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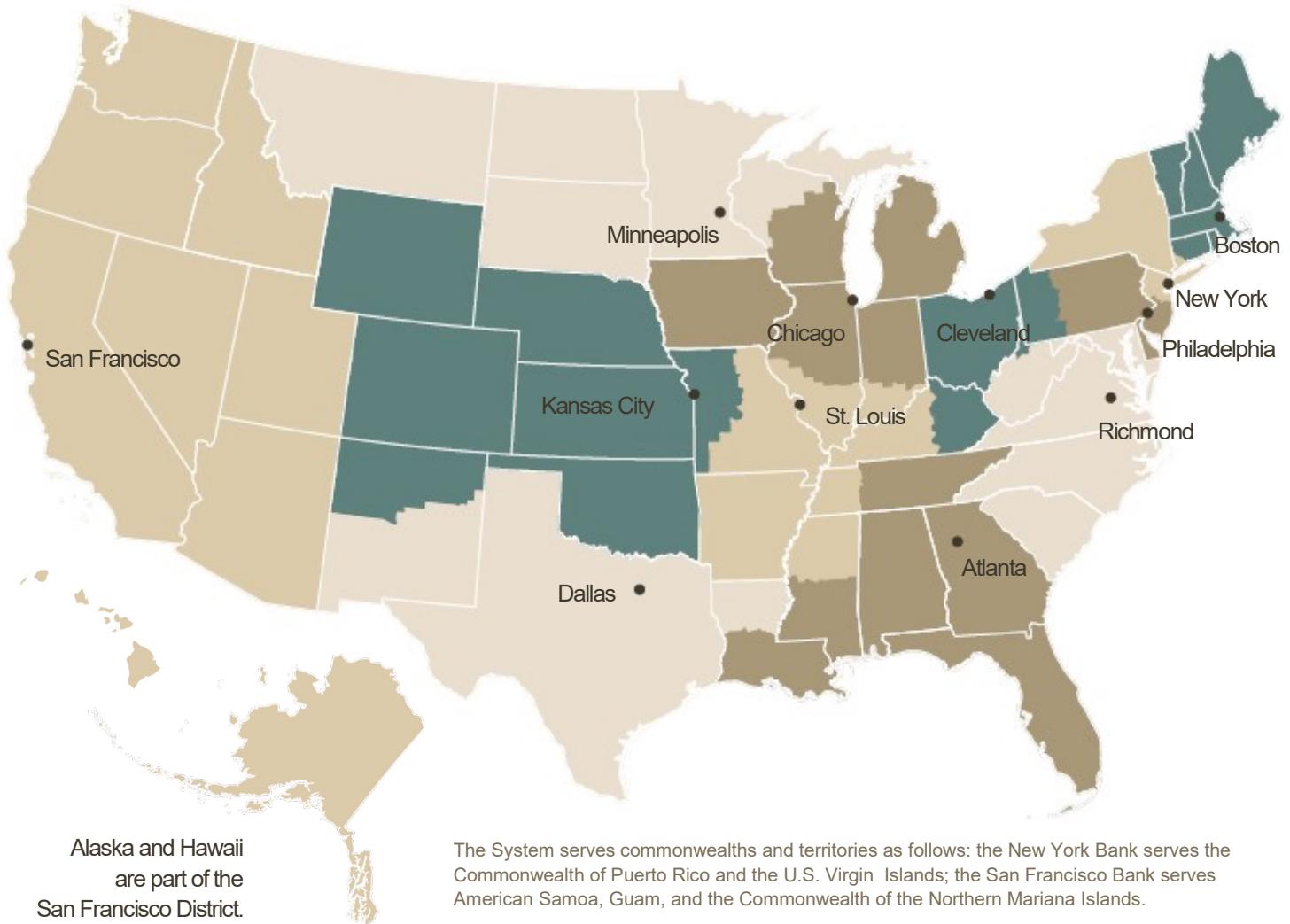
January 12, 2022

The Beige Book

Summary of Commentary on Current Economic Conditions
By Federal Reserve District

January 2022

Federal Reserve Districts



This report was prepared at the Federal Reserve Bank of Kansas City based on information collected on or before January 3, 2022. This document summarizes comments received from contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.

National Summary	1	What is the Beige Book? The Beige Book is a Federal Reserve System publication about current economic conditions across the 12 Federal Reserve Districts. It characterizes regional economic conditions and prospects based on a variety of mostly qualitative information, gathered directly from each District's sources. Reports are published eight times per year.
Boston First District	A-1	
New York Second District	B-1	What is the purpose of the Beige Book? The Beige Book is intended to characterize the change in economic conditions since the last report. Outreach for the Beige Book is one of many ways the Federal Reserve System engages with businesses and other organizations about economic developments in their communities. Because this information is collected from a wide range of contacts through a variety of formal and informal methods, the Beige Book can complement other forms of regional information gathering. The Beige Book is not a commentary on the views of Federal Reserve officials.
Philadelphia Third District	C-1	
Cleveland Fourth District	D-1	
Richmond Fifth District	E-1	How is the information collected? Each Federal Reserve Bank gathers information on current economic conditions in its District through reports from Bank and Branch directors, plus interviews and online questionnaires completed by businesses, community organizations, economists, market experts, and other sources. Contacts are not selected at random; rather, Banks strive to curate a diverse set of sources that can provide accurate and objective information about a broad range of economic activities. The Beige Book serves as a regular summary of this information for the public.
Atlanta Sixth District	F-1	
Chicago Seventh District	G-1	
St. Louis Eighth District	H-1	How is the information used? The information from contacts supplements the data and analysis used by Federal Reserve economists and staff to assess economic conditions in the Federal Reserve Districts. The qualitative nature of the Beige Book creates an opportunity to characterize dynamics and identify emerging trends in the economy that may not be readily apparent in the available economic data. This information enables comparison of economic conditions in different parts of the country, which can be helpful for assessing the outlook for the national economy.
Minneapolis Ninth District	I-1	
Kansas City Tenth District	J-1	
Dallas Eleventh District	K-1	The Beige Book does not have the type of information I'm looking for. What other information is available? The Federal Reserve System conducts a wide array of recurring surveys of businesses, households, and community organizations. A list of statistical releases compiled by the Federal Reserve Board is available here , links to each of the Federal Reserve Banks are available here , and a summary of the System's community outreach is available here . In addition, <u>Fed Listens</u> events have been held around the country to hear about how monetary policy affects peoples' daily lives and livelihoods. The System also relies on a variety of <u>advisory councils</u> —whose members are drawn from a wide array of businesses, non-profit organizations, and community groups—to hear diverse perspectives on the economy in carrying out its responsibilities.
San Francisco Twelfth District	L-1	



National Summary

The Beige Book ■ January 2022

Overall Economic Activity

Economic activity across the United States expanded at a modest pace in the final weeks of 2021. Contacts from many Districts indicated growth continued to be constrained by ongoing supply chain disruptions and labor shortages. Despite the modest pace of growth, demand for materials and inputs, and demand for workers, remained elevated among businesses. Lending activity picked up slightly toward the end of the year, led by commercial real estate borrowers. Consumer spending continued to grow at a steady pace ahead of the rapid spread of the Omicron COVID-19 variant. Most Districts noted a sudden pull back in leisure travel, hotel occupancy and patronage at restaurants as the number of new cases rose in recent weeks. Although optimism remained high generally, several Districts cited reports from businesses that expectations for growth over the next several months cooled somewhat during the last few weeks. The manufacturing sector continued to expand nationally, with some regional differences in the pace of growth. Overall activity in the transportation sector expanded at a moderate pace. While farm incomes were elevated throughout 2021, agricultural conditions were marred by drought conditions across several Districts.

Employment and Wages

Employment grew modestly in recent weeks, but contacts from most Districts reported that demand for additional workers remains strong. Job openings were up but overall payroll growth was constrained by persistent labor shortages. Tightness in labor markets drove robust wage growth nationwide, with some Districts highlighting additional growth in labor costs associated with non-wage benefits. While many contacts noted that wage gains among low-skill workers were particularly strong, compensation growth remained well above historical averages across industries, across worker demographics, and across geographies. Besides wage gains, many contacts indicated adjustments to job demands – such as accommodating part-time work or adjusting qualification requirements – to attract more applicants and retain existing workforces.

Prices

Contacts from most Federal Reserve Districts reported solid growth in prices charged to customers, but some also noted that price increases had decelerated a bit from the robust pace experienced in recent months. Wholesale and materials prices contributed to pricing pressures across a wide range of industries, spanning service providers and goods producers. Many contacts attributed the high cost of inputs to ongoing supply chain disruptions. Some Districts reported that transportation bottlenecks had stabilized in recent weeks, though procurement costs remained elevated. Ongoing labor shortages and associated wage growth also added cost pressures to businesses.

Highlights by Federal Reserve District

Boston

Business activity was steady or up slightly, although performance was somewhat mixed. Employment increased modestly and wages advanced at a strong pace. Input prices climbed at a rapid pace and output prices increased moderately. The outlook was mostly positive but uncertainty remained elevated.

New York

The regional economy grew at a subdued pace in recent weeks, restrained by intensifying supply disruptions, labor shortages, and the Omicron outbreak. However, holiday season sales were reported to be fairly solid. Employment and wages increased, and businesses noted ongoing widespread escalation in both input costs and selling prices. Still, contacts continued to express optimism about the near-term business outlook.

Philadelphia

Business activity grew modestly during the current Beige Book period – slower than the prior period – and remained below pre-pandemic levels. Vaccination rates rose slightly, but the Omicron variant caused COVID-19 cases to surge – disrupting business once more. Overall, employment growth slowed to a modest pace, and price increases ebbed to a moderate rate, while wage increases continued to rise sharply.

Cleveland

The District's economy expanded at a relatively steady pace, although the emergence and spread of the Omicron variant of COVID-19 dampened sales for some restaurants and hotels. Contacts did not expect Omicron to derail the recovery, but they did anticipate slower growth in the near term. While labor shortages and supply challenges persisted, most firms expected meaningful relief from the latter by yearend 2022.

Richmond

The regional economy grew modestly in recent weeks. Manufacturers, ports, and trucking companies reported moderate to robust growth while retail, travel, and tourism remained strong. Home sales and mortgage lending slowed while commercial activity held strong. Employment rose moderately and the tight labor market led to strong wage and price growth.

Atlanta

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

Chicago

Economic activity increased modestly. Employment, consumer spending, and business spending grew modestly; manufacturing was up slightly; and construction and real estate was flat. Wages and prices rose rapidly, while financial conditions were little changed. Agricultural incomes were strong in 2021.

St. Louis

Economic conditions have improved at a moderate rate since our previous report. Employers reported continued difficulties hiring to meet increased demand. Input cost pressures have led to price increases, most of which firms were able to pass on to consumers. Contacts expressed concern about the Omicron variant's impact on consumer demand and the supply of labor.

Minneapolis

The region's economy saw moderate growth, despite challenges related to labor, higher prices, supply chains, and the Omicron variant. Employment continued to grow, but more slowly than hiring demand. Holiday shopping was strong, and manufacturers reported robust activity. Strong commodity prices and good crop harvests in some areas helped offset widespread drought. Minority- and women-owned business enterprises saw a boost in entrepreneurship.

Kansas City

The Tenth District economy finished 2021 at a moderate pace of growth. Businesses reported several non-traditional actions aimed at mitigating supply constraints, resorting to consumer online auction platforms to procure parts and offering enhanced, sometimes novel, benefits to attract workers. Growth in consumer spending on leisure activities was strong. Prices increased broadly. Plans for capital outlays cooled somewhat in December.

Dallas

The District economy expanded at a robust pace, with gains broad-based across sectors. Employment growth was strong, and wage and price growth continued to be highly elevated. Home sales remained high, and loan growth increased further. Outlooks improved overall, though uncertainty increased amid a new surge in COVID-19 cases and concern that labor and supply-chain shortages will persist well into 2022.

San Francisco

Economic activity strengthened modestly over the reporting period. Employment grew at a moderate pace, while overall conditions in the labor market remained tight. Wages and price levels climbed significantly. Retail sales increased notably, while conditions in the consumer and business services sectors deteriorated somewhat. Lending activity remained steady, and residential construction continued to expand at a slightly slower pace.



Federal Reserve Bank of **Boston**

The Beige Book ■ January 2022

Summary of Economic Activity

Business activity in the First District was steady or up slightly on balance. Employment increased modestly and wages advanced at a strong pace. Input pricing pressures stayed high or intensified, and firms' output prices increased moderately. Retailers had mixed recent results but performed well above pre-pandemic levels, while tourism contacts reported modest improvements in activity. Manufacturing results varied from robust revenue growth to large declines in sales. Software and IT services firms enjoyed strong, roughly stable demand. Single-family home sales picked up slightly but remained off of their year-earlier levels, and condominium sales gained further momentum as a lower-priced option. Commercial real estate activity was steady. The outlook was mostly positive, but uncertainty remained high and the Omicron variant of Covid-19 presented a risk to near-term activity in some sectors

Employment and Wages

Employment was up modestly on average and wages increased at a strong pace. Headcounts were unchanged among retail and tourism industry contacts, and mixed but flat on balance at software and IT services firms. Among manufacturers, employment was either flat or up by moderate or even robust margins. Three contacts from diverse sectors said that it had recently become easier to hire workers, while others reported that hiring remained difficult but had not deteriorated. Elevated turnover remained a problem for several firms, but one noted that vaccine mandates had not resulted in increased quits. Wages posted strong gains on average, with year-over-year raises ranging from only slight to a robust 10 percent. The outlook for hiring in 2022 was quite varied, as a few firms described moderate-to-aggressive hiring plans while at least one intended to shed workers.

Prices

Prices increased moderately on average among the contacts reached this round. Prices were stable on balance at software and IT services firms. Average hotel room rates in the Boston area edged up moderately in recent months and increased sharply on a year-over-year basis. Retailers raised their prices somewhat in recent months in response to rising input costs and robust demand, although one experienced some consumer pushback after its latest price move. Retail contacts said that freight and shipping costs had stabilized

at very high levels. Manufacturing contacts reported intense input pricing pressures, with increases as high as 30 percent over the year. Large input price gains pertained to a wide range of commodities, including foam, steel, aluminum, wood, cornstarch, adhesives, and cardboard. Some manufacturers raised their final goods prices by large margins (over-the-year) to compensate for the higher costs but at least one said it was trying not to raise prices.

Retail and Tourism

Retail and tourism contacts offered mostly positive reports. A clothing retailer enjoyed a robust seasonal surge in sales above its already-strong performance in the first 3 quarters of the year, as recent sales exceeded comparable 2020 levels by low double-digit percentages. A furniture seller saw revenue above pre-pandemic levels, but its sales volume dropped in recent months relative to the record-setting levels posted in the summer of 2021. Airline passenger traffic through Boston picked up steadily in recent months, and passenger levels in a recent -week period were 200 percent higher than in the same period in 2020. (All statements about air travel and tourism were relayed prior to the recent, Covid-related surge in flight cancellations in the US and elsewhere). Passenger levels nonetheless were off by about 25 percent compared with 2019. Retail passengers in January 2022 are expected to show further improvement, but the recovery of international and business travel continues to

trail that of domestic leisure travel. Hotel occupancy rates in the greater Boston area also saw further modest gains in recent months, and November's average occupancy rate of 58 percent represented a marked improvement from one year earlier. Retail and tourism contacts expressed a largely optimistic outlook for demand in 2022.

Manufacturing and Related Services

Reports from First District manufacturers were mixed. Two contacts, a semiconductor manufacturer and a supplier of cardboard boxes, continued to record stellar growth in sales on a year-over-year basis, similar to or even better than Q3 results. The cardboard box producer said that its double-digit sales growth would have been even higher if not for supply constraints. Other firms were not as positive. A frozen fish producer suffered large sales declines due to an ongoing supply snafu, a precision parts maker had flat revenues, and a biotech firm suffered a sharp drop in demand. Capital expenditures were revised down in Q4 at two firms but stable otherwise, while spending plans for 2022 were mixed. The outlook was variable, in line with each firm's recent performance, and clouded somewhat by uncertainty regarding inflation, supply-chain concerns, and idiosyncratic issues. The semiconductor contact expected strong growth for the next few years but expressed concern that the desire of many countries to make chips locally could lead to a glut of chips down the line.

Software and Information Technology Services

Software and IT contacts reported stable activity in the fourth quarter and moderate to strong gains in demand on a year-over-year basis. For one firm, however, realized revenues were just flat over-the-year despite increased demand, based on normal lags between bookings and payments. Recent results exceeded expectations at two out of the three firms reached this round. Prices were described as stable, although customer contracts at one firm included automatic cost-of-living increases, and two firms said that shifts towards cloud-based services had led to changes in the mix of prices paid by customers. Changes in profits and margins were mixed and tended to align with revenue growth. Capital and technology spending were consistent with prior plans, but firms had diverse spending trends. Contacts were generally optimistic for 2022 as a whole, but rising COVID-19 infection rates and shutdowns in Europe presented downside risks for the near term.

Commercial Real Estate

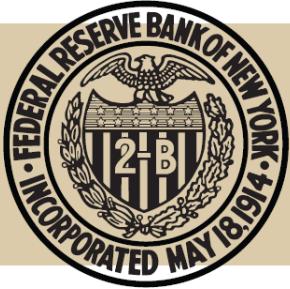
The First District's commercial real estate markets were stable in recent weeks. Life sciences space in Boston continued to face very high demand and very low availa-

bility, spurring moderate increases in new construction and office-to-lab conversions. The industrial property market also continued to thrive, and despite low inventories construction was limited to the activity of a few large users. Retail leasing was still weak, especially for smaller stores relying on urban foot traffic, although sales at restaurants and experiential retail got a modest seasonal boost and high-end malls showed relative strength. Several contacts noted an uptick in conversions of retail space for warehousing uses. In the office sector, leasing activity remained scant in most areas but picked up somewhat in Rhode Island, and vacancy rates and rents were unchanged. Some contacts noted that "contrarian" investors increasingly sought to purchase top-quality office product. Regarding the outlook, contacts were optimistic on balance but expressed concerns about high inflation and rising interest rates. Contacts also speculated that premier office properties could see robust leasing demand in 2022 but that generic offices faced grim prospects, and some perceived that the Omicron variant of COVID-19 posed at least a transitory risk to activity moving into 2022.

Residential Real Estate

Residential real estate activity was stable or up slightly in November from earlier in the fall. Five New England states and Boston reported results; Connecticut data were unavailable. As earlier in the fall, closed sales of single-family homes were down sharply on a year-over-year basis in most markets (except Boston), reflecting softer demand compared with historic pandemic highs. Nonetheless, year-over-year sales improved slightly from the previous reports and sales were high for the typically slow month of November. In Boston, single-family sales rebounded to post slight over-the-year gains. Median sales prices of single-family homes were roughly flat but remained higher than year-earlier levels by robust margins. Inventories fell further and are down by large margins from November 2020. The Rhode Island and Massachusetts contacts said that high prices and low inventories in the single-family market pushed many first-time buyers into the condo market, and in fact condo sales increased notably in most reporting markets. One contact remarked that "with the threat of climbing interest rates and rising rents, buyers are focused on securing a home with a steady mortgage payment to help stabilize expenses." ■

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



Federal Reserve Bank of **New York**

The Beige Book ■ January 2022

Summary of Economic Activity

Growth in the Second District economy slowed to a subdued pace, reflecting widespread supply disruptions, labor shortages, and the outbreak of Omicron across the District. However, contacts continued to express fairly widespread optimism about the near-term outlook. Businesses continued to report increases in selling prices, input costs, and wages. The job market has remained exceptionally tight, with businesses planning to hire more workers, on net, in the months ahead. Consumer spending was mixed, with vehicle sales weakening further but retail holiday-season sales characterized as solid. The home sales market has been unusually robust for this time of year, and apartment rental markets strengthened slightly; commercial real estate markets were somewhat stronger. Both residential and commercial construction activity weakened, with contacts noting scattered shortages of materials. Finance-sector contacts reported ongoing improvement, while regional banks reported stronger loan demand from commercial borrowers but weaker demand from the household sector.

Employment and Wages

Employment has continued to increase modestly, restrained by ongoing labor shortages. Staffing agencies in both New York City and upstate New York reported that hiring orders have remained fairly strong during this typically slow season, particularly for technology, sales and human resource workers. However, businesses have continued to experience difficulty in hiring and retaining workers. Labor shortages persist across a wide range of industries and occupations. Businesses in most sectors plan to add staff in the months ahead.

Contacts in all sectors continued to report widespread wage increases. An upstate New York employment agency noted continued escalation in wages while a New York City agency reported that there are large gaps between candidates' salary requirements and prospective employers' offers. Minimum wages across New Jersey and much of New York State were notched up on January 1st. More broadly, looking ahead to 2022, businesses across all major sectors foresee annual wage increases averaging around 6 percent.

Prices

A large majority of contacts continued to report escalation in input prices. Contacts noted shortages and exceptionally high costs of a wide range of supplies, including

metals, chemicals, construction materials, glass bottles, and paper. A sizable majority of contacts in most sectors expect input prices to rise further in the months ahead.

Hikes in businesses' selling prices have also remained widespread, particularly in the manufacturing, distribution, and retail sectors. A major retailer noted that its selling prices—based on merchandise acquisition costs negotiated months ago—have not yet risen significantly but are likely to in the first half of 2022. A majority of businesses plan to hike selling prices in the months ahead.

Consumer Spending

Consumer spending has been steady overall in the latest reporting period. Non-auto retailers characterized the holiday season as fairly successful: sales were robust in November but tapered off a bit in December, which was attributed largely to the Omicron outbreak. Supply disruptions caused scattered inventory shortages but were not too disruptive overall. One chain noted that in-store sales were moderately below 2019 levels but on-line sales boosted total business above pre-pandemic levels. New York City continued to lag the rest of the region, hampered by fewer commuters and visitors. Consumer confidence among New York State residents climbed to a 5-month high in early December.

New vehicle sales continued to weaken and were running well below late-2020 levels, restrained by the ongoing dearth of supply. Many dealers have had little or no inventory and generally reported a 6-month lag in filling orders from customers. However, sales of used vehicles have picked up noticeably, with inventories lean but shortages far less severe than for new autos.

Manufacturing and Distribution

Manufacturing activity grew at a slower pace in the final weeks of 2021, while activity in the wholesale, transportation, and warehousing sectors continued to expand briskly. Many contacts in these sectors reported further deterioration in the availability of supplies and escalating prices, which have impeded business activity. Still, looking ahead to the first half of 2022, these businesses continued to express fairly widespread optimism.

Services

Service industry activity tapered off somewhat in the final weeks of 2021. In particular, businesses in the leisure & hospitality and, to a lesser extent, education & health sectors noted a drop-off in activity—likely reflecting the Omicron outbreak. Information industry contacts also noted a slowdown. However, contacts in professional & business services noted steady, moderate growth. Businesses in all these industries generally remained optimistic about the near-term outlook.

There are indications that the Omicron outbreak has dampened both tourism and other service-sector activity in New York City. Subway ridership, which had been trending up through November, turned down noticeably in December and was more than 50 percent below comparable 2019 levels in the second half of the month. New York City's New Year's Eve celebration in Times Square was scaled back sharply, with crowd capacity limited to 15,000—a small fraction of typical pre-pandemic turnout.

Real Estate and Construction

Sales activity remained relatively strong in the final weeks of 2021. The volume of co-op and condo sales in Manhattan remained high, particularly at the upper end of the market, and inventories have fallen to more normal levels. One industry expert noted that some sellers are eager to make sales before the end of December due to uncertainty about tax changes in 2022. Elsewhere across the District, increasingly lean inventories of unsold homes have restrained sales, pushed up prices, and led to frequent bidding wars.

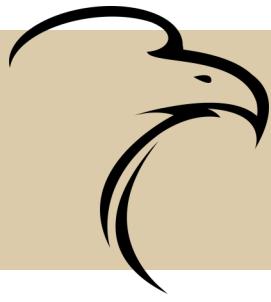
New York City's residential rental market was slightly stronger in recent weeks, as vacancy rates have continued to edge down, rents have edged up, and concessions have diminished. Rents on larger apartments, and those in doorman buildings are now generally above pre-pandemic levels.

Commercial real estate markets strengthened slightly, on balance, across the District. In Manhattan, availability rates were little changed in recent weeks, rents showed signs of leveling off, and leasing activity has been steady at a fairly brisk level. Across the rest of the metropolitan region, office vacancy rates declined modestly, and rents were steady to slightly higher. In upstate New York, markets were steady to slightly weaker. The industrial market continued to strengthen, with vacancy rates steady to down slightly near record lows and rents continuing to escalate. The retail leasing market, though still soft, has shown signs of picking up.

Construction sector contacts reported a slight uptick in activity, on balance, though some noted that ongoing supply shortages and soaring prices have continued to restrain activity. Both multi-family residential and non-residential construction starts weakened, though there continues to be a good deal of ongoing construction in the pipeline.

Banking and Finance

Contacts in the broad finance sector reported ongoing improvement in business conditions. Small to medium-sized banks in the District reported little change in overall loan demand, noting a pickup for commercial mortgages but weaker demand for consumer loans and residential mortgages. Refinancing activity declined. Both credit standards and delinquency rates were reported as unchanged across all loan segments. ■



Summary of Economic Activity

On balance, business activity in the Third District grew modestly – a slower pace than during the prior Beige Book period. Moreover, activity in most sectors had not yet returned to pre-pandemic levels. Since the prior Beige Book, the Omicron variant of COVID-19 has driven up the rate of cases, hospitalizations, and deaths. Contacts noted increased business disruptions as outbreaks occurred at worksites, in employee households, and among their own families. The rate of all persons being fully vaccinated edged up to 66 percent. Net employment growth and price increases slowed to a modest and moderate pace, respectively, while wages continued to rise sharply. However, many firms, especially larger ones, noted strong profits – “the best year ever” for some. Optimism remained high but waned somewhat, as the share of firms expressing positive expectations for continued economic growth over the next six months narrowed – to near two-thirds of the nonmanufacturers and near two-fifths of the manufacturers.

Employment and Wages

Employment grew modestly, with growth in the service sectors more subdued than last period. The share of firms reporting employment increases fell to one-fifth of the nonmanufacturing firms and edged up to two-fifths among the manufacturers. Overall, one-fifth of the nonmanufacturers reported a rise in average hours worked – a bit less than manufacturers’ one-third share.

Staffing firms and most employers continued to report significant difficulty attracting and retaining labor. The surge in Omicron cases created staffing challenges in some sectors more than in others.

Employment in leisure and hospitality remains about 10 percent below pre-pandemic levels – more so in the city of Philadelphia – accounting for 175,000 jobs in our three states. While contacts noted great difficulty finding workers, they expect that fewer staff will be required as new technology and lower levels of service (e.g., less frequent fresh towels) are deployed. Likewise, auto dealers are employing about 5 percent (8,000) fewer workers than they did pre-pandemic in New Jersey and Pennsylvania. While dealers noted a need for mechanics, their demand for salespeople is limited while inventories remain scarce and may not fully recover if customers accept and adapt to new sales technologies.

Wages continued to rise substantially. The share of nonmanufacturing firms reporting higher wage and benefit costs per employee held steady at 60 percent. No firms reported lower compensation.

Prices

On balance, prices rose moderately over the period – less than the prior period’s sharp increase. The share of manufacturers reporting higher prices for factor inputs decreased to 68 percent, while those receiving higher prices for their own products fell to 51 percent. The share of nonmanufacturers reporting higher prices for their inputs fell to 55 percent, while the share receiving higher prices from consumers for their own goods and services dropped to 34 percent.

Contacts noted that rising wages and higher commodity costs were driving the price increases. Many contacts noted that supply chain disruptions had worsened. Builders also noted the impact from the higher tariff on Canadian lumber.

About 62 percent of the manufacturing contacts reported they expect to pay higher prices over the next six months, and slightly less than that expected to receive higher prices for their own goods.

Manufacturing

On average, manufacturing activity grew modestly – a drop-off from the prior robust pace. The share of firms reporting increases in shipments and new orders fell to levels matching their long-run nonrecession averages. Moreover, increases in net backlogs and delivery times were less widespread, and net inventories held steady.

Consumer Spending

Retailers (nonauto) and restaurateurs continued to report modest growth. Contacts noted that the rise in COVID-19 cases had begun to disrupt worker attendance and may have dampened late holiday season activity.

Supply constraints further reduced inventories for auto dealers – causing new auto sales to fall modestly from already low levels. Contacts expect the limited inventory to preclude the typical year-end sales surge that accompanies year-end bonuses. However, continued demand maintained upward pressure on new and used car prices, and some contacts noted that the high prices were causing some potential buyers to exit the market.

Overall, tourism continued to improve at a modest pace of growth; however, as COVID-19 cases surged in late December because of the Omicron variant, staffing challenges increased and some bookings were canceled, especially within the business travel segment. Resort areas continued to report strong demand but noted that customers had become more demanding – were rougher on resort properties and were refusing to wear masks.

Nonfinancial Services

On balance, nonmanufacturing activity continued to grow moderately, although the share of firms reporting increases in sales retreated to half from nearly two-thirds. The share reporting increases in new orders remained at about one-third.

Financial Services

The volume of bank lending (excluding credit cards) edged higher during the period (not seasonally adjusted); loan volume growth was similar during the same period in 2019. Loan volumes rose modestly in commercial real estate, moderately for home mortgages, and robustly for commercial and industrial lending. However, home equity lines and other consumer loans fell modestly, while auto lending fell sharply. Growth in credit card volume was very strong – a bit stronger than during the same period in 2019.

Bankers, accountants, and bankruptcy attorneys have noted relatively few changes in delinquencies or defaults. However, financial and real estate contacts noted

that lenders were becoming increasingly creative at qualifying buyers for new loans. One contact was concerned that a bubble was forming in home mortgages; however, most contacts still felt that home values were sufficient to allow the majority of homeowners to sell their properties and pay off mortgages that had become unaffordable.

Bankers and accountants noted an increasing level of uncertainty on the part of their business clients. Some are choosing to sell their businesses, while buyers find it cheaper to acquire a new business than to grow one – fueling the ongoing high level of mergers and acquisitions. Prior to the surge in Omicron cases, one accounting firm noted a growing fear among its clients of another wave of COVID – that many think the resulting decreased demand would cause them to close their businesses.

Real Estate and Construction

Homebuilders reported no change to relatively high levels of contract signings and construction activity. Contacts did note higher construction costs for materials and labor, increased delays because of supply chain problems, and other negative impacts on sales and production as Omicron variant cases surged.

Existing home sales appeared to hold steady at high levels. Excess demand continued to reward cash buyers with offers above the asking price. Contacts noted that rental units were becoming unavailable, and in some markets, inquiries have increased about mobile home regulations, while some hotels are offering long-term rentals for people stuck between homes.

Construction activity and leasing activity for most segments of nonresidential real estate held steady. Contacts noted that demand for new industrial/warehouse space, institutional projects, and multifamily housing remained strong, while rents continued to rise for existing properties. Uncertainty continued in the office market as analysts debate the extent to which demand will fall. Once again, the recent surge in cases from the latest COVID-19 variant has delayed return-to-office plans and clouded forecasts. ■

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



Federal Reserve Bank of **Cleveland**

The Beige Book ■ January 2022

Summary of Economic Activity

On balance, the Fourth District economy expanded at a moderate pace in recent weeks, although growth varied by segment. Demand generally remained solid, but the emergence and spread of the Omicron variant of COVID-19 reportedly constrained sales in some high-contact service-providing industries, especially food services and leisure and hospitality. Moreover, persistent supply chain challenges continued to limit growth for manufacturing firms, construction companies, and some retailers. Despite these supply constraints, general merchandisers and apparel retailers suggested that holiday sales were solid. Looking forward, contacts generally expected demand to continue to grow in coming months, but at a somewhat slower pace than currently as renewed uncertainty about the path of the pandemic tempered their optimism. Supply challenges were expected to persist in coming months, keeping upward pressure on costs and prices. However, most contacts expected meaningful relief from disruptions in 2022, especially in the second half of the year.

Employment and Wages

Labor demand remained solid in the District in recent months and hiring picked up. Staffing services contacts indicated that firms across a wide array of industries were hiring to keep up with strong demand. Several contacts noted a continued trend toward higher turnover amid a persistently competitive job market. Moreover, several contacts suggested that increased retirements led to more openings. Looking forward, businesses expected to continue boosting staffing levels in coming months, although they anticipated that labor availability would remain constrained.

With labor demand outpacing labor supply, wages continued to rise. Nearly 70 percent of business contacts indicated that they had increased pay rates during the prior two months, a share that was virtually unchanged since our last report. While wages are rising most notably among hourly workers, salaried workers are seeing meaningful increases, as well, according to our contacts. Anticipating little relief from labor shortages in the near term, firms expected competition for workers to remain intense, keeping upward pressure on labor costs.

Prices

Nonlabor input costs continued to rise, albeit at a slightly

slower pace than in our last report. The share of contacts reporting higher costs declined from around 85 percent to roughly 75 percent. While cost pressures reportedly intensified for firms in the transportation sector, contacts noted some relief in manufacturing and construction. Firms in the latter two industries suggested that costs remained high, but prices for inputs such as steel, aluminum, and resins had stabilized and in some cases had come down. Looking forward, firms expected input cost pressures to continue easing in coming months as supply chain disruptions dissipated, although they anticipated that costs will remain elevated.

Pressure on selling prices remained elevated. Roughly two-thirds of contacts suggested they had increased selling prices over the prior two months, similar to in the prior report. Firms continue to indicate that they raised prices to offset higher nonlabor input costs and protect margins. Also, contacts more frequently reported that they were factoring in the cost of higher wages in pricing strategies as well.

Consumer Spending

Consumer spending increased modestly. General merchandisers and apparel retailers said that demand for goods remained strong, and many noted favorable holi-

day sales. Restaurateurs and hoteliers reported a pickup in sales in recent weeks, although some restaurateurs said that news of the omicron variant dampened activity. Auto dealers reported limited sales despite generally elevated demand as tight inventories and higher prices deterred buyers. Contacts expected nonauto consumer spending to remain relatively strong in the coming months, and multiple auto dealers were optimistic that sales would increase along with inventory levels in the first quarter of 2022.

Manufacturing

Growth in demand for manufactured goods slowed somewhat in recent weeks, although it remained solid. Some contacts attributed softer growth to persistent supply chain disruptions and long lead times, both of which limited availability of essential inputs. For example, one steel manufacturer said that a customer reduced its purchases until diesel engines and truck chassis were more readily available. Many manufacturers also noted that the shortage of production workers inhibited their ability to keep up with demand or build inventories to desired levels. Looking forward, many manufacturers expected that supply constraints will continue to limit production through the next several months.

Real Estate and Construction

Housing demand has remained elevated. But one homebuilder noted that he no longer had time to build spec homes to take advantage of strong demand because of the number of projects already under contract. Supply chain disruptions also slowed current construction activity. A homebuilder indicated that he had been unable to complete homes that were already sold because of labor and materials shortages. Going forward, contacts expected demand to remain strong as consumers look to lock in low interest rates, although supply chain disruptions were expected to continue impeding new home construction.

Demand for nonresidential construction and real estate remained stable on net but continued to vary by sector. Leasing activity for industrial space remained robust, while office occupancy rates continued to decrease. Contacts reported that nonresidential construction activity has remained solid overall, with the strongest demand centered on industrial spaces. Going forward, contacts were less optimistic about future construction demand because concerns about supply chain disruptions, labor availability, and inflation have led some firms to delay construction projects.

Financial Services

Loan demand increased moderately. Contacts reported growth in business lending despite elevated cash balances, and many bankers reported a stronger loan pipeline. Lenders said that demand for auto loans and mortgages was slightly down because limited inventories and higher selling prices in both markets dampened activity. Lenders said that delinquency rates for consumer and commercial loans were still low and that core deposits had increased in recent months. Looking ahead, bankers expected that business loan volumes will continue to increase because of a large number of applications in the pipeline.

Professional and Business Services

Professional and business services firms continued to experience robust activity. Demand for HR and IT software and solutions remained strong, while the recently passed infrastructure bill increased demand for engineering firms. Accounting and wealth management firms also reported increases in activity, in part because of potential changes in federal tax laws. IT firms anticipated that demand will remain strong as businesses continue to shift to more online work. Other professional and business services firms were also optimistic about the future and anticipated that an increasing number of public agencies will be seeking project proposals related to the infrastructure bill.

Freight

Demand for freight services increased moderately in recent weeks from an already high level. As in other industries, capacity constraints and supply disruptions were limiting growth. When asked if his firm had seen increased activity in recent months, one contact said his firm was “running at capacity, (so) no change is the only possible response at this point.” Moreover, a logistics firm noted that problems getting containers in from overseas contributed to lower-than-expected volumes just prior to the Black Friday–Cyber Monday period. While the scarcity of drivers and trucks is likely to persist well into 2022, multiple contacts expected supply chain disruptions to ease late in the year and improve at least truck availability. ■

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



Federal Reserve Bank of **Richmond**

The Beige Book ■ January 2022

Summary of Economic Activity

The Fifth District economy grew modestly but was somewhat constrained by supply issues and labor shortages. Manufacturers reported a moderate increase in shipments, new orders, and backlogs while inventory levels remained low as supply shortages persisted. Ports continued to see record-breaking volumes, particularly for imports. Trucking companies experienced strong demand and did not see the typical seasonal slowdown. Retailers reported strong demand, increased foot traffic, and sales levels on par with 2019. Travel and tourism remained strong, driven by leisure travel as hotel occupancy rose, although hotels had to limit the number of rooms or services due to staffing shortages. Demand for residential real estate remained strong but declined slightly in recent weeks. Home prices were little changed and inventories remained low. Commercial real estate activity increased moderately. Banks reported a slight decline in loan demand as a result of the softening in mortgage activity and concerns from businesses over the rise in Covid cases. However, commercial and business lending held steady. Nonfinancial services generally experienced flat to modestly increasing revenues in recent weeks. Employment rose moderately and demand for workers remained strong, but companies continued to report challenges filling open positions. Some employers were concerned that rise in Omicron cases would add to their labor challenges. Wages rose strongly as many employers gave larger than usual year-end increases. Prices grew robustly as firms increases prices in response to higher costs of goods and labor.

Employment and Wages

Employment in the Fifth District increased moderately since our previous report. Demand for workers remained robust with many firms reporting unfilled job openings and difficulties finding qualified candidates. Several contacts noted that their employees were getting unsolicited job offers from other companies. The tight supply of labor led some companies to look to investment in technology and automation so they could operate with a smaller headcount. A few employers expressed concerns that the Omicron variant of Covid-19 would add to labor challenges as more employees may be required to quarantine. Wages increased strongly with many contacts reporting higher than usual year-end wage increases. Several noted that those increases were in addition to off-cycle wage increases already made this year to attract and retain workers.

Prices

Price growth increased further in recent weeks from an already elevated rate. According to our surveys, average prices received by services firms was up by more than six percent compared to last year. Firms reported even stronger growth in non-labor input prices. Additionally, many firms reported raising wages and passing the higher labor costs through to final prices. Manufacturers also reported strong growth in prices paid and received,

with some of the largest cost increases coming from freight and energy.

Manufacturing

Fifth District manufacturers experienced a moderate increase in shipments and new orders since our previous report. Capacity utilization increased, but the higher volume of new orders led to increased backlogs. Low levels of inventories of raw materials and finished goods persisted. Lead times continued to lengthen for many components, including microchips, but a few producers saw lead times ease slightly for some materials. Several manufacturers anticipated supply chain disruptions to extend at least into the second half of 2022. Spending on equipment and software picked up modestly in recent weeks.

Ports and Transportation

Fifth District ports reported strong growth and record-breaking volumes since our last report. Import volumes drove growth, with export volumes down slightly with the exception of farm equipment. Several respondents reported receiving diversion from other east coast ports due to congestion or carriers skipping ports due to time and cost concerns. Shipping prices remained high but have come down from their peak earlier in the year. Most ports stated they are running at or over capacity, with no

additions to U.S. container capacity expected until at least 2023. Shortage of transportation equipment and warehouse space caused imports to sit at rail yards and ports for longer periods. All the ports indicated that cost for both labor and equipment were rising rapidly. One airport noted that both passenger and air freight traffic were up this holiday season.

Trucking firms in the Fifth District cited unusually strong demand for shipping for this time of year. Volumes were high across most goods in both the industrial and retail sectors. Contacts reported turning away business because of shortages of drivers and equipment. Trucking firms indicated that employment and equipment costs have continued to increase and they have been able to pass them along customers.

Retail, Travel, and Tourism

Retail demand in the Fifth District was strong since our last report. Customer traffic increased and retailers were on track to meet 2019 sales levels. Retailers passed on the higher costs of goods, mainly owing to elevated freight costs, as well as higher labor costs. Auto dealers saw strong revenue because of high prices of used vehicles and increased demand for servicing of existing cars, but new car sales were down because of low inventory levels.

Fifth District travel and tourism held strong primarily due to leisure travel. Contacts noted that there has been a limited amount of group or business travel, as well as fewer conferences or conventions. Passenger counts at airports are at their highest since the beginning of the pandemic. Hotel occupancy and room rates strengthened, but hotels are holding back rooms or limiting service because of staff shortages. Restaurants saw strong demand but had to limit hours or days of service because of lack of staffing, and reducing menu choices because of supply chain disruptions.

Real Estate and Construction

Demand for Fifth District homes has experienced some seasonal slowing since our last report but remained strong. Average days on the market increased slightly, but remains short amid low inventory levels. Home prices remained elevated, discouraging some purchasers, but buyers did not have any difficulty qualifying or obtaining mortgages. Rising construction costs, long lead times for materials and equipment and shortages of skilled trade labor continued to slow residential construction and limited the availability of new homes.

Overall, activity in the commercial real estate market continued to increase at a moderate rate in the Fifth District. The industrial segment remained very strong

with low vacancy rates and rising sale prices and rental rates. Office leasing improved slightly, but tenants were still doing short term lease renewals amid some indecision by companies as to future space requirements. The owner-occupied real estate market was strong as more businesses have decided to own their space. Retail leasing was good with lots of renewals and new tenants. Multifamily leasing remained robust with rising rents. Contacts also reported increased multifamily construction in their markets.

Banking and Finance

Overall loan demand slowed slightly, mainly due to usual seasonality as well as new Covid concerns from the Omicron variant. However, commercial real estate and business lending remained steady. Mortgage lending was down slightly and one respondent noted that the supply of homes was keeping the loan volume depressed. Direct auto lending was still being impacted from a lack of car dealer inventory. Financial institutions noted that deposit levels were still increasing modestly, even in a low-rate environment. Credit quality continued to be excellent with one bank noting their delinquency rates were at 15-year lows.

Nonfinancial Services

Nonfinancial services firms reported a modest increase in revenues and demand. Professional services firms experienced strong demand and steady to increasing revenues. Health services firms, however, reported flat to slightly declining revenues. One health care provider said that staffing shortages inhibited their ability to meet demand and led to falling revenues. Educational institutions reported no changes to demand or revenues in recent weeks. ■

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



Federal Reserve Bank of Atlanta

The Beige Book ■ January 2022

Summary of Economic Activity

Economic activity in the Sixth District expanded moderately from mid-November through December, even amidst widespread outbreaks of the Omicron variant late in the reporting period. Demand for workers remained strong and labor market tightness persisted. Upward pressure on wages was widespread. Nonlabor costs grew, albeit at a slower pace. Retail sales were solid; auto sales, however, remained challenged due to supply chain constraints. Domestic leisure travel was strong. Business travel and convention bookings picked up somewhat, though increases in Omicron cases precipitated some postponements and cancellations in the near term. Robust housing demand continued. Conditions in commercial real estate improved. Manufacturing activity was healthy. Conditions at financial institutions were steady, though deposit levels declined, and loan demand slowed somewhat.

Employment and Wages

Demand for labor was strong over the reporting period amidst pervasively tight labor supply. Most employers reported that qualified candidates for open positions remained in short supply across all jobs but particularly for entry-level positions. Shortages of workers were reported to be exacerbated by childcare availability issues and remaining Federal subsidies, such as the advance on child tax credits. Additionally, geographic competition for workers has expanded with increased remote-work options. Tight labor conditions have firms intensely focused on retention. Some reported being proactive with wage increases while others added "stay" bonuses that reward a longer-term commitment of two years. Firms continued to evaluate greater flexibility for workers and even more time off, including additional "self-care days," remote work, and four-day workweeks.

Many continued to advocate for COVID vaccines, but not mandate them, with the ultimate aim to retain employees. Several employers said they are making plans to reduce their labor dependence through technology and automation. It was noted that some smaller firms were making a concerted effort to stay under the 100-employee threshold that would exempt them from costly COVID vaccine and testing regulatory requirements. In late December, some employers noted an uptick in absenteeism related to Omicron which resulted in curtailed operations.

Upward pressure on wages remained relatively widespread. Increases were most notable at the lower end of the pay scale and among new hires. Most contacts indicated they feel like they are chasing market wages to attract and retain staff. Wage growth remains above plan for most firms, and many anticipate higher wage growth in 2022.

Prices

Several contacts noted that many nonlabor costs leveled off or increased only slightly since the previous report, though the rising cost of steel and freight was frequently mentioned. Most contacts expect price levels to remain elevated for the foreseeable future, and while pricing pressures from supply chain issues and labor shortages are expected to ease over the next year, they are not expected to disappear. Pricing power softened somewhat as contacts expressed worry that continued price increases would drive demand downward. The Atlanta Fed's Business Inflation Expectations survey showed year-over-year unit costs were unchanged in December at 3.6 percent. Year-ahead expectations increased slightly to 3.4 percent in December, up from 3.3 percent in November.

Consumer Spending and Tourism

Consumer spending remained healthy throughout the holiday season, particularly for off-price retailers. District contacts noted an increase in foot traffic compared with year-earlier levels. Auto sales remained low, and dealers expect continued supply constraints, heightened demand, and improved earnings into 2022.

Travel and hospitality contacts reported robust domestic leisure travel driven by festivals and holiday events. District cruise activity was strong, though passenger counts were lower than pre-COVID levels as cruise lines maintained self-imposed capacity limits. While there was an uptick in business travel and conventions early in the reporting period, bookings remained well below 2019 levels and contacts noted increased postponements and cancellations due to the rise in Omicron cases.

Construction and Real Estate

Housing demand in the District remained strong over the reporting period. Though slightly higher interest rates have slowed refinance mortgage activity, demand for home equity lines of credit and other mortgage products was steady. Many markets throughout the District continued to attract buyers from higher-cost markets such as the Northeast and West Coast. Demand from investors and second-home buyers continued to emerge as a significant component of the housing market. Home price appreciation continued to rise sharply, leading to escalated concerns about housing affordability over the long term. Despite significant increases in new home starts over the past year, builders continued to struggle to keep pace with demand given the widespread challenges created by supply chain disruptions. After abating earlier this year, rising material costs, particularly for lumber, have become more burdensome for builders.

Commercial real estate (CRE) activity improved, on balance, since the previous report. Contacts noted improving conditions in the office sector as more businesses reopened. After a very robust year, activity in the multifamily sector slowed due to seasonality; occupancies, however, remained at healthy levels. Contacts continued to report that competition is accelerating among CRE lenders. Smaller banks and non-bank lenders have been identified by market contacts as some of the more aggressive CRE lenders, at this juncture.

Manufacturing

Reports on manufacturing activity were largely consistent with the previous report. Contacts noted robust demand and increased revenues, though some firms indicated that production was hindered somewhat by supply chain disruptions and high employee turnover. District manufacturers expect further strengthening in demand in 2022, but concerns over supply chain interruptions, labor shortages, and rising input costs remain.

Transportation

Transportation activity remained robust over the reporting period. District ports experienced further growth in container traffic, and some reported utilizing “pop-up” container storage yards to clear congestion on port properties. Railroads noted significant increases in intermodal freight and overall traffic year-to-date. However, terminal dwell times lengthened, and rail contacts cited a deterioration in service delivery amid crew shortages and a dearth of conductors. Air cargo contacts noted increased demand as ecommerce shipments surged.

Banking and Finance

Conditions at Sixth District financial institutions remained steady over the reporting period. Loan growth trended

downward amid renewed uncertainties about the course of the pandemic and growing underwriting competition from nonbank lenders. Deposit levels declined slightly but remained elevated. Financial institutions continued to hold higher balances in both cash accounts and securities portfolios. Asset quality remained healthy without any notable increases in nonperforming loans or charge-offs. Increased earnings have been driven by lower loan loss provision expenses and reductions in noninterest expenses, though margin pressures persisted due to the low interest rate environment.

Energy

Activity across energy sectors held steady or grew slightly over the reporting period. Chemical manufacturing and petroleum refining picked up across the region; however, contacts continued to report supply chain bottlenecks for various inputs, constraining some chemical production. Utilities industry contacts noted sustained growth in commercial, residential, and industrial business lines. Contacts also continued to report significant investments in renewable energy development and production, primarily in solar, wind, and carbon capture technologies.

Agriculture

Agricultural conditions remained mixed. Parts of the District experienced unusually dry conditions. The December production forecast for Florida's orange crop was down from last year's production while the grapefruit forecast was unchanged from last year's production. The USDA reported year-over-year prices paid to farmers in November were up for corn, cotton, rice, soybeans, cattle, broilers, and eggs but down for milk. On a month-over-month basis, prices were up for corn, cotton, rice, soybeans, cattle, broilers, and milk, but down for eggs. ■



Federal Reserve Bank of **Chicago**

The Beige Book ■ January 2022

Summary of Economic Activity

Economic activity in the Seventh District increased modestly in late November and December, and contacts expected a similar pace of growth over the coming months. Labor and materials supply constraints as well as the spread of COVID-19 continued to weigh on the expansion. Employment, consumer spending, and business spending grew modestly; manufacturing was up slightly; and construction and real estate was flat. Wages and prices rose rapidly, while financial conditions were little changed. Agricultural incomes were strong for 2021.

Employment and Wages

Employment increased at a modest pace over the reporting period, and contacts expected growth to pick up over the next 12 months. Contacts across sectors reported persistent difficulty in finding workers at all skill levels. In addition, contacts noted some new hires did not show up on their expected first day or quit soon after. Many businesses continued to limit operating hours because of labor challenges, especially in the restaurant, retail, and manufacturing sectors. Rising COVID-19 cases led some companies to further delay plans to return to in-person work, and there were reports of business closures after COVID-19 exposures forced a large number of workers to quarantine. Some contacts expressed concern about the potential of vaccination requirements to limit labor supply. Overall, wage and benefit costs increased robustly. A scarcity of applicants for open positions led numerous contacts to raise wage offers, yet not all were successful in filling open positions. To retain workers, many employers increased the frequency of pay raises. Furthermore, contacts said they were giving larger-than-usual raises and year-end bonuses to account for inflation or share healthy profits with workers.

Prices

Overall, prices rose rapidly in late November and December, and contacts expected price increases to continue at a strong pace over the next 12 months. There

were large increases in producer prices, driven by pass-through of higher costs for materials, labor, and transportation. However, contacts noted that some input prices, particularly for energy and certain steel products, had stabilized after very large increases earlier in the year. Consumer prices generally moved up robustly, with contacts pointing to solid demand, limited inventories, increased costs, and a greater ability to pass cost increases on to customers as sources of the higher prices.

Consumer Spending

Consumer spending increased modestly from a high level over the reporting period. Holiday spending met or slightly exceeded forecasts. Nonauto retail sales increased moderately, with contacts noting greater spending on groceries and pet supplies, as well lumber and building materials. Sales remained elevated in the apparel, furniture, and appliance categories. Thrift and discount stores also reported strong sales. Consumer electronics were a clear "laggard" according to one contact, decreasing modestly amid tight inventories. Light vehicle sales were little changed. Although vehicle inventories were modestly up, low levels continued to limit volumes. Dealer profit margins remained strong, reflecting both high vehicle prices and increased service department activity. Leisure and hospitality activity was flat overall, though restaurant spending increased modestly.

Business Spending

Business spending increased modestly in late November and December. Retail inventories remained at low levels in numerous sectors due to domestic and international supply chain challenges, and contacts expected the issues to persist into the second half of 2022. Manufacturing inventories changed little and were still tight, with shortages of a wide range of inputs, most notably certain metals, chemicals, and electrical components. Demand for transportation services remained high, even as many contacts reported continued domestic and international shipping delays and elevated cargo and freight rates. Capital expenditures increased moderately, with contacts highlighting technological upgrades (such as new automation equipment) and facility expansions. Contacts expected a similar increase in capital expenditures over the next twelve months. Residential and commercial energy consumption increased slightly, notably in leisure and hospitality, while industrial consumption decreased slightly.

Construction and Real Estate

Construction and real estate activity was little changed relative to the previous reporting period, though contacts said there were more projects in the pipeline. Residential construction was flat, while residential real estate activity decreased slightly. One real estate contact indicated that uncertainty surrounding the economy and the pandemic contributed to the slowdown. Home prices and rents increased modestly. Nonresidential construction was steady over the reporting period. Contacts indicated that long lead times and labor shortages persisted. Commercial real estate increased slightly, with activity in the industrial and multi-family sectors continuing to outpace that of the retail and office sectors. Sales and prices were up slightly for commercial properties. Commercial rents and vacancy rates were unchanged, though the availability of sublease space edged up.

Manufacturing

Manufacturing production increased slightly in late November and December, with many contacts reporting growth in order backlogs. Despite strong demand for the majority of manufacturers, ongoing capacity constraints due to challenges securing inputs, particularly labor, limited production gains. Auto output rose only slightly, as assemblers and suppliers continued to face shortages of microchips and other materials. Demand for heavy trucks picked up on top of an already strong level, but production of new trucks held steady, leading to higher prices for used trucks. Contacts reported little change in overall steel demand, which stayed strong. There was a small increase in steel availability as capacity utilization

ticked up. Demand for building materials was flat at a high level, supported by solid orders for commercial and residential construction.

Banking and Finance

Financial conditions were unchanged on balance over the reporting period. Business loan demand increased slightly, notably for commercial real estate, equipment, and commercial lending. One contact also reported increases in business loan refinancing. Business loan quality decreased slightly, while standards loosened slightly. In consumer markets, loan demand was unchanged on balance, as were loan quality and standards.

Agriculture

High prices and bumper corn and soybean harvests led to strong agricultural income in 2021. Agricultural lenders reported few issues with credit quality. Expectations are for income to be lower in 2022 than in 2021, as recent growth in input prices outpaced growth in agricultural goods prices and farmers expected the trend to continue. More crop farmers than typical applied fertilizer on fields during the fall because of expected cost increases and questions about future availability. Contacts also voiced concerns about pricing and availability of other inputs, with a jump in forward contracting to ensure supplies for 2022. Prices for corn and soybeans rose during the reporting period, supported by weather problems in South America and a pickup in ethanol production. Prices for cattle, hogs, eggs, and dairy products moved higher. Farmland prices stayed on a rapid upward trend. ■



Federal Reserve Bank of St. Louis

The Beige Book ■ January 2022

Summary of Economic Activity

Economic conditions have improved moderately since our previous report. Employers continue to report difficulty hiring enough workers to meet consumer demand, with some industries with a high degree of direct consumer contact forced to limit or cut back operating capacity due to staffing shortages. Significant wage pressures persist across most industries. Increases in raw material and transport costs contributed to moderate to strong cost pressures, most of which firms were able to pass along to consumers. The real estate sector remained strong; supply chain issues continued to limit construction but activity was higher than typical seasonal levels. The COVID-19 Omicron variant contributed to labor shortages and sparked some concern about the short-term outlook in the hospitality, transportation, and retail sectors.

Employment and Wages

Employment has increased modestly since our previous report. District contacts reported that widespread attempts to hire have been hampered by widespread worker shortages. Many firms, unable to find adequate staff, have been unable to grow or have had to actively cut back their operations. This was especially true for high-customer-contact industries, like dining and retail. St. Louis cut back its public transportation services despite holding job fairs, enticing retired operators back to work, and—in the words of the supervising CEO—“literally begging for employees.” Firms across industries reported increasing flexibility and benefits to entice scarce workers. Some also used automated processes as a substitute for workers. Several firms delayed their return-to-office timelines in the face of the Omicron variant.

Wages continue to grow strongly, particularly for traditionally low-wage positions. One Little Rock restaurant reported paying its dishwashers \$13 per hour and skilled kitchen staff \$16 per hour or more, and an Arkansas manufacturer reported plans to soon increase its starting wage by more than 10 percent.

Prices

Prices have increased moderately since our previous

report. Contacts in the hospitality industry reported increasing costs since our previous report and are passing along most of it to customers. A contact from a jewelry retail store reported higher input costs and noted plans to increase prices charged to consumers. Furniture retail industry contacts reported slightly increased cost pressures and prices charged to consumers. Some contacts plan to reduce profit margins rather than pass the full extent of cost increases on to their customers. An auto retail contact reported no change in costs and prices since our previous report. A contact reported slightly lower freight costs since our previous report but also that freight costs remain higher than before the COVID-19 pandemic. Raw materials prices have increased modestly overall since our previous report.

Consumer Spending

District general retailers, auto dealers, and hospitality contacts reported moderately higher business activity since our previous report. Consumer sentiment in West Tennessee regarding current conditions has worsened since September, but future expectations have improved. General retailers reported higher business activity and a mixed outlook for the next quarter, citing ongoing supply chain and pricing issues. Roughly 39 percent of consumers in Tennessee reported the majority of their holiday shopping was online this year, down from 53

percent of consumers last year. A St. Louis auto dealer reported that business activity is about the same as November; however, there is little clarity regarding future inventory. A restaurant in Arkansas noted that, since they no longer have restricted occupancy, they are anticipating increased sales; but they noted the increases in new COVID-19 cases remains a downside risk, especially given tight staffing. Hospitality contacts reported higher business activity month-over-month and year-over-year but a mixed short-term outlook due to the Omicron variant.

Manufacturing

Manufacturing activity has increased modestly since our previous report. Firms in both Arkansas and Missouri reported modest upticks in new orders and production, although the monthly rate of growth has slowed. Supply chain issues and labor shortages have increased input prices and continue to put pressure on firms' profit margins and service windows. With the passing of the Infrastructure Investment and Jobs Act, firms expect construction, and therefore demand for manufactured inputs, to increase in 2022. Firms also continue to explore automated substitutes for various aspects of the manufacturing process.

Nonfinancial Services

Activity in the nonfinancial services sector was unchanged since our previous report. Airport passenger traffic decreased slightly as rising COVID-19 cases among workers have resulted in large numbers of flight cancellations. Airport cargo traffic has increased slightly since our previous report, although it is down roughly 5 percent relative to this time last year. Memphis and St. Louis area hospitals are dealing with increases in COVID-19 patients with the Omicron variant. In addition to the human toll, the tornado event in the District on December 10 and 11 disrupted transportation through road closures and damage to infrastructure.

Real Estate and Construction

The residential real estate market has remained strong since our previous report. Home prices are still elevated. In Memphis, they are up 21 percent since this time last year. One contact noted that there has not been the typical drop in demand during the winter months. Inventory remains extremely low across the District, and one Memphis contact had 14 offers in the first 24 hours a house was on the market. However, the median number of days a house remains on the market has increased slightly since our previous report. While most expect the strong real estate market to continue into 2022, a contact expressed concern that any significant hikes in interest rates will impact demand from buyers.

Apartment rental rates were mixed but remain relatively stable since our previous report, with Little Rock and Memphis decreasing slightly and Louisville increasing slightly. All apartment rental rates in the largest District MSAs remain significantly higher than this time last year. Residential construction has remained strong since our previous report but continues to struggle with supply chain issues and increased costs. A Little Rock contact reported that, in spite of these problems, optimism remains high and new development continues.

Banking and Finance

Banking conditions have improved slightly since our previous report. District banks reported an increase in overall lending activity since the last period. Business loans, especially commercial, industrial, and commercial real estate loans, increased slightly while consumer and residential real estate loans increased moderately. Deposit levels remained high but growth moderated. A contact in Little Rock noted that the rate of forgiveness for PPP loans has risen through the previous quarter and predicted that the balance will be near zero by the middle of 2022. The outlook for 2022 among bankers is cautiously optimistic, as they expect loan growth across all divisions.

Agriculture and Natural Resources

District agriculture conditions remain relatively unchanged since our previous report. The percentage of winter wheat in the District rated fair or better modestly increased from the end of October to the beginning of December, rising from 91 percent to 95 percent. This is a moderate increase over this period last year. While contacts in the District are optimistic after a profitable year due to elevated commodity prices, they are also concerned about increased costs for fuel, fertilizers, and other inputs potentially affecting their crop production next year.

Natural resource extraction conditions improved slightly from October to November, with seasonally adjusted coal production increasing just over 1 percent. November production was up significantly compared with a year ago, increasing nearly 20 percent. ■



Federal Reserve Bank of Minneapolis

The Beige Book ■ January 2022

Summary of Economic Activity

The Ninth District economy grew moderately since mid-November, though a surge in COVID cases due to the Omicron variant was delaying return-to-work plans and dampening outlooks in some sectors toward the end of the reporting period. Employment saw moderate growth, though strong labor demand continued to outstrip supply. Wage pressures were strong, while price pressures increased moderately from elevated levels. Growth was noted in commercial and residential construction, commercial real estate, consumer spending, and manufacturing, while residential real estate activity fell. Agricultural conditions were steady, as higher prices and strong harvests in some crops offset the negative impacts of drought. Minority- and women-owned businesses saw improvements but noted price and supply chain challenges.

Employment and Wages

Employment grew moderately since the last report, as tighter labor supply forestalled much stronger growth. Job postings continued to rise from very high levels across the District. In Michigan's Peninsula, current job openings were almost double those from a year earlier. Three surveys among construction, hospitality-tourism and manufacturing firms found high demand for labor; many firms were hiring to replace persistent turnover, but an even larger percentage were looking to add to their total headcount. Actual hiring was nonetheless more challenging, with the large majority of respondents in all three sectors reporting moderate to significant difficulty in finding available workers.

Wage pressures remained strong. Surveys since the last report found strong wage growth in construction, manufacturing, and hospitality-tourism; more firms increased wages, and by larger amounts. More than 40 percent of hospitality and tourism firms reported wage increases of 5 percent or more over the last year. A South Dakota state budget proposal included a 6 percent raise for state workers, including teachers and corrections employees. Nonprofits were reportedly dealing with growing turnover as workers left for higher compensation offers in the private sector. Among firms, said one contact, "The wage-increase conversation is just as hot as the difficulty-hiring topic."

Worker Experience

Labor supply was tight across the District and quit rates continued to trend up. A labor contact said that more hospitality workers at a Minnesota airport have left their positions, citing "hassles" such as the time spent going through security. The presence of the Omicron variant and subsequent cancellation of in-person conferences and events brought more uncertainty for some hospitality workers. A nonprofit contact said that many low-wage workers who held two or more jobs before the pandemic have decided to work less to meet childcare and other needs. A healthcare labor contact said that nurse retirements continued to put downward pressure on a depleted workforce, and the availability of traveling nurses has thinned. A South Dakota contact said that workers in the energy sector expressed concerns over vaccine mandates.

Prices

Price pressures remained elevated. More than three-quarters of preliminary respondents to the manufacturing survey reported that they had increased prices charged for their products in the previous year, while 70 percent expected to increase their prices further in 2022. Contacts in construction reported that materials costs remained elevated across the board, but that plastic pipe and plumbing fixtures in particular had spiked recently. Responses to a hospitality and tourism survey indicated greater recent pressure on input prices than final prices;

nearly 45 percent of hospitality firms said wholesale prices had increased by more than 5 percent over the previous 12 months, while about a quarter reported that prices charged to customers had increased by that magnitude. Retail fuel prices in District states as of late December decreased modestly relative to a month earlier. Prices received by farmers in November increased from a year earlier for corn, soybeans, wheat, canola, dry beans, potatoes, hay, hogs, cattle, turkeys, chickens, and eggs, while milk prices decreased.

Consumer Spending

Consumer spending grew moderately since the last report. An industry contact said that retailers reported better than expected holiday sales and in-store traffic, while online shopping was also very active. A regional mall contact noted similarly strong sales, particularly for those with healthy staffing levels. Hospitality and tourism firms widely reported improved revenues, but future sentiment was mixed due to concerns over the Omicron variant, particularly among firms catering to large events. One Minnesota hotel said banquet and catering revenues “are expected to be lower for some time.” New-vehicle sales—cars, trucks, marine, recreational, and powersport—remained slow compared with a year ago, due mostly to lack of inventory; used-vehicle sales remained healthy as “some consumers are settling for a used vehicle rather than waiting for a new vehicle,” according to one dealer.

Construction and Real Estate

Commercial and residential construction grew moderately since the last report. Recent industry data showed that the value of construction starts in District states continued to trend higher, though some revenue increases were attributed to inflated input costs. New projects out for bid were higher in District states compared with the same period last year. Supply chain problems and higher input costs were dampening future demand, according to a variety of sources.

Commercial real estate grew modestly overall. Retail was buoyed by stronger-than-expected holiday traffic. A regional mall contact noted that recent and expected future leasing efforts were “quite strong.” But retail vacancy rates continued to inch higher in some markets, and another virus surge would dampen recent momentum. Office vacancy rates remained high, as the Omicron threat postponed return-to-office plans. Multi-family vacancy rates remained low in many markets and recent investor sales suggested a strong market. Slower residential real estate sales persisted in most markets across the District, largely due to exceptionally low inventory of homes for sale.

Manufacturing

District manufacturing activity increased briskly. A manufacturing survey indicated growth in orders, production, and capital spending through 2021 compared with the previous year for most firms. Profits and productivity were flat, and employment fell slightly, largely due to challenges in hiring. Firms’ expectations for 2022 pointed to similar growth, with a positive outlook for employment. A regional manufacturing index indicated increased activity in Minnesota, North Dakota, and South Dakota, relative to the previous month. A third of supply managers surveyed expected supply chain issues to get worse over the first six months of 2022.

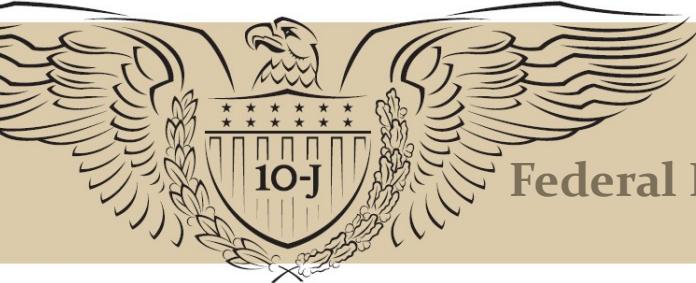
Agriculture, Energy, and Natural Resources

District agricultural conditions were steady since the last report. Crop production in Ninth District states exceeded earlier, drought-related predictions; however, production of some commodities (dry beans, for example) was much lower than 2020 levels. Most contacts expected higher commodity prices to offset lower production and increased input costs, except in the hardest-hit areas. District oil and gas exploration activity increased modestly since the previous report. District iron ore mines were operating at capacity, with 2021 production expected to pass pre-pandemic levels.

Minority- and Women-Owned Business Enterprises

Reports from minority-and-women-owned business enterprises (MWBEs) in the District were generally optimistic, but concerns lingered regarding labor shortages, supply chain issues, and COVID. Almost three quarters of respondents in a recent survey said that they experienced price increases of more than 3 percent for nonlabor inputs. Businesses in the hospitality and tourism industry reported improved business activity but faced challenges finding workers. Supply chain challenges were singled out by a restaurant owner as their greatest challenge, adding that food cost fluctuations were passed on to customers. The CEO of a collaborative working space said that many are entering entrepreneurship to diversify income streams after experiencing employment instability during the pandemic; she added that more women have chosen to leave their jobs to launch a business. ■

For more information about District economic conditions visit: minneapolisfed.org/region-and-community



Summary of Economic Activity

The Tenth District economy expanded at a moderate pace as 2021 came to a close. Food manufacturing and other non-durable goods production grew solidly, and manufacturing businesses generally sustained elevated levels of activity. Although business confidence about the outlook remained high, planned capital expenditures over the next six months declined slightly outside of the energy sector. Drilling activity in the oil and gas sector remained subdued, but activity among support service businesses rose at a moderate rate. Investments in renewable energy capacity are expected to rise at a robust rate this year. Consumer spending expanded at a moderate pace, particularly in leisure activities and travel, even as Omicron cases began to rise. Businesses continued to recruit workers utilizing both wage increases and enhanced non-wage benefits to overcome labor shortages, actions that contacts expect to continue into the coming year. Looking ahead, businesses cited supply chain disruptions and labor shortages as top risks. COVID was cited as material but less significant risk. Prices increased broadly as businesses incurred additional costs to overcome myriad supply challenges.

Employment and Wages

Employment levels grew at a modest rate in the Tenth District during November and December. Hiring in the services sector slowed compared to previous months but employment at manufacturing firms continued to rise at a strong pace. Contacts reported that labor demand remains high, and that worker shortages held down hiring activity. In particular, demand for childcare, healthcare and hospitality workers remained elevated, but businesses noted the number of applicants was subdued.

Wage growth continued to be robust and broad-based in recent weeks. Looking ahead, contacts reported further expectations of robust wage growth. Planned wage increases for workers in service and transportation sectors were particularly elevated, though generally above historical averages across industries. In addition, contacts reported other non-wage costs are expected to rise at a solid rate in 2022. For example, businesses are making larger contributions to health savings accounts, insurance premiums, retirement plans, and adding vacation time. Multiple contacts reported novel ancillary benefits, such as "no-meeting Wednesdays" and subsidized pet care services, to attract workers.

Prices

Most businesses reported raising prices to customers at a solid pace. However, input price growth generally outpaced price increases to customers, with manufacturers reporting greater ability to pass through costs than services companies. Some contacts reported resorting to creative, but costly, sourcing strategies, such as buying operationally critical parts via on-line auction platforms. Business contacts remain concerned about continued price pressures in coming months, citing ongoing supply chain challenges, rising wages, and healthcare costs.

Consumer Spending

Spending in the Tenth District grew at a moderate pace. Leisure travel continued to grow robustly, supporting restaurants and hotels outside of city centers. Spending at auto dealerships and entertainment venues remained stable at subdued levels. Resort areas reported record bookings for the months ahead, and contacts generally expect consumer spending to grow over the next six months. Some contacts noted a risk that advances in child tax credit payments may result in unexpectedly small tax refunds, causing a minor headwind to spending this spring, particularly among lower income households.

Manufacturing and Other Business Activity

Manufacturing activity expanded at a moderate pace, driven by ongoing growth in durable goods manufacturing and a pick up in the pace of growth among non-durable goods producers. Notably, food and beverage manufacturing contacts expressed strong growth in order volumes and shipments in recent weeks. However, expectations for growth in the coming months wavered somewhat. While most contacts expect activity will expand over the next six months, they expected slower growth than noted previously. Cooling expectations were reported broadly across businesses, with many noting a slower pace of new orders, while others expressed concerns about capacity constraints as a contributing to slower growth prospects.

Commenting on top risks to the outlook in 2022, business contacts highlighted ongoing supply chain disruptions, higher labor and materials costs, and labor availability. These concerns were expressed broadly across contacts and segments of the manufacturing sector. Although COVID remains a persistent risk, it was not a top concern for most businesses as of mid-December. Still, most contacts said they would see some disruption in their business operations from a resurgence in the virus.

Capital expenditures continued to rise at a robust rate across businesses. Recent growth in capital expenditure was driven primarily by investment from non-durable manufacturers. Business contacts report continued investments in labor saving technology in order to temper the effects of labor shortages. However, expectations for capital expenditures in the coming months are for a slower pace of growth than expressed in previous months. Planned capital investments slowed primarily among durables manufacturers, which continue to struggle with supply chain issues and labor shortages.

Real Estate and Construction

Residential construction activity remained steady throughout the District, with western states experiencing elevated levels of new construction on single family housing. Demand for new construction of multifamily housing remained high. Several contacts noted that labor constraints are likely to moderate the pace of growth in residential construction over the medium term. Access to financing for new construction did not materially change in recent weeks. However, banking contacts were attentive to valuations of homes and projected values for new projects amid elevated materials costs and the potential that financial conditions may be less accommodative over the medium term.

Banking

Loan demand from commercial real estate borrowers showed robust growth in recent weeks. The primary driver was a pickup in residential real estate construction and lending for other land development projects. However, loan demand in all other categories was stable at relatively low levels. Some contacts noted that, amid subdued loan demand, lenders are adjusting terms on borrowing, in particular extending the duration on new lines of credit. Overall credit quality remained strong.

Energy

Tenth District energy activity grew modestly in December. The number of active rigs remained steady across most District states with a small uptick in oil rigs in Oklahoma. While drilling activity remained mostly subdued, activity among support service businesses rose at a moderate rate. Compared to the previous survey period, oil and gas revenues and profit levels continued to increase. Firms also reported higher wages and benefits. Capital spending has increased, and most contacts expected higher capital spending this year compared to 2021. Moving forward, regional firms expected prices to remain profitable on average for oil and natural gas. However, the average price firms reported needing to substantially increase natural gas drilling remains above price expectations for the near-term, constraining expectations for production growth. Renewable energy production continued to increase at a robust pace across several District states. Looking forward, planned additions to wind electricity production capacity in Oklahoma and Wyoming remain elevated, supporting the outlook for renewable energy investment throughout 2022.

Agriculture

Conditions in the Tenth District agricultural economy remained stable with ongoing strength in the sector. Farm revenues at year end were expected to reach multi-year highs due to elevated commodity prices, but contacts in the region reported further concerns about profit opportunities moving forward. Substantially higher input costs remained a primary concern. In addition, while demand for most major commodities in the region remained strong and continued to support prices, export activity was lower than a year ago for some products as challenges associated with supply chains and port operations persisted. Contacts in the meat packing industry reported that tight labor markets continued to limit production capacity, particularly for beef and hog processing facilities that are located in less populated areas where labor challenges have been more acute. ■

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



Federal Reserve Bank of Dallas

The Beige Book ■ January 2022

Summary of Economic Activity

Robust expansion continued in the Eleventh District economy, with gains broad based across sectors. Growth in the manufacturing, nonfinancial services, and retail sectors stayed strong, and growth in financial services picked up. Home sales remained elevated, though construction capacity continued to be highly constrained. Solid apartment leasing continued. The energy sector saw further expansion, while drought dampened agricultural conditions. Employment rose robustly, and wage growth remained highly elevated due to widespread labor shortages. Supply-chain bottlenecks continued to drive up costs, and prices rose at a rapid clip. Outlooks improved overall, though uncertainty increased amid a new surge in COVID-19 cases and concern that labor market tightness and supply-chain disruptions will persist well into 2022.

Employment and Wages

Employment continued to expand robustly. Job gains were widespread across services, manufacturing, energy and construction, even amid reports of a dearth of applicants and acute hiring difficulty. A manufacturer noted extreme new-worker turnover, saying three to five hires were needed for even one to stay on. Labor shortages were the top challenge in the healthcare industry, according to contacts. However, a large transportation services firm said they recently received a surge of applicants and were able to reach appropriate staffing levels. There were a few mentions of concern that vaccine mandates would further exacerbate labor issues, largely among oilfield contacts.

Wage growth remained at or near record highs. While some contacts noted wage increases were concentrated more among low-skill workers, others said they were more evenly distributed across skill levels. Also, some contacts reported that raising starting wages successfully attracted workers, while others noted that their increased wages were still being met with demands for even higher pay. A large transportation services company said they increased wages for package handlers to \$20 an hour earlier in the year and recently offered referral bonuses to employees, more paid time off, and tuition reimbursement. According to a December Dallas

Fed survey of more than 300 Texas business executives, wages rose 7 percent in 2021, on average, up from a reported 2 percent in 2020 and 4 percent in 2019.

Prices

Input and selling price increases remained the highest in recent history. In the energy sector, cost pressures accelerated to new heights. Construction contacts reported that the cost of materials remained steady but elevated, except for lumber prices which climbed over the past six weeks. Many manufacturers noted acute price pressures due to ongoing supply chain shortages, particularly metals and food inputs. Auto dealers reported persistently high prices on used cars due to a lack of inventory.

Very strong annual price growth was seen among Texas businesses in 2021, according to a year-end survey conducted by the Dallas Fed. Respondents said input prices rose about 10 percent, on average, and selling prices rose 7 percent. These figures are markedly higher than what was reported in recent years, and businesses expect elevated price pressures in 2022 as well.

Manufacturing

Expansion in the Texas manufacturing sector continued at an impressive clip in December, despite continued supply-chain and labor challenges. Growth was led by nondurables, particularly food and chemical manufactur-

ing. Sharply rising input costs have led to decreased operating margins among many manufacturers, though some have been able to pass on the higher costs to customers. Outlooks improved over the reporting period, though uncertainty continued to rise due to materials delays and/or shortages, inflationary pressures, and the Omicron variant of COVID-19.

Retail Sales

Retail sales continued to rise at an above-average pace in December. Auto dealers reported an increase in sales after several months of weakness, though they noted that demand continued to exceed supply in both new and used vehicles. A majority of retailers said supply-chain disruptions were restraining sales. Outlooks improved, though some contacts expressed concern over an expected persistence in supply-chain issues. An equipment wholesaler said they project supply issues through fourth quarter 2022.

Nonfinancial Services

Texas service sector activity continued to expand at a robust pace overall. Revenue growth was broad based, with particular strength seen in health care. Growth slowed in transportation services and leisure and hospitality in December after surging in November, but it remained strong. A major airline said they were just beginning a solid recovery from the slowdown caused by the Delta variant but now they are again seeing a pull-back in demand from the Omicron variant. A hospitality contact reported order cancellations for larger events and private functions due to the resurgence of COVID. Staffing services firms reported strong demand over the past six weeks, particularly from the healthcare, manufacturing and construction sectors. Overall, services firms said their biggest revenue restraint is limited operating capacity due to staffing shortages, particularly absenteeism and difficulty hiring.

Outlooks remained optimistic, and expectations are for increased activity going into 2022. Risks include the path of the pandemic, supply-chain stresses, and inflation.

Construction and Real Estate

Home sales remained strong and in line with expectations. While sales rose, construction capacity continued to be highly constrained, delaying home closings. Prices crept higher and discounting was limited, though a few builders noted offering incentives in select communities. Inventories remained constrained and lot supply tight. Builders' margins were solid, and outlooks were generally optimistic, though contacts voiced concern about production challenges, lot pricing, and a potential increase in mortgage rates.

Apartment leasing continued to be robust. Occupancy was at or above the full mark cutoff in most markets, and rents advanced further. Investor interest was highly elevated, boosting sales activity and new development. Demand for industrial space stayed exceptionally strong, while office leasing was still sluggish, though activity has ticked up.

Financial Services

Loan demand picked up pace over the past six weeks, driving up overall loan-volume growth. Loan volumes increased across lending types, led by commercial real estate. Volume growth accelerated for commercial and industrial loans, and consumer loans increased after weakening slightly last period. Nonperforming loans continued to decrease, and credit standards and terms remained largely unchanged. General business activity improved further, though contacts expressed concern over inflation, supply-chain disruptions and labor shortages. Outlooks for loan demand and general business activity six months from now remained optimistic.

Energy

Oilfield activity rose over the past six weeks, with a notable increase in the Eleventh District rig count. Oil prices moved down but were in line with 2022 expectations of about \$70 per barrel, a profitable level for most producers. Lead times for equipment in oilfield supply chains were stabilizing at high levels. Delays are not expected to worsen much more but are not expected to return to normal before 2023. Industry sentiment was dented by the Omicron variant and steady global production increases, though outlooks remained positive. Contacts expect rigs to rise steadily through the end of 2022, perhaps leading to an increase in drilling of about 25 to 35 percent next year.

Agriculture

Drought conditions worsened, with severe drought expanding in the northwest part of the District. Still, 2021 crop production was strong, particularly for cotton, outstripping last year's output thanks to more harvested acres and higher yields. Crop prices pushed higher during the reporting period, boosting sentiment among producers. However, contacts noted concerns over surging input costs and limited availability of herbicides and other items. On the livestock side, cattle prices pushed higher and demand for all meats remained strong. Outlooks are a bit uncertain, as dry conditions could restrain production prospects for next year. ■

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



Summary of Economic Activity

Economic activity in the Twelfth District strengthened modestly during the reporting period of mid-November through December. Employment grew at a moderate pace, while overall labor market conditions remained tight. Price levels continued to climb significantly, driven by increases in shipping and labor costs. Sales of retail goods increased notably, while conditions in consumer services deteriorated somewhat due to the latest wave of COVID-19 infections being driven by the Omicron variant. Conditions in the agriculture and resource sectors remained mostly unchanged, whereas the manufacturing sector strengthened slightly. Activity in the residential real estate market continued to increase albeit at a slightly slower pace, while commercial real estate activity was little changed. Lending activity remained steady over the reporting period.

Employment and Wages

Employment grew moderately, with contacts reporting no signs of easing in the tight labor market. Firms across the District continued to cite difficulties attracting qualified candidates for both skilled and unskilled positions. Contacts in agriculture, retail, and food services reported being unable to fill open positions despite repeated wage increases over the past year, leading them to reduce their hours and capacities. A few contacts observed higher turnover rates have started to extend to management levels as well. Several contacts expressed concern over what they perceive as a longer-term mismatch between the skills needed and the availability of labor, which could be further exacerbated by the aging population and the increasing numbers of people retiring during the pandemic. A contact in the Pacific Northwest mentioned addressing the region's persistent shortage of health-care employees by plans to bring in foreign medical workers in the medium term. One employer in the technology sector noted increased competition from companies in other geographies that offer fully remote positions.

Wage pressures increased further over the reporting period due to the continued competition for talent. Many employers mentioned giving year-end bonuses to top performers and boosting base salaries by 3 to 10 percent. Several contacts also mentioned significantly expanding equity compensation at the executive level in order to retain talent. Two contacts noted that to help employees with the unexpectedly higher cost of health

insurance renewals, one of them raised wages more than initially planned while the other absorbed the higher costs.

Prices

Prices continued to climb at a brisk pace across the District. Notable price hikes occurred for energy, agricultural products, construction materials, and menu items at restaurants. Additional shipping and labor costs contributed to further price increases that many companies reported passing on to consumers. Most contacts expected these pricing pressures to ease in 2022 as supply chain issues are resolved, although a few raised concerns that price increases arising from wage pressures might be longer lasting.

Retail Trade and Services

Sales of retail goods continued to increase notably. E-commerce sales remained robust, while sales at brick-and-mortar stores were up compared to last year's holiday season, although not as high as holiday sales in 2019. Furthermore, several contacts noted that retail store staff shortages resulted in reduced hours, which further constrained sale volumes. Although a few contacts mentioned supply chain issues and inventory shortages for vehicles and some food products, most other retailers, especially clothing and electronics, reported having ample inventory levels. A few contacts observed that higher prices moderated holiday sales somewhat. A contact in the Pacific Northwest noted that many retailers are looking into acquiring their own warehouses and

manufacturing facilities to mitigate supply chain issues in the future.

Conditions in the consumer and business services sectors deteriorated in recent weeks. The latest wave of infections driven by the Omicron variant has negatively impacted the travel and hospitality industry, with hotel bookings being cancelled and staff shortages at airlines. Demand for food services decreased somewhat, and many entertainment shows and events have been either cancelled or postponed. By contrast, demand for laboratory testing and medical services remained high, but supply was constrained by low inventories and medical worker shortages. A contact in management consulting noted that with many businesses navigating uncertainties and hybrid work stances, demand for consulting services has surged and some strategic services are sold out for most of 2022.

Manufacturing

Activity levels in the manufacturing sector rose slightly. New orders were either steady or rising for fabricated metals, steel, and renewable energy equipment. However, continued supply chain disruptions and labor shortages continued to hold back production. As a result, one contact in the Pacific Northwest noted that lead times for some machinery equipment have increased to up to two years. Although manufacturers' capacity utilization rates were up and most were able to access raw materials, input costs have continued to increase and remained volatile.

Agriculture and Resource-Related Industries

Conditions in the agriculture and resource-related sectors remained mostly unchanged. Exporters of agricultural products continued to be challenged by shipping bottlenecks and port delays, with no signs of easing. As a result, one exporter reported selling more agricultural products domestically instead. Demand from food services was noted to have softened in recent weeks due to concerns related to the Delta and Omicron variants, while retail demand for agricultural products remained steady. Crop yields for tree fruit, nuts, and raisins were lower than anticipated due to weather effects and carryforward of low inventories in 2020. A grower in the Pacific Northwest noted that due to a lack of available domestic labor, many companies in the area have hired a higher proportion of foreign seasonal agricultural work-

ers for this year's harvest.

Real Estate and Construction

Activity in the residential real estate market continued to increase, although at a slightly slower pace compared to the previous reporting period. Residential construction and sales remained strong in both single-family and multifamily housing sectors. However, the pace of home price increases has slightly decelerated, and brokers in California mentioned that homes were taking a bit longer to sell. In addition, supply chain challenges and labor shortages continued to hamper new construction, with one contact in the Mountain West noting delays of more than six months in getting various appliances and building materials. A few contacts also mentioned higher rents partially due to continued migration into the Pacific Northwest. A contact in Alaska noted that applications for affordable housing have increased threefold relative to the pre-pandemic period.

Commercial real estate activity was unchanged on balance. On one hand, demand for new office and retail space was noted to have decreased somewhat, with lease rates falling due to increased uncertainty stemming from the emergence of the Omicron variant. On the other hand, demand for industrial and manufacturing spaces increased further, with related lease rates increasing as well. A contact in Southern California noted that the decision by many companies to reduce their office space has pushed commercial real estate investors to look elsewhere for long-term investment.

Financial Institutions

Lending activity remained steady over the reporting period. Consumer loan demand continued to be strong especially for refinancing, while demand for commercial loans remained slow due to businesses holding excess cash. Liquidity remained high, as did the asset quality of loan and investment portfolios. Although interest margins continued to be squeezed, several banks mentioned that loan fees from processing PPP loans have helped boost margins this year. One contact in Southern California mentioned that competition for loans accelerated further, including that from fintech companies. Another contact in the clean energy investment space observed that green bond issuances and climate-focused SPAC (special purpose acquisition companies) activity have picked up in recent weeks. ■



