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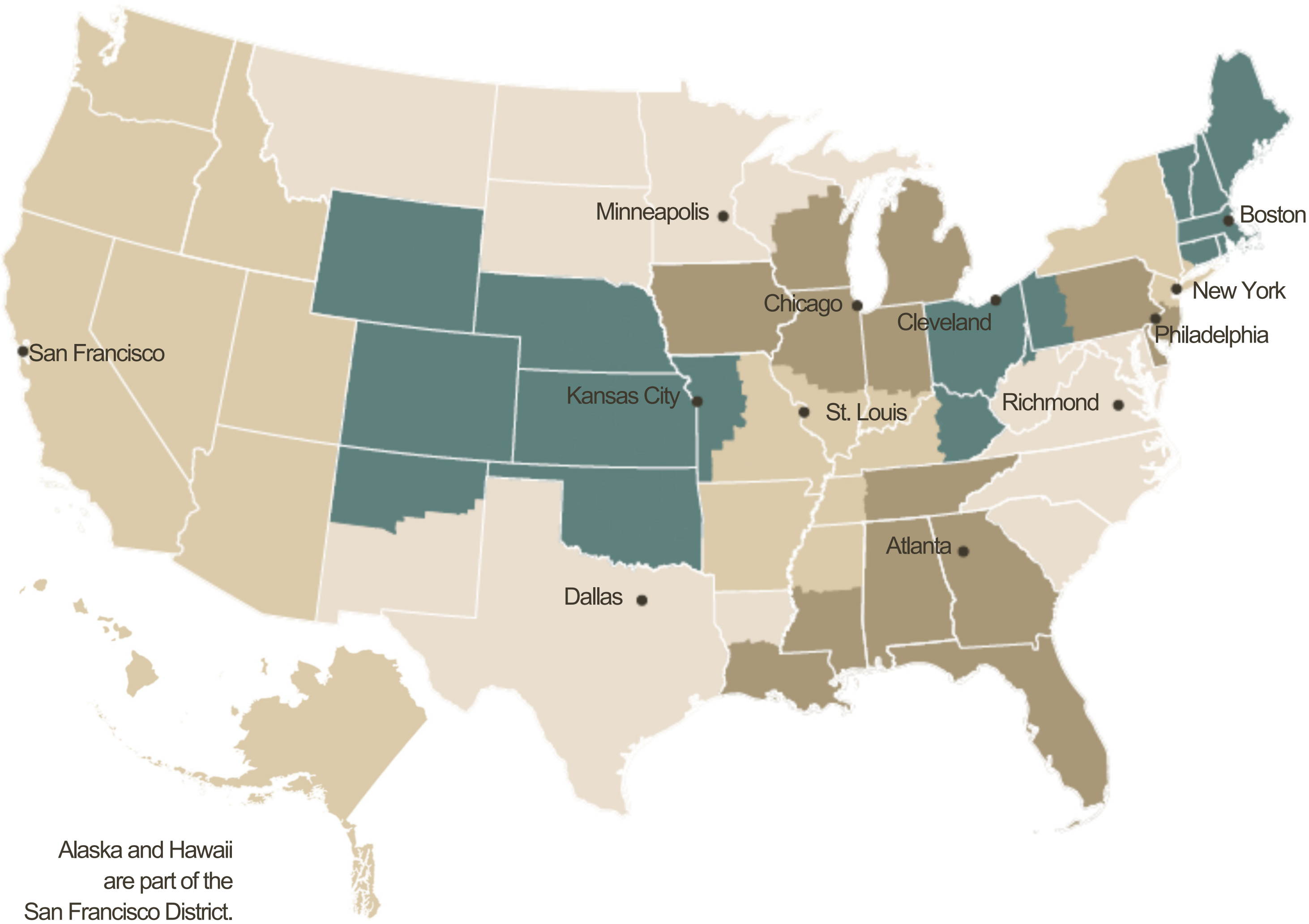
The Beige Book

Summary of Commentary on Current Economic Conditions
By Federal Reserve District

May 2020

Federal Reserve Districts



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

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What is The Beige Book?

The Beige Book is a Federal Reserve System publication about current economic conditions across the 12 Federal Reserve Districts. It characterizes regional economic conditions and prospects based on a variety of mostly qualitative information, gathered directly from District sources.

The qualitative nature of the Beige Book creates an opportunity to characterize dynamics and identify emerging trends in the economy that may not be readily apparent in the available economic data. Because this information is collected from a wide range of business and community contacts through a variety of formal and informal methods, the Beige Book can complement other forms of regional information gathering.

How is the information collected?

Each Federal Reserve Bank gathers anecdotal information on current economic conditions in its District through reports from Bank and Branch directors, plus phone and in-person interviews with and online questionnaires completed by businesses, community contacts, economists, market experts, and other sources.

How is the information used?

The anecdotal information collected in the Beige Book supplements the data and analysis used by Federal Reserve economists and staff to assess economic conditions in the Federal Reserve Districts. This information enables comparison of economic conditions in different parts of the country, which can be helpful for assessing the outlook for the national economy. The Beige Book also serves as a regular summary of the Federal Reserve System's efforts to listen to businesses and community organizations.

This report was prepared at the Federal Reserve Bank of Kansas City based on information collected on or before May 18, 2020. This document summarizes comments received from contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.

UNITED STATES FEDERAL RESERVE SYSTEM

National Summary

Overall Economic Activity

Economic activity declined in all Districts – falling sharply in most – reflecting disruptions associated with the COVID-19 pandemic. Consumer spending fell further as mandated closures of retail establishments remained largely in place during most of the survey period. Declines were especially severe in the leisure and hospitality sector, with very little activity at travel and tourism businesses. Auto sales were substantially lower than a year ago, although several Districts noted recent improvement. A majority of Districts reported sharp drops in manufacturing activity, and production was notably weak in auto, aerospace, and energy-related plants. Residential home sales plunged due in part to fewer new listings and to restrictions on home showings in many areas. Construction activity also fell as new projects failed to materialize in many Districts. Commercial real estate contacts mentioned that a large number of retail tenants had deferred or missed rent payments. Bankers reported strong demand for PPP loans. Agricultural conditions worsened, with several Districts reporting reduced production capacity at meat-processing plants due to closures and social distancing measures. Energy activity plummeted as firms announced oil well closures, which led to historically low levels of active drilling rigs. Although many contacts expressed hope that overall activity would pick-up as businesses reopened, the outlook remained highly uncertain and most contacts were pessimistic about the potential pace of recovery.

Employment and Wages

Employment continued to decrease in all Districts, including steep losses in most Districts, as social distancing and business closures affected employment at many firms. Securing PPP loans helped many businesses to limit or avoid layoffs, although employment continued to fall sharply in retail and in leisure and hospitality sectors. Contacts cited challenges in bringing employees back to work, including workers' health concerns, limited access to childcare, and generous unemployment insurance benefits. Overall wage pressures were mixed as some firms cut wages while others implemented temporary wage increases for essential staff or to compete with unemployment insurance. Most Districts noted wage increases in high-demand and essential sectors, while wages were flat or declining in other sectors.

Prices

Pricing pressures varied but were steady to down modestly on balance. Weak demand weighed on selling prices, with some contacts noting discounting for apparel, hotel rooms, and airfare. Several Districts also reported low commodity prices, including oil, steel, and several agricultural commodities. Supply chain disruptions and strong demand led to higher prices for some grocery items including meat and fresh fruit. One District reported that firms faced additional costs related to safety protocols and social distancing compliance, while another District noted that the costs of personal protective equipment had risen due to strong demand.

Highlights by Federal Reserve District

Boston

Activity continued declining as a result of pandemic-related economic shutdowns and social distancing guidelines. Retail and tourism firms cut employment, staffing firms saw reduced demand, and most manufacturing contacts froze hiring. Respondents said the outlook was very uncertain.

New York

The regional economy continued to contract since the last report, though there were scattered signs of a pickup in early May. Businesses reported widespread layoffs and flat to declining wages, but the vast majority of separations were deemed temporary. Prices paid rose slightly, while selling prices edged down. Leisure & hospitality and retail trade have remained the most severely affected. Financial firms reported weaker activity.

Philadelphia
Business activity continued to fall sharply during the current Beige Book period, as the COVID-19 pandemic persisted. Nearly all sectors are operating at lower levels of activity. Government assistance eased liquidity concerns and addressed rapidly rising joblessness. General prices have begun to fall, but the wage path remains mixed. Firms also remain uncertain of the future.

Cleveland
Customer demand declined in a broad range of industries. The few areas of strength were limited to grocery sales and business lending. Firms responded with widespread layoffs, deep cuts to capital spending, and wage reductions for a growing minority of firms. Inflation pressures eased because of weak demand and lower commodity prices. Though many firms believe the worst declines have passed, few are expecting a strong recovery.

Richmond
The Fifth District economy contracted further in recent weeks as the shutdown measures to slow the spread of the COVID-19 outbreak continued to have severe consequences. Retail, travel, and hospitality remained some of the hardest hit industries, but negative impacts were reported in every sector. Employment declined sharply and price growth slowed slightly, remaining modest.

Atlanta
Economic conditions remained weak. Labor markets were soft and nonlabor costs decreased. Retail sales of essential products and services rose and ecommerce activity grew. Hospitality activity continued to weaken. Residential real estate slowed somewhat and commercial real estate activity was mixed. Manufacturing activity decreased as new orders fell. Banking conditions were mixed.

Chicago
Economic activity declined sharply as the coronavirus caused major economic upheaval. Employment, consumer spending, business spending, construction and real estate, manufacturing, and agriculture all decreased substantially. Wages edged up and prices were little changed. Financial conditions improved modestly.

St. Louis
Economic conditions have weakened moderately since the previous report. Around half of firms are closed temporarily. Among the firms that are closed, about one-third expect to reopen in the next 3 weeks. Banks indicated a sharp increase in delinquencies, primarily in mortgages, credit cards, and auto loans, but expect fewer delinquencies in the third quarter.

Minneapolis
The Ninth District economy contracted further. Employment fell significantly, and wage pressures fell due to the decline in activity along with wage and salary cuts by some firms. While most sectors declined, oil and gas exploration and supporting industries saw a particularly steep decline as oil prices fell dramatically. Restaurants, lodging, and tourism continued to suffer, and agriculture fell from an already low level.

Kansas City
Economic activity declined substantially since the previous survey, and contacts remained pessimistic about future levels of activity. Contacts reported broad-based declines in consumer spending. Real estate activity declined significantly, and sales fell at transportation, wholesale trade and professional and high-tech services firms. Manufacturing activity contracted sharply, and energy and agricultural sectors weakened further.

Dallas
Economic activity contracted further, though the pace of decline moderated from April to early May in manufacturing and services. Oilfield activity fell to record lows. Home sales dropped sharply but were beginning to slowly improve. Employment plummeted, and selling prices fell. Outlooks were bleak and uncertain, largely centered on the speed and scope of the reopening.

San Francisco
Economic activity in the Twelfth District contracted markedly. Employment declined dramatically due to virus related disruptions. Prices remained generally flat. Activity in retail trade, consumer and business services, and manufacturing all contracted noticeably. Activity in the agriculture sector slowed further. The residential real estate market was mixed, while the commercial side slumped. Lending activity increased due to PPP loans.

Summary of Economic Activity

Economic activity continued to decline into May according to First District business contacts. Many retailers and almost all hospitality businesses reported low to nil activity levels because of the pandemic. Responding manufacturers and staffing firms cited ongoing fall-offs in sales or revenue in recent weeks, but mostly still at sustainable levels. Commercial and residential real estate markets continued to be on pause, with some retail tenants reportedly having difficulty paying rent. Many firms furloughed or laid off workers, but some, involved in "essential" or pandemic-fighting businesses, retained staff and even continued hiring. Near-term outlooks were highly uncertain and generally downbeat.

Employment and Wages

Employment was generally down among business contacts. At auto dealers, many sales workers were furloughed as transactions moved online. Many employees at year-round tourist operations were laid off. Eight of 10 manufacturers said they had frozen or largely frozen hiring; the two exceptions cited increased output. Some manufacturers laid off or furloughed workers and some implemented pay reductions but, for the most part, headcount and pay remained at pre-pandemic levels. Many firms reported providing hourly supplements for production workers because of work-related risks. While their overall bookings declined, staffing contacts reported that hiring employers were generally offering increased pay to candidates, as much as 25 percent to 30 percent higher than before the pandemic; they expect these higher pay rates to be temporary.

Prices

Few contacts mentioned pricing. Auto dealers reported financing incentives for cars. No manufacturing contacts cited any unusual pricing, except that milk prices collapsed because of reduced sales to restaurants.

Retail and Tourism

Respondents continued to report major disruptions related to COVID-19. Weekly automobile sales in Connecticut dropped 60 percent from February to mid-April, though rebounds began in the final week of April; nonetheless, weekly sales remained down about 30 percent. All sales since the shutdown were online; once in-person sales resume, they are optimistic that transactions will recover further. One retailer continued to see year-over-year increases in sales and profits from online sales, with a large increase in first-time online users.

Restaurants across Massachusetts effectively halted service in mid-March. Upwards of 200,000 workers in Massachusetts restaurants were either furloughed or laid off since then. Fewer than half of full-service restaurants attempted takeout business and many found it not sustainable or profitable. Social distancing rules mean that most restaurants will be able to operate at only 35 percent to 40 percent of capacity, which may not be profitable for many establishments.

Travel industry contacts reported a 65 percent decline in hotel occupancy across New England, and a decline in excess of 80 percent in Greater Boston for April; those figures exclude hotels that were shuttered. Large conventions have been canceled through early fall, and over 200,000 hotel room nights will be lost as a result. In summer destinations, concerns heading into Memorial Day weekend remained high. A contact for one coastal area reported a stark increase in inquiries about bankruptcy procedures from small retailers. Some optimism remains that visitors driving-distance away will satisfy their pent-up vacation demand locally.

Manufacturing and Related Services

Experiences varied widely among 10 responding manufacturers. Four firms reported higher sales than a year earlier. For two semiconductor firms, demand for consumer electronics remained strong. For a diagnostic equipment maker, the mix of demand changed, with less from universities and more from hospitals and other institutions on the front line of the fight against COVID-19. A dairy firm saw “tremendous growth” in March as households stocked up. The explanations for firms with weaker sales ranged from demand reductions from the auto industry and commercial aviation to productivity declines related to COVID-19 prevention.

Nine of the ten contacts said that all their facilities were open and only a few reported that any plants were shut at any point since the pandemic started. These firms’ processes were well-suited to social distancing, with well -defined schedules and activities that required no contact between workers. Six contacts, including one with rising sales, reported negative revisions to capital spending.

The outlook was pessimistic for almost all manufacturing contacts. A veterinary products maker said they expected demand to pick up this summer. By contrast, most respondents said they were very uncertain about when or even if demand would return to previous levels.

Staffing Services

Overall demand and placement activity at New England staffing firms slowed compared to pre-pandemic levels, but did not halt. Labor supply was mixed: one firm saw three or four times as many replies to a job posting as before COVID-19; others described supply as volatile. A majority of contacts noted that for some people, unemployment benefits could outweigh a salary, providing less incentive to find a job. Some employers were interviewing and onboarding direct-hires virtually in the past six weeks—a sign that companies were looking beyond the current situation.

Firms reported finding ways to cope with the challenges brought on by COVID-19, with new business strategies or new sales people in some cases. All contacts who were eligible for the Payroll Protection Program received funding, which they regarded as vital support; businesses were also lining up other credit lines and resources in the face of uncertainty. The majority of contacts reported no major structural or compensation changes within their organizations due to COVID-19. Overall, contacts expressed optimism, “excited” (as one put it) to facilitate hiring during the upcoming recovery.

Commercial Real Estate

Commercial real estate activity in the First District came to a halt in March because of the COVID-19 shutdown. There were no leasing and investment sales activities except for a few time-sensitive transactions or lease renewals in Boston, Providence, and Hartford. Most office and industrial tenants were able to pay April rents, but retail tenants struggled. May rent collection was expected to be challenging, and lenders and landlords have been considering payment relief measures. Many tenants were also trying to renew their leases with shorter terms. Business sentiment was cautious and observant.

In the Boston market, renewing tenants were likely to have their rents lowered. Construction in and around Boston was mostly put on hold, except for some essential building projects. In the Hartford area, tenants asked to renew leases for very short periods or to postpone renewal decisions. In the investment sales market, projects in progress still happened, but new projects were pulled off the market or not initiated.

Residential Real Estate

Residential real estate markets in the First District slowed down in March and April due to the outbreak of COVID-19. For single family homes, closed sales decreased in all reporting areas and Rhode Island and New Hampshire experienced double-digit drops in pending sales. (Rhode Island, New Hampshire, and Maine reported year-over-year changes from April 2019 to April 2020. Massachusetts and Boston reported statistics only through March. Connecticut and Vermont data were unavailable.) For condos, sales declined in all reporting areas but Boston. Nonetheless, a seller’s market prevailed, with median sales prices increasing and inventory dropping substantially in all reporting areas for both single family homes and condos.

The pause in market activity was expected by many contacts, since COVID-19 restrictions limited the availability of showings and squelched many sellers’ moving plans. Looking forward, contacts expressed generally optimistic views on the post-pandemic outlook but considerable concern about near-term uncertainty related to lifting economic restrictions associated with the pandemic.

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

Summary of Economic Activity

The Second District economy contracted substantially again in the latest reporting period, as widespread closures and stay-at-home orders severely constrained business activity. Employment continued to decline, and wages were mixed but down modestly, on balance. Businesses reported that input prices rose slightly but selling prices decreased slightly. Activity fell in every sector, with particularly widespread declines in leisure & hospitality. However, business contacts tended to be less pessimistic than in the prior report about the near-term outlook, and those in the manufacturing, construction, real estate, and health services sectors expected modest improvement. Consumer spending has fallen further, though there have been scattered reports of a nascent pickup in early May, as more parts of the economy have started to reopen. Tourism and travel have remained moribund, with hotels and airlines continuing to see very little business. Home sales and residential leasing activity have remained down sharply, as have commercial leasing and construction activity. Finally, banks reported further moderate weakening in loan demand, tighter credit standards, and higher delinquency rates but also greater leniency on existing loans.

Employment and Wages

The labor market has remained weak, as widespread layoffs have continued and hiring has been spotty. Two major employment agencies—one in New York City and another in upstate New York—noted that hiring was sluggish in April, though the latter noted a modest pickup in early May. A wide array of business contacts, as well as employment service firms, reported widespread layoffs and furloughs, especially at small to medium-sized businesses. However, the vast majority of these were viewed as temporary, with workers expected to be re-hired when business activity rebounds. Some businesses have already made efforts to recall laid off workers, as well as hire new workers. A number of these firms noted that this has been challenging, with many unemployed workers reluctant to return to work—some attributed this to generous unemployment benefits, as well as safety concerns.

Reports from across business sectors remained negative. Contacts in leisure & hospitality, transportation, retail, and construction reported the most widespread staff reductions, while businesses in manufacturing, information, finance, and professional & business services noted modestly declining staffing levels.

Looking ahead, contacts in both manufacturing and real estate said they expect a modest pickup in employment, while those in leisure & hospitality, retail, finance, and professional & business services projected steady staffing levels. Businesses across other sectors expected moderate staff cuts, on net, in the months ahead.

Wages have mostly been flat to lower since the last report. Businesses in the hard-hit leisure & hospitality sector continued to report widespread reductions in wages, whereas contacts in health services and finance indicated steady to modestly rising wages. Contacts in other service industries reported modest declines in wages.

Prices

Input costs were mixed but up modestly, on balance, with a number of contacts noting extra costs associated with installing and maintaining safety protocols. As in the last report, selling prices were steady to down modestly. Businesses in leisure & hospitality noted fairly widespread price cuts, while those in health & education services and wholesale trade characterized their selling prices as steady. Contacts in other sectors reported slight declines in the prices they receive.

Consumer Spending

Retailers reported further widespread drops in sales in April, with many malls and establishments still shut down, as those classified as non-essential were ordered to close in March. With New York and New Jersey easing restrictions in recent days, some retailers have been allowed to reopen with curbside pickup. Retailers have also sometimes been able to shift to online sales, though often with much-reduced volume. Food, personal care, and other stores deemed essential have tended to fare better. Retailers expected sales to be steady to down modestly in the months ahead.

Vehicle sales ground to a halt starting in mid-March, according to dealers in upstate New York, but picked up slightly into April, due to adoption of remote sales platforms. Dealers reported a further pickup in the first half of May, as restrictions on showroom visits were eased somewhat. While essential dealer repair services remained open, volume was much lower than usual.

Manufacturing and Distribution

Manufacturing, transportation, warehousing, and wholesale trade firms reported a further drop-off in business activity in recent weeks. However, there was substantial variation across segments, with those manufacturing and distributing essential goods faring much better than average. New York State and New Jersey are lifting restrictions on manufacturing before most other sectors.

Looking ahead, manufacturers expect activity to rebound, while wholesale and transportation firms foresee further weakening in activity. Businesses have continued to cut both actual and planned capital spending.

Services

Service industry contacts reported continued widespread deterioration in business activity. Leisure & hospitality contacts reported particularly widespread declines in activity, as restaurants remained shut down for dine-in service and hotels suffered from an almost complete drop-off in travel and tourism.

Contacts in professional & business services also indicated steep declines in activity, while businesses in the information, health, and education sectors all reported more moderate, but still fairly widespread, declines.

Looking ahead, business contacts continued to express great uncertainty about whether and when business would get back to reasonably normal levels, but there continued to be fairly widespread pessimism. A contact in air transportation expects any rebound in air travel to be slow and led by the leisure segment, noting a modest recent pickup in advance bookings for late 2020. A contact in New York City's tourism sector expects any rebound in visitations to be slow—particularly for international visitors, the most profitable segment—noting that Broadway theaters are closed until at least Labor Day.

Real Estate and Construction

Home sales markets across the District have largely ground to a halt, with almost no new transactions and home viewing limited to virtual showings. The residential rental market has slowed but not quite as dramatically. A local real estate authority noted that new rental leasing in New York City was down about 70 percent, while renewals were up, and that there has been a pickup in demand for single-family home rentals outside the city. A major appraiser noted that it's almost impossible to gauge changes in prices and rents during this pandemic due to a dearth of transaction activity.

Commercial real estate markets across the District also remain moribund, with April marking a record low in new leasing activity and some companies pulling out of leases. A contact at a major commercial real estate firm estimated that only about 10 percent of tenants in both office and industrial space have fallen behind on rent, thus far, but that the corresponding rate for retail tenants is well over 50 percent. Even beyond that, for some mall retailers, rent is assessed a share of sales revenue. More generally, real estate contacts were more optimistic than contacts in other sectors about the near term outlook.

New construction starts have essentially remained at zero, and ongoing construction projects remained paused, except where considered essential. However, this is likely to pick up as states ease restrictions on construction activity in the days ahead.

Banking and Finance

There was widespread interest, among businesses in all sectors, in the SBA Paycheck Protection Program loans, though some contacts expressed concerns about the program's implementation and accessibility. Separately, small to medium sized banks across the District reported lower loan demand across all categories, but most dramatically from the commercial segment. Banks reported tightening credit standards across all categories except consumer loans. Loan spreads narrowed on all categories except C&I loans. Respondents reported widespread declines in average deposit rates. Bankers reported higher delinquency rates but more lenient policies for delinquent accounts across all categories. ■

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

Summary of Economic Activity

Third District business activity continued to fall sharply during the current Beige Book period, as the COVID-19 pandemic persisted across most of the mid-Atlantic region. Statewide stay-at-home orders and mandated closures of nonessential businesses remained in place for most of the current period. Economic contraction continued at a moderate or steep rate for manufacturing, services, and most consumer sectors; tourism fell modestly further to a near zero-level. Real estate sector activity was mixed. Firms continued to furlough or lay off workers even as Paycheck Protection Program (PPP) loans surged onto banks' ledgers. The wage path remains unclear, although downward pressure may emerge once hardship pay is no longer needed. Prices fell modestly, as lower demand and low oil prices prevailed. As mandated closures begin to lift, firms are hopeful that business will resume. However, contacts are uncertain how fearful consumers will be while the COVID-19 threat remains and how freely consumers will spend after the threat lifts.

Employment and Wages

Employment continued to contract sharply. By mid-April, over half of the firms reported that employment had declined. A greater percentage reported a shorter average workweek. By the end of the period, about eight percent of the firms in our weekly survey reported that they had shut down. In other responses, almost 40 percent ceased all hiring and 25 percent reported employee furloughs and reductions of employees' average work hours.

Staffing firms reported that activity was down in a range from 35 percent to 50 percent. One contact observed that over the course of a day, a recruiter might make 40 calls to prior job candidates, speak with four, and hire one. In our weekly survey, just 10 percent of the firms reported that they had recalled furloughed workers. When asked about impediments to recalling workers, 33 percent of the firms noted fear of infection and 25 percent noted lack of childcare; overcoming the lure of expanded unemployment benefits was noted by 29 percent of the firms.

The path of wages continued to be unclear, as firms offered mixed reports of various wage strategies. Some firms are still paying premiums to attract and retain frontline workers. Other firms were forced to cut wages, hours, and overtime in order to survive. In mid-April, over one-third of the nonmanufacturing firms reported decreases in wage and benefit costs.

Prices

On balance, more contacts reported lower prices rather than higher during the period, except for spikes associated with scarcity and hoarding. However, well over half of all firms noted no change in prices.

Falling demand and lower prevailing oil prices were cited as factors for generally lower prices. Price spikes were noted for fresh fruit. A Pennsylvania homebuilder observed that the sector's shutdown had compressed backlogs and increased short-term demand for materials. An analyst for the transportation services sector noted that after having cut capacity in prior downturns, firms sometimes took the position expressed by one, "I'm not adding people, I'll take it in price."

Manufacturing

According to manufacturing contacts, the contraction became broader and steeper during the current period. At mid-April, about three-fourths of the firms reported decreases in shipments and in new orders.

By the end of the period, three-fourths of the firms in our weekly survey reported that sales or new orders were down by greater than 5 percent of expectations prior to the pandemic; one-third reported decreases in excess of 30 percent or had shut down.

According to several firms with global perspectives, supply chain problems have shifted from China to Mexico. One contact observed that Europe and the U.S. will not recover as easily from the pandemic as China did and that many facility investments in the U.S. have been delayed. A key supplier noted that U.S. manufacturing activity is down nearly 20 percent and “moving sideways now.”

Consumer Spending

On balance, nonauto retail sales declined further, but the pace of decline was moderate, not steep as before. Where possible, retailers and restaurants have further ramped up delivery and take-out services. However, the first clutch of many anticipated restaurant closings was announced in the Philadelphia area as the period ended.

Sales of new and used cars fell sharply again this period, but by early May, dealers and customers became more accustomed to online sales, which partially offset the steeper April decline. Sales, service, and profits are far below prior-year levels.

After a full six weeks at a near standstill, tourism was modestly lower than the average of the entire prior period. A majority of hotels, resorts, and attractions remain closed. As of May 9, a tourism analyst estimated that weekly travel spending was down nearly 90 percent from prior-year levels in Pennsylvania, and down about 85 percent in Delaware and New Jersey. Only as this period drew to a close were a few more attractions, such as beaches and golf courses, beginning to reopen.

Nonfinancial Services

Even more so than manufacturers, a broader cross section of service sector firms reported declining new orders/sales in the current period than before – resulting in another severe overall decline. At mid-April, almost nine-tenths of the firms reported decreases of sales or revenues, and two-thirds of the firms reported decreases of new orders.

By the end of the period, over 70 percent of the firms in our weekly survey reported that sales or new orders were down by greater than 5 percent of prior expectations; nearly 40 percent reported decreases in excess of 30 percent or had shut down.

Financial Services

The volume of bank lending grew rapidly over the period as commercial banks originated an enormous number of new loans to firms under the PPP. However, demand for consumer loans diminished and partially offset the PPP loan growth. Auto loans and other consumer loans fell moderately and steadily throughout the period; credit card volumes fell sharply throughout. By comparison, commercial and residential real estate lending trended about the same as in the same period one year ago.

Banking contacts noted increased optimism among their clients after PPP loans had been widely disbursed. Our weekly firm surveys also reflected increasing optimism from early April, when 28 percent of the firms were very concerned about maintaining solvency over the next month, and early May, when 18 percent of the firms were very concerned. Bankers noted that existing aid, loan extensions, and forbearance would carry most firms for the next three to six months, but problems may arise in the third quarter. Contacts most often noted hospitality and hospitals among the sectors of greatest concern.

Real Estate and Construction

Homebuilders maintained a lower level of construction activity similar to the end of the prior period, and Pennsylvania builders began restarting in early May. Builders noted that they were slowly converting most of their prior deposits into final contracts, but they were seeing too little traffic to sustain future activity.

Existing home sales declined sharply. Real estate contacts reported that potential sellers showed little interest in listing, much less showing, their homes, and fewer buyers were in the market. Brokers noted that credit markets were tightening and that interested buyers tended to be younger.

Philadelphia’s commercial real estate construction grew slightly at lower levels as some projects started back up in early May; however, some sites chose not to restart, and other projects are slowing delivery. Contacts noted a decline in new plans and little commercial construction financing. “None of our normal metrics apply,” an analyst stated of the commercial sales/leasing market, which continued a modest decline. April rent collections, which were down somewhat for office and industrial space, were down significantly for retail space. ■

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

Summary of Economic Activity

The Fourth District's economy deteriorated further in the current reporting period after it contracted sharply in the previous period. Firms across a broad range of sectors reported declines in customer demand. The shuttering of physical stores and reduced travel because of the coronavirus pandemic kept sales weak for retailers and hospitality establishments. Reduced foot traffic also hamstrung auto and home sales. Manufacturing orders declined, and producers slashed capital investments, although a number of contacts believe their current backlogs will tide them over until demand improves. The slower pace of construction activity, reduced manufacturing production, and weak consumer spending resulted in low cargo volumes. Relatively strong areas of economic activity included grocery sales and business lending. Firms responded to weak customer demand by reducing staff levels and in some case by cutting wages. Inflation pressures eased because of weak demand and lower commodity prices. A sizeable share of firms believed the worst declines in demand have passed. However, few expect a strong recovery given the uncertainty of the coronavirus's path.

Employment and Wages

Employment declined in a broad range of sectors as layoffs were widespread and hiring was limited to a handful of firms. Half of contacts reported decreasing staff levels during the current period, compared with about 40 percent that did so in March. Furthermore, only one-third of contacts who reduced staff levels expect to rehire close to the full number of separated staff when their businesses reopen. This expectation suggests employment is unlikely to climb back to pre-pandemic levels quickly after businesses reopen. Firms that held their staff levels flat tended to be in financial services, construction, real estate, or manufacturing. In several cases, firms in these sectors cited the Paycheck Protection Program as enabling employee retention. The few firms that increased staff included grocers, who saw an increase in at-home food demand and curbside pickup, and a couple of large banks that needed back-office support. Some retailers started to recall staff in limited numbers as businesses were allowed to reopen. One staffing firm reported that his clients were starting to increase hours or bring back workers who were laid off.

Multiple contacts in a variety of industries noted additional labor market challenges, including limited access to child care services keeping workers away from job sites, workers' requesting to stay home out of fear of the virus, and unemployment benefits that disincentivized workers from rejoining payrolls.

Overall, wage pressures were flat. Although the majority of firms left wages unchanged, one in five contacts reduced workers' pay, a marked increase from the number of contacts who did so in the previous period. Wage cuts were concentrated in retail, real estate, professional services, and civic organizations. Multiple contacts reported wage reductions of at least 10 percent for office workers or nonfurloughed staff. In cases in which wages increased, these increases tended to be for employees at a variety of banks, transportation firms, and manufacturers. These firms raised wages for people who continued to work on site, in a number of cases by $1 to $3 per hour.

Prices

Firms reported that input cost pressures eased because of lower prices for commodities such as oil, steel, copper, cotton, and resins. The few cost increases that were reported included those for meat and some inputs for manufacturing and construction firms for which pockets of supply-chains were temporarily disrupted. One in four firms reduced selling prices because of weak customer demand and lower commodity prices. This was the case notably among residential builders who offered discounts on homes, commercial real estate firms that reduced rents, and transportation firms that lowered their rates. Also, department stores and apparel retailers heavily discounted their prices.

Consumer Spending

Retail activity remained significantly lower than pre-pandemic levels. Restaurants saw dramatic reductions in revenue because of the closure of dine-in services. Also, a sharp decline in business travel significantly reduced hotel bookings. Department stores and apparel retailers saw deep reductions in sales because of the shuttering of physical stores and were unable to fill the gap with online sales. One auto dealer reported that the impact of COVID-19 has been “unprecedented,” with total sales down 55 percent year over year. By contrast, grocers saw stronger demand as customers cooked more at home. Many contacts expect customer demand will improve somewhat as restrictions are lifted slowly. However, they feared consumer spending could be dampened if unemployment remained high and concerns about contracting the coronavirus lingered.

Manufacturing

Manufacturing orders continued to slide. Several contacts noted that the shutdown of automotive production was particularly painful; others reported that they anticipated long-lasting and adverse impacts to the aerospace and energy sectors. More than two-thirds of contacts indicated that capacity utilization is below its normal range, citing lack of demand, inefficiency brought on by social distancing, and difficulty convincing employees that it is safe to come to work. Manufacturers believed the worst declines in demand may have passed in April, though the outlook for the rest of the year was still downbeat. Additionally, some contacts were optimistic that their current backlogs would tide them over until demand picks up again.

Real Estate and Construction

Construction activity fell for almost all residential and nonresidential construction firms. Backlogs for nonresidential builders, that were heretofore relatively large, diminished, with one builder’s saying the pandemic caused 80 percent of the firm’s backlog to be postponed. Real estate agents reported weaker home sales because of slower foot traffic. One custom home builder tried selling homes online with limited success. Demand from first-time home buyers weakened because of a weak job market, and although interest rates are low, potential buyers were having a harder time qualifying for credit. One housing agency reported increased demand for rental and utility assistance.

Looking ahead to the near-term, residential estate agents were more optimistic that single-family home demand would improve because of pent-up demand, low interest rates, and low inventories of homes. Also, a number of nonresidential builders expect delayed projects would come back online. Downside concerns included reduced infrastructure spending because of declines in state gasoline tax revenues. Also, higher education institutions are facing fiscal difficulties that could lead to canceled projects. Finally, commercial real estate firms worry that relatively high rates of nonpayment of rent and rent deferrals will linger and depress profits.

Financial Services

Reports from financial services companies were mixed. Bankers saw large numbers of business-loan requests and draws on lines of credit in the second half of March, and while this activity slowed somewhat in April, it remained robust. Several banks reported processing large numbers of Paycheck Protection Program loans. On the other hand, demand for consumer loans was down significantly outside of heightened activity in home mortgage refinancing. A wealth management advisor noted that economic uncertainty drove increased demand for his services; however, another contact reported dampened demand for insurance because of declines in business activity and vehicle miles driven.

Professional and Business Services

Customer demand for professional and business services was mixed. One online shopping consultant reported an increase in demand in recent weeks, as did another contact who provides legal and strategic advice. A corporate strategy advisor reported that customers have recently started enquiring about potential investment projects. By contrast, several contacts in a variety of industries such as advertising consulting, landscape development, robotics, and payroll support reported continuing subdued demand for their services.

Freight Transportation

Weaknesses in the manufacturing, construction, retail, and energy sectors resulted in weaker cargo volumes for freight companies. Contacts highlighted reduced auto and metal production as particular pain points. The difficulty for transportation firms is exacerbated by the fact that freight volumes were already soft going into the pandemic. The few bright spots in the sector are limited to cargo for groceries and local and short-haul transportation. ■

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

Summary of Economic Activity

Economic activity in the Fifth District continued to decline after the sharp fall reported in our previous Beige Book. Manufacturers experienced declines in shipments and new orders, as well as cancellations of exiting orders, leaving some with excess inventories. Ports saw steep declines in volumes compared to the same time last year although imports from China increased somewhat. Trucking companies had a moderate decline in volumes as the increases in shipments of essential supplies did not make up for the losses in other shipments such as retail goods. Most retailers reported very little sales compared to last year and were concerned about low demand persisting for some time. Travel and tourism remained depressed with hotels reporting little occupancy outside of some health care and construction workers. Some restaurants pivoted to carry-out sales, while others remained closed. Home sales declined moderately and inventories were further reduced from low levels as few new listings came on the market. Commercial real estate leasing also declined moderately and some tenants requested payment deferments. Banks reported a slight decline in overall lending activity, but strong demand for CARES Act loans. Nonfinancial services firms reported a moderate decline in revenue and demand. Employment continued to decline sharply in recent weeks. Wages were little changed, overall, but there were a few reports of temporary wage increases or bonuses to keep workers on payrolls. Price growth slowed slightly but remained at a modest pace, overall.

Employment and Wages

Overall, employment continued to decline sharply in recent weeks. The only reports of firms hiring or looking to hire came from high demand industries, such as food manufacturing, logistics, cleaning services, and some segments of retail. Also, some employers noted that while they didn't lay off staff, they did reduce the number of hours they worked. Others expressed difficulties retaining or rehiring workers because they had child or elder care responsibilities, or because it was more financially beneficial to collect unemployment insurance. While there were few reports of permanent wage increases, there were several reports of employers temporarily increasing wages to retain essential on-site staff, to match the amount employees could earn on unemployment, or to reduce absenteeism.

Prices

Price growth slowed slightly but overall remained modest. According to our most recent surveys, growth in prices received by firms slowed across manufacturing and service sectors. Conversely, growth in prices paid rose slightly for manufacturers and increased moderately for services firms. Coal prices declined further in recent weeks, from already low levels, while oil and gas prices fluctuated but remained historically low. Agriculture commodity prices mostly trended lower although prices paid by food manufacturers and consumers increased for some food groups, like meat and eggs.

Manufacturing

Manufacturers reported steep declines in shipments and new orders since our last report. Firms also reported a rise in cancellations of existing orders, which led to inventory build-up and a need for more storage capacity. A meat processor reported a decline in production as some plants shut down after employees tested positive for COVID-19. A prepared food manufacturer reported a decline in sales as panicked buying led customers to purchase frozen and canned foods, but was optimistic that people would start to transition back.

Ports and Transportation

Shipment volumes at Fifth District ports fell sharply relative to last year. Exports were hit especially hard, declining further in recent weeks from already low levels. Imports were down over the year but recovered somewhat since our previous report as China resumed shipments. Automotive shipments were particularly weak as manufacturers were shut down and low oil prices softened the West African market for used vehicles. Contacts expected both imports and exports to remain low in the coming months.

Trucking companies had a moderate drop in volumes since our previous report, and said volumes were down significantly from a year ago. Firms lost business from customers who were temporarily closed or faced decreased demand. Retail clothing, wine and convention-related shipments were especially soft. Some weakness was also attributed to supply-chain disruptions from overseas. Declines were partially offset by increased shipments of food, building materials, medical and cleaning supplies, and cardboard shipping boxes. Spot market rates fell sharply, and some companies had to remove trucks from the road.

Retail, Travel, and Tourism

Retail sales in the Fifth District remained low in recent weeks and decreased greatly on a year-over-year basis. Many retailers were required to shut down temporarily, but were able to conduct business online or by appointment. Retailers expressed concerns about demand and looked for ways to encourage customers to safely return once they reopened, such as requiring and providing masks, extending hours, and implementing measures that allow for social distancing inside stores. Clothing retailers struggled with a build-up of seasonal inventory that will be hard to move in the coming months.

Travel and tourism remained extremely weak since our last report, with sharp declines reported on a year-over-year basis. Many hotels closed temporarily and those that were open saw low occupancy, which mainly came from healthcare workers and construction workers. Some contacts expected demand for tourism to come back strong because of pent-up demand. In parts of the Fifth District, advanced hotel bookings were up over the year for later this summer. Restaurants struggled as some were able to continue carry-out business, but others had to close. As restaurants were allowed to reopen with limited capacity, some opted to remain closed as operating at low capacity would not be profitable.

Real Estate and Construction

Fifth District home sales declined moderately since our last report. Contracts that were underway before the health crisis moved forward, but fewer new sales were initiated. Inventories, which were already low, declined as potential sellers were reluctant to list and show their homes. There were a few reports of deals falling through because buyers failed to qualify for a mortgage as banks increased credit score requirements. Existing construction projects continued, but speculative building slowed, and contractors reported supply chain disruptions. Realtors also reported logistical challenges with electronic and curbside closings.

Fifth District commercial real estate leasing softened moderately in recent weeks. Landlords worked with tenants on rent deferments. Retailers, restaurants, and salons were especially likely to miss payments. Office leasing was also weak, as many tenants asked for deferments, and businesses did not look for new space. Current projects continued, but speculative construction softened. Demand for industrial leasing, on the other hand, was high. Multifamily leasing also remained strong, and some landlords allowed tenants to extend leases without added fees.

Banking and Finance

Overall, loan activity declined slightly for this period. Respondents indicated tepid conditions for conventional commercial lending, but strong demand for Paycheck Protection Program (PPP) loans. Residential mortgage demand declined compared to the first quarter but was higher than a year ago, while mortgage refinance lending continued to grow moderately. Auto loans declined sharply on a year-over-year basis. Deposit growth was strong, mainly due to proceeds from federal aid disbursements. Overall, credit quality remains good; however, a few bankers noted an uptick in 15-30 day past due payments and numerous requests for loan extensions, deferrals, and mortgage forbearances.

Nonfinancial Services

On balance, nonfinancial services firms saw a moderate decline in demand and revenues since our previous report. Hospitals and health care service providers reported sharp declines in revenues and total volumes, overall, because of the limitations on non-COVID-19-related services such as elective surgeries. Higher education institutions in the Fifth District also reported declines in revenues, largely due to reimbursements made to students for forgone room and board. Demand for professional services were mixed. For example, an accounting firms saw a modest reduction in business while a marketing company said sales were up, although the number of clients was down. ■

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

Summary of Economic Activity

Sixth District business contacts reported that economic activity continued to decline from April to early May due to the COVID-19 pandemic. Labor market activity remained weak and nonlabor costs declined overall. Retailers reported further declines in discretionary consumer spending, although sales of essential items continued to grow; ecommerce activity accelerated. Auto sales were subdued. Hospitality contacts noted record low revenues. Despite soft demand for new and existing homes, inventories fell and home prices remained steady. Commercial real estate market reports were mixed. Overall, manufacturing activity contracted and new orders declined significantly. Financial institutions reported growth in commercial loans as businesses accessed lines of credit and the Paycheck Protection Program (PPP) and some softness in consumer lending.

Employment and Wages

Overall, District labor markets continued to deteriorate from closures related to the COVID-19 pandemic and the resulting decline in demand for products and services. Several contacts noted they were redeploying workers from low to high demand areas within their organization. Many contacts reported success in securing a PPP loan, which allowed them to avoid layoffs. Although more furloughs and layoffs were announced, most contacts were furloughing employees with medical benefits rather than laying off in hopes of re-engaging them when demand returned. Several employers noted concern that the generosity of unemployment benefits may make it difficult to attract workers once demand improves especially among lower paid jobs. Most contacts noted that they had frozen or slowed hiring with the notable exception of high demand sectors such as grocery and home improvement stores.

Contacts noted that weaker demand resulted in more reports of pay cuts, elimination of bonuses, and reduced hours; these cuts were more broad based than in the previous report. Some temporary increase in hourly wages and bonuses continued to be reported among high demand or essential workers, however there was no evidence that these inducements were increasing substantially or spreading to other sectors.

Prices

Most contacts reported input costs decreased over the reporting period due to the impact on demand from COVID-19. As demand shifted from restaurants to grocers as a result of safer-at-home practices, some food service supply chains were left with excess inventories while others, such as meat processing and packing, experienced shortages. However, the majority of firms have not increased prices, either due to a lack of pricing power or as a show of goodwill to troubled consumers. The Atlanta Fed's Business Inflation Expectations survey showed year-over-year unit costs declining to 1.2 percent in April, as sales levels declined dramatically "compared to normal." Year-ahead expectations, on average, declined to 1.4 percent.

Consumer Spending and Tourism

Similar to the last report, continued declines in discretionary consumer spending due to COVID-19 was partially offset by sales growth in grocery and household products, office equipment, and home improvement goods. Ecommerce activity continued to accelerate as brick-and-mortar sales continued to decline. Reports from businesses in locales that were cleared to reopen indicated implementing social distancing measures and heightened sanitation efforts. While auto sales were muted, contacts noted that the rate of decline was slower than expected.

Across the District, tourism and hospitality contacts reported that revenue per available room had reached a historical low for April as a result of COVID-19. Most contacts were in the process of developing their reopening strategy which would include marketing efforts and implementation of social distancing and elevated sanitation, among other things. Firm reopen dates had not yet been determined and the general sentiment was that the recovery for this industry would be moderately slow.

Construction and Real Estate

The District housing market continued to show signs of significant disruption as a result of COVID-19. Contacts indicated a sharp overall decline in pending home sales, as well as a significant contraction in homes available for sale. Mortgage financing remained constrained as many lenders increased credit overlays. However, contacts suggested that purchase activity improved since the beginning of April as more buyers sought to take advantage of low interest rates. Home prices remained resilient as sellers maintained asking prices. Though new home starts and sales were down sharply from a year ago, contacts indicated that cancellations were lower than expected and builders did not need to significantly increase incentives in order to close sales.

Commercial real estate (CRE) contacts reported continuing challenges associated with the effects of COVID-19. Reports were mixed, as rent collections exceeded low expectations and investment activity continued to slow during the reporting period. Contacts continued to report a deceleration in new leasing inquiries, though leasing activity that was already in the pipeline appeared to be steadily continuing to move towards completion. Reports of a greater number of tenants seeking rent relief emerged. Declining tourism and travel conditions have had a significant impact on CRE activity across the District. Contacts reported that capital was readily available for financing stabilized CRE projects. Reports also indicated that accurately appraising property values has become much more difficult and anticipate this to last through the remainder of the year.

Manufacturing

Manufacturing firms reported a decrease in overall business activity, steered by a notable decline in new orders. To adjust to weakening demand, contacts described lowering production levels by reducing capacity and, in some instances, temporarily halting production at some of their plants. Some purchasing managers indicated they were experiencing delays in deliveries due to disruptions in supply chains. Across the board, contacts had or planned to implement enhanced safety procedures at their plants to promote social distancing and to provide a sanitary work environment.

Transportation

Transportation activity weakened over the reporting period, and about half of contacts noted significant disruption to operations due to COVID-19. Air cargo companies reported further capacity reductions as more than roughly two-thirds of worldwide passenger flights were suspended. However, demand for air cargo services remained robust; thus, carriers operated cargo-only flights by using passenger aircraft to meet demand. Railroad contacts noted continued year-over-year declines in overall traffic in petroleum and petroleum products, metals, lumber, and motor vehicles and parts. District ports cited continued softness in container cargo. Third-party logistic firms saw trucking volumes fall off as panic buying of essential consumer goods subsided.

Banking and Finance

Conditions at financial institutions deteriorated slightly. While net interest margins remained stable, emerging credit issues related to COVID-19 prompted an increase in provisions for loan loss reserves, which significantly lowered earnings. Loan growth accelerated for the commercial and industrial segment due to a combination of customer drawdowns of existing lines of credit and approvals of new loans under the PPP. Both commercial real estate and construction loan growth declined due to weaker demand but remained positive. Residential real estate loan growth increased due to lower interest rates and a high level of refinancing. However, consumer loan growth declined due to lower demand and credit standards being tightened. Increased deposits and lending facilities created by the Federal Reserve System kept liquidity stable.

Energy

Oil and gas producers and servicers reported temporary closures of wells as global demand for crude oil remained weak among historic oversupply. Utilization at refineries and chemical manufacturers was down to historic lows, aside from those used to make personal protective equipment, disinfectant, sanitizer, and other high-demand products related to COVID-19. Thus, refining and chemical manufacturing contacts reported layoffs, spending cuts, and maintenance delays. Reports indicated that widespread maintenance delays into the second half of the year will create added strain on limited maintenance contractors, staff, and equipment. Industrial construction contractors reported extensive project delays and cancellations. While some energy contacts expect demand to rise in late summer, many noted that the industry will still have to contend with crude oil oversupply and storage overhang. Utilities contacts reported decreased demand for power overall, largely from the commercial segment.

Agriculture

Agricultural conditions softened. Most of the District remained drought free, with the exception of much of Florida, southern Louisiana, and other parts of the Gulf coast region, which experienced abnormally dry to severe drought conditions. On a month-over-month basis, the April production forecast for Florida's orange crop was down from last month's forecast and last year's production, while the grapefruit production forecast was down from last month’s forecast but ahead of last year's production. The USDA reported that for March, year-over-year prices paid to farmers were up for corn, rice, eggs, and milk but down for cotton, soybeans, cattle, and broilers. On a month-over-month basis, prices increased for broilers and eggs but decreased for corn, cotton, rice, soybeans, beef, and milk. ■

For more information about District economic conditions visit:
www.**frbatlanta.org/economy-matters/regional-economics**

Summary of Economic Activity

Economic activity in the Seventh District declined sharply in April and early May, as the spread of the coronavirus caused major economic upheaval. Contacts were split over whether activity would decline further or pick up during the next 3 months, and they largely expected full recovery to take more than a year. Employment, consumer spending, business spending, construction and real estate, manufacturing, and agriculture all decreased substantially. Wages edged up and prices were little changed. Financial conditions improved modestly.

Employment and Wages

Total employment fell dramatically over the reporting period, with especially large declines in the retail, leisure and hospitality, and auto industries. That said, many contacts reported little change in employment, and a staffing firm that primarily serves manufacturers said that workers were beginning to return from furloughs. Many contacts who received a Paycheck Protection Plan (PPP) loan said that they were avoiding layoffs in order to qualify for the loan forgiveness provision of the program. Still, a number of other contacts reported challenges in meeting the PPP loan forgiveness requirement, with some saying that generous unemployment benefits were making it difficult to bring payrolls back to necessary levels. Contacts again indicated they were making major changes in work environments to protect employees against the coronavirus. Wages edged up overall, with reports of workers at many essential businesses receiving bonuses or raises. Benefit costs were flat.

Prices

Prices were little changed in April and early May, though contacts expected modest price increases over the next 12 months. Both retail and producer prices were flat overall, though grocery prices rose moderately and hotel room rates declined substantially. Input prices were largely unchanged, with the exception of shipping costs, which increased some.

Consumer Spending

Consumer spending again decreased sharply over the reporting period. Nonauto retail sales declined considerably, as sellers of non-essential goods remained closed in much of the District. Sales fell for almost all categories, with apparel, electronics, and furniture stores particularly hard hit. In contrast, grocery stores reported sizeable increases in sales, and demand for home improvement items was steady. E-commerce again saw very large gains. Light vehicle sales were much lower, as some dealerships remained closed. Sales picked up at dealerships that were open, though the pace remained well below that of a year ago. Consumption of services remained much lower than prior to the coronavirus crisis. Contacts in the food services, entertainment, tourism, and recreation sectors expressed deep concern about the upcoming summer season, noting that social distancing requirements were likely to put substantial limits on occupancy.

Business Spending

Business spending decreased significantly in April and early May. Retail inventories were well above comfortable levels in most segments after sales fell dramatically, and many contacts cancelled the bulk of their orders for the short term. There were, however, reports of low inventories of groceries, household products, and home improvement products. A number of manufacturers said that inventories were higher than desired. Capital expenditures declined, and many contacts said they were suspending capital spending for the remainder of the year. Contacts continued to spend to support telecommuting. Demand for transportation services decreased moderately overall, as lower long-haul volumes outweighed increases in local delivery services. Commercial and industrial energy consumption declined moderately, with lower usage by retail stores, restaurants, and the auto industry.

Construction and Real Estate

Construction and real estate activity decreased substantially over the reporting period. Residential construction decreased moderately—most projects that started before the coronavirus outbreak continued, but few new projects were started. Residential construction in Michigan restarted in early May after being suspended in late March, but contacts were concerned about the availability of labor, in part because many workers had left the state during the suspension. Residential real estate activity decreased substantially. One contact noted heightened interest in moving out of urban areas. Home prices fell slightly, as inventories and the number of interested buyers both fell. Apartment owners reported fewer rent delinquencies than they had expected and believed generous unemployment benefits were helping. Nonresidential construction activity decreased moderately as most existing projects continued. Commercial real estate activity decreased significantly, with the largest drops in the retail and hospitality sectors. Prices were little changed, though contacts reported elevated uncertainty over how to price many properties. Rents fell modestly as vacancies and the availability of sublease space increased modestly.

Manufacturing

Manufacturing production decreased substantially in April and early May. Auto production was very low as many assemblers and suppliers remained shut down. While many automakers in the US planned to resume production in the middle of May, there was concern over supply chains due to uncertainty about when factories in Mexico would reopen. Steel production declined precipitously, driven by large declines in autos and oil and gas. Demand for specialty metals decreased moderately, as reduced orders from autos and aerospace outweighed slight increases from the medical and defense industries. Orders for heavy trucks continued to decline from their peak last year. Manufacturers of building materials saw a modest decrease in shipments, while manufacturers of packaging materials reported a large increase in demand.

Banking and Finance

Financial conditions were mixed but improved modestly on balance. Participants in the equity and bond markets reported large gains over the previous reporting period, though volatility remained elevated. Business loan volumes increased dramatically as banks processed a massive number of Paycheck Protection Program applications. Demand for other loan products decreased moderately. Quality deteriorated moderately overall, and contacts highlighted declines for the leisure, hospitality, dental, non-profit, agriculture, and energy sectors. Standards again tightened moderately. Consumer loan demand decreased moderately overall. Volumes were lower for most categories, but remained high for mortgage refinancing. One contact said that auto loan applications were up a good deal from March, though still well below normal levels. Loan quality again deteriorated slightly and standards tightened slightly.

Agriculture

Agriculture incomes fell over the reporting period as most commodity prices fell. Contacts reported disruptions in the supply chain for meats, dairy, and vegetables. The disruptions were particularly notable for meats, as coronavirus outbreaks forced a number of packing plants to suspend operations. Some packers restarted, but output was substantially lower than a year ago. With no place to deliver market-ready animals, farmers were forced to slow herd growth (including by euthanizing hogs). On net, the supply disruptions led to higher prices and shortages of meat at grocery stores and restaurants, but lower prices for cattle and hogs. Milk prices also fell, with some producers dumping milk. Some ethanol plants accepted corn deliveries again, but corn prices remained low. Soybean prices also fell, but were favorable relative to corn, resulting in some shift toward planting beans. Planting progress was ahead of last year. Late freezes damaged some crops, particularly fruit trees. Farmers anticipated government programs would help during the downturn, but observers expected some distressed farms to be forced to liquidate. ■

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

Summary of Economic Activity

Economic conditions have declined since mid-April, but at a moderately slower pace. While a very small fraction of firms had closed permanently, around half of firms remain closed temporarily. Among the firms that are closed, about one-third expect to reopen in the next 3 weeks, one-quarter in the next 3 to 5 weeks, one-quarter in the next 5 to 10 weeks, and the remainder in more than 10 weeks. Firms that are reopening are often doing so for training and preparation purposes; less than one-fifth expect demand for their products or services to pick up in the next 5 weeks. Contacts' general outlook for regional economic growth during the remainder of 2020 is pessimistic, as about two-thirds of contacts expect growth to be slower than the same period in 2019.

Employment and Wages

Labor markets have continued to decline sharply over the reporting period, although the pace of decline has slowed considerably, with some contacts attributing employment stability to PPP funding. A payroll contact reported that new layoffs were driven predominantly by small firms, though many large employers have also furloughed workers since March—notably, several healthcare systems. Contacts reported that reopening firms were limited by labor shortages, which they ascribed to increased unemployment benefits, personal health concerns, and childcare responsibilities leading potential workers to stay home.

Wages and other benefits were lower than in our previous report; a payroll company reported a "second wave" of wage cuts, and reports across industries have mentioned cuts to benefits, including employer 401k matching. Some companies, especially those in competitive fields, have promised to repay lost wages at the end of the crisis; and others have increased wages to maintain morale and lure back hesitant workers.

Prices

Price pressures have decreased modestly since the previous report. On net, 16% of contacts reported that prices charged to consumers were lower in the second quarter relative to the same time last year. Nonlabor costs to businesses were generally unchanged, but some sectors did report significant increases: Wholesale, healthcare, and construction industries reported large net increases in nonlabor input costs. The healthcare industry in particular remains concerned about heightened prices for personal protective equipment because demand for these products has increased as other firms begin to reopen.

Consumer Spending

Consumer spending activity has been mixed but remains at historic lows. There have been slight upticks in activity for auto dealers and hotels in recent weeks. A furniture retailer expects to reopen in the coming weeks and expects that demand will pick up in the next month. A jeweler does not expect demand to pick up for another two months or longer and may not reopen. Hospitality contacts continue to report low or no activity throughout April. Tourism venues expect to remain closed for the next two months or longer.

Auto dealers reported mixed activity over the past month. Some contacts cited stay-at-home orders and lack of inventory as reasons for low sales, while others reported that current-quarter sales are about the same as they were this time last year, noting that stimulus money and financing deals have helped bolster sales.

Some dealers reported that demand has already picked up since the shutdown, while others anticipate it will take two months or longer to see an upward trend in demand.

Manufacturing

Reports from manufacturing contacts were mixed. However, levels of production remain very low. A steel manufacturer reported a 30% reduction in production, and a machine products manufacturer reported a 50% reduction in production. Both these contacts cited reduced demand as their biggest impediment. A printing company reported sharp increases in production from 15% to 80% of normal levels. Furthermore, several auto plants in the region have reopened or plan to reopen within a couple of weeks, but are working at 25% to 50% of normal production levels with supply chain disruptions.

Nonfinancial Services

Activity in the nonfinancial services sector has worsened moderately since the previous report. On net, about one-third of contacts expect that it will take more than 10 weeks for demand for services to begin to improve. Contacts in the healthcare sector reported severe drops in non-COVID-19 patient visits, by as much as 50% since March. Elective surgeries have been postponed by hospitals. Contacts reported furloughing between 5% to 33% of their workforce. Contacts in primary care note the use of telehealth to replace some, but not all, patient visits.

In the transportation industry, passenger activity in airports is significantly lower but has ticked up slightly in recent weeks. Contacts noted a 95% drop year over year in passenger traffic. Airports have been able to remain open by making use of their cash reserves and relief funding from the CARES Act, by postponing capital expenditures, and with increases in cargo traffic. Contacts in logistics and freight noted mixed activity. Contacts linked to foodstuffs and online shopping noted increased activity, while contacts linked to retail trade and other sectors noted a drop in activity since the previous report.

Real Estate and Construction

Residential real estate activity sharply declined in April as measured by existing home sales, new listings, and pending sales. Contacts reported drops in home sales between 8% and 50% in April relative to one year ago, despite sales conditions being generally unaffected by COVID-19 in March. Some brokers indicated that they have already experienced an uptick to near-normal sales. Home showings have rebounded from their lows in late March and early April. Inventory levels have decreased about 20% from the same time last year.

A majority of contacts reported lower new residential construction demand compared with the previous year. A contact in Memphis reported few new projects in the pipeline. Contacts in Louisville and St. Louis reported that homebuilding remained stable in April because of the continuation of in-progress projects.

Commercial real estate activity has moderately decreased since March. All contacts surveyed reported lower demand for retail space relative to the previous year. Contacts reported little change in the demand for industrial space and a moderate decrease in demand for office space. Some contacts expressed that despite sharp drops in the retail side of their business, continued industrial demand has been a bright spot for their firms. Contacts reported only a slight decline in rent collections.

Contacts reported clients have suspended or delayed commercial construction projects. Contacts also reported difficulties with the construction process due to supply chain issues and increased safety costs.

Banking and Finance

Banking conditions in the District have declined slightly after a surge in demand for emergency loans in April. Contacts reported the pipeline for PPP loans is now manageable. Demand for most consumer loans declined moderately, with the exception of credit cards loans, which modestly increased. Banks indicated a sharp increase in delinquencies, primarily in mortgages, credit cards, and auto loans; but they expect fewer delinquencies in the third quarter. Louisville area bankers reported increasing loan loss reserves.

Agriculture and Natural Resources

District agriculture conditions have been mixed since April. Contacts reported that transportation and warehousing costs have increased and supply chain issues are affecting many producers. Smaller meat processing plants experiencing higher demand due to closures of larger plants are constrained by regulatory requirements. Contacts reported significant variation in revenue as some industries such as rice producers have seen increased demand and prices for their goods. Meanwhile, cotton and other row crop producers reported lessened demand and continued low commodity prices, making profitability a challenge. Planting has increased since the previous reporting period and is up modestly from this time in 2019. However, this is largely due to improvements in states that experienced historic flooding in 2019. ■

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

Summary of Economic Activity

Ninth District economic activity declined further after falling substantially in the previous report due to the COVID-19 pandemic and response. Employment fell significantly, and wage pressures fell overall due to the steep decline in activity, while price pressures remained modest on balance. The District economy saw declines in consumer spending, tourism, services, construction and real estate, manufacturing, energy, mining, and agriculture .

Employment and Wages

Employment fell significantly since the last report. Two surveys in May by the Minneapolis Fed found that April employment fell among a significant number of firms, and many expected additional staffing cuts by the end of the month. Although initial unemployment claims have fallen significantly in recent weeks, they remain much higher than normal levels. Mass layoff events have slowed after a deluge in April. For example, there were more than 60 mass layoff announcements in Wisconsin in April, many involving multiple locations. Through mid-May, there have been only a handful of such announcements. Mass layoffs in Minnesota have followed a similar pattern. April job postings fell steeply in Minnesota and North Dakota. However, states that track job postings every week are showing evidence of a recent bounce-back. After dropping from mid-March through mid-April, job postings in South Dakota and Montana jumped significantly in late April and early May. Seasonal hiring has resumed with the gradual lifting of operational restrictions facing some businesses, but at a much lower level than normal. A Montana firm that normally hired 4,000 summer employees reported that it expected only about 1,000 this year. Ironically, staffing firms with job orders reported difficulty finding workers.

Wage pressures fell due to the steep decline in overall activity. A Districtwide survey of firms found that more than one-quarter have implemented some level of wage cuts, and a similar share of firms expected additional wages cuts over the coming three months. Firms in Minnesota had a higher incidence of wage cuts, while firms in the Dakotas saw a notably lower share. A Minnesota manufacturer cut wages by almost 4 percent for most workers, with senior management and managers taking pay cuts of 10 percent to 20 percent.

Prices

Price pressures decreased on balance. Trucking firms reported that freight rates have fallen, in many cases dramatically, due to a contraction in demand for shipping. North Dakota crude oil prices as of mid-May were down 50 percent from their levels a month earlier. However, retail fuel prices in District states ticked up in recent weeks after declining in April and were roughly unchanged as of mid-May relative to the previous report. Manufacturing contacts continued to report that prices for raw material inputs were stable; however, a beverage bottler reported concerns that supply chain disruptions for plastic and aluminum would feed through to container prices. Recent spot prices for livestock and dairy have fallen precipitously, and restaurant and institutional food service shutdowns have roiled the agricultural supply chain.

Consumer Spending

Consumer spending declined significantly since the last report due to shelter-in-place guidelines and other factors that limited normal activities. Multiple surveys have shown steep revenue declines at restaurants, bars, lodging, and retail establishments. A survey in late April found that one-third of Minnesota tourism firms reported no revenue over the past 30 days. Hotel occupancy in Minneapolis-St. Paul has hovered around or below 20 percent for the past two months. Hotel bookings in Montana were also reported to be very low in April and May. Consumer spending conditions appeared to be less severe in the Dakotas, where businesses faced fewer operating restrictions. Nonetheless, South Dakota tourism tax receipts were down by almost 30 percent in April. There were modest signs of uptick—from very low levels—in some consumer spending areas. For example, vehicle titles and liens registered in Wisconsin have risen for four consecutive weeks. TSA screenings at airports Districtwide were showing small improvements after a freefall in passenger activity. Some hotels in Montana and other high-tourism areas reported improvements in reservations toward the end of June and into July. Activity at restaurants and other consumer-facing businesses was also returning slowly in May as District states lifted restrictions at varying rates.

Services

Activity in the services sector decreased. In a recent survey of Ninth District businesses, 75 percent of professional services firms reported decreased sales in April relative to a year earlier. A railroad reported that total April volumes were down more than 20 percent from a year earlier. A strong majority of trucking firms reported that sales decreased by 25 percent or more in April relative to a year earlier; expectations for May activity were slightly positive compared with April, but substantially down from May 2019. In contrast, a contact in the Great Lakes maritime shipping industry reported that orders remained strong.

Construction and Real Estate

Commercial construction fell since the last report. An industry tracker of construction projects showed a modest dip in activity in April and early May. But other sources suggested a bigger decline. More than two of three respondents to a mid-May survey of Minnesota construction firms said they have had recent or future projects canceled, and an even higher share have seen other projects delayed. Respondents also reported a reduced number of new projects out for bid. Some major projects also moved forward, including a $1 billion project to reconstruct shipping locks on the eastern edge of Lake Superior. Residential construction was lower, but showed some positive signs. The aforementioned survey suggested that many Minnesota housing contractors were seeing project delays. At the same time, single-family permitting remained active in many of the District's larger markets, with Minneapolis-St. Paul, Sioux Falls, S.D., and Bismarck and Fargo, N.D., all seeing healthy growth in April permits compared with a year earlier.

Commercial real estate activity fell since the last report. Slower economic activity was negatively affecting all real estate categories, but particularly retail and office space. Vacancy rates were expected to increase across the board as leasing activity slowed. Among industry subsectors, industrial space was reported to be faring the best, in part because of increased e-commerce demand for warehouse space, both currently and going forward. Rent collections were "top of mind," among contacts. A multifamily property manager reported that rent delinquencies were elevated in May, but by less than expected, and reflected an improvement over April levels. Residential real estate was mixed. Home sales in Minnesota rose 1 percent in April over a year earlier. Sales elsewhere over this period were higher in northern Wisconsin, Fargo, Sioux Falls, and Great Falls, Mont., but lower in western Wisconsin, Grand Forks, N.D., and Missoula and Bozeman, Mont.

Manufacturing

Manufacturing activity decreased further. An index of manufacturing conditions indicated substantially decreased activity in April compared with a month earlier in Minnesota and the Dakotas; employment contracted sharply. Three in five manufacturers responding to a survey of District firms reported decreases in sales by 25 percent or more in April compared with a year earlier. Suppliers of inputs to the oil and gas industry reported a severe contraction in demand.

Agriculture, Energy and Natural Resources

District agricultural conditions worsened. Reports continued to surface of producers euthanizing animals or placing them on restrictive diets due to pandemic-related closure of livestock slaughter plants. More than two-thirds of Ninth District agricultural lenders reported that farm incomes decreased in the previous three months relative to a year earlier, with a similar share reporting decreased capital spending, according to the Minneapolis Fed's first-quarter (April) survey of agricultural credit conditions. Oil and gas activity, already in decline prior to the pandemic, contracted severely as demand fell. The number of active drilling rigs in the District as of early May was less than half the level during the previous reporting period. Multiple District iron ore production facilities shut down operations as domestic steel production declined. ■

Summary of Economic Activity

Tenth District economic activity declined substantially since the previous survey, and contacts remained pessimistic about activity levels in the months ahead despite some easing of restrictions related to COVID-19. Consumer spending decreased at a faster pace in April and early May, with particularly weak sales at auto, restaurant, tourism and healthcare establishments. Manufacturers reported a record drop in activity as production plunged at both durable and non-durable goods plants in April. Transportation, wholesale trade, and professional and high-tech services contacts also reported lower sales, and additional declines were anticipated in the months ahead. Residential and commercial real estate activity dropped significantly, and construction activity fell at a modest pace. Energy activity declined further as firms announced well shut-ins to lower oil production. The agriculture sector also weakened further as disruptions at meat-packing plants worsened and cattle and corn prices declined sharply. District employment fell sharply over the past two months, but the pace of job losses moderated some in the last couple of weeks. Wages fell modestly, and input and selling prices declined across most District sectors.

Employment and Wages

District employment and employee hours were down moderately compared to the prior survey period and were substantially below year-ago levels. After a dramatic spike in initial claims for unemployment insurance in late March and April, the number of new claims declined in recent weeks but remained historically high. However, contacts in all sectors, with the exception of retail trade and real estate, expected continued declines in employment over the next few months, albeit at a more moderate pace.

A majority of respondents continued to report no labor shortages, but some contacts did note difficulties finding truck drivers and hourly food-service workers. Wages fell modestly, but slight gains were expected in the coming months.

Prices

Input and selling prices declined across most District sectors in April. However, retail trade contacts noted modest growth in both input and selling prices. Input and selling prices declined slightly in the restaurant sector, but were expected to rise moderately in the next few months. Transportation contacts reported moderately lower input and selling prices and expected both to fall further in the months ahead. Construction supply respondents noted a moderate decline in selling prices and expected a slight drop in prices going forward. Manufacturers reported slightly lower prices for both finished products and raw materials prices, but expected prices to pick up slightly in the coming months.

Consumer Spending

Consumer spending decreased at a steeper pace since the last survey period as regional businesses continued to be negatively affected by COVID-19. Sales declined further in auto, restaurant, and tourism sectors, and most grocers and pharmacies reported some decline since the last survey as well. Activity remained low for District health services, with fewer sales and fewer hours, while input prices were higher than a year ago. Auto sales were down for all contacts compared with a year ago, and contacts expected inventory levels to expand further due to low sales expectations in the near term. Compared with the previous survey and a year ago, restaurant sales and employment levels contracted sharply. The hotel and tourism sector experienced steep losses due to COVID-19 shutdowns of non-essential businesses. Nearly all firms reported taking measures to cover shortfalls in revenues experienced as a result of the COVID-19 pandemic, and over two-thirds applied for the SBA PPP loan program. Expectations for future consumer activity improved only slightly compared with the previous survey period, and remained historically low.

Manufacturing and Other Business Activity

Manufacturing activity fell at a record pace in April as COVID-19 continued to weigh on firms. The decrease in manufacturing activity was steepest at durable goods factories such as primary and fabricated metals, but activity at non-durable goods plants including food and beverage manufacturing also declined. Production, new orders, employment, and raw materials inventories all dropped further compared to the previous survey period and year-ago levels. On the other hand, supplier delivery time increased. More than two-thirds of factory contacts reported applying for SBA PPP loans. However, a number of firms had not received funds by late April. Expectations for future activity rose compared to the last survey period, but remained slightly negative.

Outside of manufacturing, sales decreased for firms in the transportation sector, and several firms reported layoffs and increased use of paid time off for employees since the previous survey period. Recent sales declined for wholesale trade, but remained around year-ago levels. Sales were also down for professional and high-tech services sectors in April and were below year-ago levels. Expectations in the transportation, wholesale trade, and professional and high-tech services sectors remained very negative, as firms anticipated significantly lower sales, employment levels, capital expenditures, and prices in coming months.

Real Estate and Construction

Residential and commercial real estate activity declined substantially since the previous survey, while construction activity fell modestly. Residential sales decreased sharply as stay-at-home orders reduced buyer traffic. New listings also fell significantly, and inventories were well below year-ago levels. Despite a decline in activity, home prices held steady and remained above year-ago levels. Home showings increased significantly over the past couple of weeks as restrictions eased, and residential real estate activity is expected to pick up modestly in the coming months. Residential and commercial construction activity declined modestly, and construction supply firms noted a slight increase in sales due to a pick-up in home improvement projects. Commercial real estate conditions deteriorated as vacancy rates increased, while absorption and sales declined. Access to credit was more difficult than last year, and overall commercial real estate activity was projected to worsen significantly in the next few months.

Banking

Since the last survey, loan demand continued to decline modestly and credit standards increased somewhat across most loan categories. Bankers indicated a sharp decrease in the demand for consumer loans and commercial real estate loans, while reporting a modest decrease in agriculture loans and a slight decrease in commercial and industrial loans. By contrast, bankers noted a slight increase in residential real estate loan demand. Loan quality declined moderately from a year ago and was anticipated to decrease significantly over the next six months. Bankers continue to carefully monitor the effects of COVID-19 on the local economy.

Energy

Energy activity collapsed further since the previous survey, and expectations for future drilling and business activity remained negative. Revenues decreased and capital spending plans declined. The number of active oil and gas rigs in the District fell dramatically to historic lows as firms announced well shut-ins to ease production levels. The sharp drop in demand for energy production due to the global pandemic continued to weigh on the outlook for energy activity. Low oil and gas prices also remained an issue for District firms, negatively impacting profitability. Most firms did not expect energy price levels to pick up significantly in the near term, and expectations for rig counts and employment levels remained subdued.

Agriculture

The farm economy in the Tenth District weakened further alongside developments related to COVID-19. As of the second week of May, roughly a quarter of U.S. meatpacking and food processing plants with confirmed COVID-19 cases were located in the District. As disruptions in meat and food supply chains worsened and a substantial slowdown in ethanol production continued, cattle and corn prices declined sharply through early May. Alongside significant reductions in demand for corn used in ethanol, corn supply also was forecasted to be the largest on record in 2020. Contacts reported that weak market conditions likely will have major implications for producer cash flows in coming months. Despite a more pessimistic environment, farmland values in the region remained relatively steady. ■

For more information about District economic conditions visit:
www.KansasCityFed.org/Research/RegionalEconomy

Summary of Economic Activity

Eleventh District economic activity contracted sharply in April, while preliminary data from May point to a notable easing in the pace of decline as restrictions on businesses were gradually lifted. Activity in the energy and service sectors remained the hardest hit. Manufacturing output and new orders fell further, though food manufacturing continued to increase. Loan volumes contracted broadly, with the exception of residential mortgages and SBA's PPP funds. Home sales fell sharply from mid-March through mid-April but have been improving from low levels since then. Employment and hours worked continued to plummet, pressuring wages. While input costs were flat to slightly up, food processors noted a large increase in meat prices. Selling prices dipped further. Preliminary results from a May Dallas Fed Survey of Texas manufacturing and service firms indicated that current revenue levels for most respondents were down markedly compared with a typical May, and about a fifth said they would not be able to survive past six months if revenues did not improve. Outlooks remained weak due to uncertainty surrounding the pace and scope of the reopening of the District economy.

Employment and Wages

Employment declines were steep, spanning all metros and most industries. An April Dallas Fed survey of 400 Texas businesses in the services and manufacturing sectors showed that 47 percent of respondents had either temporarily or permanently laid off workers and 63 percent had cut hours. Energy contacts said oilfield workers were being furloughed or laid off in tandem with declining activity, and cuts were also widespread at corporate offices. A large rail firm said they have furloughed about 5,000 workers due to decreased traffic, and there were a few reports of employment cuts in real estate and construction. In contrast, a food manufacturer noted difficulty finding workers and a few finance firms said they were adding employees or using overtime to process PPP loans. Some companies said PPP funding had helped them hold on to employees.

Firms that were beginning to call workers back said that fear of infection, lack of childcare, and generous unemployment insurance (UI) benefits were preventing some workers from returning. A few staffing firms noted difficulty recruiting due to increased UI benefits. Wages were flat to down, with auto dealers and energy firms among others noting reduced benefits and pay.

Prices

Input costs were flat to slightly up except for meat processing, where contacts noted significant upward price pressures. Weak demand for most products and services further depressed selling prices, though there were reports of rising costs of PPE and related supplies. Some firms noted making cost reductions to conserve cash. Airlines reported further discounting of tickets. Rail shipment rates for some commodities rose, but pricing for most others dipped. New home prices were flat though realtor bonuses and incentives were being offered. Staffing firms reported no change in bill rates.

Manufacturing

Output declines steepened in April, but preliminary data suggest that the pace of contraction slowed markedly in May. Declines spanned durables and nondurables, but manufacturers of transportation equipment and those tied to the oil and gas sector were among the hardest hit. Refinery utilization rates fell to 70 percent in April, well below the normal run rate of over 90 percent. Margins remained depressed and petrochemical manufacturers noted deferring maintenance and/or delaying construction projects to preserve capital. Only food manufacturers continued to cite growing demand. Overall outlooks remained starkly negative due to heightened uncertainty surrounding return to normalcy and post-pandemic consumer demand.

Retail Sales

Retail sales dipped further due to business closures and overall weak demand, with only a handful of contacts noting an improvement from low levels. Several firms also mentioned the weakness in the oil and gas industry as a headwind. Auto sales plunged in April and remained sluggish in early May, though some dealers noted a pickup in demand. Outlooks remained bleak and uncertain, mainly centered on the speed and extent of the recovery.

Nonfinancial Services

Activity in the service sector remained depressed, though the rate of decline appeared to moderate in May relative to April. A few firms that cited rising revenues noted strong backlogs, increased demand stemming from the current economic distress, or a pickup in demand from a very weak April. Firms noting continued weakness generally reported low levels of demand, particularly in travel, accommodation, and food services. Among restaurants, those with no drive-thru infrastructure were the most impacted. Airlines said passenger demand was flat during the reporting period; however, it is down 90 percent compared to year ago levels. Domestic travel was mainly limited to essential workers, while overseas traffic largely consisted of cargo. Rail, air, and sea cargo volumes decreased year-over-year as well as during the reporting period. Staffing firms saw a drop off in orders, though there were reports of increased demand for workers in healthcare, nursing, logistics, and trucking. Service sector outlooks were largely pessimistic.

Construction and Real Estate

Existing-home sales fell sharply in April and listings were down as well. New home sales plummeted from mid-March to mid-April but have been rising since then partly due to low mortgage rates. Despite the pickup, sales are generally running below plan. Home showings are either virtual or by appointment. Builders said cancellations have slowed in recent weeks from the highs seen in late March and early April. Some supply chain issues were noted due to plant closures. Several new land and lot deals were cancelled or on pause, spec building has slowed, and existing lot contracts were being renegotiated due to heightened uncertainty and the need to preserve cash. Outlooks remained weak, though they have improved slightly in recent weeks.

Multifamily contacts said rent collections in April and early May were ahead of expectations. Leasing activity was sluggish but was picking up, and rent concessions had increased. Office leasing activity slowed, particularly in Houston. Investment sales were sluggish and capital for new development has mostly dried up as investors take a wait-and-see approach.

Financial Services

Loan volumes contracted broadly, with the exception of PPP and residential real estate loans. Loan pricing continued its marked decline, and credit standards tightened considerably. Loan performance eroded across all loan types, and 83 percent of respondents expected further deterioration. Well over a third of bankers observed increased use of existing lines of credit due to COVID-19, up from 25 percent last period. On average, bankers said 13 percent of their clients were receiving loan payment deferrals. A majority of respondents have made SBA PPP loans to businesses, and most cited administrative or technology related challenges in processing and/or distributing PPP funds. Outlooks remained negative.

Energy

Eleventh District drilling and completion activity fell to record lows during the reporting period as depressed prices and storage constraints forced many firms to shut-in production. Smaller exploration & production firms reported idling most of their fracking crews and larger firms said they have been idling about half of them. Bankruptcies are expected to spike due to ongoing funding constraints. Contacts indicated that activity may be nearing a bottom, but recovery will likely be slow due to expectations of low crude oil prices through 2021.

Agriculture

Soil moisture levels remained favorable across most of the district, except for South Texas where there was drought. Wheat remained a bright spot with higher prices, strong demand, and solid yield prospects. Prices fell for other grain crops, particularly corn, due to declining ethanol demand. Contacts noted some concern for 2020 revenues in part due to lower grain prices. Reduced meat processing capacity due to social distancing measures and plant closures translated into lower demand and prices for cattle, even as beef prices soared. ■

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

Summary of Economic Activity

Economic activity in the Twelfth District contracted markedly during the reporting period of April through mid-May. Most businesses reported dramatic employment declines, due to disruptions related to the COVID-19 outbreak. Changes in wages were mixed. Price inflation was generally muted with exceptions in a few sectors. Sales of retail goods declined sharply, and activity for providers of consumer and business services contracted noticeably. Manufacturing contracted moderately, and activity in the agriculture sector slowed further. Conditions in residential real estate were mixed, while the commercial market showed a notable decline in activity. Lending activity increased moderately, fueled by Paycheck Protection Program (PPP) loans.

Employment and Wages

Business disruptions related to the COVID-19 outbreak caused a surge in layoffs and furloughs over the reporting period. Many nonessential businesses reported double-digit percent reductions in their employment levels as well as cancelled hiring plans. Businesses in the entertainment, food services, retail, and tourism sectors were among the more severely affected. A large specialty retailer laid off or furloughed 85 percent of its employees. Conversely, some banks either maintained or increased hiring levels to accommodate increased demand for PPP loans. Some customer-facing essential businesses mentioned that some separations came at the request of employees who were afraid of contracting the coronavirus. Other contacts noted that some workers' current ability to receive more income through unemployment insurance and other social programs than through employment has hindered employee retention and rehiring efforts. Contacts across the District reported cutting workers' hours. Work arrangements became more flexible where possible, including teleworking and expanded leave periods. A banker in Central California recorded increases in worker absences of up to 10 percent primarily due to a lack of available childcare. A payment processing firm reported that job applications for current openings soared, though many candidates did not have the stated requirements.

Wages declined at some firms, but many reported no changes in hourly rates or salaries. A Southern California hotel reduced workers' pay by up to 40 percent. Building materials manufacturers and transportation providers either suspended or postponed bonuses, merit increases, and cost-of-living adjustments. Some small businesses said that PPP loans helped them maintain their wages at current levels. A Seattle firm reported offering hazard pay bonuses to 87 percent of its workforce.

Prices

Most contacts reported stable prices over the reporting period. Uncertainty about the timing of a rebound in activity inhibited price movement overall. However, prices for building materials increased modestly on balance with new construction projects restarting near the end of April in some areas. Hard-to-find products at grocery stores also showed some price increases. In contrast, contacts noted lower prices at gas pumps and heavy discounting at restaurants and hotels. Steel prices declined sharply due to a slowdown in auto manufacturing. Widespread closures at processing facilities generated oversupplies of livestock and dairy inputs and decreases in prices paid to farmers.

Retail Trade and Services

Retail sales across a variety of sectors fell by double-digit percentages in general as nonessential brick-and-mortar stores largely remained closed. Sales of many consumer goods have shifted heavily to online platforms, including footwear, pet care products, and seasonal merchandise. Online sales partially attenuated the impact of sharply reduced in-person sales. Big box retailers that remained open faced supply chain disruptions for some goods including paper and cleaning products. Demand for certain specialty home products such as do-it-yourself home improvement supplies and gardening materials remained stable or even increased. Auto dealers in the Mountain West reported a sales pickup in late April and early May compared with prior weeks, especially for larger vehicles such as trucks and SUVs, though inventory remained tight.

Activity in consumer and business services contracted noticeably. Transportation fell moderately with the exception of residential delivery services. Restaurants remained closed apart from those able to offer take-out alternatives. Hotels, sports venues, in-person educational institutions, daycare centers, and movie theaters remained largely nonoperational. Spending on most discretionary medical services halted, but demand for mental health and veterinary services remained robust. In the Pacific Northwest, consumers avoided cash heavy expenditures such as auto repair services. A contact in the Pacific Northwest also warned of reduced local government revenue collection and its implication for potential cuts in fiscal spending and public services. In the entertainment sector, demand for broadcasting and voice-over services increased.

Manufacturing

Manufacturing activity declined moderately. Reduced global industrial activity negatively impacted sales, availability of raw materials, distribution networks, and capacity utilization. Demand for finished steel products decreased significantly, driven primarily by a suspension in auto production and lower demand from energy producers. A large metal manufacturer in the Pacific Northwest mentioned that capacity utilization is now below the long-term U.S. average. Manufacturers of building products saw reduced sales and limited production schedules, though one producer observed a pickup in demand as construction sites reopened in late April in some areas. Renewable energy machinery manufacturers cut their domestic production by up to half following health and safety concerns for their workers. Fruit, meat, and dairy producers across the District faced supply chain disruptions and production bottlenecks following the closure of many processing and packing facilities.

Agriculture and Resource-Related Industries

Activity in the agriculture sector slowed further over the reporting period. Domestic demand from the commercial food sector continued to be just a fraction of what it was before the COVID-19 shock. Potato and barley growers in Idaho faced reduced sales to distributors who had retained leftover inventory from the previous season. Fruit growers in California saw some increased demand from food banks, social service providers, and governmental programs, but, a decline overall in domestic demand. Timber producers in the Pacific Northwest also saw a pullback in domestic demand for logs due to the slowdown in manufacturing activity. On the supply side, some producers in Idaho and Arizona have reduced live animal herd sizes in response to bottlenecks at meat processing plants. Agricultural export markets were similarly downbeat. Milk exports declined notably. Slowdowns in the entertainment and restaurant sectors abroad hit exports of nuts and raisins. Energy producers saw steep declines in industrial and commercial demand, but rapid increases in residential usage. Timber loggers witnessed some additional demand from Asian markets facing reduced supply from other western countries.

Real Estate and Construction

Residential construction activity was mixed on net. After a temporary halt in construction, residential projects restarted in some areas in late April or early May, depending on local social distancing relaxation schedules. Overall, home sales slowed dramatically and inventories decreased as sellers held back amid in-person home tour restrictions. Nonetheless, a few local markets in California and Idaho continued to see strong home sales, especially within higher price ranges. Uncertainty around future construction and sales remained high. A contact in Southern California mentioned that residential rent prices were flat or even down slightly as tenants sought and gained payment concessions.

Commercial construction activity declined notably throughout the District. Reports highlighted that weak business prospects for restaurants, hotels, and other commercial venues have severely depressed commercial construction and permitting across a large portion of the District. One contact in Idaho emphasized that commercial projects were only postponed, as opposed to terminated, mostly due to delays in the delivery of building materials.

Financial Institutions

Overall lending activity increased moderately, fueled by PPP loans. Financiers reported that, outside of PPP loans, the level of regular commercial loan origination fell modestly as firms focused instead on drawing down preexisting lines of credit and applying for loans through the federal relief program. Contacts noted that banks' participation in the federal program has increased, though uncertain guidelines have discouraged engagement in the program somewhat. Some banks continued to offer PPP loans to existing customers only. Reports mentioned that loan repayment deferral requests continued to soar. Credit quality remained generally stable though. A banker in Central California did record increased loan write-offs. Refinancing activity for residential mortgages was robust following a decrease in interest rates. Even though application requirements tightened, credit remained widely available for first mortgages and refinances in most areas within the District. Venture capitalists reported they were scrutinizing start-up financing more strictly both for new investment and continued funding. ■