mentioned. Ports saw year-over-year declines in container activity as imports from Asia slowed, and significant declines in overall freight activity for the foreseeable future are anticipated .

## **Banking and Finance**

Financial institutions expressed concerns about the potential increase in delinquencies and the impact on both earnings and capital due to uncertainties around the COVID-19 outbreak. Slower loan growth was reported and some indicated they were being more careful about underwriting, especially with residential and some commercial real estate properties. Financial institutions reported contacting customers in industries most affected by the pandemic to determine borrowers' potential needs for accommodations. These industries included travel and hospitality, retailers, restaurants and their suppliers, transportation and logistics, and health care providers. Given declines in market value of some institutions, goodwill impairments were being considered. Liquidity remained stable. Some financial institutions reported growth in deposits while others experienced large cash withdrawals.

## **Energy**

Global demand for crude oil and liquefied natural gas fell over the reporting period primarily as a result of the COVID-19 pandemic, in spite of the fall in oil prices. As a result of price declines, broad cost-cutting measures, including reductions in major capital spending plans, suspension of share buybacks, delays of onsite scheduled maintenance, hiring freezes, and the dismissal of contractors were reported. Industrial plant and construction contacts reported delays in some petrochemical new build and expansion projects. Utilities firms noted that power usage declines among commercial business lines were nearly offset by a spike in residential power usage, as people spend more time at home. Utilities firms anticipate a further drop in power demand, particularly from the industrial segment, as budget cuts make their way through the sector.

## **Agriculture**

Agricultural conditions remained mixed. Most of the District remained drought free, with the exception of much of Florida and other parts of the Gulf coastal region, which experienced abnormally dry conditions. On a month-over-month basis, the March production forecast for Florida's orange crop was down from both last month's forecast and last year's production while the grapefruit production forecast was down month-over-month but remained ahead of last year's production. Contacts reported the COVID-19 pandemic has resulted in recent significant price increases for corn, rice, soybeans, milk and eggs, and an increase in demand for Florida oranges. Contacts also reported that some District states modified trucking weight and hour requirements in response to COVID-19, which has had a positive effect on getting product to market more quickly. ■



# Federal Reserve Bank of **Chicago**

The Beige Book ■ April 2020

## Summary of Economic Activity

Economic activity in the Seventh District declined in late February and March, as the spread of the coronavirus caused major economic upheaval. The intensity of the decline varied by industry, but contacts across industries expected a large decrease in activity over the next 3 months and expected the recovery to still be underway a year from now. Consumer spending decreased sharply; business spending, construction and real estate activity, and manufacturing production decreased moderately. Retail and hospitality payrolls plunged, though employment for most contacts was little changed. Wages edged up and prices were little changed. Financial conditions deteriorated substantially, as did prospects for agricultural income.

### Employment and Wages

Many retail and hospitality contacts reported large layoffs, though employment for most Beige Book contacts was little changed over the reporting period. That said, contacts reported major changes in work environments. Manufacturers facing slowdowns often reported cutting workers' hours, and many also planned to use the downtime to carry out maintenance or do productivity enhancing projects. There also were widespread reports of workers choosing to stay home for health safety reasons. Most nonessential workers who could began telecommuting. Overall, contacts expected a modest decline in employment over the next 3 months, with few looking to increase employment until the uncertainty created by the coronavirus abated some. Among those still looking for workers, challenges in filling positions persisted at all skill levels. Wages edged up, and contacts expected modest increases over the next 12 months. Benefit costs increased slightly.

### Prices

Prices were little changed in late February and March, though contacts expected modest price increases over the next 12 months. Both retail and producer prices were flat overall. Input prices were largely unchanged, except for energy prices, which fell some.

### Consumer Spending

Consumer spending decreased sharply over the reporting period. Overall, nonauto retail sales declined considerably as the coronavirus crisis forced store closures across the District. Sales fell in most segments, particularly in apparel. In contrast, grocery and health and personal care stores saw dramatically higher demand, with numerous reports of runs on items such as household cleaners and toilet paper. E-commerce also expanded significantly. Consumption of services fell precipitously, particularly in the hospitality, entertainment, and food service sectors as the coronavirus crisis led to reduced travel and prohibitions of large gatherings. Vehicle sales fell sharply and dealerships across the District closed. Vehicle service center activity also fell steeply.

### Business Spending

Business spending decreased modestly in late February and March. Retail inventories were generally above comfortable levels after sales in most segments fell. There were, however, reports of extremely low inventories of some grocery and household products. Most manufacturers said that inventories were at comfortable levels. Capital spending declined some, and contacts expected spending to decrease slightly over the next 12 months. Outlays were primarily for IT equipment and intellectual property,

with numerous reports of spending to support telecommuting. Contacts also noted increased spending on sanitation and other protective health measures for workers. Demand for transportation services decreased slightly overall, as lower long distance volumes outweighed increases in local delivery services. Commercial and industrial energy consumption declined some, with lower usage reported from retail stores, restaurants, hotels, and auto manufacturers.

### **Construction and Real Estate**

Construction and real estate activity decreased moderately over the reporting period. Residential construction activity fell modestly. Contacts indicated that only a small share of projects had been delayed, though they expected a large decrease in building when active projects are completed. Residential real estate activity decreased substantially. Showings were limited because wide-spread shelter-in-place orders meant homes could not be viewed publicly. One contact said that only sales that were under contract before the beginning of the coronavirus crisis were being completed. Nonresidential construction activity was little changed. Contacts indicated that, as with residential construction, most projects were continuing. A contact in southern Wisconsin reported greater demand from restaurants for remodeling work as owners anticipated eventually reopening. Commercial real estate activity decreased significantly, particularly for retail and office spaces. Contacts noted that there was strong pressure on landlords to give rent forbearance, but that landlords were having difficulty obtaining forbearance from their lenders. Contacts also noted that the commercial property purchase process had slowed because permits and titles were taking longer to obtain with government workers telecommuting.

### **Manufacturing**

Manufacturing production decreased moderately on net in late February and March. Auto production declined substantially as the coronavirus crisis led many assemblers and suppliers to shut down. Steel production slowed significantly, driven by large declines in autos, oil and gas, and construction. Demand for specialty metals decreased moderately, as reduced orders from autos and aerospace outweighed slight increases from the medical and defense industries. Orders for heavy trucks continued to decline from a peak at the end of last year. Food manufacturers reported a substantial increase in demand, as did manufacturers of shipping materials. Manufacturers of building materials saw a slight increase in shipments as greater demand from commercial builders more than made up for less demand from residential builders.

### **Banking and Finance**

Financial conditions deteriorated substantially over the reporting period. Participants in the equity and bond markets reported large increases in volatility and large decreases in liquidity across a wide range of asset categories. Business loan volumes decreased moderately as greater uncertainty led borrowers to hold off on new loan requests. That said, many businesses drew on existing lines of credit. Lenders also reported a large number of requests for loan payment deferrals. Lenders indicated that they were actively working to implement the Small Business Administration's Paycheck Protection Program and expected a large volume of applications. Business loan quality deteriorated moderately across most sectors, but especially in the hospitality, retail, and non-profit sectors. Standards tightened some. Consumer loan demand decreased moderately due to a large pullback in requests for auto and home-purchase loans. Contacts noted that consumers were carrying higher credit card balances even though new spending was lower. Mortgage refinancing volumes continued to increase. Reports on consumer loan quality were mixed: most contacts saw no change to date, but others experienced a deterioration in line with rising unemployment. Consumer loan standards tightened modestly on balance.

### **Agriculture**

Income prospects for the agricultural sector deteriorated substantially as the spread of the coronavirus led to a dramatic fall in many commodity prices. A large drop in ethanol prices led ethanol plants to cut production and corn consumption, which pushed corn prices lower. The drop in ethanol production also reduced the availability of corn byproducts needed for nutritional balance in corn-based animal food rations. This led livestock operations to switch to soy-meal and helped support soybean prices. In spite of shortages of some meat products in stores, most livestock prices fell as demand from restaurants and other food service providers weakened. Milk sales declined substantially as schools closed, but egg prices spiked. Contacts expressed concern about the health and availability of agriculture workers, particularly for specialty crop production. Access to credit for farm operators was little changed, though loan requests increased. ■



# Federal Reserve Bank of St. Louis

The Beige Book ■ April 2020

## Summary of Economic Activity

Economic activity has declined sharply since February. Essentially all contacts reported some degree of slowdown in activity due to COVID-19. In the worst cases, firms are expecting zero revenue in April and possibly May. Many firms reported moderate to severe temporary layoffs, furloughs, or paid time off. A considerable share of contacts reported reducing employee pay, particularly the pay of salaried employees with higher-than-average wages at their firms. Planned capital spending has been cut back at most firms to preserve cash, as even those firms in high-demand sectors are expecting delayed payments on goods during the coming quarter. At this point, there were no reports of abrupt cancellations of ongoing construction projects. Residential real estate conditions have held steady through March, and District agriculture conditions improved modestly from the previous reporting period.

### Employment and Wages

District firms reported moderate to severe temporary layoffs, furloughs, or paid time off. Hotels and hospitality contacts reported workforce reductions of around 90% of staff. Reported reductions at specialty retailers, auto dealers, and restaurants have ranged from 50% to 70%. Staffing contacts reported reductions in new job openings of between 20% and 80%. Firms with a high demand for their products or services have not reported layoffs but have experienced challenges maintaining current employment levels. A grocer mentioned significant absenteeism; a manufacturing contact noted about 10% of its workforce required changed or reduced hours due to school closures or other challenges. Firms also reported difficulties and/or delays in onboarding new employees, often relaxing or temporarily removing background checks and drug tests.

A considerable share of contacts reported reducing employee salaries, particularly for salaried employees with higher-than-average wages at their firms. One payroll firm reported that its most-affected clients have cut salaries on non-furloughed staff between 5% and 25%. However, broad-based pay cuts have been relatively rare, with firms prioritizing layoffs over broader wage reductions.

### Prices

Significant changes in the demand for some products and services and the proliferation of new product offerings have complicated the measurement of consumer price inflation. Restaurants have moved from dine-in to take-out options with increasingly unique promotions. Contacts reported increasing the prices of necessity items, such as the price of eggs doubling. Prices for premium food products, by contrast, seem to be falling due to decreased demand. One grocer noted turning unsold premium steaks into ground beef (which was out of stock), but charging a higher price than is typical ground sirloin. Auto dealers report significantly lower used car prices and a greater tendency to sell new cars for less than their sticker price.

### Consumer Spending

Consumer spending activity in early March was generally robust, followed by steep declines starting in the second half of the month after stay-at-home regulations were enacted. Areas in the District without these orders as well as rural areas reported a slower rate of decline. Restaurants and specialty retailers have generally lost at least half of their revenue. Reports from auto dealers were very weak; dealers generally expect March sales to be lower than one year ago, with sales close to zero in April.

Hospitality contacts reported cancellations of nearly all major events and conferences through June 1. Events scheduled for later in the year are currently still in place. Tourism venues reported strong business during the first weeks of March, but closures brought down overall business activity for March.

## Manufacturing

Reports from manufacturing contacts indicate declines in overall production, but the rates of decline vary considerably by firm. A notable number of contacts (particularly those related to autos and other durable goods) have temporarily shut down, but manufacturers of food products, chemicals, and medical devices continue to operate with extremely high demand. However, these firms are generally reporting 5% to 10% reductions in production due to supply chain disruptions and adjustments to workers' arrangements. For example, contacts report multi-day temporary shut downs for deep cleaning, increased time between shifts for additional cleaning, and staggering break times to reduce cafeteria occupancy.

## Nonfinancial Services

Activity in the nonfinancial services sector has worsened since the previous report. Major hospitals in the District report significant declines in revenue as elective procedures are postponed due to the COVID-19 outbreak. The transportation industry has remained relatively stable since the previous report—the exception being passenger traffic, as airports report steep drops in enplaning. Courier services report increased demand, causing backlogs at fulfillment centers of up to one week. Contacts in this industry report difficulty keeping facilities adequately staffed.

## Real Estate and Construction

Residential real estate conditions have held steady through March. Contacts report very strong sales during the first half of the month. A contact in the St. Louis area reported that their March sales were up 24% from one year ago. Due to delays, many March sales are expected to close in April. A drop in sales is expected to occur around late April or May. Various contacts expect this drop in sales to be somewhere between 8% and 25% relative to one year ago. One contact reported about 5% of their existing listings were pulled off the market during mid-March. Contacts reported decreases in property showings of around 75% of their normal average weekly showings from early March to the end of March.

Reports of residential construction activity showed little change, as projects were generally allowed to continue. There were reports of some, but not many, households

backing out of pending construction contracts due to current uncertainty. Many contracts at this point, for both home sales and new construction, are including language related to COVID-19.

## Banking and Finance

Reports from District banks indicate substantial and widespread increases in demand for banking services since February. Demand for cash and for other forms of liquid assets has increased. In early March, banks reported that some of their larger clients were responding to future uncertainty by drawing down on lines of credit and depositing the funds in their checking accounts. Demand for residential mortgages remained elevated during the early part of March, and banks reported strong refinancing activity. While the pipeline for these loans remains strong, new activity has slowed and many rates have not yet been locked.

During the first week of April, the attention of banks abruptly turned to the SBA/PPP loan program, with bankers feeling overwhelmed by the program and unclear on how to approve firm applications and administer the loans. Banks report operational difficulties as many staff are working remotely or in decentralized branches to protect worker health.

## Agriculture and Natural Resources

District agriculture conditions improved modestly from the previous reporting period. The number of acres planted in the District for corn, cotton, rice, and soybeans increased 8% compared with last year. All states in the District increased their number of acres planted as planting season in 2019 was severely affected by poor weather. Corn, rice, and soybeans were planted in greater quantities compared with last year. Southern parts of the District have planted fewer acres of cotton and more of rice.

District contacts stated that the COVID-19 pandemic has had a relatively muted effect on the agricultural sector to date. Several contacts reported that farmers and agricultural suppliers do not have current plans to reduce output or employment at this time. Contacts cited continued trade disputes with China, weather, commodity prices, and deteriorating credit conditions as sources of uncertainty for the industry. ■

For more information about District economic conditions, visit:  
<https://research.stlouisfed.org/regecon/>



# Federal Reserve Bank of Minneapolis

The Beige Book ■ April 2020

## Summary of Economic Activity

Economic activity in the Ninth District fell substantially since the last report due to the COVID-19 outbreak and pandemic response. Employment fell significantly, and wage pressures fell overall due to layoffs, while price pressures remained modest on balance. The District economy saw declines in consumer spending, tourism, services, construction and real estate, manufacturing, and energy. Agricultural conditions were steady at low levels.

### Employment and Wages

Employment fell significantly since the last report. Conditions in February were quite positive, with continued strong hiring demand across much of the District. However, conditions changed dramatically over the course of March with the spread of the coronavirus and related government actions for sheltering in place and the forced closure of many nonessential businesses. Applications for unemployment benefits in March easily hit record levels among all District states. Over the last two full weeks in March, more than 225,000 workers in Minnesota filed for unemployment, roughly 30 times the level seen over the same period in 2019. Numerous surveys by the Minneapolis Fed and other external organizations found that a wide swath of firms were laying off workers. Two District-wide surveys of firms by the Minneapolis Fed (one in mid-March, one in early April) found that layoffs were occurring across all sectors, though with some variation. Cutbacks were highest among firms in food, accommodation, entertainment, health care, and retail sectors, and lowest in banking and finance, followed by manufacturing and professional and technical fields. Reported workforce cutbacks were seen among firms of all sizes, with slightly higher percentages among small firms. Mass layoff events tracked by District states rose, though some states track only those related to permanent closure, of which there were still comparatively few. Information from Minnesota, Montana, and Wisconsin, which track a broader set of layoffs, suggested

more widespread layoffs, with the large majority considered temporary by employers.

Wage pressure fell overall due to the unprecedented increase in worker layoffs. Among firms cutting workers, there were also some reports of wage freezes and cuts for remaining workers. For certain industries seeing strong demand—grocery chains, manufacturers of critical equipment—there were isolated reports of wage increases to meet customer demand and to compensate workers for greater health risks.

### Prices

Price pressures were modest on balance since the previous report, with the notable exception of surge pricing for some consumer goods in high demand due to the pandemic. A large majority of respondents to a late-March survey of District firms reported unchanged or only slightly increased prices for inputs and in the prices charged for their products or services relative to a year earlier. Manufacturing contacts reported that prices for raw materials such as steel and plastic were stable. Retail fuel prices fell briskly in District states relative to the previous reporting period. Prices received by farmers in February increased from a year earlier for corn, soybeans, dry beans, lentils, milk, hogs, and turkeys, while prices for wheat, chickpeas, canola, hay, cattle, chickens, and eggs decreased.

## Consumer Spending

Consumer spending declined significantly since the last report, due to coronavirus concerns and related stay-in-place guidelines from federal and state authorities that shut down many consumer-oriented businesses, either directly or indirectly. Surveys of tourism and hospitality firms in Minnesota and Montana showed notable virus-related declines in sales already in early March, and worsening by month's end. Expectations from Minnesota tourism-based businesses were for conditions to decline further in April, which is typically the start of the busy season for many firms. Hotel occupancy has seen a steep decline, plunging to 17 percent in Minneapolis-St. Paul at the end of March. Airline traffic in the District has seen a similarly large drop in passenger demand in March, with some airports reporting declines of 80 percent or more.

## Services

Activity in the professional services sector decreased, though the severity varied widely. A quarter of services firms responding to a survey reported no impact on March sales, though nearly all of the remainder saw modest to severe decreases. The transportation sector saw a similarly mixed impact, with a majority of trucking firms surveyed reporting a decline in activity due to closures of clients, while others saw demand surge from the grocery and other sectors.

## Construction and Real Estate

Commercial construction fell since the last report, though some underlying optimism remained. A survey of Minnesota construction firms by the Minneapolis Fed found that a significant number of firms had seen some delays in existing or expected projects. The majority of delays stemmed from concern by owners about project viability given the virus outbreak. But delays also stemmed from supply-chain disruptions, labor shortages, and the lack of availability of some government workers—due to shelter-in-place orders—for permits, inspections, and other approvals necessary to keep projects moving. The overall outlook of the industry has shifted negatively, the result of both known delays and a large amount of uncertainty about future work. However, the designation of the industry as essential in most District states was perceived as a boost, as was the coming of warmer weather so more work could take place outside of confined spaces. Residential construction was modestly lower. In Minneapolis-St. Paul, March single-family permits were higher compared with a year earlier. However, the aforementioned construction survey found that a high share of home builders were experiencing project delays.

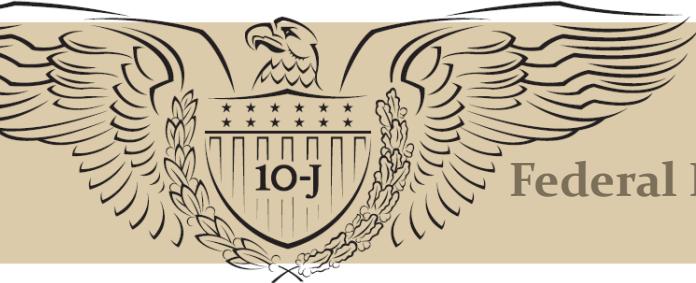
Commercial real estate was lower since the last report. Significant layoffs and slower overall activity in March was expected to continue into the coming months, creating upward pressure on vacancy rates and downward pressure on leasing costs across all real estate categories, but particularly for retail and office space. However, the swiftness of changing market conditions made it hard to discern the full effects across different property categories and geographic regions. Residential real estate was modestly lower, but varied geographically. Home sales in rural parts of Minnesota are reportedly “very busy—as if there was no pandemic in place,” said an industry contact. At the same time, Minneapolis-St. Paul and other metro centers in the state were seeing “significantly reduced activity.”

## Manufacturing

Manufacturing activity in the District contracted sharply relative to the last report. An index of manufacturing conditions indicated substantially decreased activity in March compared with a month earlier in Minnesota and the Dakotas; production and employment in particular fell sharply. A majority of manufacturers responding to a large survey of District firms conducted in early April reported decreased sales in March compared with the previous months, with more than a third reporting declines of 25 percent or greater. Impacts of the pandemic and response on manufacturers varied by market segment. Producers of construction materials reported disruptions in demand as construction activity was curtailed in some regions. However, processed food manufacturers reported brisk increases in demand for many products, as did suppliers of inputs to that industry.

## Agriculture, Energy and Natural Resources

District agricultural conditions were steady at low levels. Some contacts described the COVID-19 pandemic as a potential “perfect storm” for an already struggling rural economy. Early reports suggested that District farmers intended to plant less wheat and more corn and substantially more soybean acres this year. District oil and gas exploration activity fell moderately from the previous report. The number of active drilling rigs as of late March was down slightly from the last report, but contacts in the oil-producing region of the District reported layoffs in oil fields and substantial reductions in capital spending. Contacts in nonferrous mining reported that a slowdown in international demand due to the COVID-19 outbreak in China may have abated somewhat in recent weeks. ■



# Federal Reserve Bank of Kansas City

The Beige Book ■ April 2020

## Summary of Economic Activity

After holding fairly steady in the first half of March, Tenth District economic activity deteriorated sharply later in the month as the spread of COVID-19 negatively impacted consumer spending and business activity. Most contacts expected additional declines in the months ahead. Consumer spending slowed significantly since the previous survey, with markedly lower sales in the auto, restaurant and tourism sectors. After some stabilization earlier this year, manufacturing activity contracted sharply in March and expectations fell to levels last seen in early 2009. Transportation and wholesale trade contacts reported an increase in sales, but anticipated sharply lower sales in the next few months. Professional and high-tech sales declined slightly and were anticipated to fall further. Residential real estate conditions continued to hold fairly steady, but commercial real estate conditions worsened moderately. The decline in energy activity accelerated in the District as oil prices fell further below profitable levels. The agriculture sector weakened as cattle and corn prices fell sharply and credit conditions worsened. District employment fell slightly in March, but layoffs and furloughs increased significantly over the past two weeks suggesting worsening employment levels in the months ahead. Selling prices declined slightly in both the services and manufacturing sectors and additional declines were anticipated.

### Employment and Wages

District employment was down slightly in March, while employee hours declined modestly. However, employment conditions deteriorated significantly throughout the month, including a dramatic rise in unemployment insurance claims in the final week of the month, and contacts expected additional declines in employment and employee hours in the months ahead. Respondents in all sectors reported lower employment levels except for retail trade and real estate which noted modest job gains. Similarly, retail trade and real estate, along with health services were the only sectors with employment above year-ago levels.

For the first time in several years, a majority of contacts did not report labor shortages. Many respondents noted uncertainty surrounding the spread of COVID-19, leading them to layoff or furlough workers and to implement hiring freezes. A majority of respondents reported that they did not have to raise wages more than normal to attract or keep any types of workers. Overall wages rose slightly, but declines were expected in the months ahead.

### Prices

Input prices rose modestly and selling prices declined slightly in the services sector, while both input and selling prices fell slightly in the manufacturing sector. Con-

tacts in both the manufacturing and services sectors expected prices to decline in the months ahead. Respondents in the retail trade sector noted strong growth in both input and selling prices since the previous survey period. Contacts in the restaurant sector noted a slight increase in input prices, while selling prices edged down. In the transportation industry, input prices fell moderately and selling prices declined slightly. Selling prices held steady for construction supplies after rising in the previous survey period. Manufacturers reported slightly lower prices for both finished products and raw materials prices, and anticipated modest declines in the next few months.

### Consumer Spending

Consumer spending decreased significantly since the previous survey as regional businesses were negatively affected by COVID-19. While some retailers, like grocers and pharmacies reported increased sales, sales were markedly lower for the auto, restaurant and tourism sectors. Although some health services experienced higher levels of activity, most healthcare services firms reported slower sales and a decline in employment levels due to the decrease in elective procedures. Auto sales were down substantially compared with a year ago, and inventories were expected to rise. Restaurant sales were significantly lower compared with the previous survey period. Tourism sales fell sharply in March

and were well below year-ago levels. Over half of contacts expected lower levels of employment in 2020 due to COVID-19 and recent market volatility, and an even greater share of firms were concerned about cash availability.

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

Manufacturing activity contracted sharply in March, with declines in both durable and nondurable goods plants. Production, new orders, employment, and raw materials inventories all decreased compared to the previous survey period and fell below year-ago levels. Around 60 percent of manufacturers faced delayed payments from customers, and 54 percent had concerns about cash availability. Expectations for future activity fell to levels last seen in early 2009, and contacts reported putting capital investments on hold.

Outside of manufacturing, firms in the transportation sector experienced slightly higher sales, though sales were still below year-ago levels. Sales increased moderately for wholesale trade and remained above year-ago levels. However, sales declined slightly for professional and high-tech services sectors compared to the previous survey period and were down from a year-ago. Contacts in the transportation and wholesale trade sectors anticipated significantly lower sales in the coming months, and expectations for the professional and high-tech services sector were also negative.

### **Real Estate and Construction**

Residential real estate activity generally held steady in March, while commercial real estate conditions deteriorated moderately. Residential sales and inventories were flat compared to the previous survey despite a typical seasonal pickup, and were below year-ago levels. Home prices edged up. However, sales, starts, traffic of potential buyers, and prices were expected to decline in the coming months. Commercial real estate activity decreased moderately in March. Vacancy rates increased, while absorption, completions, construction underway and sales declined. Several contacts also reported that access to credit had become more difficult. Over the next few months, commercial real estate activity was expected to deteriorate further.

### **Banking**

District loan demand declined modestly in recent weeks, with decreases in commercial real estate loans, commercial and industrial loans, and consumer installment loans. Loan demand rose modestly for residential real estate, while agriculture loan demand remained steady. Many bankers reported tightening of credit standards, primarily confined to commercial real estate and

commercial and industrial loans. Loan quality was modestly below a year ago, but was expected to deteriorate sharply in the next six months. Cash withdrawals increased, and bankers have been able to meet that demand. Overall, bankers had a guarded outlook as they kept a close watch on virus developments and moved toward a more risk-averse position. Many banks have moved to remote work arrangements, and were limiting most customer interactions to drive-through service.

### **Energy**

District energy activity decreased at a faster pace compared with the previous survey period. Expectations for future drilling and business activity worsened, with many firms not expecting rig counts or employment levels to pick up in the near term. Revenues and profit levels declined significantly, and most firms decreased their plans for capital expenditures or put them on hold. The number of active oil and gas rigs in the District fell further. The sharp drop in commodity prices from the Saudi - Russia supply shock increase coupled with the decrease in demand due to the global COVID-19 pandemic has weakened the outlook for energy activity. March 2020 price levels were not profitable for District contacts and if oil prices remained below \$40, respondents expected only 60-65 percent of firms to remain solvent in the next year.

### **Agriculture**

Agricultural economic conditions weakened in March. Macroeconomic developments related to COVID-19 were expected to put downward pressure on prices for many agricultural commodities, despite sharp increases in short-term demand for retail food products. Cattle prices declined rapidly in mid-March which reduced profit opportunities for producers. Corn prices also decreased sharply as demand declined alongside a substantial drop in ethanol production. Credit conditions weakened modestly from the prior survey period, and while many farm lenders cited uncertainty about the extent of the impact, most expected conditions to deteriorate further in coming months. Contacts connected to food processing and retailing reported supply chains have been well maintained despite rapid increases in demand. ■



# Federal Reserve Bank of Dallas

The Beige Book ■ April 2020

## Summary of Economic Activity

There was sudden and broad-based weakening of the Eleventh District economy during the reporting period. Many firms reported a sharp reduction in activity, resulting from business disruptions and closures due to the COVID-19 pandemic. Activity in the energy, retail, and service sectors was the hardest hit. Overall factory output and new orders plunged, though production in food and printing-related manufacturing increased. Loan demand contracted broadly and credit quality eroded slightly, except in residential real estate lending. Housing demand held up through mid-March but has declined notably since then. Employment and hours worked plummeted, resulting in downward wage pressures. Input costs were flat to down, and selling prices dipped amid declining demand for many products and services. Outlooks worsened markedly and uncertainty surged, as the economic impact of the COVID-19 pandemic and related containment measures intensified.

### Employment and Wages

Employment declines were steep, particularly in retail, transportation, administrative and waste management, and accommodation and food services, as stay-at-home orders led to widespread business disruptions and closures. A March Dallas Fed survey of 400 Texas businesses in the services and manufacturing sectors showed that one-third of respondents had either temporarily or permanently laid off workers, and 56 percent noted that additional layoffs were likely if the situation did not improve. Some firms noted needing financial assistance to maintain their payrolls, while others were adjusting hours and/or salaries. Airlines were also offering a voluntary leave option. Energy contacts said they expect industry employment to fall sharply in tandem with oilfield activity. By contrast, a few firms said they were taking this opportunity to hire due to increased demand or a desire to bring on more qualified employees.

There were generally downward pressure on wages outside of manufacturing and construction.

### Prices

Plunging demand for products and services led to widespread declines in selling prices, including for used cars and energy. Airlines reported increasing the quota of lower-priced tickets. Rates on rail shipments of some

commodities rose, but pricing for most others dipped. Input costs were flat in services and down in energy, manufacturing, and retail.

### Manufacturing

Factory activity deteriorated sharply in March, following a broad-based acceleration during the previous reporting period. Many firms noted a significant reduction in demand and/or a rise in order cancellations, resulting from business disruptions caused by shelter-in-place mandates. Some contacts also cited weak oil prices as a headwind for growth. In contrast, pandemic-related increased demand for food and protective equipment boosted output in food and printing-related manufacturing.

Refiners and chemical producers indicated softening global demand and downward pressure on margins due to the coronavirus pandemic. Firms noted delaying large construction projects and lowering utilization rates as demand for fuels dropped and inventories rose.

Overall outlooks turned negative, with many manufacturers expecting business activity to be adversely impacted because of COVID-19 for at least three to six months.

## Retail Sales

Retail sales plummeted over the reporting period as a drop-off in consumer discretionary spending and widespread business closures—many mandated by local governments—precipitated steep declines in revenues. Auto sales plunged, while a few healthcare and general merchandise stores noted higher demand. Outlooks deteriorated notably as businesses re-evaluated plans in the face of rising uncertainties.

## Nonfinancial Services

Activity in the service sector was negatively affected by the coronavirus outbreak, with firms overwhelmingly seeing or expecting to see lower demand as customers reduced spending and were forced to cut back or cancel previously planned purchases or events. The few who saw stronger demand were tied to the grocery or professional services industries which are largely able to continue operating. Accommodation and food services and arts and recreation industries were among the hardest hit. Airlines saw a dramatic decline in demand. Trip cancellations were outpacing new passenger bookings, and demand is expected to deteriorate further. Rail and air cargo volumes decreased. Most staffing firms saw a significant drop in orders, though there were reports of increased demand for workers in healthcare, nursing, and pharmaceuticals. Service sector outlooks were largely pessimistic due to uncertainty surrounding when things would return to normal.

## Construction and Real Estate

Housing demand held up through mid-March, but sales and traffic have dropped off markedly since then, particularly in Houston. Builders reported a higher-than-normal cancellation rate, though some said they had managed to meet their March sales goal due to strong demand in the earlier half of the month. Showings dipped as many sellers took their homes off the market. Several new land and lot deals were on pause, and builders were renegotiating existing lot contracts. Outlooks weakened considerably, with sales and starts expected to slow because of the coronavirus outbreak.

Multifamily contacts said impacts from the spread of COVID-19 will become evident in the months ahead as interruptions in household incomes compel many tenants to seek relief on rent payments. Expectations are for the low and high end of the market to be the most impacted. Commercial leasing activity was beginning to be affected, with conditions in the retail sector deteriorating rapidly. The investment climate is uncertain, making it difficult to price deals. A number of land and commercial real estate transactions have been delayed or cancelled as investors take a wait-and-see approach.

## Financial Services

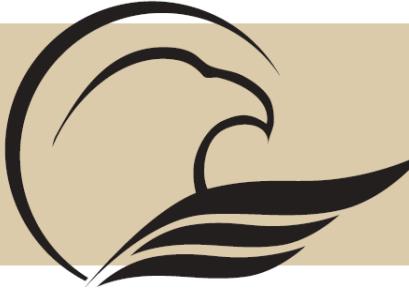
Loan volumes contracted broadly, led by declines in commercial and industrial lending. The only exception was residential real estate loan demand, which increased during the reporting period. Loan pricing continued its marked decline, and credit standards tightened. Credit quality eroded across most loan types and most bankers expect further deterioration. About 25 percent of bankers reported increased use of existing lines of credit and 26 percent noted higher demand for new ones, and most said they have plans in place to meet the higher demand. Business activity tumbled, and expectations for activity in the next six months worsened notably.

## Energy

Eleventh District drilling and completion activity fell sharply toward the end of the reporting period in response to a collapse in West Texas Intermediate crude oil prices. Many producers are evaluating which wells need to be shut-in, particularly as physical storage capacity for oil depletes rapidly. Firms said they are unable to access capital through credit markets, prompting concerns about a sharp increase in bankruptcies. U.S. crude production is projected to decline by year end, but there is wide disagreement on how far it will fall.

## Agriculture

Recent rainfall remedied drought conditions across most of the district. Wheat demand and prices rose due to increased purchases of breads and pastas during the coronavirus pandemic. Contacts expect some farmers will switch away from cotton to wheat or other grains this year, as cotton prices have plummeted and could slip further as people pare back discretionary spending on clothing. On the livestock side, pasture conditions were favorable and prices for cattle ready for feedlots rose because of pandemic-related increased demand for beef. Meat-packers have seen higher revenues in recent weeks as grocery stores increased orders and beef and chicken prices have risen. ■



## Summary of Economic Activity

Economic activity in the Twelfth District contracted notably during the reporting period of mid-February through March. Many businesses reported employment or wage declines due to disruptions related to the outbreak of coronavirus disease 2019 (COVID-19). The rate of price inflation decreased modestly. Sales of retail goods and vehicles declined precipitously, and activity for providers of consumer and business services slowed sharply toward the end of the reporting period. Manufacturing contracted moderately, and activity in the agriculture sector slowed somewhat. Conditions in residential and commercial real estate were mixed, though the residential market saw slight growth on balance. Lending declined moderately.

### Employment and Wages

Due to disruptions stemming from the outbreak of COVID-19, many businesses reduced employment levels, and others scrapped plans to expand employment. Developments such as these were reported across various skill levels and industries, though most occurred for lower hourly wage jobs in the retail, food services, and tourism industries. A freeze on television and film production in the District resulted in widespread layoffs in the entertainment sector. A major hotel chain in Southern California put 80 percent of employees on furlough and reduced hours for remaining employees. A restaurant-chain owner in Seattle laid off several hundred employees. Some businesses reported no change in employment levels but expected to have to cut jobs in coming weeks if mandated business closures continue. One metal manufacturer in the Pacific Northwest anticipated reducing payrolls as new orders have declined significantly. A financial technology company in Northern California put on hold a plan to hire 1,500 additional staff members.

Wages declined at some employers. The Southern California hotel company also cut managers' pay 10 to 15 percent in response to a severe decline in occupancy rates. A building supplies manufacturer in Northern California cut wages somewhat to contain costs. One restaurant chain in Washington reported salary cuts of up to 20 percent for office and administrative staff.

### Prices

The rate of price inflation decreased a bit. Prices for building materials declined moderately on balance as

new construction projects were put on hold. Some contacts reported lower fuel and energy costs along with lower airfares. Changes in prices of agricultural products were mixed. For some growers, prices were stable with solid demand from domestic grocery stores. Selling prices for other growers, especially those dependent on exporting, fell as demand from abroad remained subdued. Many businesses expected heightened slack in the labor market going forward, eliminating any prior upward pressure on wage and price growth. Steel manufacturers in the Pacific Northwest reported no changes in input or selling prices. There were a few reports of price gouging on essential household goods in short supply.

### Retail Trade and Services

With few exceptions, contacts reported that sales of retail goods and vehicles declined precipitously on net over the reporting period; this decrease was due to mandated closures of nonessential businesses in all District states in mid- to late-March in response to the spread of COVID-19. Activity came to a standstill for most retailers in California, Hawaii, Idaho and Washington, with exceptions reported for grocery stores and some building product retailers. In Idaho, vehicle sales along with sales of parts and accessories fell from a solid level in late-February and early-March to near zero in mid-March. Some business owners anticipated that retail sales will decline further as job losses decrease incomes. Additionally, lasting impacts of the COVID-19 outbreak could accelerate the trend towards online sales, hurting small retailers with brick-and-mortar stores. Many respondents deemed concessionary government

loans essential to prevent widespread small business closures.

Activity for providers of consumer and business services also declined sharply toward the end of the reporting period. Restaurant sales fell sharply. Pivots to take-out operations did not compensate for lost dine-in revenue. A hotelier in Southern California reported that occupancy rates entered free fall in mid-March, and many hotels decided to close temporarily. This contact had previously expected stable growth in the first quarter of the year. The tourism industry in Hawaii essentially shut down in March, a blow to the state's economy. A major shipping and logistics company reported that small business shipments slowed markedly, and international volumes fell by almost half. Home deliveries from big box stores held solid though. Television and film production in Southern California halted. A contact in the health-care industry in Nevada reported that providers were facing limited supplies of essential items like masks, gowns, and ventilators and have been forced to begin rationing care for COVID-19 patients.

## Manufacturing

Activity in the manufacturing sector contracted moderately. Most manufacturers, while still operating, noted that the supply chains that deliver raw material inputs have been negatively affected by the outbreak of COVID-19. A contact in Southern California reported that manufacturers of components for renewable energy production have seen decreases in the supply of raw materials. A metal fabricator in Oregon had a healthy backlog of orders but noted emerging difficulties in obtaining inputs and a decline in new orders. A building products manufacturer in the Mountain West saw a severe drop in demand from retailers, who instead bought in smaller quantities from intermediary wholesalers.

## Agriculture and Resource-Related Industries

Activity in the agriculture sector slowed somewhat as growers grappled with disruptions due to the COVID-19 outbreak. Several contacts noted that most agriculture businesses in states with shelter-in-place orders, like California and Washington, were designated as "essential" and allowed to continue operations. Therefore, some farming contacts in Central California and Eastern Washington reported that activity was broadly stable, sales to grocery stores were solid, and production inputs and labor supply were generally available. However, a bulk food producer and distributor noted that starting in mid-March sales to restaurants across the District were virtually nonexistent. Washington fruit growers and Idaho corn growers saw a noticeable decline in domestic demand, which has severely jeopardized profitability for

some businesses. A contact in Eastern Washington noted that production could be disrupted if the flow of migrant workers from Mexico is impacted by restrictions on Mexico-U.S. border crossings. On the export side, fruit and nut growers in California have seen continued weak demand from China, though wheat growers in Idaho saw an increase in new orders from China in the past few weeks. In general, contacts noted that the strong dollar also hampered export sales.

## Real Estate and Construction

Residential real estate activity was mixed but grew slightly on balance. Contacts reported that most in-progress home building continued throughout March, while the future status of residential construction vis-à-vis nonessential business closures was unclear. In most states, construction is expected to continue, though the demand outlook for new residential projects is highly uncertain. Reports also painted a mixed picture of sales activity in the District. Buyer response to the COVID-19 outbreak varied by local market as did local government restrictions on selling. Some reports for Idaho, Oregon, California, and Washington indicated that sales activity and prices were stable around recent levels. Other reports for Idaho and California indicated that sales fell severely in the second half of March.

Conditions in commercial real estate markets were mixed. In Southern California, major infrastructure projects proceeded amidst the statewide shelter-in-place order though some reports emphasized that continuation depends on maintaining a healthy workforce. In the Mountain West, commercial projects generally proceeded though new project proposals declined noticeably. Some reports highlighted the potential for building owners to face strain if commercial tenants are unable to make rental payments.

## Financial Institutions

Lending activity declined moderately amidst ample liquidity. Reports noted that new loan origination fell sharply, and many banks received payment deferral requests from small business borrowers. Several banks readied emergency credit lines and expected credit quality to deteriorate as broad economic conditions turn for the worse. A few lenders expressed concern that new government lending programs would not allow speedy distribution of funds to small businesses. Venture capital investing slowed severely and investors are expected to become highly selective regarding new funding opportunities. Home mortgage refinancing activity was robust following decreases in the federal funds rate in early March. ■



