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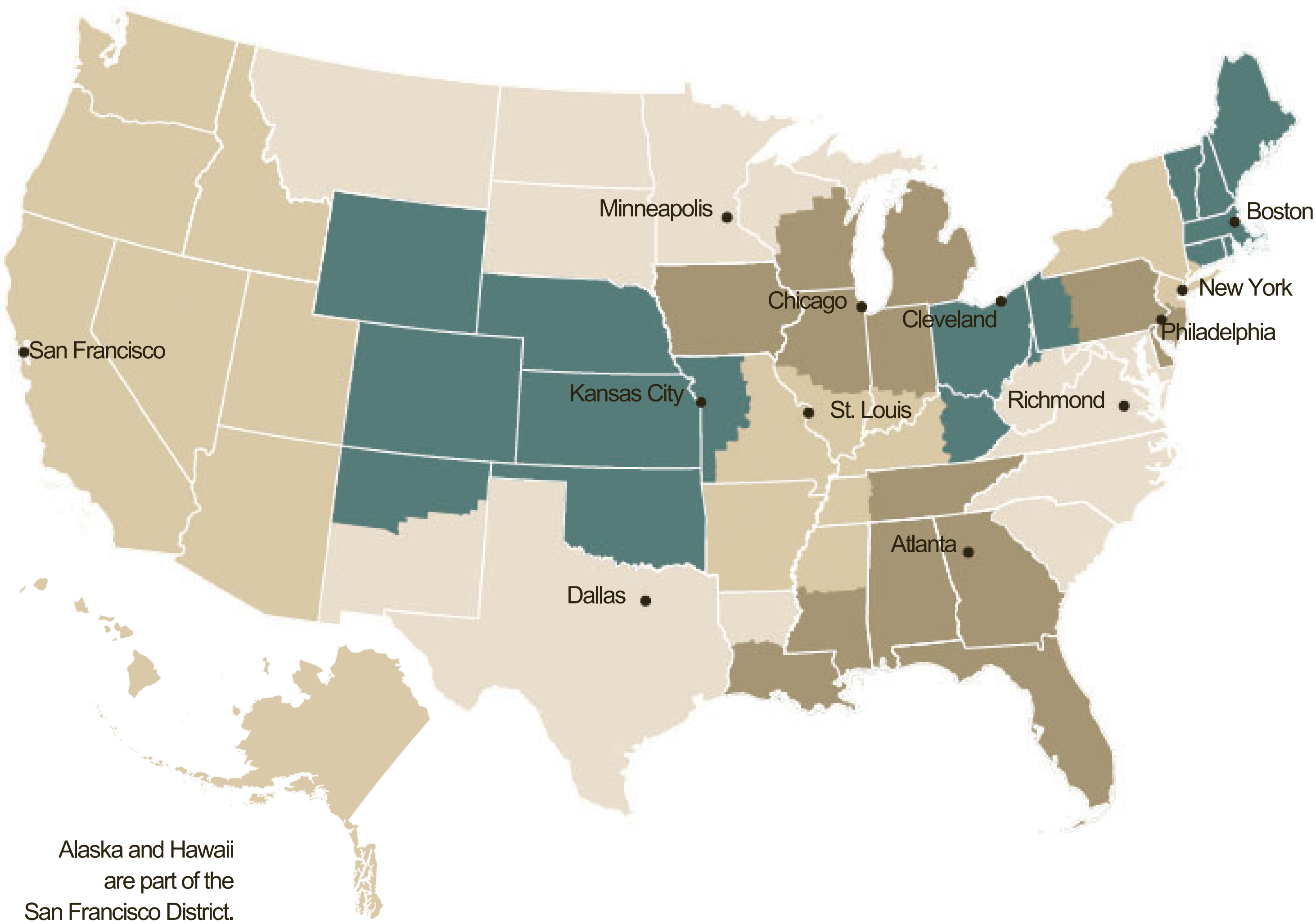
The Beige Book

Summary of Commentary on Current Economic Conditions
By Federal Reserve District

July 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.

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 Chicago based on information collected on or before July 6, 2020. This document summarizes comments received from contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.

National Summary

Overall Economic Activity

Economic activity increased in almost all Districts, but remained well below where it was prior to the COVID-19 pandemic. Consumer spending picked up as many nonessential businesses were allowed to reopen. Retail sales rose in all Districts, led by a rebound in vehicle sales and sustained growth in the food and beverage and home improvement sectors. Leisure and hospitality spending improved, but was far below year-ago levels. Most Districts reported that manufacturing activity moved up, but from a very low level. Demand for professional and business services increased in most Districts, but was still weak. Transportation activity rose overall on higher truck and air cargo volumes. Construction remained subdued, but picked up in some Districts. Home sales increased moderately, but commercial real estate activity stayed at a low level. Financial conditions in the agriculture sector continued to be poor, while energy sector activity fell further because of limited demand and oversupply. Loan demand was flat outside of some Paycheck Protection Program (PPP) activity and increased residential mortgages. The PPP and loan deferrals by private lenders reportedly provided many firms with sufficient liquidity for the near term. Outlooks remained highly uncertain, as contacts grappled with how long the COVID-19 pandemic would continue and the magnitude of its economic implications.

Employment and Wages

Employment increased on net in almost all Districts as many businesses reopened or ramped up activity. Districts highlighted gains in the retail and leisure and hospitality sectors. However, payrolls in all Districts were well below pre-pandemic levels. Job turnover rates remained high, with contacts across Districts reporting new layoffs. Contacts in nearly every District noted difficulty in bringing back workers because of health and safety concerns, childcare needs, and generous unemployment insurance benefits. Many contacts who have been retaining workers with help from the PPP said that going forward, the strength of demand would determine whether they can avoid layoffs.

Prices

Prices were little changed overall. Contacts across Districts largely reported both input and selling prices were flat. When input prices did change, increases slightly outnumbered decreases. Contacts in several Districts reported that supply chain challenges were pushing up prices for health and safety equipment used to limit the spread of COVID-19. There were also reports of rising food and beverage prices, particularly for beef. When selling prices changed, decreases outnumbered increases, as contacts in several Districts cited weak demand and limited pricing power. One exception noted by multiple Districts was new and used vehicle prices, which were boosted by low inventories.

Highlights by Federal Reserve District

Boston

Economic activity generally improved since the last report, even as significant disruptions attributable to the pandemic continued. Some firms called back workers let go earlier in the spring, and a few engaged in net new hiring, while others began layoffs. Activity in the region's residential and commercial real estate markets remained exceedingly slow. The outlook continues to be unusually uncertain.

New York

The regional economy has begun to rebound in recent weeks, though activity is still well below pre-pandemic levels and many sectors remain depressed. Businesses have called back some furloughed workers and there have been scattered reports of new hiring, but the labor market remains weak. Prices and wages have been mostly steady, on balance.

Philadelphia
Business activity expanded moderately during the current Beige Book period but remained far below levels attained prior to the onset of COVID-19. Firms faced several challenges for hiring, yet wages appear to be trending slightly lower. In contrast, prices are trending slightly higher, as the market and supply chain disruptions of a fitful economic restart have created various price spikes. Uncertainty has increased.

Cleveland
Activity picked up across a wide range of businesses as more of the economy reopened. However, business conditions remained weak overall. And while contacts expect activity to increase further in coming months, they remain concerned about the sustainability of the recovery if the spread of COVID-19 is not contained. This caution is partly reflected in continued weakness in capital spending and hiring plans.

Richmond
The Fifth District economy expanded as many segments of the economy were able to reopen, although economic activity has yet to return to pre-pandemic levels. Retail and leisure travel, in particular, benefited from eased restrictions. Employment rebounded somewhat but remained well below prior levels. Price growth accelerated moderately, mainly driven by supply chain disruptions and high demand for certain goods.

Atlanta
Economic conditions remained soft. Labor markets improved and nonlabor costs were muted. Overall, retail sales strengthened. Tourism activity resumed, though limited by capacity constraints. Residential real estate conditions improved, and commercial real estate activity was mixed. Manufacturing activity weakened. Banking conditions worsened.

Chicago
Economic activity increased strongly. Employment, consumer spending, and manufacturing increased substantially, while business spending and construction and real estate activity increased modestly. Wages edged up, prices declined slightly, and financial conditions deteriorated modestly. The pandemic continued to weigh on agriculture incomes.

St. Louis
Economic activity has rebounded sharply since during late May; however, overall conditions remain significantly depressed and the pace of recovery appears to have slowed since mid-June. In comparison with our previous report, the outlook among contacts is slightly more pessimistic while also much more uncertain.

Minneapolis
Ninth District economic activity was mixed across sectors since the previous report, after more dramatic contractions in recent reporting periods. Consumer spending and tourism improved—after significant previous declines—due to emergency federal stimulus and the gradual reopening of state economies in the District. Most other sectors saw continued decline overall, especially relative to normal activity levels.

Kansas City
Economic activity rebounded slightly in June, and contacts expected additional gains in the months ahead. Consumer spending increased modestly, including higher retail, auto, restaurant and tourism sales. Residential real estate also picked up, but commercial real estate conditions deteriorated further. Manufacturing activity expanded slightly, but the energy and agriculture sectors remained a drag on the regional economy.

Dallas
Economic activity in the Eleventh District rebounded, but was still well below pre-COVID levels. Manufacturing and service sector activity grew. While drilling activity fell to new lows and loan demand contracted further, sentiment among energy and finance contacts improved. New-home sales rose strongly. Employment held steady, according to contacts. Input costs increased and selling prices fell. Outlooks improved, but the upward trend in new COVID-19 cases has increased uncertainty.

San Francisco
Economic activity in the Twelfth District contracted modestly. Employment levels increased slightly. Prices remained generally flat. Sales of retail goods rose moderately, while consumer and business services activity contracted sharply. Activity in the manufacturing sector was mixed, and the agriculture sector remained weak. Residential construction activity picked up somewhat, while the commercial side was mixed. Lending activity ticked up.

Summary of Economic Activity

Economic activity picked up somewhat in the second half of May and June, according to First District business contacts, but largely remained well below year-earlier levels. Retailers reported increased sales in June, with some online purchases exceeding June 2019. Tourism contacts cited much-improved summer bookings in coastal areas compared with cancellations in April and May. Manufacturing results were mixed, but most reported rising revenues. Software and information technology services firms said their businesses were holding steady, with declines in new orders but continuing strength from existing customers. Commercial and residential real estate markets in the region continued to report that activity had paused. Considerable uncertainty characterized respondents' outlooks, as was the case in the May report.

Employment and Wages

Employment changes were mixed across firms and sectors. One retailer brought back all corporate staff full time on July 1 and plans to bring about 1,800 furloughed warehouse and store employees back to work in August. An online retailer is hiring more workers, particularly customer service, to meet increased demand. Employment among manufacturers was mixed, with some firms hiring many workers and others engaging in layoffs and furloughs. An aerospace manufacturer laid off 7 percent of its workforce and cut salaries for all employees including senior executives. A toy maker furloughed salespeople and complained that production workers had not returned because of generous UI benefits. Responding software and IT services firms said they have continued to pay employees fully, partly funded by declines in operating expenses due to travel cutbacks. Headcount was down since last quarter at two software firms that froze hiring. By contrast, one IT firm continued to hire and said other layoffs in tech made it possible for them to bring on new highly skilled workers.

Prices

Prices continued to receive little mention. Manufacturing contacts cited a benign pricing environment with no one reporting significant positive or negative pricing pressure either among their suppliers or in their end-markets. Similarly, most software and IT services contacts reported no current plans to change pricing.

Retail and Tourism

Retail respondents continued to report major disruptions related to COVID-19 shut-downs but, despite the challenges, sales have improved since April. One contact reported increasing strength week-to-week in June, with women's clothing and outdoor equipment leading sales growth. An online retailer similarly reported increased revenue and continued growth in first-time users. They noted sustained year-over-year increases in sales of home office supplies and, more recently, higher sales of large home appliances, which previously were not a major source of revenue. One retailer whose sales dramatically increased in March and slumped in April and May reported June results at nearly the same level as June 2019. One contacted retailer noted looting and vandalism from the protests in early June at several stores.

Travel industry contacts reported improved bookings of hotel stays and short-term rental properties. In one coastal area, hotel bookings have nearly returned to 2019 levels for July and August. Restaurants in these areas continue to report difficulties adjusting to distancing restrictions, but each successive weekend has resulted in more customers. Air travel, however, remains severely impacted by the pandemic; total air passengers in Boston in June were down more than 85 percent from the same time last year, an improvement from April (down over 97 percent). Cruise traffic has been halted until September.

Manufacturing and Related Services

Experiences varied widely across the eight manufacturing firms contacted this cycle. A frozen fish producer and a maker of cardboard boxes reported very strong demand and sales; the box company said that sales growth slowed in June but was still strong. A toy company said that business had slowed significantly since April, partly because the cessation of movie production hit their media tie-ins, and partly because of production difficulties. An aerospace company said that while defense sales remained strong, commercial aviation declined. Idle planes mean no demand for aftermarket parts; in addition, build rates for new planes are falling because the travel recession is expected to last until 2022 and consequently airlines do not want to take delivery of new planes. A manufacturer and retailer of furniture which closed in March has reopened and hired back most of its employees after securing PPP funding and seeing demand pick up. A travel industry contact reported that goods trade through Boston's port fell in May, with exports down 40 percent and imports down 9 percent from the prior year.

The outlook was somewhat mixed. Most respondents said they expected business to improve over the rest of the year, but the toy maker said they would make significant staff cuts if sales did not improve by August.

Software and Information Technology Services

Activity at software and IT services firms in the First District remained mostly stable throughout the most recent quarter. All firms reported significant declines in new bookings, but steady revenue from existing customers. The majority of firms expected to see flat to 2 percent revenue growth, with another firm anticipating low double-digit growth year-over-year attributable to a cloud-based software acquisition finalized earlier this year. Multiple firms noted that what recent demand they have seen, has mostly been for cloud-based product lines.

Respondents were split in terms of optimism, with most remaining concerned regarding the U.S. economy. One medical technology contact noted that their elevated uncertainty may linger through the end of the year as hospitals remain focused on the pandemic. Contacts that reported being more optimistic than last quarter generally cited increased demand for cloud-based services and increased certainty regarding remote operations.

Commercial Real Estate

Commercial real estate activity in the First District has remained on pause because of COVID-19. Most contacts reported an increase in sublease availability in the office leasing market. Most tenants were able to pay May and June rents, except for retail tenants who were hit hardest by the pandemic. Warehouses, grocery stores, and pharmacies were among the few robust leasing sectors. Across the region's markets, investment sales activity was slow to nonexistent. All contacts expressed substantial concern about uncertainty.

In the Boston area, few leasing transactions have occurred. Vacancies increased in the Boston office market while the industrial leasing market was also quiet, except for warehouse leasing. In the Hartford area, there was little leasing activity; renewals represented the only office leasing market transactions. Hartford's industrial leasing market for buildings over 25,000 square feet was relatively active, but the market for smaller buildings was quiet. In the Providence area, leasing picked up slightly in recent weeks, but most transactions were time-sensitive deals. The pandemic has worsened the historically quiet industrial leasing market in Providence, and contacts expected the availability rate to rise significantly in the near future.

Residential Real Estate

Residential real estate markets in the First District remained slow through May as a result of the COVID-19 pandemic. (All areas reported year-over-year changes from May 2019 to May 2020. Connecticut data were unavailable.) For both single family homes and condos, all reporting areas experienced double-digit decreases in closed sales compared to a year ago. Many contacts indicated they viewed this as a temporary pause in activity, saying people had delayed, rather than cancelled, their plans to buy or sell. Contacts across the region said they anticipate a busy summer as local economies begin to reopen and people who put their plans on hold because of the pandemic enter the market. However, they also expressed concern that further spread of the virus may cause market activity to slow again.

Residential markets continued to favor sellers. Inventory dropped substantially in all reporting areas for both single family homes and condos. At the same time, median sales prices increased in all areas except for Vermont and condo markets in Boston and Massachusetts. The New Hampshire representative noted "Buyers have been quicker to return to the housing market in force than sellers." Eagerness among buyers to take advantage of exceptionally low mortgage rates is likely contributing to this dynamic. ■

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

Federal Reserve Bank of New York

Summary of Economic Activity

The Second District economy rebounded moderately in the latest reporting period, following a steep contraction, as the spread of the virus subsided and businesses began to reopen. Employment came off its lows across most industry sectors, while wages were steady, on balance. Input prices rose modestly, but selling prices were flat to down slightly overall. Activity showed signs of rebounding in most industry sectors, with the strongest bounce-backs seen in retail, wholesale trade, and manufacturing. Leisure & hospitality businesses also reported some improvement. Business contacts have grown considerably more optimistic about the near-term outlook, though many businesses expressed concern about PPP loans running out or not being forgiven. Consumer spending has been mixed, but, on balance, has rebounded substantially—especially for vehicles. In contrast, tourism and travel have remained depressed. Home sales and residential leasing activity have been sluggish, though some areas have seen a nascent pickup in June, as restrictions were eased. Commercial leasing and construction activity remained weak. Finally, banks reported increased demand for mortgages, mostly tighter credit standards, steady delinquency rates, and ongoing widespread leniency on existing loans.

Employment and Wages

The labor market has improved slightly, as businesses have begun to recall workers and some have added new workers. Most pandemic-related layoffs are still considered to be temporary, though one employment agency in upstate New York noted that some previously furloughed workers have more recently been laid off permanently. That agency along with another in New York City noted that hiring has remained sluggish. A number of contacts at firms providing various business and office services have reduced staffing levels, hours, and salaries. On balance, though, business contacts indicate that their staffing levels have rebounded at least moderately from the lows seen during the spring.

Some businesses have noted ongoing challenges in both bringing back furloughed workers and hiring new ones. Among the factors deterring workers are child care needs, safety concerns, and the generosity of unemployment benefits under the CARES Act.

Looking ahead, business contacts in most industries plan to increase staffing levels, on balance, in the months ahead. However, the information and professional & business service sectors, which had relatively mild layoffs, did not plan to expand staff overall.

Wages have generally been steady in recent weeks. One employment agency noted that wages have risen for lower-paid workers, whereas many businesses have cut salaries for managers and other highly-paid workers. Looking ahead, businesses generally expect wages to rise, on balance, though not in the business services, information, or leisure & hospitality sectors.

Prices

Business contacts reported that input costs were up modestly, on balance, while selling prices were flat to down slightly. A sizable number noted mostly modest costs related to installing and maintaining safety protocols. The most widespread cost pressures were reported by education & health and leisure & hospitality firms. Trends in selling prices varied widely across sectors. Contacts in professional & business services, leisure & hospitality, and financial services noted fairly widespread price cuts, while those in other sectors noted stable selling prices. Notably, retail and leisure & hospitality firms generally expected to raise prices in the months ahead.

Consumer Spending

Retailers reported that sales remained soft in May but many noted a pickup in June, as restrictions on nonessential stores began to ease. While shifts to online sales and curbside pickup have boosted business, overall sales have remained well below pre-pandemic levels. One upstate New York mall noted that many of its stores have remained closed due to tighter restrictions on stores without exterior entrances. Retailers expected sales to continue to improve gradually in the months ahead.

Vehicle sales have rebounded fairly sharply in May and June, according to dealers in upstate New York, though they remained somewhat below comparable 2019 levels. Contacts expressed concern that lean inventories of both new and used vehicles may constrain sales through the summer.

Manufacturing and Distribution

Manufacturing and wholesale trade activity have picked up modestly, while transportation & warehousing business has remained weak. New York State and New Jersey lifted restrictions on manufacturing and distribution businesses earlier than for most other sectors.

Looking ahead, manufacturers and wholesalers expressed increased optimism, while transportation & warehousing contacts were modestly optimistic. Capital spending plans of manufacturers have picked up a bit, but service firms have scaled back plans substantially.

Services

Service industry contacts reported some pickup in business but noted that activity has remained well below pre-pandemic levels. Contacts in leisure & hospitality and transportation—the hardest hit sectors during the pandemic—have noted scattered signs of improvement, though safety concerns have inhibited demand. Moreover, capacity and other restrictions on restaurants and retail consumer services have limited capacity. Tourism has remained moribund, with hotels and airlines continuing to see business at well under half of capacity.

Health and education service providers report ongoing weakness in business and were not generally optimistic about the near-term outlook. Activity has also remained depressed in the information and professional & business services sectors, as many business customers have cut back on such services. There is widespread concern about when such business will rebound.

Real Estate and Construction

Home sales markets across the District have been mixed, with New York City's sales and rental markets sluggish but some markets in less urban areas and in upstate New York showing strength. In New York City, closings were down more than 50 percent from a year earlier, while new contract signings were down roughly 75 percent. However, a local real estate authority noted a nascent surge in activity in late June—as restrictions were lifted—and expected Q3 to be quite active due to pent up demand and increased supply. The City's residential rental market has weakened due to a combination of very little new leasing and a number of tenants not renewing. Both prices and rents appear to be down from pre-pandemic levels, though there is some uncertainty due to low volume.

In other parts of the District, however, there have been signs of strengthening housing demand—particularly in the market for second homes. Activity across much of New York State picked up substantially when restrictions were lifted in early June, and demand appears to have exceeded supply driving higher prices and bidding wars across parts of the region.

Commercial real estate markets across the District remain weak, with availability rates rising, rents flat or declining, and leasing activity very sluggish. Many retail tenants have continued to fall behind on rent—particularly in malls, where restrictions have stayed in place. Still, real estate contacts remained somewhat optimistic, on balance, about the near term outlook.

New construction activity has remained quite sluggish, though many ongoing construction projects have begun to start up again, as restrictions have been eased.

Banking and Finance

Contacts in the finance sector generally noted continued weak business but have grown somewhat more optimistic in their expectations for the months ahead. Small to medium-sized banks in the District reported higher demand for residential and commercial mortgages, lower demand for commercial & industrial loans, and unchanged demand for consumer loans. Refinancing activity has also increased. Bankers reported easing credit standards on consumer loans, but widespread tightening in credit standards across other categories. Spreads reportedly narrowed on all loan categories except commercial mortgages. Delinquency rates generally remained stable, and lenders reported 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 expanded moderately during the current Beige Book period but remained far below levels observed prior to the onset of the COVID-19 pandemic. Business operations resumed or increased, as lower COVID-19 caseloads prompted states to phase out stay-at-home orders and mandated closures. As firms recalled some of their workforce, net employment also grew moderately; however, firms continued to issue permanent layoffs as well. More firms have noted salary reductions than increases. Meanwhile, contacts noted difficulties attracting workers despite high unemployment rates. Prices edged higher, as a fitful economic restart generated spotty price spikes. Modestly positive expectations for growth over the next six months have broadened among firms; however, uncertainty remains high, as contacts cite the duration of the pandemic and the depth of the ensuing recession as key unknowns.

Employment and Wages

As firms reopened and recalled workers, overall employment rebounded moderately. However, these net gains masked a small, steady stream of permanent layoffs. By mid-June, a modest percentage of firms reported that employment had declined over the month. Since then, an average of 11 percent of the firms in our weekly surveys reported that they had recalled furloughed workers in the prior week; 19 percent had hired new workers – sometimes to replace those who would not return to work. Meanwhile about 6 percent of the firms reported that they had furloughed workers, and another 4 percent reported that they had laid off workers permanently.

Staffing firms reported that activity was increasing but remained off pre-pandemic levels – sometimes as much as 40 percent. Despite elevated unemployment rates, firms often described the labor market as tight. By late June, almost half of the firms in our weekly survey reported that they faced no impediments to hiring workers. However, the remainder did note challenges.

Among nonmanufacturing firms, an equal 30 percent share of the contacts noted fear of infection, childcare needs, and expanded unemployment insurance (UI) benefits, respectively, as impediments. According to manufacturers, their workers tended to be less concerned about the virus but more attracted to the UI benefits than their nonmanufacturing counterparts. In the Philadelphia metro area, contacts noted reluctance from their transit-dependent workers to return to work or end telecommuting.

Wages appeared to trend slightly downward. In mid-June, the percentage of nonmanufacturing firms reporting lower wage and benefit costs was slightly higher than the percentage reporting higher costs. To trim expenses, more firms noted cutting salaries (with or without cutting hours). Most firms ended or were phasing out pay premiums to attract and retain frontline workers. Staffing firms noted that the lowest wage rates were holding steady, or rising slightly, but observed that clients, especially in parts of Pennsylvania, were still shifting their firm's wage structure toward a market-driven minimum that is about double the state minimum wage.

Prices

On balance, more contacts reported higher prices rather than lower during the period, except for prices received by nonmanufacturers. However, well over half of all firms noted no change in prices.

Rising prices were most often described as spotty, rather than general. Firms noted price spikes for disparate items, such as ground beef and food service containers. Contacts cited disruptions in the market's normal supply and demand relationships, plus supply chain disruptions, including transport logistics, as factors.

Manufacturing

Manufacturers reported a modest rebound in activity during the current period. At mid-June, over 40 percent of the firms reported increases in shipments and in new orders, while about 20 percent reported declines. When asked to estimate their total production changes, the median firm response was 25–30 percent lower for the second quarter compared with the first quarter of the year.

In our weekly survey, manufacturing firms began the period with sales and new orders of about 30 percent below what had been anticipated pre-pandemic. At the end of June, firms reported estimated demand about 18 percent below expectations.

Consumer Spending

On balance, nonauto retail sales rebounded moderately. However, the gains were distributed unevenly among retailers and restaurants. Some businesses have closed and some survivors have been picking up the market share the former leaves behind, but nearly all survivors report working harder to maintain a profit margin.

Sales of new and used cars rebounded moderately during the period. Some Pennsylvania dealers noted record sales for June but acknowledged that some of those sales may reflect pent-up demand.

Tourism has rebounded sharply in beach areas and mountain resorts for businesses that are permitted to reopen. Business travel and urban destinations remain largely inactive. Overall, activity remains more than 50 percent below prior-year levels.

Nonfinancial Services

On balance, nonmanufacturers reported a moderate rebound in activity, but the activity remains well below pre-pandemic expectations. In our weekly survey, reported demand of nonmanufacturing firms had already improved from an early-April low of 48 percent below pre-pandemic expectations to 30 percent below at mid-May. By the end of June, firms reported estimated demand was 22 percent below expectations.

Financial Services

The volume of bank lending held steady over the period in contrast to the same period in 2019, in which loan volumes grew moderately. Commercial and industrial loans, residential mortgages, and auto loans grew moderately during the period, and commercial real estate lending grew modestly. However, these gains were offset by moderate declines in home equity lines and other consumer loans. Credit card volumes also fell moderately.

Banking contacts noted generally increased optimism among their clients – that Paycheck Protection Program loans, loan deferrals, and other assistance had supported many businesses well. However, one banker cautioned against a false sense of security. Most bankers noted that the third and fourth quarters will tell, as deferrals run out and businesses must begin to meet their loan obligations. As of late May, 16 percent of the firms in our weekly survey indicated that they were very concerned about maintaining solvency; 22 percent were somewhat concerned.

Real Estate and Construction

Homebuilders reported steadily improving traffic and sales that reached a moderate pace of growth. Contacts cited various contributing factors, including low interest rates, a desire for more elbow room, pent-up demand from prior months, and a lack of the usual competition from May/June weddings and graduations.

Existing home sales may have increased slightly. Although year-over-year sales in May were down sharply, pending contracts had improved. Real estate contacts reported that early estimates of June sales were stronger, but that recent gains may reflect pent-up demand from months during the shutdown.

Philadelphia's commercial real estate construction grew modestly from low levels as more projects restarted. An engineering firm noted that many municipal projects have been shelved, as tax revenues and tolls have fallen. Commercial leasing activity continued to decline modestly, as firms are taking more time to reassess their space needs. Some firms will extend leases when possible to afford more time to understand the changes wrought by the COVID-19 pandemic on demand for their products, their workforce efficiency, and telecommuting's long-term potential. Demand for retail space is in sharper decline. ■

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

Summary of Economic Activity

After declining sharply in March and April, the Fourth District economy expanded in recent weeks as some firms resumed business operations. Contacts across most industry segments reported a rebound in activity during the early phases of reopening, although many suggested that the pace of improvement slowed as the reopening progressed. Most were also careful to point out that demand remained well below pre-pandemic levels despite the recent gains. Looking forward, contacts generally expected activity to pick up further in coming months. However, some questioned the sustainability of the pace of recovery amid a spike in new COVID cases across the country along with weak new orders and declining backlogs in some key industries. That uncertainty likely contributed to softness in capital spending and hiring plans. More than 40 percent of contacts cut capital spending plans since the last report, while less than 10 percent planned to spend more. Contacts across a wide array of industries indicated they were bringing idled workers back only slowly, and are unlikely to rehire all of them in the near term. Wages, nonlabor costs, and selling prices were generally flat-to-down.

Employment and Wages

Labor demand remained soft across most industry segments even as more of the District's economy came back on line. Half of contacts reported that staffing levels had not changed over the past two months, while the share reporting staff reductions was slightly larger than the share that reporting staff additions. Firms indicated that weak demand for their goods and services was the primary factor constraining hiring, but contacts also suggested that hiring was inhibited by workers' persistent fears of contracting the virus, a lack of child care, and generous unemployment insurance benefits.

Wages remained mostly flat as nearly three-quarters of contacts reported no change in the past two months. Many firms instituted formal pay freezes at the onset of the pandemic, while others temporarily put off merit increases until they were more confident in the sustainability of the recovery. More firms reportedly cut worker pay since the last report (particularly for higher salaried employees) and asked workers to take unpaid leave. Where wage increases were noted, contacts indicated that they were due to increased overtime and bonuses or COVID-related "hazard" pay.

Prices

Nonlabor input costs were flat to down since the last report. Manufacturers reported that prices for important inputs such as steel and petroleum-related products were mostly flat to down in recent weeks amid weak global demand and excess inventories, while freight haulers indicated that lower fuel prices had offset higher insurance costs. Contacts generally expected nonlabor costs to move higher in coming months as the economic recovery proceeds. With weak demand and little upward pressure on wages and other input costs, selling prices were mostly flat-to-down as well. Contacts in retail, transportation, and professional and business services were more likely to report increases in selling prices than those in manufacturing and construction. Still, the price increases were not material and often reversed declines recorded in previous periods.

Consumer Spending

Retail spending increased for most contacts since the previous report, although it was still below the pre-pandemic level. Automotive and apparel contacts generally indicated that demand had increased more than expected early in the reopening, and one tourism contact noted that hotel room bookings edged up as youth sports activity resumed. Some restaurants found success by continuing to focus on carryout and delivery even as dine-in restrictions were eased. However, some retailers have experienced very little recovery since the initial shutdown, and rising COVID cases have forced restaurants in a few areas to curb operations again. Overall, contacts are cautiously optimistic that consumer spending will continue to recover in coming months.

Manufacturing

Manufacturing conditions improved modestly since the last report. Contacts indicated that manufacturing output reached its trough in mid-April and has been increasing since then. Firms that experienced an uptick in demand attributed this increase to more of their customers resuming operations, particularly in the District's auto industry. Despite the general improvement, demand remained below pre-pandemic levels overall and was particularly weak in the District's aerospace sector. Moreover, several contacts indicated that new orders were uneven and failed to keep pace with shipments, leading to shrinking backlogs. Nearly two-thirds of contacts expected demand to increase in the coming months, yet more than half suggested that they had decreased planned capital expenditures in order to preserve cash.

Real Estate and Construction

Overall construction activity stabilized since our last report. However, conditions varied widely under the surface and contacts expressed concerns about the sustainability of the industry's recovery. Homebuilders reported stronger-than-expected new-home sales in May and June as buyers returned to the market as social distancing restrictions were eased. In addition, low mortgage interest rates encouraged undecided buyers to "get off the fence." Residential realtors suggested that demand for existing properties was robust as well, but a shortage of listings constrained sales. Both builders and realtors expected demand for single-family properties to remain firm in the near term, but several worried that conditions could change in the fall if high unemployment persists.

Nonresidential construction rebounded as delayed projects in some areas were restarted. However, several nonresidential builders indicated that there were few new projects entering the pipeline and that backlogs were being worked down, raising concerns that activity may weaken in the fall. Meanwhile, nonresidential real estate activity remained weak. Commercial realtors reported that overall demand for space was flat to down as softness in office and retail more than offset some strength in light industrial. Landlords continued to express concerns about cash flow as more of their tenants, particularly small businesses, come under financial strain.

Financial Services

Bankers reported that overall activity was slowly returning to normal in recent weeks. Contacts suggested that demand for business loans, particularly Paycheck Protection Program (PPP) loans, slowed substantially after large increases in March and April. One large regional bank reported that customers who had drawn down existing credit lines and revolving loans had begun to pay those loans back more quickly than anticipated. Deposit levels remained elevated as clients held on to cash from preemptive line-of-credit drawdowns, disbursements of PPP loans, and government stimulus checks. Most contacts reported that delinquency rates remained relatively low, but several expressed concern that delinquencies may increase when PPP funds run out and government-provided assistance diminishes. Demand for purchase mortgages increased as stay-at-home orders were eased, and mortgage refinancing activity remained high.

Professional and Business Services

Activity in professional and business services increased at a modest pace since the previous report, although it remained muted compared to a year earlier. As businesses continued to reopen, demand for payroll and other administrative services was returning, as was demand for marketing services. Technology companies that focus on work from home solutions have also seen an increase in demand as businesses prepare for possible future disruptions. Optimism increased significantly among contacts in the technology industry, as businesses will likely require many third party services in order to thrive in the "new normal" work environment.

Freight

The vast majority of transportation contacts reported an increase in freight demand in recent weeks. This pickup coincides with a resumption of manufacturing activity in the District as well as continued gains in shipments from grocers. One contact said that demand from grocers was 40 percent higher than prior to the pandemic, which offset weaker demand from some other sectors. By contrast, a few haulers were forced to accept below-cost shipments to maintain cash flow. Looking forward, two-thirds of transportation contacts expected demand to increase in coming months. At the same time, many were concerned about the potential for a second wave of COVID-related shutdowns which may disrupt shipments later in the summer and into the fall. ■

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

Summary of Economic Activity

The Fifth District economy grew compared to our prior report, although economic activity generally remained well below pre-COVID-19 levels. Manufacturers experienced a slight uptick in new orders but shipments of finished goods were little changed. Ports reported modest declines in both imports and exports. Trucking companies, on the other hand, indicated a modest increase in demand as the reopening of stores and restaurants spurred new shipments. Retail shopping picked up modestly as more stores were able to reopen, but sales remained below year-ago levels. Leisure travel and tourism activity increased moderately, particularly at drivable locations. Business travel, in contrast, remained depressed. Residential home sales increased despite a low inventory of existing homes. Commercial real estate leasing rose modestly, overall, due to strong demand for industrial space. Bankers reported a slight increase in lending, predominately loans for home purchases and mortgage refinancing. On balance, demand for nonfinancial services declined moderately. Employment rose moderately in recent weeks as many firms called back previously furloughed or laid-off workers; however, total employment remained well below pre-pandemic levels. Price growth increased modestly, overall. Prices for some goods, like personal protection equipment, rose sharply due to supply chain disruptions and high demand.

Employment and Wages

Since our previous report, employment increased as firms across a wide variety of industries reported calling some of their previously separated employees back to work, hiring new workers, and posting for vacant positions. Despite the rise in employment in recent weeks, total employment remained considerably below pre-pandemic levels. Several contacts noted challenges bringing workers back, including fear of contracting COVID-19 at work, inability to find childcare, or their ability to make more money on unemployment. While most firms reported no changes to wages or salaries, a few said that they cut hourly wages to reduce costs.

Prices

On balance, price growth picked up modestly in recent weeks. According to our most recent surveys, manufacturers reported a slight increase in both prices paid and prices received while services sector firms reported a moderate increase in both price measures. One service firm noted that supply chain disruptions and high demand for personal protection equipment led to a substantial increase in prices for those goods.

Manufacturing

Manufacturing conditions in the Fifth District were little changed since our previous report. Shipments were fairly steady, and new orders increased slightly. However, lost revenue forced some manufacturers to cut budgets and discretionary spending as well as cancel capital spending projects. Customers who were unable to pay for products created additional stress for manufacturers. Payroll Protection Program (PPP) loans allowed some companies to remain solvent. One firm that contracts with government agencies expressed concerns about government budget changes in the wake of the virus. Some firms were able to offset losses, by shifting production to COVID-related goods such as medical supplies or sneeze guards.

Ports and Transportation

Fifth District ports experienced modest declines in shipping volumes in both exports and imports in recent weeks. On the import side, declines were seen in home furnishings, autos, and engine parts, while apparel and medical supplies showed some strengthening. Port contacts attributed some of the weakness in exports to supply chain disruptions. One port lost business as large retailers closed, eliminating distribution centers. Ports saw some canceled calls, although not as many as in the last few months. An airport operator said cargo flights had increased to partially offset the decline in cargo space from the reduction in passenger flights.

Trucking companies in the Fifth District reported a moderate increase in demand since our last report. Contacts noted increased shipments of retail goods and wine as stores and restaurants reopened. Shipments of food, cleaning supplies, and home-improvement goods remained strong. Some businesses reported lingering softness as shipments were still below last year. However, one company had more freight than it could haul and looked to expand its fleet, while others continued capital expansion plans in order to be well-positioned upon full recovery. Spot market activity picked up, and most customers who had temporarily shut down reopened.

Retail, Travel, and Tourism

Retailers reported that business picked up modestly in recent weeks as more stores were able to reopen, but demand remained below the level of a year ago. Several companies struggled as supply chain disruptions led to low inventories. In particular, automobile dealers reported that manufacturer shutdowns led to low inventories of new cars, which boosted sales of used cars. In addition, the supply of used cars increased as rental companies closed and corporations sold their excess fleet vehicles. Some retailers also experienced soft demand, and one store expressed concerns that closures of nearby restaurants would hurt business. However, others, such as grocers, hardware stores, and consumer appliance and electronics stores, had strong sales, and some faced higher demand than they could meet.

Travel and tourism improved moderately since our last report but were soft compared to last year. Hotels and vacation rentals in some areas reported high occupancy, spurred by leisure travel, particularly in the drivable market. However, business travel remained low, and event venues were hit by lack of conventions, which they anticipated would hurt business for some time. Meanwhile, restaurants continued to struggle as they operated at reduced capacity, and some shut down because of virus spikes or fear of vandalism. Attractions, theaters, and performing arts groups struggled as many remained closed and those that opened had soft demand.

Real Estate and Construction

Fifth District home sales increased modestly since our last report. Realtors said business picked up after some softness in recent months. Contacts reported that demand exceeded supply, partially because listings were low, as people were still reluctant to show their homes. Days on the market decreased, and low interest rates boosted sales. Realtors noted particularly strong demand for lower priced homes, but low listings caused some customers to shop in higher price ranges than they had originally planned. New construction continued, but starts were delayed due to the remote work and distancing policies of local agencies.

Commercial real estate leasing increased modestly but remained soft compared to pre-pandemic levels. Rental rates were somewhat lower, but contacts said buyers were not getting the low prices they expected. Retail remained weak as some stores and restaurants closed permanently. Office leasing was modest, and several tenants asked for short-term lease renewals in order to allow them to re-evaluate their use of and need for office space. Industrial leasing remained strong, and one broker expected a continued rise in industrial leasing to allow companies to hold more inventory. Multifamily leasing was somewhat soft, and some landlords increased concessions to attract tenants.

Banking and Finance

Overall, loan activity picked up slightly for this period. Respondents reported higher residential mortgage growth and strong demand for mortgage refinancing. On balance, conventional commercial lending declined moderately, although demand improved slightly in Fifth District states that reopened earlier. Auto lending remained below year-ago levels. Deposit growth continued to be strong, despite lower rates on interest-bearing accounts, driven mainly by proceeds from federal aid disbursements. Delinquency rates remained low, but a few financial institutions reported being more cautious in terms of their underwriting in light of the pandemic.

Nonfinancial Services

Nonfinancial services firms reported moderate declines in demand and revenues in recent weeks. Several contacts who engaged in business to business services, such as consulting, employee training, and marketing, said that their clients have reduced spending as a result of their own revenue declines. A few others said that revenue was down because they could not attend conventions and events, which typically generate new business for them. Lastly, an executive from a firm that provides services to federal government agencies expressed concerns that budget cuts would result in reduced demand in 2021 after current contracts expired. ■

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

Summary of Economic Activity

On balance, economic activity in the Sixth District remained weak from mid-May through June. Labor markets improved somewhat as businesses in parts of the region reopened. Nonlabor costs remained subdued. Reports from retailers noted strong consumer demand and increased sales of automobiles. Tourism contacts reported that attractions and hotels had begun to reopen, but revenues and employment levels were expected to be constrained by mandated capacity limits. Demand for residential real estate strengthened and inventory levels fell resulting in upward pressure on home prices. Commercial real estate market conditions were mixed. Manufacturing activity declined, and reports on new orders were mixed. Financial institutions reported a deterioration in conditions as COVID-19 impacted some firms' credit. Overall commercial loan growth was slow and consumer lending remained soft.

Employment and Wages

Labor conditions improved modestly since the previous report. Some firms reported slowly recalling workers and increasing hours as demand increased, while others remained in a holding pattern. Many of those bringing employees back indicated staffing was not back to pre-pandemic levels. While some employers reported taking measures to cut less productive processes and employees, others were able to acquire more skilled and productive staff due to greater talent availability. Although some remote workers returned to the office, many firms indicated success with remote arrangements and noted they will continue this stance for the near term and possibly beyond. Some employers remained committed to maintaining employment levels and plan to reduce hours, wages, and possibly benefits to maintain those levels; however, most indicated that demand will determine staffing levels in the second half of the year. As the support from the Paycheck Protection Program winds down, many employers indicated that they will be forced to lay off workers should business remain weak.

Contacts continued to report wage and salary cuts, except at the low-end of the pay scale and among essential workers. Reports on the disincentive to work from receiving unemployment insurance benefits were mixed.

Prices

Contacts continued to note muted input costs and little to no pricing power. Though many described rising costs associated with sanitation practices and Personal Protective Equipment used to protect employees and clients from COVID-19, most reported an inability to pass along these additional costs. The Atlanta Fed's Business Inflation Expectations survey showed year-over-year unit costs remained steady, on average, at 1.2 percent in June. Year-ahead expectations increased somewhat to 1.7 percent.

Consumer Spending and Tourism

Retailers reported healthy demand as many stores reopened. While some noted that there was still uncertainty clouding their outlook, expectations are for sales and margins to improve over the remainder of the year. Auto dealers reported increased sales activity since the last report.

Tourism and hospitality contacts noted that they have begun to reopen hotels and attractions in accordance to recommended guidelines. However, business capacity will be constrained by social distancing requirements which will continue to negatively impact both revenue and employment.

Construction and Real Estate

District housing market conditions improved significantly over the reporting period. Pent-up demand and low interest rates accelerated home sales. In many markets, home inventories contracted significantly, creating strong upward pressure on home prices. Despite low interest rates, affordability remained a concern as median home prices continued to reach new highs in several markets. The limited supply of existing homes increased demand for new homes. 30-day delinquencies rose sharply, especially in South Florida markets, despite a surge in forbearances.

Commercial real estate (CRE) contacts reported continued challenges associated with the effects of the COVID-19 pandemic. Hard hit sectors like retail and hospitality reported some stabilization as local economies reopened; lower-price point hotel brands saw improvements in occupancies and values from record lows in May through early June. Multifamily owners reported minor softening in occupancies and were offering greater concessions to minimize lease turnovers. There were growing reports of tenants and borrowers seeking relief. Investment activity was muted compared with pre-COVID-19 levels. Contacts reported that capital was readily available at banks; however, underwriting criteria tightened for the financing of operating CRE projects, and originations continued at a subpar pace. Contacts reported that high-quality asset values declined marginally, and hospitality and retail sector assets declined at a more accelerated pace since the beginning of the pandemic.

Manufacturing

Manufacturing contacts indicated that overall business activity decelerated, but at a somewhat slower pace than the previous report. While most firms reported decreases in new orders and production levels, a modest rise in new orders was noted by a few contacts. Purchasing managers suggested that supplier delivery times were getting longer as some supply chain disruptions continued. Contacts also cited a decline in finished inventory levels. Expectations for future production levels declined, with only one-fifth of contacts expecting higher production levels over the next six months.

Transportation

Transportation activity was largely unchanged since the previous report. Class I railroads saw slight improvements in volumes; however, total rail traffic remained substantially weak. Short-line railroads noted declines in shipments of autos and increases in aggregates and building materials. Ports experienced a significant reduction in auto imports and container traffic was down. Inland barge companies cited modest improvements in demand, but movements of energy products were soft as refineries continued to operate below capacity.

Banking and Finance

Conditions at financial institutions deteriorated over the reporting period due to credit issues related to the COVID-19 pandemic. Provisions for loan loss reserves increased significantly for most institutions, in preparation for increased charge-offs once forbearance periods end, exerting downward pressure on earnings. Additionally, lower short-term interest rates further compressed net interest rate margins. Loan growth remained muted with most centered on approvals of new loans under the Paycheck Protection Program. Except for first lien residential mortgages, consumer loan growth was flat partly due to tightening credit standards. Liquidity remained healthy as deposit levels increased.

Energy

Energy industry contacts continued to report weak demand, oversupply, and constrained global storage capacity for crude oil, liquefied natural gas, and refined products such as distillates. Oil and gas producers noted that they expect U.S. oil production to take one to two years to return to pre-COVID-19 levels. Fuel distributors reported little to no demand from municipalities, transit authorities, school systems, and airlines, while demand from food wholesalers and grocers remained solid. Utilities in the region indicated that reductions in demand were not as large as anticipated in the first quarter. While utilities contacts noted that planned capital investments will continue through 2021, other energy sectors reported delayed or cancelled projects, cuts to budgets, and layoffs, some permanent, over the same period.

Agriculture

Agricultural conditions remained weak. Mostly drought-free conditions prevailed. On a month-over-month basis, June’s production forecast for Florida's orange crop was down from the previous month and last year, while Florida’s grapefruit production forecast was down from the previous month but remained ahead of last year. The USDA reported that in May, year-over-year prices paid to farmers were up for rice, soybeans, and eggs but down for corn, cotton, cattle, broilers, and milk. On a month-over-month basis, prices increased for cotton, rice, cattle, and broilers but decreased for corn, soybeans, eggs, 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 increased strongly in late May and June, but remained well below its pre-pandemic level. Contacts expected further growth in activity in the coming months, but most did not expect a full recovery until at least the second half of 2021. Employment, consumer spending, and manufacturing increased substantially, while business spending and construction and real estate activity increased modestly. Wages edged up, prices declined slightly, and financial conditions deteriorated modestly. The pandemic continued to weigh on agriculture incomes.

Employment and Wages

Employment increased substantially from a very low level over the reporting period, with gains spread widely across industries. Many contacts who received a Paycheck Protection Program (PPP) loan continued to indicate that the program was helping them avoid layoffs. A number of contacts said that their ability to retain workers after the PPP money ran out depended heavily on future demand. Manufacturers facing slowdowns reported further use of downtime to carry out maintenance or do productivity enhancing projects. Some auto dealers reported selling a large number of vehicles while employing far fewer workers. Several contacts again commented that generous unemployment benefits were making it difficult to bring payrolls back to desired levels. Wages edged up across skill levels. Benefits costs also ticked up.

Prices

Prices declined slightly overall in late May and June, though contacts expected modest increases over the next 12 months. Retail prices decreased modestly on balance. There were noticeable declines for apparel, but food and beverage prices rose, particularly for beef. Producer prices edged down. Input prices were largely unchanged, with the exception of shipping costs, which increased modestly.

Consumer Spending

Consumer spending increased substantially as many establishments were permitted to reopen. The rebound generally exceeded contacts' expectations. Nonauto retailers saw gains in all sectors. Contacts noted that the home improvement, home furnishings, food and beverage, and sporting goods sectors continued to be strong. Apparel was selling, but only with very generous promotions. Vehicle sales moved up sharply, and dealerships' service departments continued to work through backlogs that had built up while stay-at-home orders were in place. Contacts reported large increases in boat and RV sales. Most contacts in the leisure and hospitality sector were open, but sales remained well below pre-coronavirus levels. For example, casinos in Iowa were allowed to reopen at 50 percent capacity, a level that reportedly matched demand. In contrast, movie theaters in most of Michigan were required to stay closed. Contacts expressed great uncertainty about the path of consumer spending over the rest of the year, especially for the holiday season.

Business Spending

Business spending increased modestly in late May and June. Retail inventories were generally above desired levels, particularly for apparel, though there were reports of low inventories of light trucks, boats, and RVs. A number of manufacturers said that inventories were higher than desired. Capital expenditures increased slightly, but many contacts continued to say they had pulled back on spending plans for the year. Contacts again indicated they were making major changes in work environments to protect employees against the coronavirus, but noted cost offsets from lower travel and entertainment spending. Freight transportation increased modestly, but remained at a low level. Commercial and industrial energy consumption increased moderately, with the largest growth in manufacturing.

Construction and Real Estate

Construction and real estate activity increased modestly on balance over the reporting period, but remained subdued. Residential construction decreased slightly. One contact reported a pullback in speculative single-family construction. Residential real estate activity increased moderately from a very low level, with gains concentrated in the starter home segment. Contacts continued to report that low inventories were supporting prices. Nonresidential construction decreased slightly on net, with much of the activity representing work on projects in progress before the pandemic. Commercial real estate activity was little changed and the market remains highly distressed. Industrial properties had the highest percentage of on time rent payments, while many tenants in the retail, restaurant, and hospitality sectors had asked for forbearance through at least the end of the summer. Retail and restaurant store closures were reportedly accelerating. Rents moved down, while vacancies and sublease space increased.

Manufacturing

Manufacturing production increased strongly in late May and June, but remained well below where it was before the pandemic began. Auto production increased very sharply from a very low level as both assemblers and suppliers reopened. However, some contacts in the industry were concerned that the rising number of COVID-19 cases in parts of the US could result in new plant shutdowns. Steel production increased moderately, led by increased demand from the auto and oil and gas industries. Demand for heavy machinery picked up, but remained weak. Orders from specialty metals manufacturers increased moderately on balance, with reports of steady demand from the defense sector and increases from the medical and food manufacturing sectors. Manufacturers of building materials reported a moderate increase in shipments.

Banking and Finance

Financial conditions deteriorated modestly during the reporting period. Participants in the equity and bond markets reported little change in prices on net, but volatility remained elevated. Business loan demand decreased moderately as activity related to the PPP slowed. Many contacts reported large increases in businesses' cash deposits. Contacts said there was some interest in the Federal Reserve's Main Street Lending Program, but that many businesses had access to cheaper credit elsewhere. Business loan quality deteriorated moderately, particularly in the leisure and hospitality, commercial real estate, and health care sectors. Contacts noted that deferrals and the PPP had helped prevent delinquencies for many clients. One contact said that most clients appeared to have sufficient liquidity to make it into the fall. Business loan standards again tightened moderately. Consumer loan demand decreased modestly, though demand for mortgage refinancing remained strong. Loan quality again deteriorated slightly. Contacts noted that delinquencies were limited because they were granting deferrals. One contact said that roughly half of their deferrals had been to households that may struggle to resume loan payments once the current 60 to 90 day deferral period was over. Consumer loan standards tightened modestly.

Agriculture

The COVID-19 pandemic continued to weigh on agriculture incomes. That said, farm incomes received a boost from some commodity price increases and CARES Act payments. Corn and soybean prices moved up after a USDA report that the number of corn acres planted was smaller than expected. Following a smooth planting season, corn and soybean crops were off to an excellent start. Specialty crops were also in decent shape. Meat production rebounded to levels near that of a year ago as packing plants reopened and began running extra shifts. Nevertheless, contacts reported a large backlog of hogs to slaughter. Cattle and hog prices fell and were below year ago levels. Milk prices at the farm gate stayed below last year's levels in spite of some upward movement in dairy prices. Cheese demand surged, pushing prices to high levels. Ethanol margins widened, but some facilities remained closed and others were operating below full capacity. Demand for sites to locate renewable energy assets, recreational ground, and rural housing helped keep farmland values mostly stable. ■

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

Summary of Economic Activity

Economic activity has rebounded sharply since late May; however, overall conditions remain significantly depressed and the pace of recovery appears to have slowed since mid-June. Contacts reported reopening and bringing back furloughed workers, but the pace has been uneven across firms and sectors. General retailers, auto dealers, and hospitality contacts report increases in business activity, while manufacturing contacts reported little change. Homes sales increased sharply while construction activity was mixed. In comparison with our previous report, the outlook among contacts is slightly more pessimistic while also much more uncertain.

Employment and Wages

Employment continued to increase at a robust pace. However, the pace of recovery has slowed through the reporting period and the level of economic activity remains depressed. Businesses have begun to reopen and bring back furloughed workers, but recovery has been uneven across firms and sectors. Small businesses have been slow to recover; one staffing contact reported small firms were "decimated," estimating that 5% of their small clients had filed for bankruptcy and expecting up to 25% to do so by the end of the year. Businesses that support other businesses, such as wholesalers and intermediate-goods manufacturers, have also been slow to recall workers in the face of weak demand. Some firms reported difficulty hiring back low-wage workers, attributing it to continued health concerns and unemployment benefits. Other firms, especially larger ones, have increasingly laid off workers as they reassessed how long the recovery will take and whether they should downsize permanently.

Reports on wage growth have been mixed. Some firms have increased wages for low-wage workers to entice them to return to work and forgo unemployment benefits; however, other contacts reported reducing hazard pay. A payroll contact reported that half his clients who had previously cut wages had returned them to pre-March levels. Other firms have reported cutting nonwage benefits, such as matching 401K contributions, to control costs. One contact emphasized a systemic lack of "normal" raises and bonuses.

Prices

Prices have increased slightly since the previous report. The majority of contacts reported little to no change in input prices. However, many manufacturing and healthcare contacts reported somewhat higher input prices. Contacts reported robust growth in some commodity prices, such as coal, lumber, and shredded scrap; however, most prices remain lower than one year ago. Prices for crops have decreased moderately since the previous report. Some crop prices have risen robustly, but others such as those for wheat have decreased significantly. Although the price of corn has increased moderately since the previous report, the price has decreased significantly year-over-year. This has been largely triggered by lower demand for ethanol. The trucking industry has increased prices for services slightly since the previous report.

Consumer Spending

Consumer spending activity remains far below typical levels, though general retailers, auto dealers, and hospitality contacts reported increases in business activity since our previous report. Seasonally adjusted credit and debit card spending in most District states increased from the end of May to mid-June. Most general retailers indicate that activity in May has exceeded low expectations and they had reported an optimistic outlook prior to the recent surge in new coronavirus cases. Many restaurants continue to struggle under modified business models, and some indicate that they may not be able to stay open much longer if business conditions do not improve. Auto dealers reported strong sales in June, with some firms reporting year-over-year increases. St. Louis-area hotel contacts reported that occupancy has increased since the beginning of May but remains significantly depressed. Hospitality contacts do not expect business to return to typical levels until 2022.

Manufacturing

Manufacturing activity is little changed since our previous report. Survey-based indices showed slight improvement in overall manufacturing activity in Arkansas and Missouri from May to June. New orders and production increased modestly in both states, the first signs of growth since February. Contacts in steel and printing industries reported no change to production because of limited demand; both are still producing at about two-thirds capacity. One contact reported extending planned shutdowns past the Fourth of July, resulting in the furloughing of some workers; another contact reported having recently laid off a few workers.

Nonfinancial Services

Activity in the services sector has improved since the previous report. Job vacancies decreased uniformly across the District in nonfinancial services firms by approximately 10 percent year-over-year. Staffing contacts reported that professional service sector positions have increased halfway to pre-pandemic levels and very few contractors have been laid-off in recent weeks. A hospital contact reported volumes for inpatient services has increased faster than anticipated. Reports from contacts at airports in the District noted steady recoveries. Passenger traffic has more than doubled since our previous report. However, levels compared with last year remain severely depressed. Contacts reported that cargo traffic remains steady and is only down in some airports by only 1.5 percent compared with last year. Trucking contacts noted small increases in revenue due to price and hauling increases.

Real Estate and Construction

Residential real estate activity has sharply increased since the previous report. Pending home sales in early June improved from their lows in April, and some contacts reported new sales above levels relative to last year. Home showings in early June were up relative to one year ago across most states in the District. Inventory levels remained very low throughout the District, and contacts reported increased competition for available listings, with sales exceeding the asking price. A contact in St. Louis reported an increase in in-person showings and closings. A contact in Memphis noted that some businesses were downsizing their office real estate as they moved toward permanent remote-work arrangements. Construction activity was mixed in late May and early June as businesses reported either no change or a decrease in weekly operating revenue in June relative to prior weeks. A contact in St. Louis reported a slowdown in invoice payments from customers, suspecting that customers were looking for ways to conserve cash.

Banking and Finance

Reports from District banks indicate a strong increase in demand for banking services. Demand for commercial and industrial loans has increased sharply, while residential real estate and consumer loan volumes modestly increased. Low interest rates spurred many customers to refinance mortgages, providing new fee income to bankers. In addition to mortgage closings, PPP loans and other incentives have provided additional liquidity. However, banking contacts have expressed concerns about profitability due to the expectation of a longer-term low-rate environment and higher delinquency rates. As a result, many bankers have reduced deposit rates to offset margins.

Agriculture and Natural Resources

District agriculture conditions remain unchanged relative to the previous reporting period. Between the end of May and end of June, the percentages of corn and soybeans rated fair or better increased modestly, while the percentages of cotton and rice decreased modestly. The percentages of corn, rice, and soybeans rated fair or better are significantly above their values a year ago, while the percentage of cotton rated fair or better slightly decreased. Agriculture contacts have indicated that, in the past month, agribusinesses have not experienced significant shortages or slowdowns in demand and have remained open due to their essential status. However, there is some concern that additional financing may be necessary to bridge gaps in cash flows if the overall economic slowdown is prolonged. ■

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

Summary of Economic Activity

Ninth District economic activity was mixed since the previous report, with declines in most sectors, despite some improvements due to emergency federal stimulus and gradual reopening of state economies in the District. Employment rose from very contracted levels, wage pressures were flat, and price pressures remained minimal. The District economy saw growth in consumer spending and tourism, but decline in services, construction and real estate, manufacturing, energy, and mining; agricultural conditions remained poor.

Employment and Wages

Employment rose since the last report, but from very contracted levels, and labor markets remained volatile. Solid employment gains were seen in May, and a variety of sources suggested a continuation in June. The lifting of pandemic-related restrictions on many businesses allowed increased hiring and callbacks of laid-off workers in many sectors. Ad hoc polls in June by the Minneapolis Fed showed that slightly more firms were hiring than those that were cutting staff. A staffing contact in North Dakota said job orders have been “much better” since hitting lows in April. Volatility remains in the labor market, however. Announcements of temporary and permanent mass layoffs rose notably in June in Minnesota and Wisconsin after slowing significantly in May. Initial unemployment claims fell in June across the District compared with April and May levels, but remained significantly elevated. Monthly job postings plummeted across the District in May, but there was some evidence of stabilizing in June. Numerous sources noted that seasonal hiring over the summer would remain well below normal levels. A contact in the Bakken region of North Dakota reported that energy-related firms “would not try to save their employees” as they had during the downturn in oil prices five years ago, and that wide-scale layoffs had begun “and will continue at a fairly expedited rate.” A workforce contact in northern Minnesota said that some businesses expected somewhat higher permanent layoffs than they were communicating publicly with employees.

Wage pressures were flat overall since the last report. Ad hoc polls by the Minneapolis Fed found that a majority of employers have made no changes in wages since the onset of the pandemic; slightly more reported wage decreases than those reporting increases. Faced with budget deficits, some local governments have reportedly instituted furloughs or negotiated wage cuts, or both. However, some firms that have enjoyed strong demand during the pandemic have increased wages. A discount retailer raised its starting wage from $13 to $15 an hour, and a second discount retailer gave its Minnesota employees a $5 million bonus for working through the pandemic—the third such bonus in as many months. A major health care provider in Minnesota also ended furloughs and pay cuts to most workers after demand rebounded faster than anticipated.

Prices

Price pressures remained minimal. The majority of respondents to a recent poll of Ninth District firms in a diverse mix of sectors reported no change in prices charged for their products and services in the second quarter of 2020 relative to a year earlier; of the remainder, more reported decreases in prices than increases. Contacts reported slightly more pressure on input prices. Manufacturing contacts generally reported flat or decreased input prices, with the significant exception of personal protective equipment, which remained in tight supply. Retail fuel prices in District states have climbed appreciably since the previous report, though they remain below their prepandemic levels. Prices received by farmers in May were mixed.

Consumer Spending

Consumer spending improved since the last report, boosted by recent federal stimulus and the reopening of many businesses closed by the pandemic. But overall levels remained depressed. Numerous sources reported that consumer-facing businesses (e.g., retail, restaurants, and bars) were seeing increased traffic compared with May. But most were still well below normal seasonal activity, and even below restricted capacities. A Minnesota mall said it was seeing about one-quarter of its normal shopper activity in June. Tourism contacts in Minnesota and Montana confirmed that the majority of large events booked for the second half of the year have been canceled; one contact called it a “rolling cascade.” June traffic across the Mackinac Bridge into Michigan’s Upper Peninsula was down 18 percent over a year earlier, an improvement over May crossings, which plummeted by 37 percent.

Motor vehicle sales were strong. A dealership with multiple locations in the western part of the District saw sales growth of 15 percent or more in May and June. Sales of recreational vehicles were also healthy. Data on motor vehicle sales taxes and title registrations showed similar upticks in Minnesota and Wisconsin. Passenger screenings in June at the eight largest District airports roughly doubled over the previous month, but remained 75 percent below last year. Airport contacts said that leisure travel was returning faster than business travel.

Services

Professional services firms reported decreased activity since the last report. Contacts in advertising and marketing reported that clients had curtailed spending as they sought to hold on to cash. Vendors providing displays, food, or logistics services to support convention, exhibition, and entertainment events continued to report a severe contraction in demand. Contacts in trucking and logistics reported steady business overall, with variation depending on customer base.

Construction and Real Estate

Commercial construction was down moderately overall. The value of May construction starts across District states rose compared with April, but was notably down from 2019. The number of active projects was also trending modestly lower through the end of June. Minnesota construction contacts reported flat or falling levels of new projects out for bid. Recent permit activity showed signs of slowing, particularly in the city of Minneapolis, though not everywhere. Numerous sources also said more firms were competing for available work. Residential construction fell modestly overall, due mostly to a sizable drop in single-family permits in Minneapolis-St. Paul; increases were seen in St. Cloud, Minn., Bismarck, N.D., and Rapid City, S.D.

Commercial real estate fell moderately since the last report. Office space was under pressure given the slower economy and delayed return of remote workers to central business districts. Traditional retail space remained under tremendous strain. A major retailer closed six locations across the District. A Minnesota mall reported that many tenants were still closed in late June. Those that were open “are really struggling, nowhere near break-even,” and leases for virtually all tenants had been altered or renegotiated. Residential real estate was down across the District, according to the most recent (May) sales data available at deadline. Most regions saw double-digit declines in closed home sales compared with last year, with many reaching 20 to 30 percent.

Manufacturing

Manufacturing activity contracted slightly since the last report. An index of manufacturing conditions indicated decreased activity in June compared with a month earlier in Minnesota; the index for North Dakota and South Dakota rebounded to a slightly expansionary level. Some contacts reported strong demand in the plastics sector and supporting industries due to the need for personal protective equipment. However, numerous other contacts reported a marked slowdown in new orders as customers remained in “wait-and-see” mode. “Our order books have never had fewer future demand orders,” noted a custom manufacturer, who added that its existing demand was “nearly immediate.”

Agriculture, Energy, and Natural Resources

District agricultural conditions remained poor. Producers reported that disruptions in trade with China were creating “headwinds” in grain markets. Recent declines in milk prices dealt a blow to already suffering dairy producers. In contrast, the majority of the District’s corn and soybean crops were in good or excellent condition as of late June. Oil and gas activity continued to decline even as crude prices rebounded somewhat. The number of active drilling rigs in the District as of late June was down sharply again from the previous reporting period. Multiple District iron ore production facilities remained shuttered as demand for steel was low. ■

Summary of Economic Activity

After a sharp contraction in previous months, Tenth District economic activity rebounded slightly in June. Expectations also improved, and contacts in most sectors anticipated higher levels of activity in the months ahead. Consumer spending increased modestly, with stronger retail, restaurant, auto, and tourism sales. Manufacturing activity expanded slightly, driven by gains at non-durable goods plants. Sales also picked up in the transportation and wholesale trade sectors, although transportation activity remained well below year-ago levels. Professional and high-tech services contacts continued to report lower sales, and additional declines were anticipated in the months ahead. Residential real estate activity increased moderately as home sales, prices and construction activity rose. However, commercial real estate activity dropped further. Energy activity also continued to decline, and contacts expected oil prices to remain below the price needed to substantially increase drilling for more than a year. The agriculture sector remained weak, but all meat-packing plants were operational by late June. District employment started to recover, with the most significant gains in the retail, restaurant and tourism sectors. Despite recent improvement, employment still remained well below year-ago levels in several sectors. Wages rose modestly, and prices increased across most District sectors.

Employment and Wages

District employment started to recover in June after declining in the previous two survey periods. The most significant gains occurred in the retail, restaurant, and tourism sectors, with retail employment approaching year-ago levels. However, several industries reported employment levels that were still sharply below a year ago including transportation, tourism, restaurants and durable-goods manufacturing. Overall, employment was anticipated to increase slightly in the months ahead, but expectations were varied across industries.

Labor shortages were not an issue for the majority of respondents, but some contacts reported shortages for truck drivers, skilled technicians, and restaurant workers. Wages rose slightly, and modest gains were expected in the coming months.

Prices

Input and selling prices rose in June, and modest price increases were expected in both the services and manufacturing sectors in the months ahead. Retail contacts noted moderate growth in both input and selling prices and expected additional increases going forward. Both input and selling prices rose sharply in the restaurant sector and similar price growth was anticipated in the next few months. Construction supply respondents noted a modest rise in selling prices. Selling prices continued to decline in the transportation industry, but input prices rose moderately. Raw materials prices edged up in the manufacturing sector, while the prices of finished products rose slightly.

Consumer Spending

Consumer spending picked up modestly since the last survey period after plummeting in previous months. Sales increased for auto, restaurants, tourism, and retailers as many businesses reopened to consumers. Despite improved auto, restaurant and tourism sales, activity remained well below year-ago levels. However, retail activity was up from a year ago, driven by higher sales at grocery stores and building and garden supplies retailers. Health services sales continued to contract, but at a slower rate compared with previous months. A majority of firms reported receiving loans from the SBA PPP program, and most contacts indicated that these loans helped prevent layoffs and cover costs related to the pandemic. Expectations for all consumer spending sectors rose considerably after historically low expectations a few months ago.

Manufacturing and Other Business Activity

Manufacturing activity expanded slightly in June after steep decreases for three straight months. The increase in activity was driven by an uptick at non-durable goods factories, including sharply higher production at food and beverage manufacturing plants. Activity at durable goods factories, especially for primary and fabricated metals, continued to decline, but at a slower pace than in previous months. Production and new orders increased slightly but remained well below year-ago levels. Over 75 percent of factory contacts reported applying for the SBA PPP program, and most indicated that those loans prevented some layoffs and furloughs. Expectations for future activity increased, though capital expenditures plans and expectations for new orders for export remained subdued.

Outside of manufacturing, sales increased in the transportation and wholesale trade sectors. Wholesale trade sales were near year-ago levels, but transportation sales remained significantly below year-ago levels. Sales dipped further at professional and high-tech services firms, and were below levels a year ago. Contacts in the transportation and professional and high-tech services sectors anticipated fewer sales and capital expenditures in the months ahead. By contrast, expectations among wholesale trade contracts rebounded, with contacts expecting significantly higher sales moving forward.

Real Estate and Construction

Residential real estate activity expanded moderately in June, while commercial real estate activity declined modestly. Residential sales increased moderately as stay-at-home orders were lifted, and contacts were optimistic about strong sales in the months to come. Inventories fell further, and were sharply below year-ago levels. Home prices increased moderately and were expected to increase further as sales strengthen and inventories remain low. Residential construction activity rose modestly and construction supply firms noted a slight increase in sales, with one contact noting a surge in sales for deck supplies. Commercial real estate conditions deteriorated further as vacancy rates increased significantly, while absorption, sales, and prices declined. Many contacts noted that access to credit had become more difficult in recent months, and one respondent reported that retail leasing was particularly challenging.

Banking

Banking contacts reported a slight decrease in overall loan demand in recent weeks including a slight decrease in consumer loan demand, a modest decrease in commercial real estate loan demand, and a moderate decrease in commercial and industrial loan demand. However, the demand for residential real estate loans increased sharply since the last survey. Bankers reported that credit standards tightened across all loan categories. Loan quality decreased slightly compared to a year ago, but a sharp deterioration was expected over the next six months. Deposit levels rose at a strong pace, with deposits from stimulus checks and the SBA PPP program playing a large role.

Energy

District energy activity collapsed further in June, with sharp drops in revenues, profits and employment. The number of active oil and gas rigs in the District also continued to decline as firms shut-in additional wells to ease production levels. The oversupply of oil combined with weaker demand due to the global pandemic continued to curb regional oil production and well-head prices. Contacts expected oil and gas prices to rise modestly in the months ahead, but prices were expected to remain below the level needed for a substantial increase in drilling for more than a year. Additional deterioration was anticipated in the energy sector, although the pace of declines was expected to moderate. Despite weak conditions, over two-thirds of energy contacts reported that they could survive for more than a year if current revenue levels persisted.

Agriculture

The Tenth District farm economy remained weak despite some signs of stabilization in markets for key agricultural commodities. By late June, all U.S. meat packing plants were operational, but COVID-19 continued to impede supply chain functions. Capacity utilization and meat production at packing plants increased slightly since May, but appeared to remain limited somewhat by modified operations. Alongside production constraints, demand for meat was expected to decrease in 2020 as a result of broader economic weaknesses, putting additional downward pressure on cattle and hog prices. Ethanol production rebounded slightly in June, but remained about 20 percent lower than a year ago and continued to weigh on corn prices. District contacts reported that farm borrower liquidity weakened considerably alongside lower commodity prices, but government aid programs could provide a moderate degree of support to agricultural credit conditions. ■

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

Summary of Economic Activity

The Eleventh District economy regained its footing following unprecedented declines in the previous two reporting periods. Activity in the manufacturing and service sectors began rebounding, as did retail spending. However, the level of output and demand remained below pre-COVID levels. Loan volumes contracted at a modest pace, and drilling activity fell to new lows. Activity in the housing market expanded, with new home sales outperforming activity in the existing-home market. Employment stabilized, according to contacts, but overall labor market conditions remained weak. Wages were flat to slightly up. While input costs rose modestly, selling prices generally dipped further. Outlooks improved, but a weak economy, depressed activity in the energy sector, the resurgence of COVID-19 infections, and a pause in the reopening of the district economy were causing concern among contacts.

Employment and Wages

Most contacts reported holding employment steady. Manufacturing and service sector employment was flat, with scattered reports of hiring, while energy contracted. Forty-three percent of respondents to a June Dallas Fed survey of 400 Texas manufacturing and services firms indicated reduced employment levels due to COVID-19 and, among this group, 26 percent said it would take more than a year to get back to pre-COVID headcounts and 19 percent said they do not ever expect employment to get back to pre-COVID levels. Also, many contacts cited challenges in bringing workers back given rising infection rates, quarantined employees, and confirmed positive COVID-19 cases among staff.

Wages were flat to slightly up; however, airlines and energy firms among others noted pay cuts and/or freezes. Companies looking to hire along with staffing firms noted difficulty recruiting due to lack of applicants and/or high unemployment insurance benefits.

Prices

Input costs rose at a modest pace, in part due to supply-chain issues, rising freight costs, and precautions being taken by firms to protect staff and customers from exposure to COVID-19. Selling prices were flat to down due to weak demand, though there were reports of increased prices for new and used vehicles arising from inventory shortages. New home prices rose slightly, and homebuilders noted getting only modest relief from contractors and suppliers on pricing. Airline ticket prices held steady or dipped. Staffing firms reported no change in bill rates, while some oilfield services firms said prices were down 10-15 percent vs. earlier in the year.

Manufacturing

Output growth rebounded in June following steep declines in the previous three months. Durables and nondurables increased, led by strength in transportation equipment, food, printing, and construction-related manufacturing. Declines in the oil and gas industry remained a significant headwind among those experiencing sustained weakness. Refiners and chemical manufacturers noted modest improvements in utilization rates, though margins were still depressed. Chemical firms said demand for PPE and disinfectant products remained robust, but resin and basic chemical demand was soft. Manufacturing outlooks improved, though the recent spike in COVID-19 cases and a weak economy weighed on business sentiment.

Retail Sales

Retail sales rebounded sharply in June, albeit from depressed levels. A majority of respondents noted an increase in sales activity, though reports regarding the pace of growth were mixed. Auto dealers cited a pickup in demand, with reports of strength in all-terrain vehicle (ATV) sales. Inventories dropped further, particularly for auto dealers, which some contacts attributed to supply-chain issues. Outlooks were optimistic but contingent upon a stabilization of COVID-19 cases.

Nonfinancial Services

Service sector activity rose modestly in June, following a period of declining demand from March through May. Performance was mixed across industries, with those experiencing sluggish activity citing weakness in the oil and gas sector, continued operational restrictions, and weak demand. Health care firms saw a strong pickup in demand. Some professional and technical services firms said they were benefitting from strength in the residential real estate market. Activity in the leisure and hospitality sector rebounded but remained well below last year's levels. Airline passenger demand grew modestly during the reporting period; however, it remained markedly lower compared to year-ago levels. Domestic demand was driven by leisure travel, and overseas travel remained limited. Demand for staffing services was flat to down during the reporting period. Outlooks were mixed and generally uncertain due to the resurgence of COVID-19, and concern about future consumer demand trends.

Construction and Real Estate

Activity in the housing market improved markedly. Existing-home sales fell in May partly due to a lack of inventory, but picked up in June. Showings were up as well, indicating increased buyer interest. New-home sales strengthened, with several contacts noting a record month in May and continued solid activity in June. Contacts said record-low mortgage rates were driving sales, with the pace of sales higher in the low- to mid-price range. After a temporary pause, new development activity was picking back up, and contacts noted evaluating new lot/land deals and/or moving forward with planned acquisitions. Outlooks have improved significantly, but there was lingering concern about the demand impact in the fall of a weak labor market, the upcoming election, and virus flare ups.

Multifamily contacts said leasing activity weakened in early to mid-spring due to COVID-19, but has improved since then. Rents were flat to down, and concessions have increased. Apartment rent collections continued to outperform expectations, but the upcoming expiration of federal unemployment benefits was a downside risk to the outlook. Office leasing remained sluggish, though it did improve slightly compared to the previous reporting period. Activity was concentrated in short-term renewals and/or smaller-sized deals. Industrial demand remained solid.

Financial Services

Loan demand fell, though at a more moderate pace than in the previous reporting period. Volumes weakened further for all loan types except for residential real estate, which rose sharply. Loan pricing continued its marked decline, and credit standards tightened further. Loan performance eroded noticeably, and majority of respondents expected further deterioration. Nearly 19 percent of banks observed an increase in draws on existing commercial credit lines due to COVID-19, down from 37 percent from six weeks ago. On average, bankers said roughly 15 percent of their total loans were currently in deferral. Expectations regarding general business conditions improved, and the outlook for future loan demand turned positive for the first time since March.

Energy

Eleventh District drilling activity eroded further but showed signs of stabilizing by the end of the reporting period. Meanwhile, well completion activity stabilized and logged modest weekly gains. Though overall oilfield activity remained depressed, sentiment has improved due to a pickup in oil prices, and a majority of firms expect to restart shut-in wells by September. The recent increase in COVID-19 cases and hospitalizations was causing some concern among contacts. Most contacts don't expect U.S. crude oil production to return to pre-COVID levels until at least mid-2021.

Agriculture

Soil moisture conditions remained favorable across most of the district, except for the Texas Panhandle area where there was drought. Wheat remained a bright spot with production up from last year, though prices were lower. While overall crop conditions were favorable, lower-than-profitable prices were leading agricultural producers to rely on government support payments to supplement farm income. On the livestock side, meat packers were adjusting to the new operating environment and have ramped production back up. Dairy prices rose as the industry made a concerted effort to curb production in response to lower restaurant demand. ■

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

Summary of Economic Activity

Economic activity in the Twelfth District contracted modestly on balance during the reporting period of mid-May through June. Employment levels increased slightly, as rehiring activity proceeded cautiously. Wages were generally stable, as were prices. Sales of retail goods rose moderately, while activity for providers of consumer and business services continued to contract sharply. Manufacturing activity was mixed, and conditions in the agriculture sector remained weak. Conditions in residential real estate improved moderately, while the commercial market was mixed. Lending activity ticked up.

Employment and Wages

Employment levels increased slightly, as reopening and rehiring activity proceeded cautiously after the prior months' surge in layoffs and furloughs. Most companies that reduced employment in the wake of the COVID-19 outbreak added only a fraction of previously separated workers to their payrolls, while others that did not lay off or furlough workers scaled back hiring plans going forward. IT and business services companies noted continued hiring, albeit at a slightly slower pace. Building material producers reported a tick up in payrolls in response to growing demand from the construction sector. In Los Angeles, restaurants increased employment modestly, but anticipated having to reinstate furloughs due to a reversal in the reopening process. Entertainment streaming services increased employment slightly, while unemployment in film and television production in Southern California remained historically elevated. Over the next several months, tourism industry employers in Hawaii expect to recall only about 10 to 15 percent of the workers who were laid off or furloughed in March and April. Some contacts reported generous unemployment compensation limited the pace of hiring.

Wages were broadly stable. While contacts noted modestly to moderately falling wages for some lower-skilled jobs and rising salaries for in-demand jobs in IT and finance, most reported stable compensation. A few contacts cited firms' tendency to try to ride out the initial shock of a downturn before adjusting wages and other business costs. However, some firms have suspended or postponed bonuses and merit increases in response to deteriorating business conditions.

Prices

Most contacts reported stable prices over the reporting period as businesses generally took a cautious approach to potential price changes. A few observed slightly higher prices at restaurants, perhaps to account for the cost of new cleaning and safety supplies and supply constraints for certain foods. Some restaurants limited price changes in an attempt to retain customers. Building materials' prices ticked up with construction projects restarting or continuing in several regions and residential permitting rising in some areas. Electricity and fuel prices were unchanged on balance. Selling prices for most crops fell, as supply outstripped demand, especially from foreign markets. A credit union in California suspended most fees on consumer accounts. Hoteliers and airline operators decreased some prices for tourist destinations.

Retail Trade and Services

Retail sales rose moderately, as restrictions on nonessential businesses eased in the early part of the reporting period. Contacts observed a broad reversal in the negative growth trajectory of retail activity, with foot traffic to brick-and-mortar establishments picking up. However, in several areas, a late June resurgence in COVID-19 cases slowed or reversed the reopening process, jeopardizing further recovery in consumer spending. In the Mountain West, retail sales beat expectations in June and auto dealers saw strong demand over the past two months. However, auto dealers anticipated a falloff in sales over the next several months as vehicle inventories reached rock-bottom levels and were not expected to recover until the fourth quarter. Sales of wood products at home improvement stores in the Pacific Northwest increased solidly. An Arizona big box retailer reported lower in-store sales and ample inventory. Steep declines in tourist arrivals in Hawaii and Southern California have severely limited foot traffic to stores dependent on visitors' spending during summer months.

Activity in consumer and business services contracted sharply. In the Los Angeles area, most restaurants operated at a loss or remained closed entirely. Moreover, restaurants that were operating maintained narrow inventories in case shelter-in-place restrictions were reimposed, a decision that weakened sales at restaurant suppliers. Hawaii hotel occupancy rates continued to run at a tiny fraction of normal levels, while a Southern California hotel owner reported a moderate improvement in room bookings to a level still significantly below prior years. A provider of business advisory services in California reported that many client firms curtailed spending on nonessential business services and declined to extend some contracts, suggesting a weak consensus business outlook. Domestic visitor levels ticked up in some Mountain West national parks, yet the absence of international travelers more than offset this positive development, leaving revenues depressed on a year-over-year basis. Electricity usage fell slightly on balance, as higher residential demand only partially offset lower industrial demand. In the entertainment sector, film and television production was still frozen while media subscription services saw a further tick-up in sales.

Manufacturing

Manufacturing activity was mixed but remained tepid in general. Where demand warranted firms' returning to full capacity, their ability to do so depended largely on how readily they could adapt to social-distancing regulations, a factor that varied significantly from business to business. A steel producer in Oregon reported that funds from the Paycheck Protection Program helped them stay afloat over the reporting period but that work orders were still a fraction of their pre-COVID-19 level. On the other hand, a building product manufacturer saw an encouraging increase in production and sales but attributed some of the jump to making up for April's very weak activity rather than improved market conditions. Elsewhere, a renewable energy equipment manufacturer noted a modest rebound in capacity utilization as supply chains passing through China and Mexico reopened. Spotty availability of input materials generally posed an additional challenge for some manufacturers attempting to move toward more normal operations.

Agriculture and Resource-Related Industries

Agriculture sector activity remained weak on balance over the reporting period. While yields were generally solid for most crops, including wheat, potatoes, and fruit, domestic sales were mixed and foreign sales poor. This combination of strong crop yields and subdued demand further deteriorated profit margins for many growers.

Contacts in the Pacific Northwest and Mountain West reported continued weakness in domestic wholesale distributors' and restaurants' demand for grains and potatoes. On the other hand, fruit and vegetable growers in California noted moderately higher demand from domestic grocery stores. On the export side, the strong dollar and continued tepid foreign demand due to the COVID-19 outbreak limited export sales for growers across the District. For example, California nut exports fell further after planned holiday celebrations around the summer solstice in China were cancelled.

Real Estate and Construction

Residential construction activity increased moderately. In most areas, contacts reported solid permitting and building activity. In Seattle, residential permits were slightly higher than in the same period last year, and a Northern California contact noted that permitting activity was picking up, reflecting a return to construction after some stoppages in March and April. Overall, home sales picked up noticeably while inventories declined, putting some upward pressure on home prices. In Oregon, a large backlog of homeowners wanting to list their home for sale indicated that inventory in some areas may rise in coming months. In Idaho and Eastern Washington, observers saw early evidence of buyers moving from higher-cost coastal markets after starting permanent teleworking. A Northern California contact reported that a number of renters were unable to pay rent, while some homeowners were delinquent on mortgage payments.

Activity in the commercial real estate market was mixed. Contacts in the Mountain West and California noted that some commercial projects that paused due to virus concerns have restarted. Office occupancy was generally stable in this region. However, the outlook for office occupancy and new office construction in District cities is highly uncertain, with some predicting a steep decline in occupancy and a freeze in new construction. Demand for warehouse space picked up in Northern California.

Financial Institutions

Overall lending activity ticked up, with contacts noting home mortgage refinancing and PPP loans as key drivers. Bankers reported that households capitalized on lower interest rates and PPP loans helped businesses maintain solvency and solid credit standing. Fiscal support to households supported their credit standing too. However, a fin-tech firm in San Francisco saw a marked decline in the overall credit quality of its small business customers. A few contacts continued to express concern about the ambiguity of certain PPP forgiveness terms. Liquidity conditions were solid across the District, and the supply of deposits increased modestly. ■