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# The Beige Book

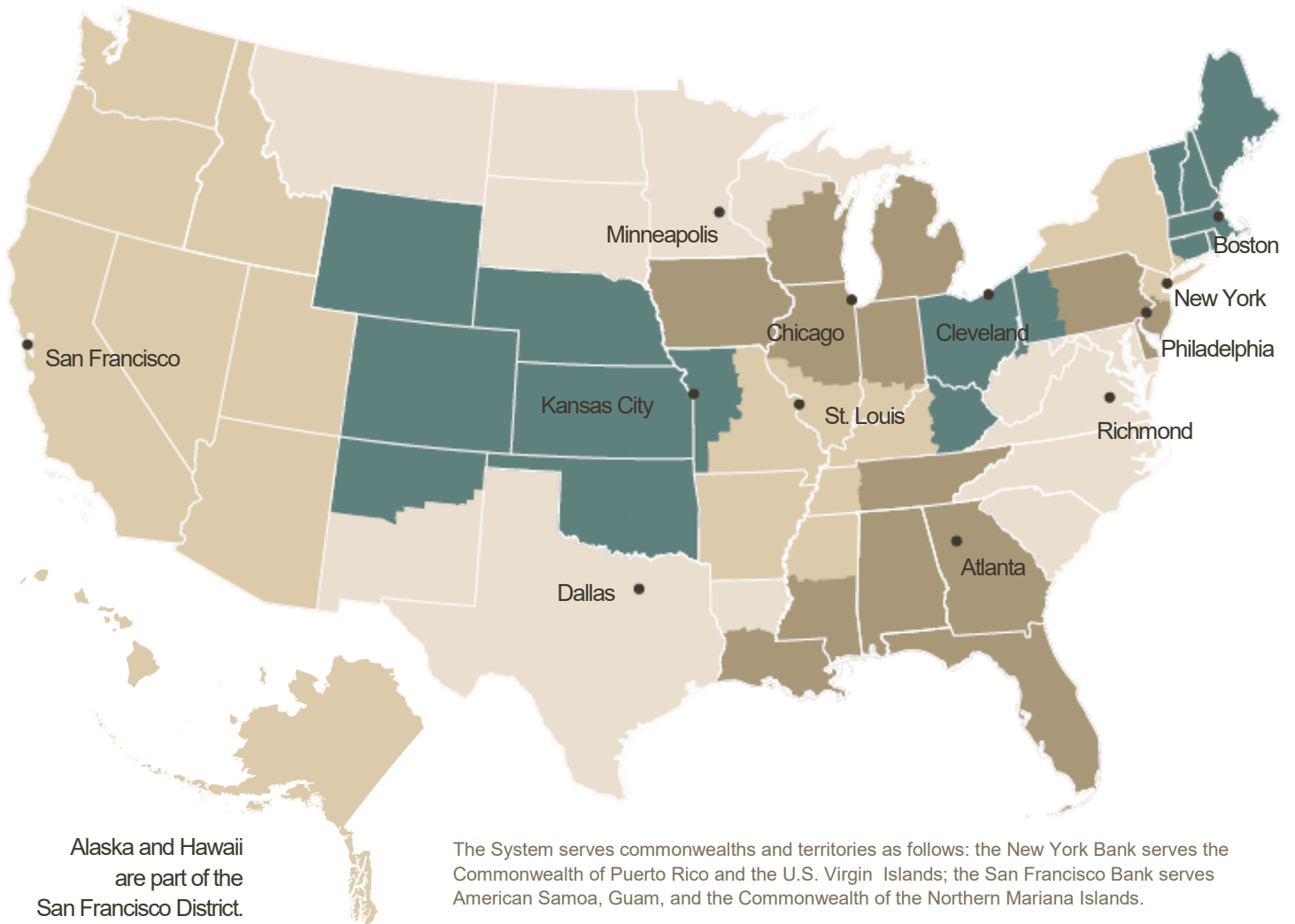
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Summary of Commentary on Current Economic Conditions

By Federal Reserve District

July 2021

## Federal Reserve Districts



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This report was prepared at the Federal Reserve Bank of Boston based on information collected on or before July 2, 2021. This document summarizes comments received from contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.

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## What is the Beige Book?

The Beige Book is a Federal Reserve System publication about current economic conditions across the 12 Federal Reserve Districts. It characterizes regional economic conditions and prospects based on a variety of mostly qualitative information, gathered directly from each District's sources. Reports are published eight times per year.

## What is the purpose of the Beige Book?

The Beige Book is intended to characterize the change in economic conditions since the last report. Outreach for the Beige Book is one of many ways the Federal Reserve System engages with businesses and other organizations about economic developments in their communities. Because this information is collected from a wide range of contacts through a variety of formal and informal methods, the Beige Book can complement other forms of regional information gathering. The Beige Book is not a commentary on the views of Federal Reserve officials.

## How is the information collected?

Each Federal Reserve Bank gathers information on current economic conditions in its District through reports from Bank and Branch directors, plus interviews and online questionnaires completed by businesses, community organizations, economists, market experts, and other sources. Contacts are not selected at random; rather, Banks strive to curate a diverse set of sources that can provide accurate and objective information about a broad range of economic activities. The Beige Book serves as a regular summary of this information for the public.

## How is the information used?

The information from contacts supplements the data and analysis used by Federal Reserve economists and staff to assess economic conditions in the Federal Reserve Districts. The qualitative nature of the Beige Book creates an opportunity to characterize dynamics and identify emerging trends in the economy that may not be readily apparent in the available economic data. This information enables comparison of economic conditions in different parts of the country, which can be helpful for assessing the outlook for the national economy.

## The Beige Book does not have the type of information I'm looking for. What other information is available?

The Federal Reserve System conducts a wide array of recurring surveys of businesses, households, and community organizations. A list of statistical releases compiled by the Federal Reserve Board is available [here](#), links to each of the Federal Reserve Banks are available [here](#), and a summary of the System's community outreach is available [here](#). In addition, [Fed Listens](#) events have been held around the country to hear about how monetary policy affects peoples' daily lives and livelihoods. The System also relies on a variety of [advisory councils](#)—whose members are drawn from a wide array of businesses, non-profit organizations, and community groups—to hear diverse perspectives on the economy in carrying out its responsibilities.



# National Summary

The Beige Book ■ July 2021

## Overall Economic Activity

The U.S. economy strengthened further from late May to early July, displaying moderate to robust growth. Sectors reporting above-average growth included transportation, travel and tourism, manufacturing, and nonfinancial services. Energy markets improved slightly, and agriculture had mixed results. Supply-side disruptions became more widespread, including shortages of materials and labor, delivery delays, and low inventories of many consumer goods. Strained car inventories resulted in somewhat lower car sales despite steady demand, and home sales rose slightly despite limited supply. Nonauto retail sales grew at a moderate pace on balance, and tourism was buoyed by the further abatement of pandemic-related concerns. Residential construction softened in several Districts in response to rising costs, while commercial construction was mixed but up slightly on balance. Bank lending activity increased slightly or modestly in most Districts. The outlook for demand improved further, but many contacts expressed uncertainty or pessimism over the easing of supply constraints.

## Employment and Wages

Three-quarters of Districts reported either slight or modest job gains and the remainder reported moderate or strong increases in employment. Healthy labor demand was broad-based but was seen as strongest for low-skilled positions. Wages increased at a moderate pace on average, and low-wage workers enjoyed above-average pay increases. Labor shortages were often cited as a reason firms could not staff at desired levels, with firms in three Districts delaying expansion or scaling back services due to understaffing. Higher than average turnover and lower retention rates were reported in three Districts. All Districts noted an increased use of non-wage cash incentives to attract and retain workers. Firms in several Districts expected the difficulty finding workers to extend into the early fall.

## Prices

Prices increased at an above-average pace, as seven Districts reported strong price growth and the rest saw moderate gains. Pricing pressures were broad-based and grew more acute in the hospitality sector, as the reopening of hotels and restaurants confronted limited supplies of materials and workers. Construction costs remained high, but lumber prices reportedly eased a bit. Container prices returned to very high levels after having moderated in the spring. Pricing power was mixed, as some contacts reported that high end-user demand enabled them to increase their prices and others said that input price pressures had reduced their profit margins. While some contacts felt that pricing pressures were transitory, the majority expected further increases in input costs and selling prices in the coming months.

## Highlights by Federal Reserve District

### Boston

Contacts reported solid increases in demand and modest gains in employment. Wage and pricing pressures intensified, and several firms implemented significant price and/or wage increases. Labor demand strengthened further but many contacts continued to complain of labor shortages. The outlook was mostly unchanged but prospects for office leasing appeared somewhat less bleak.

### New York

The regional economy continued to grow at a strong pace, and contacts were increasingly optimistic about the near-term outlook. Both hiring and wages picked up and businesses reported widespread labor shortages. Tourism picked up further, and service-sector businesses reported widespread improvement. Input price pressures have intensified further, and more businesses have raised or plan to raise their selling prices.

### Philadelphia

Business activity continued at a moderate pace of growth during the current Beige Book period – still below levels attained prior to the pandemic. More widespread vaccinations have led to a faster resumption of normal activity which has exacerbated labor shortages and wage pressures for low-wage jobs. However, employment continued to grow modestly, as did overall wage growth, while prices continued to grow moderately.

### Cleveland

The District's economy expanded at a solid pace amid further progress in the fight against COVID-19, although growth was hampered by labor and other supply constraints. Most firms remained optimistic about the strength of demand in coming months but were less certain that supply chain challenges would ease. Thus, many expected that upward pressure on wages, other input costs, and prices would persist in coming months.

### Richmond

The regional economy continued to grow moderately in recent weeks. Manufacturers and service sector businesses experienced growth in sales, but in many cases, growth was being restrained by lack of available labor, raw materials, shipping capacity, or inventories. Employment and wages rose modestly, and firms continued to struggle finding workers. Price growth increased slightly from an already elevated rate.

### Atlanta

Economic activity expanded at a moderate pace. Labor markets improved and wage pressures picked up for some positions. Some nonlabor costs remained elevated. Retail sales increased. Leisure, hospitality, and tourism activity strengthened. Residential real estate demand remained strong. Commercial real estate conditions strengthened. Manufacturing activity expanded. Banking conditions were steady.

### Chicago

Economic activity increased moderately. Growth was limited by supply constraints. Employment increased strongly, business spending increased moderately, manufacturing increased modestly, and consumer spending and construction and real estate were flat. Wages rose moderately while prices rose strongly. Financial conditions improved slightly. Prospects for agriculture income in 2021 were little changed.

### St. Louis

Economic conditions have continued to improve at a moderate pace since our previous report. Contacts continue to report that labor and material shortages are re-straining their ability to meet customer demand. Over-

all inflation pressures remain elevated, but firms report varying degrees of pass-through to customers.

### Minneapolis

The District economy saw strong growth despite challenges of inventory shortages, higher prices, and labor needs. More workers entered the labor market, but still lagged behind hiring demand. Consumer demand remained high, fueling continued growth in services, tourism, and manufacturing. Though commodity prices remained high, ag producers faced widespread drought. MWBE firms had an optimistic outlook on the economy.

### Kansas City

Economic activity expanded moderately in June, and further gains were expected over the next few months. Consumer spending increased moderately, with robust gains in retail sales and a moderate pick up in restaurant and tourism activity. Contacts in most other sectors also reported stronger demand and increased activity levels. Wage growth accelerated as labor shortages persisted, and both input and selling prices rose robustly.

### Dallas

The District economy expanded at a solid rate, bolstered by continued broad based growth across sectors. Supply chain challenges and labor shortages were more widespread than in the last report and were slowing the pace of expansion. Outlooks stayed positive, though uncertainty increased.

### San Francisco

Economic activity in the District expanded notably, and labor market conditions improved moderately. Wages and inflation picked up further. Retail sales and activity in the services sector strengthened solidly. Activity in the manufacturing and agriculture sectors rose more modestly. Residential construction remained very strong, while lending activity grew slightly.



## Summary of Economic Activity

First District contacts reported solid increases in demand and modest gains in employment. Retail sales remained elevated, about on par with first quarter results. Air travel through Boston improved steadily in recent months and Cape Cod tourism contacts saw further gains. Manufacturing sales improved moderately in recent weeks despite ongoing supply disruptions. Software and information services firms reported strong gains from the first quarter, although sales at one firm remained down from one year earlier. Commercial real estate markets improved further, led by robust industrial leasing and sales activity and impressive gains in retail leasing. Residential real estate markets remained strong as over-the-year results were little changed. Employment rose modestly and wage increases were mixed. Reports of robust price increases became more common. The outlook remained cautiously optimistic and prospects for office leasing appeared less bleak.

### Employment and Wages

Labor demand strengthened moderately and wage pressures increased, while employment increased modestly. A few manufacturing contacts described the labor market as tight for all skill levels, and one perceived that unemployment insurance held back the participation of unskilled workers. Nonetheless, a life sciences manufacturer resumed a plan to add hundreds more workers in 2021 following the resolution of regulatory uncertainty, and a food producer is adding a new production line and said that hiring difficulties and wage pressures had eased. Retail contacts experienced difficulty finding workers despite having implemented wage increases of \$1 to \$2 per hour. Software employment remained steady over the quarter, with turnover at average or below-average levels. One software contact engaged exclusively in replacement hiring while awaiting further information on demand, while two others described substantial hiring plans. Wages at software firms increased at their usual annual pace, but one firm felt that larger wage increases would be necessary moving forward in order to meet hiring goals.

### Prices

Price increases were robust on balance despite flat prices at software and IT firms. Three manufacturing firms planned to raise prices in 2021 and one raised prices in 2021Q2, by margins of 8 to 10 percent; another said that moderate price increases were possible in 2021 but uncertain. The price increases reflect a response to

large ongoing cost pressures and the perception that consumers will tolerate them. A food manufacturer reported a 12 percent increase in input prices over the year and a packaging manufacturer saw an 8 percent increase in paper pulp just since the first quarter. One contact said that ocean container prices were back up to the extreme heights seen in the winter after having fallen in the spring. Increased freight costs were noted by manufacturers as well as retailers. A furniture retailer raised prices nearly 10 percent in recent months and a total of 20 percent over the year. Software contacts reported flat prices, consistent with their business models which allow only infrequent price changes.

### Retail and Tourism

Retail sales at First District contacts stayed at high levels through the second quarter but were roughly even with first quarter results. At a furniture retailer, sales volume was up roughly 25 percent from 2019, which nonetheless fell slightly short of the pace of first quarter sales. The same retailer faced delays in receiving goods and difficulties hiring sales associates and warehouse workers. A clothing retailer said that sales in recent months remained up 30 percent over pre-pandemic levels, owing to continued strength in online sales, representing stable results since their last report.

Travel industry respondents reported that air travel through Boston increased substantially in recent months. Compared with the comparable months from 2019,

passengers were at 40 percent as of April 2021, at 45 percent as of May, and are expected to surpass 50 percent in June and July. The recovery in international and business travel was comparatively weak, however. Hotel bookings, occupancy rates, and room rates on Cape Cod held steady or improved further in a record-breaking spring season. Restaurants and small retail shops on the Cape also reported surging sales. Aside from potential problems related to ongoing labor shortages, retail and hospitality contacts remained optimistic that the summer would continue to yield very strong results.

### **Manufacturing and Related Services**

Manufacturing contacts saw moderate growth amid ongoing supply disruptions. Three contacts—a food producer, a manufacturer of industrial membranes, and a semiconductor manufacturer—said that second quarter sales exceeded their expectations. The semiconductor contact said that the enormous increase in demand for their products from a year earlier derives from end users and not from either hoarding or depressed sales during the pandemic—the example cited was increased demand for car safety features which require semiconductors. Firms did not report any major revisions to capital expenditures. Contacts experienced further moderate-to-steep cost increases that were mostly attributed to supply chain disruptions. Firms continued to be optimistic but made no major revisions to their outlooks, and they did not expect supply disruptions to ease before the end of 2021 and maybe even later.

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

Software and IT contacts in the First District reported moderate-to-robust improvements in sales. One contact said that customers saw value in their company's cloud-based products after witnessing their usefulness during the pandemic. Revenues at one firm remained lower on a year-over-year basis, but that performance nonetheless reflected a moderate improvement over the previous quarter, and others reported robust acceleration in year-over-year performance. Most contacts were cautiously optimistic for stable or improving sales moving forward, but one maintained an uncertain outlook given the possibility of a resurgence in COVID-19 cases later in 2021.

### **Commercial Real Estate**

Commercial real estate markets in the First District remained mixed but showed modest improvements on balance. The industrial market still had very strong leasing demand and industrial rents posted further modest increases amid very low vacancy rates. Industrial sales continued to grow, and capitalization rates fell to new lows. In the greater Boston area vacancies for life sci-

ences space edged close to zero amid substantial ongoing construction activity. Industrial and multifamily construction gained strength, but contacts perceive that construction activity in those sectors would be more robust if not for surging construction costs and tight labor markets. A contact from Maine reported a robust increase in office leasing demand, but elsewhere office demand was roughly flat and effective rents softened slightly. Office vacancies were stable in Connecticut and Maine, up in Rhode Island, and down somewhat in the Boston area. Retail leasing improved sharply in Maine and Rhode Island, in part for seasonal reasons, although rents were seen as flat or down slightly. Loan rates for industrial and multifamily properties fell a further 25 basis points as banks sought to shed cash. The outlook improved somewhat, as contacts expected further growth in retail leasing and forecasted smaller declines in office footprints through early 2022 than they had in previous reports.

### **Residential Real Estate**

New England's residential real estate markets were mostly stable amid a high-demand, low-inventory environment that has persisted for some time. Connecticut data were unavailable. Closed sales increased substantially over the year to May in all reporting areas, but the numbers largely reflect the pause in market activity in May 2020 due to COVID-19. For the condo markets in Rhode Island, New Hampshire, and Maine, May's results indicate a deceleration in sales activity from April, but condo sales in Massachusetts and Boston increased substantially from the last report. Single-family home inventories did not improve but Boston condos again saw a slight year-over-year increase in supply. Median sales prices increased over-the-year by double-digit percentages, representing little change from the previous report for single family homes and a slight acceleration for condos. The Massachusetts and New Hampshire contacts perceived that low mortgage rates fueled demand. Three contacts mentioned the need for new construction to satisfy demand, but they acknowledged that high construction costs could add further upward pressure to prices. The Massachusetts contact is hopeful that, as pandemic restrictions ease, supply chain challenges will be resolved, and construction costs will fall. ■

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





## Summary of Economic Activity

Economic growth in the Second District remained strong in the latest reporting period, as low levels of COVID and widespread vaccinations have enabled most businesses to re-open. Contacts continued to express broad-based optimism about the business outlook. The job market has strengthened further, as more businesses have added workers and raised wages, with many reporting labor shortages. Input price pressures have continued to broaden, and a growing proportion of businesses report that they are hiking their selling prices. Consumer spending has continued to grow, albeit at a more moderate pace, led by sales of used vehicles and tourism, while consumer confidence in the region climbed to near record highs. Home sales and rental markets have strengthened, while commercial real estate markets were mixed. Finally, contacts in the broad finance sector reported a pickup in activity, and regional banks reported rising loan demand and declining delinquency rates.

### Employment and Wages

The job market strengthened further in recent weeks, with businesses indicating more hiring and growing labor shortages. A major New York City employment agency noted increased hiring activity and expects a rebound to pre-pandemic levels once most offices fully re-open. An upstate employment agency reported a continued increase in job postings, noting that many remain unfilled—in part reflecting increased turnover and churn, as more workers have changed jobs.

Businesses in a number of sectors have reported increases in their employment levels—particularly in the leisure & hospitality, wholesale trade, transportation and information sectors. Overall, business contacts report a gap between actual and desired staffing levels—especially in the leisure & hospitality, professional & business services, and retail sectors; moreover, some restaurants and hotels have reportedly been unable to find enough staff to meet the surge in pent-up demand.

Businesses across all major sectors plan to add staff in the coming months. Many employers that had shifted to all or mostly remote work have begun to bring workers back to the workplace, and this is expected to be most pronounced in September.

Wage growth has picked up somewhat, most notably for jobs in leisure & hospitality, education & health, con-

struction, and transportation & warehousing. Looking ahead, businesses across all major sectors plan to raise wages. A leading New York City employment agency noted a wide gap between desired and offered salaries.

### Prices

Firms' input prices have generally continued to accelerate. As has been the case for several months, those in construction and manufacturing noted the most widespread increases, but in the latest reporting period, there has been a substantial increase among those in leisure & hospitality, transportation & warehousing, and retail & wholesale trade. Contacts in all sectors foresee widespread hikes in prices paid during the rest of 2021.

Selling prices accelerated modestly, with particularly widespread price hikes in manufacturing and wholesale trade and moderate hikes in retail, transportation, and construction. A sizable share of contacts in all sectors except information plan to hike prices later this year.

### Consumer Spending

Consumer spending has continued to grow, albeit at a somewhat more moderate pace. Non-auto retailers reported a continued increase in business, particularly for seasonal and travel-related merchandise. A major retail chain noted that its sales have continued to exceed plan, with sales in New York City picking up but still

lagging the rest of the region. Retailers continued to express widespread optimism about prospects for the second half of 2021. Consumer confidence among New York State residents continued to improve in June, exceeding pre-pandemic levels and approaching record highs.

New vehicle sales were reported to be steady at high levels, while sales of used cars strengthened considerably. Sales in both categories remained well above pre-pandemic levels, despite low inventories. A persistent shortage of microchips is expected to constrain inventories and sales of new vehicles through the summer.

### **Manufacturing and Distribution**

Businesses in the manufacturing, wholesale trade and transportation & warehousing sectors noted ongoing strong growth. Contacts continued to note supply disruptions, though to a somewhat lesser degree than earlier in the year. Looking ahead to the second half of this year, businesses in all these sectors remained widely optimistic about business prospects, with the main concerns being about shortages of workers.

### **Services**

Service industry contacts also reported robust growth in the latest reporting period. Contacts in the information and leisure & hospitality industries noted particularly widespread improvement, while those in professional & business and education & health services reported more moderate gains. A major social services nonprofit noted that increased food donations have enabled them to expand their distribution efforts. Looking ahead, contacts in all these sectors continued to express widespread optimism about business prospects.

Tourism has strengthened further, particularly in New York City, even as the volume of international and business visitors has remained well below pre-pandemic levels. In New York City, hotel occupancy rates climbed above 60 percent in June, a post-pandemic high, though room rates have remained well below pre-pandemic levels. With most restrictions now lifted, many more New York City hotels, restaurants, museums, and entertainment venues have re-opened or eased capacity constraints. A survey of residents across the Northeast indicated that many are eager to visit New York City, and the city recently launched a large promotional campaign to draw more domestic visitors.

### **Real Estate and Construction**

Housing markets have been steady to stronger in the latest reporting period. Sales markets outside New York City have remained quite robust, though volume has plateaued or edged back—largely due to lean inventories and high prices. In New York City, where inventories are not as low, sales volume continued to rebound, though the upward momentum has slowed. Home prices have been steady to higher across the District. In Manhattan, prices have stabilized well below peak levels of three years ago; across the rest of the New York City area, prices have been steady to slightly higher; and across upstate New York, prices have continued to rise.

New York City's rental market has shown signs of turning up. Rents are still down more than 10 percent from early-2020 levels across New York City, but they have begun to recover, with strong leasing activity continuing. This is generally attributed to a combination of people moving for better deals and a return to the workplace.

Commercial real estate markets have remained mixed across the District. New York City's office market has continued to slacken, with vacancy and availability rates continuing to trend up and rents drifting down. However, office markets across the rest of the District have been steady to modestly stronger—particularly in upstate New York. The industrial market has strengthened throughout the District, with vacancy & availability rates declining and rents up 5-7 percent from pre-pandemic levels.

New office construction has weakened from already sluggish levels, but multifamily residential construction has picked up outside Manhattan where it remains moribund. Construction sector contacts expect business to improve in the months ahead but expressed concern about the cost and availability of materials and labor.

### **Banking and Finance**

Businesses in the broad finance sector indicate that activity has picked up since the last report. Small to medium-sized banks in the District reported increased demand for loans, driven by higher demand for consumer loans and commercial mortgages. Refinancing was unchanged on net. Banks reported further tightening in standards on commercial mortgages and C&I loans and higher spreads on consumer loan and residential mortgages. Delinquency rates were down in all loan categories except residential mortgages, where they were reported to be unchanged. ■

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



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## Summary of Economic Activity

On balance, business activity in the Third District continued to grow moderately during the current Beige Book period; however, activity in most sectors remained below levels observed prior to the pandemic. The share of adults fully vaccinated against COVID-19 grew to above 50 percent. As normal activity resumes, labor shortages have worsened. Meanwhile, supply chain disruptions continue to challenge most sectors. Net employment continued at a modest pace of growth, while wages and prices continued to grow modestly and moderately, respectively. Wage pressures have been greatest for low-wage workers following years of stagnant wage growth. Over three-fourths of the firms expressed positive expectations for continued economic growth over the next six months – broadening in anticipation of a further uptake in vaccinations, the reopening of schools, a return to the workplace, and the phaseout of most stimulus measures.

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### Employment and Wages

Employment continued to grow modestly overall. The share of firms reporting employment increases broadened to over one-third of the manufacturers but edged back to one-fifth among nonmanufacturing firms. Overall, average hours worked rose for over one-fourth of all firms.

Attracting sufficient labor remained a challenge for many firms across all sectors. Contacts at staffing firms reported that they were beginning to see somewhat better candidate flow and were expecting supply to build through September as schools reopen. However, contacts recalled that the labor market was tight before the pandemic and expect it to remain exceedingly tight in the fall. Contacts noted that the pandemic encouraged some early retirements. Moreover, the warehouse industry and the gig economy have created more labor market churn and less workplace loyalty.

Wages continued to rise modestly overall. The strongest wage growth pressure remained largely constrained to lower-wage jobs. Contacts expect wage growth at the lower end to slow again after catching up with years of stagnant growth, but they also expect the increases to eventually move to mid-wage jobs.

Over four-fifths of the nonmanufacturing firms reported higher wage and benefit costs per employee – comparable with pre-pandemic levels. Almost no firms reported lower compensation. A rural area manufacturer noted that \$20 an hour seems to be the wage required to attract entry-level workers. Firms continued to report raising wages and offering signing bonuses, retention bonuses, and referral bonuses to compete for scarce labor resources.

### Prices

On balance, prices continued to rise moderately over the period. The share of manufacturers reporting higher prices for factor inputs edged over four-fifths, while those receiving higher prices for their own products rose to above one-half. However, the share of nonmanufacturers reporting higher prices for their inputs remained at one-half, while the share receiving higher prices from consumers for their own goods and services edged up to nearly one-third.

Over three-fourths of the manufacturing contacts reported expectations of paying higher prices over the next six months and expected to receive higher prices for their own goods.

## Manufacturing

On average, manufacturing activity continued to grow moderately. However, net increases of new orders waned somewhat from the prior period's level, while net increases of shipments rose. In turn, the share of firms reporting an increase of order backlogs, inventories, and delivery times retreated from near record levels. Despite the reported strong demand, manufacturing employment and production remained below pre-pandemic levels.

Manufacturers continued to note significant production constraints because of ongoing labor shortages and supply chain disruptions. In response, many firms are raising wages, outsourcing production, and increasing automation.

According to one contact, another firm "overcompensated" last year when the pandemic hit. Expecting a drop in demand, the manufacturer laid off all temporary workers and eliminated overtime. Instead, demand increased. However, the firm hasn't raised wages to attract workers back and still remains behind on orders.

## Consumer Spending

Contacts reported continued modest growth of nonauto retail sales. Survivors in the retail and restaurant sectors reported strong sales against 2019 levels, except in some urban markets and office parks where workers have not yet returned.

Reports from auto dealers suggest that new car sales edged slightly lower from a high level, as a lack of new inventory from manufacturers began to empty sales lots. Contacts noted that some manufacturers were holding cars awaiting microchips, while others had slowed production. Rising prices and strong used car sales continued to boost profits.

Tourism contacts continued to report modest, incremental growth. Domestic leisure travelers were active throughout the region and willingly spent their savings. Business and group travel also improved, but at a much slower pace, which is expected to continue through 2022.

## Nonfinancial Services

Nonmanufacturing activity continued to grow moderately, with over half of the firms reporting increases in sales or revenues. However, on balance, output remained below pre-pandemic levels, and some businesses will remain shuttered until the fall.

Businesses that continue to struggle include fitness firms, shopping malls, offices, and restaurants and hotels – especially those that cater to the business traveler. In

addition, many nonprofits have managed to get by with various government funding sources, but they don't expect a full recovery to normal operations until after 2022.

## Financial Services

The volume of bank lending fell modestly during the period (not seasonally adjusted); during the same period in 2019, by contrast, loan volumes grew modestly. Commercial and industrial loans contracted significantly, while home equity lines and other consumer loans fell modestly. Auto lending and home mortgages grew slightly, and commercial real estate lending was flat. Credit card volumes grew moderately, as was the case over the same period in 2019.

Bankers, accountants, and bankruptcy attorneys continued to report that relatively few problems with bad debt had emerged. Paycheck Protection Program loans have notably helped many firms, but during the pandemic, many more businesses than usual have also qualified for the extremely beneficial Employee Retention Credit.

One attorney noted that clients were anxious to begin collecting past-due rent and mortgage payments; several clients anticipate problems, including a surge of personal bankruptcies, when the moratoria on evictions and foreclosures are lifted.

## Real Estate and Construction

Homebuilders continued to report modest growth, although several noted that the pace of traffic and sales had slowed somewhat. Supply chain disruptions and the high costs of materials continued to challenge builders – resulting in higher home prices and longer delivery times for new homes. Some expect supply chain issues to be worse yet over the next three to four months.

Existing home sales held steady, and availability remained low. Although one broker noted an uptick in new listings, availability remained at or below a one-month supply in many locations.

The relative lack of single-family homes has continued to support demand for multifamily construction. Those projects, along with warehouses and life science labs, continued to offset weakening demand for office space. Both construction and leasing activity held steady overall. ■

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



## Summary of Economic Activity

The Fourth District economy continued to expand at a solid pace in recent weeks, although supply side constraints limited many firms' ability to keep up with growing demand. Overall, household spending increased as progress in the fight against COVID-19 led many consumers to pursue activities they had foregone for more than a year, such as dining out and traveling. However, auto dealers and residential real estate agents suggested that while demand remained solid, sales were limited because depleted inventories left potential buyers with fewer buying options. Manufacturers and construction contacts reported that materials shortages, delivery delays, and staffing shortfalls made it difficult to keep up with increasing orders, let alone work down growing backlogs. Contacts in professional and business services and financial services reported strong, steadily increasing activity. More generally, firms remained very optimistic that demand would continue to increase in coming months but were less optimistic that labor and other supply constraints would abate enough to alleviate some of the upward pressure on wages, nonlabor input costs, and selling prices.

### Employment and Wages

Labor demand remained solid in recent weeks, but firms continued to report difficulty in filling open positions. Nearly half of contacts indicated they increased staffing during the prior two months, with a nearly equal share reporting that staffing levels were unchanged. However, many of the firms that did not increase staffing commented that they simply could not find workers to fill new or open positions. Looking forward, more than half of contacts expected to increase staffing levels in coming months, with another 45 percent planning to hold staffing steady. Here again, many of those in the latter group suggested they would like to add workers but won't be able to because of a dearth of available labor.

With the number of open positions seemingly exceeding available workers, wage increases became more commonplace, especially within lower-wage occupations. In addition to higher wages, more contacts reported paying signing bonuses to keep up with competitors. However, one contact indicated that she was putting off decisions on further wage hikes and bonuses until she sees if labor availability increases as states end supplemental unemployment benefits.

### Prices

Nonlabor input costs increased further. Nearly 80 percent of contacts indicated that nonlabor input costs rose over the prior two months, a share that is roughly twice the share reporting increases at the turn of the year. Manufacturers noted rising costs for steel, aluminum, electronic components, freight, chemicals, plastics, and resins. Construction contacts cited widespread materials cost increases, as well, although a few homebuilders noted some relief in the cost of lumber. There were scattered reports that higher wages were spilling over to other input costs, including some business services. On balance, firms expect nonlabor input costs to continue increasing in coming months as supply constraints persist.

Selling prices increased moderately, on balance. Nearly 65 percent of contacts said they increased prices in the prior two months. When asked the same question in January, 34 percent indicated they had raised prices. In most cases, recent price hikes were attributed to firms' trying to maintain margins amid higher costs. As one contact put it, "We're trying to pass along our increased costs to our customers just like everyone else." But in many other cases, firms acknowledged that solid demand and limited supply provided them with opportuni-

ties to boost profit margins.

### **Consumer Spending**

Reports suggest that consumer spending increased moderately during the reporting period. General merchandisers and apparel retailers said that demand remained strong, and one department store contact noted that sales during Mother's Day and Father's Day were stronger than 2019 and 2020 sales on the same days. Hoteliers and restaurateurs reported significant improvement in activity as pandemic fears waned, and a contact at a large airport said that leisure travelers drove a strong rebound in air travel that exceeded her expectations. Auto dealers said that demand remained elevated, but sales dipped as the semiconductor chip shortage continued to limit the supply of new vehicles. Overall, contacts were optimistic that consumer spending would continue to increase in coming months thanks to unused stimulus funds and progress in the fight against the pandemic, while auto dealers commented that sales will pick up once inventory levels recover.

### **Manufacturing**

Demand for manufactured goods grew strongly across a wider range of end-user markets, including some (such as aerospace equipment) that have been lagging during the recovery. Supply chains continued to be disrupted both domestically and abroad, adding to longer lead times and raising transportation costs. Many contacts noted that a severe shortage of hourly wage workers restricted output growth. One contact was unable to fulfill 10 percent of his orders because the firm failed to reach its staffing goals. On balance, most respondents expected conditions to improve in coming months, although rising attrition rates and materials shortages tempered expectations for continued growth.

### **Real Estate and Construction**

Homebuilders and residential real estate agents commented that although housing demand remains strong because of low mortgage rates, construction activity softened because of high materials prices. One homebuilder noted that input costs were "out of control," with steel and lumber being two of the main drivers of price increases. Another homebuilder indicated that higher home prices had led some potential customers to walk away from projects. Existing home sales also slowed because the supply of available housing remained limited. One real estate agent suggested that sales for her firm were below 2019 levels entirely because of the shortage of inventory. Contacts were hopeful that homebuyers would reenter the market when prices stabilize.

Demand for nonresidential construction and real estate continued to strengthen across many segments. Activity within the industrial sector remained strong, and demand for office spaces experienced notable increases in activity. Even so, one commercial real estate agent noted that many new developments and renovations had been put on hold because of increased materials costs and labor constraints among subcontractors. Looking forward, contacts were optimistic that demand would remain strong as more consumers and businesses return to their prepandemic lives.

### **Financial Services**

Banking activity increased modestly in recent weeks. Contacts continued to report growth in business lending, especially for commercial real estate loans, as more of the economy reopened and fiscal support to businesses waned. Contacts also noted that demand for mortgages and auto loans remained strong, but the recent uptick in interest rates and limited inventories in both markets limited loan demand. Lenders said that delinquency rates for consumer and commercial loans were still low and that the number of active forbearance agreements continued to drop. Looking ahead, bankers were optimistic that loan demand, especially business lending, would continue to pick up as COVID-19 restrictions ease.

### **Professional and Business Services**

Demand for professional and business services increased further as more businesses resumed in-person activities. Increased optimism also led many firms to restart projects that had previously been put on hold. A small management consulting firm reported that firms had begun to move forward with projects that were in the pipeline from 2019 and 2020. Overall, contacts were optimistic that demand would remain strong as general economic conditions improve further.

### **Freight**

Demand for freight services grew modestly from an already high level. The rise in activity stemmed from customers' needing to replenish low inventories and from continued increases in overall economic activity. While demand for new routes grew, a shortage of truck drivers limited capacity. Looking forward, contacts expected demand to increase further in coming months, but expectations were tempered by concerns about difficulty finding drivers and uncertainty around the new administration's regulatory priorities. ■

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



## Summary of Economic Activity

The regional economy continued to grow at a moderate rate in recent weeks. Manufacturers experienced robust demand and increases in shipments and new orders. District ports reported strong growth in volumes driven by imports of retail goods and exports of agriculture products. Trucking companies also reported strong growth and a level of demand that exceeded supply. Retailers saw strong growth, particularly for home goods and clothing. Auto sales picked up, overall, but car sales were limited by low inventory levels. Travel and tourism, particularly in vacation destinations, was strong, but some companies had to limit services due to labor shortages. Nonfinancial businesses reported moderate growth in revenue and some firms cut back on advertising because demand was exceeding their ability to meet it. The residential real estate market remained strong and new listing sold quickly. Commercial real estate leasing picked up and office vacancies declined. Banks reported modest loan growth, solid credit quality, and historically low default rates. Employment rose modestly and firms continued to struggle to fill open positions. Wages rose modestly, overall, as firms increasingly turned to non-wage incentives to attract workers. Price growth edged up further from already elevated year-over-year rates.

### Employment and Wages

Total employment in the Fifth District rose modestly in recent weeks. The demand for workers remained strong and contacts continued to report difficulties filling open positions. Some employers said that they were investing in automation or using more part-time workers as a result. A firm in Charlotte was able to recruit tech workers from the west coast by allowing them to work remotely. Overall, wages rose modestly. Many contacts continued to report raising entry-level wages, which created pressure to increase wages for existing employees. Additionally, employers were increasingly turning to non-wage cash incentives such as referral and sign-on bonuses to recruit workers.

### Prices

Price growth picked up slightly in recent weeks from an already elevated rate. According to our surveys, service sector firms reported, on average, a four percent increase in prices received compared to a year ago. Meanwhile, manufacturers reported little change in selling prices in recent weeks; however, on a year-over-year basis, price growth remained robust. Firms across sectors also reported sharp increases in input costs and many noted that they were only passing a portion of those higher input costs on to customers.

### Manufacturing

Fifth District manufacturers reported robust growth in demand since our last report leading to increases in shipments and new orders. Producers of retail goods, including food and furniture, saw especially high demand. Many manufacturers were unable to meet demand as shortages of labor, raw materials, and equipment constrained output. Manufacturers tied to the auto industry reported slowing production because of the microchip shortage. Lead times and backlogs lengthened as inventories remained low. Transportation issues also caused delays in getting finished products to customers, both domestically and internationally.

### Ports and Transportation

Fifth District ports saw strong growth of both imports and exports and handled record volumes since our last report. Import growth was primarily attributed to retail goods, including furniture, home goods, and food. Industrial and medical imports were also strong. Export growth was largely driven by logs, grains and soybeans. Ports increasingly stored imports, as trucking and rail disruptions caused delays getting imports from ports to customers.

Truckers in the Fifth District reported robust volume growth in recent weeks. Volumes were high for most

goods, but especially for retail and industrial goods. Companies were unable to meet demand amid labor constraints and equipment shortages, which led to higher spot market prices and increased profit margins. Contacts reported keeping trucks and trailers longer than intended, to help with both increased demand and delays in equipment arrivals.

### **Retail, Travel, and Tourism**

Fifth District retailers saw robust growth in demand and revenues since our last report. Sales of hardware, furniture, and home goods grew from already strong levels. Clothing stores reported increased demand, particularly for formal apparel, including wedding dresses, as consumers began to plan events and return to the office. However, many retailers struggled with inventory shortages and delays in receiving products. Auto dealers, in particular, faced shrinking inventories of new cars because of microchip shortages, but experienced higher profit margins on sales of used cars.

Travel and tourism in the Fifth District showed strong growth in recent weeks. Some beach communities reported record visitation, as hotels saw record-breaking occupancy and beach short-term rentals were booked solid through the summer and into the fall. Outdoor attractions continued to do particularly well, although some indoor attractions, such as movie theaters, museums, and bowling alleys also saw increased visitation. Many hotels and restaurants continued to report labor shortages that led them to limit capacity or services. Contacts attributed demand to domestic travel, and visitation to the District of Columbia strengthened but remained below pre-pandemic levels.

### **Real Estate and Construction**

Fifth District home sales remained strong, average selling prices rose, and the average days on the market declined. Inventories remained low as new listings sold quickly and many home builders were either sold out or limited the sales of homes. Realtors noted that many buyers offered cash in order to close quickly and then refinanced. One contact noted that buyers are increasingly willing to buy homes in poorer or unknown condition.

Fifth District commercial real estate leasing expanded moderately since our last report. Office leasing increased modestly as more companies returned to onsite work and began to sign longer term leases, leading to an overall decline in office vacancy. Office rental rates increased, but realtors noted that office tenants generally required high incentives and concessions. Demand for retail leasing grew, and contacts noted that many

restaurants were looking for more land in order to add drive-throughs. Multifamily leasing also increased, and rents rose. Industrial leasing continued to grow from already high levels.

### **Banking and Finance**

Overall loan demand increased modestly this period. Financial institutions indicated soft business loan demand and low utilization rates on commercial lines of credit, attributed in part to temporary labor and supply shortages. Respondents noted continual modest growth in both commercial real estate and mortgage lending, but remarked that the limited inventory of homes on the market has reduced mortgage originations. However, contacts reported increased loan competition, particularly focused on interest rates. Deposits exhibited moderate growth this period. Banks stated that credit quality continued to be good and delinquencies remained at historically low levels.

### **Nonfinancial Services**

Nonfinancial services firms reported a moderate increase in revenue and demand in recent weeks. An accounting firm saw steady growth with new activity coming from merger and acquisition and tax accounting work. Meanwhile, an IT service provider noted an increase in demand for cloud and security solutions. An advertising and marketing agency contact said that clients were cutting back on advertising because demand was strong and outpacing their ability to meet it, so they didn't want to attract any new business. Lastly, an education services provider was expanding summer programs for children and was looking for other creative ways to support workers with children. ■

For more information about District economic conditions visit:  
[www.richmondfed.org/research/data\\_analysis](http://www.richmondfed.org/research/data_analysis)





## Summary of Economic Activity

Economic activity in the Sixth District continued to expand at a moderate pace from mid-May through June. Demand for labor strengthened, and worker shortages across multiple skill levels and job types intensified. Wage pressures increased and were more widespread. Some nonlabor costs continued to rise, and pricing power remained mixed. Retail sales activity strengthened. Auto sales slowed somewhat. Hotel occupancies increased due to robust leisure travel activity; however, hotels reliant on business travel continued to experience weakness. Demand for housing remained strong, inventories were soft, and home prices accelerated further. Commercial real estate activity improved. Manufacturing activity accelerated and supply delivery times lengthened. Conditions at financial institutions were steady, deposit balances grew, and demand for consumer loans picked up.

### Employment and Wages

Overall employment in the District increased since the previous report. Many contacts reported that labor shortages were impeding hiring and putting upward pressure on wages; however, some noted shortages had eased in recent weeks. Lack of available labor remained acute among lower-skilled positions. Shortages of nurses, drivers, IT, and skilled trades workers, particularly mechanics and maintenance workers, persisted. Due to an inability to fully staff, some restaurants and retailers reduced hours, and hotels offered limited guest services and amenities. Manufacturers responded to hiring challenges by reducing the number of shifts, requiring more overtime than typical, and accelerating plans to automate. Some construction firms reported an inability to fill entry-level positions at a reasonable wage and turned to contract and temporary employees as a result. Contacts reported increased poaching of talent, and burnout was mentioned as a concern among under-staffed firms. Many contacts were optimistic that labor availability would improve in the fall as schools restart and enhanced unemployment benefits end; however, there were several who do not expect labor supply to improve for six to nine months.

Wage pressures intensified over the reporting period and upward pressure on wages was more widespread. Though wage pressure was most notable among low-skilled positions, wage increases began spreading across more industries and skill levels. Growing demand, poaching of talent, and retention of employees were cited as the primary drivers of rising wages. Some manufacturers noted that bargaining power had shifted more to the employee, as reports surfaced of employees being allowed to customize individual shift schedules.

### Prices

District contacts noted continued rising fuel, shipping, and freight costs over the reporting period, and other input costs such as lumber, though stabilizing somewhat, remained elevated. Reports on pricing power were mixed. Some contacts noted the ability to pass through rising costs, while others absorbed the increases to maintain demand. Most firms considered input cost increases as transitory and expect them to ease as supply chains normalize. The Atlanta Fed's Business Inflation Expectations survey for June showed year-over-year unit costs increased to 3 percent on average. Year-ahead expectations increased to 3 percent in June, up from 2.8 percent in May.

### Consumer Spending and Tourism

District retailers reported strong sales in malls located in vacation destinations. Contacts expect consumer spending dollars to shift over the summer to leisure travel-related activities from home related spending. While year-over-year auto sales levels remained elevated, the pace of sales growth slowed since the previous report due to the shortage of new car inventories.

Travel and tourism contacts reported a strong increase in the number of leisure travelers over the reporting period. Atlanta, Miami, and Orlando were among the top destination cities for Memorial Day weekend, kickstarting the summer travel season. Hotel occupancy levels at lower-priced hotels were elevated, but demand for higher-priced hotels dependent on business travelers remained weak. While leisure travel is expected to continue to grow at a healthy pace over the summer, business travel and convention activity is expected to remain soft.

## Construction and Real Estate

While low interest rates continued to fuel housing demand, the combination of limited inventory and declining affordability across the District damped home sales somewhat. While many District markets remained attractive to homebuyers looking to migrate from higher cost regions such as the Northeast and West Coast, existing home inventories continued to lag behind demand, causing home prices to rise to peak levels. Although lumber costs declined from peak levels, they remained well-above historic norms. Homebuilders continued to limit sales to stay ahead of rising costs.

On balance, commercial real estate (CRE) activity strengthened since the previous report. Conditions in the retail and hotel segments improved modestly. Multifamily activity improved notably from earlier this year. The softness in the office sector persisted as employers remained cautious about future office space needs, and negative absorption and new deliveries pushed office vacancies upward. Contacts noted that competition is accelerating among lenders for a small segment of CRE loans. Smaller banks and non-bank lenders were noted as the more aggressive CRE lenders.

## Manufacturing

Manufacturing firms indicated that business activity accelerated since the previous report. Supply delivery times lengthened as supply chain disruptions continued, which coupled with worker shortages, interrupted production for some manufacturers. Expectations for future production levels remained optimistic.

## Transportation

District transportation activity strengthened over the reporting period, and contacts noted that demand for transportation services far outstripped the supply across the industry. Trucking firms and freight brokers reported robust activity combined with limited availability of container, trailer, and truck capacity. Southeast ports experienced unprecedented container volumes and capacity utilization amid continued strong demand for imported goods. Railroad contacts reported solid increases in overall traffic as compared with year-earlier levels. However, dwell times in rail yards rose due to significantly low trucking capacity. Logistics companies saw double-digit increases in volumes and revenues, driven primarily by growth in direct-to-consumer ecommerce activity. Inland barge contacts reported improved utilization, though not to pre-pandemic levels. Transportation contacts expect supply chain disruptions to persist over the next six to 12 months.

## Banking and Finance

Conditions at financial institutions remained stable. Loan

growth was flat to slightly negative for a majority of portfolios; however, there was some growth in vehicle and other consumer loans. Deposit balances continued to increase and banks added to securities portfolios as a means to generate margin on the additional liquidity. Asset quality remained strong as there was little change in the level of nonperforming assets. Delinquency rates held steady while net charge-offs continued to decline.

## Energy

The outlook among District energy contacts continued to improve over the reporting period. Contacts cited strengthening demand for oil and gas, which outpaced exploration and production activity. Chemical manufacturing output surged over the reporting period, and some contacts noted activity returned to or exceeded pre-pandemic levels. Utilities contacts reported rising commercial and industrial activity and stable residential demand. Energy firms continued to pursue investment in renewable energy sources, specifically wind and solar production, and battery storage.

## Agriculture

Agricultural conditions remained mixed. Widespread rain across parts of the District resulted in abnormally moist to excessively wet conditions while much of Florida and southern Georgia experienced abnormally dry to moderate drought conditions. Planting progress for much of the region's cotton, soybean, and peanut crops were mostly on par with the five-year average. On a month-over-month basis, the production forecast for Florida's orange crop was up in June while the grapefruit production forecast was down; both forecasts remained below last year's production levels. The USDA reported year-over-year prices paid to farmers in May were up for corn, cotton, soybeans, cattle, broilers, eggs, and milk, but down for rice. On a month-over-month basis, prices were up for corn, rice, soybeans, broilers, eggs, and milk, but down for cotton. Cattle prices were unchanged. ■

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



## Summary of Economic Activity

Economic activity in the Seventh District increased moderately in late May and June and growth was limited by labor and materials supply constraints in many sectors. Contacts expected strong growth in the coming months. Employment increased strongly, business spending increased moderately, manufacturing increased modestly, and consumer spending and construction and real estate were flat. Wages rose moderately while prices rose strongly. Financial conditions improved slightly. Prospects for agriculture income in 2021 were little changed.

### Employment and Wages

Employment increased strongly over the reporting period, and contacts expected a similar-sized increase over the next 12 months. Contacts across sectors reported continued difficulty in finding workers at all skill levels. Some businesses seeking to ramp up production, particularly restaurants, had limited operating hours because of a lack of workers. A temp agency contact said their openings increased and turnover rates were elevated; furthermore, with the ease of finding new positions, workers were being more selective about workplace environment, scheduling flexibility, and pay. Employers, temp agencies, and workforce development organizations pointed to childcare challenges, retirements, and financial support from the government as important factors limiting labor supply, and remarked that worker concerns about health safety related to COVID-19 had largely gone away. Overall, wage and benefit costs increased moderately. However, contacts across sectors noted strong pressure to raise wages and there were widespread reports of businesses offering signing bonuses. One contact at a university noted that salaries and retirement benefits that had been cut early in the pandemic had been restored.

### Prices

Overall, prices rose strongly in late May and June, though contacts expected a moderate increase in prices over the next 12 months. There were large increases in business output prices, driven by passthrough of higher materials, energy, and transportation costs. Contacts highlighted higher prices for a wide range of materials including metals, metal products, petroleum-based products, chemicals, electronics, and paper. Consumer prices moved up robustly, particularly for new and used vehicles. Contacts pointed to solid demand, limited inventories, and increased costs as sources of consumer price increases.

### Consumer Spending

Consumer spending was flat over the reporting period, but remained at elevated levels as retailers strained to meet pent-up demand. Contacts said that overall, higher prices hadn't deterred consumers' willingness to spend. Spending on leisure and hospitality services continued to rebound. Contacts noted especially strong recoveries at restaurants, casinos, and concessionaires at sporting venues and national parks. Nonauto retail sales remained strong, particularly in the appliance, grocery, jewelry, and sporting goods sectors. Spending on building materials and lawn and garden slowed, but remained at a high level. Brick-and-mortar stores regained some

market share from e-commerce. New and used light vehicle sales slowed due to a lack of inventory and dealers indicated that profit margins had widened. Dealers reported that they were increasingly selling from future vehicle allocations from automakers.

### **Business Spending**

Business spending increased moderately in late May and June. Retail inventories were low for many items, and contacts expected inventory challenges to continue through the end of 2021. New and used light vehicle inventories decreased and remained low, and dealers didn't expect new vehicle inventories to improve until the end of the third quarter. Many manufacturing contacts said inventories remained below comfortable levels. Contacts reported ongoing supply chain issues, especially for raw materials, metals, microchips, and specialty parts, and expected the problems to continue into 2022. Demand for transportation services was strong and many contacts reported shipping delays, both from within the U.S. and overseas. Capital expenditures increased moderately, and contacts expected a similar-sized increase over the next twelve months. Many contacts noted that lead times for capital equipment were much longer than usual. One contact said higher inventory expenses were crowding out their capital purchases. Commercial and industrial energy usage increased modestly.

### **Construction and Real Estate**

Construction and real estate activity was little changed from the prior reporting period and remained at a high level. Residential construction decreased modestly, but activity levels were healthy. Residential real estate activity increased slightly, as did home sales, though the low number of homes on the market continued to hold back activity. There was a large increase in home prices, while rents went up a bit. Nonresidential construction was unchanged. A contact in southeast Michigan reported that an increasing number of projects were being postponed because of high concrete and steel prices. Commercial real estate activity was also little changed, and prices and rents were steady.

### **Manufacturing**

Manufacturing production increased modestly in late May and June. Most manufacturing contacts indicated that business was above pre-pandemic levels, but there were also widespread reports of logistical and supply issues holding back growth. Auto output was little changed, as assemblers and suppliers remained constrained by ongoing shortages of parts, notably microchips. Steel production increased slightly and capacity utilization was at a multiyear high, with contacts reporting

greater demand from most industries, with the exception of autos. Demand for heavy machinery increased, led by growth in construction and agriculture. Specialty metals manufacturers reported a moderate increase in orders from an already high level. Many had reached full capacity and were dealing with shortages of materials and longer lead times from suppliers.

### **Banking and Finance**

Financial conditions improved slightly over the reporting period. Participants in equity and bond markets reported a small improvement in conditions. Business loan demand increased moderately. One contact said that once firms were successful in getting their PPP loans forgiven, they were more comfortable taking out new loans to fund capital expenditures. Business loan quality increased slightly, with improvements reported across all sectors. Business loan standards loosened a bit in a very competitive environment. In consumer markets, loan demand increased slightly. Contacts reported that demand remained high, particularly in the auto and housing markets, and that consumer credit quality remained favorable. Loan quality increased slightly, while credit standards were unchanged on balance. Banks continued to be awash in deposits from both businesses and households.

### **Agriculture**

Agriculture stayed on course to earn higher market-based incomes relative to last year, as most product prices remained high enough to offset increased costs for freight, energy, fertilizers, and labor. On net, corn prices were little changed, while soybean prices were a little lower over the reporting period. Although planted corn and soybean acreage was up from last year, it was lower than expected earlier in the growing season, which helped maintain prices. Crop conditions for corn and soybeans were mixed, as some parts of the District were in excellent shape and others were stressed by drought. Hog and milk prices eased off highs during the reporting period, while cattle prices were flat. One contact noted that a lack of workers in slaughterhouses had led to the suspension of some contracts with poultry producers. Farmland values moved higher again. ■

For more information about District economic conditions visit: [chicagofed.org/cfsbc](http://chicagofed.org/cfsbc)



## Summary of Economic Activity

Economic conditions have continued to improve at a moderate pace since our previous report. Contacts continue to report that labor and material shortages are restraining their ability to meet customer demand. Overall cost pressures remain elevated, but firms reported varying degrees of pass-through to customers. Reports on consumer spending continue to be strong, although inventory shortages are restraining auto sales. Reports on the real estate sector were unchanged, and sales remained high despite strong price growth and low inventories. Banks reported slight improvements in loan demand and stable credit quality. District agriculture conditions declined modestly but remain favorable when compared with previous years.

### Employment and Wages

Employment has increased modestly since our previous report. Despite the increase in headcounts, contacts across the District continued to face worker shortages and high turnover rates for recent hires. Firms reported increasing benefits, introducing greater flexibility, and lowering job requirements in order to attract workers. Business contacts have so far reported mixed trends in the wake of several states cutting or planning to cut federal unemployment aid; some reported seeing a clear increase in applicants, while others reported no change.

Wages have grown moderately; however, wage growth has been strong for low-wage positions as a consequence of the tight labor market. One Kentucky restaurant reported offering a starting wage of \$16 per hour and receiving no applicants. An amusement park increased seasonal wages by \$2 per hour and a 10% bonus if employees worked from July through Labor Day. Many other contacts emphasized raising wages for both new and existing employees while turnover remains high.

### Prices

Prices have increased moderately since our previous report. The pass-through rate of cost increases varies by industry. A contact from a regional grocery store chain

reported passing slight nonlabor cost savings to consumers, while refraining from passing the moderate incremental labor costs to consumers. A contact from the home-furniture industry reported that only a small portion of cost increases are being passed to consumers. A contact in the restaurant industry reported varying levels of cost increases depending on the size of the establishment. The cost pressures are due to increased demand for inputs and a lagging supply chain. Restaurants with more purchasing power have been able to keep prices steady, but smaller and newer venues are experiencing robust cost increases—which are being passed to consumers. A contact reported that costs for some food items, gloves, paper products, and to-go drink trays remain elevated. Contacts from the travel and hospitality industry reported higher costs due to robust increases in food, beverage, and labor costs. The contacts attributed the ability to pass price increases to consumers to strengthening demand for travel and hospitality services. One contact from a jewelry store reported passing all the moderate cost pressures resulting from both higher wages and higher prices for precious metals and diamonds to customers. Prices for raw materials have been down moderately overall since the previous report, with the exceptions of steel, shredded scrap, and coal.

### **Consumer Spending**

District general retailers, auto dealers, and hospitality contacts continue to report strong consumer spending activity. Consumer sentiment on the current economic situation rose significantly in West Tennessee. General retailers continue to report strong business activity and a positive outlook. District auto dealers reported no change in sales, but continued high demand and decreasing inventory levels for both new and used vehicles. A restaurant contact reported that business activity has been higher during the past month and expects demand to hold steady for the next few months. A hotel industry contact reported that leisure travel has been stronger than expected and has made up for the lack of business travel. A St. Louis catering company reported that company sales for May and June were very close to 2019 sales.

### **Manufacturing**

Manufacturing activity has moderately increased since our previous report. Firms in both Arkansas and Missouri reported upticks in new orders and production, although the rate of growth has slightly declined. Supply-chain-related cost pressures and product shortages remain high, and manufacturers in the area expect these difficulties to continue for several months. Contacts reported that they are still struggling to find and retain employees, with one manufacturer noting that they have begun recruiting prospective high school graduates.

### **Nonfinancial Services**

Activity in the nonfinancial services sector has increased slightly since our previous report. Airport passenger traffic continues to increase strongly, although it remains below levels from the same period in 2019. Airport cargo traffic has decreased slightly since the previous report. A childcare contact reported that enrollment inquiries have increased as employers continue to transition back to working in-person. Large logistics firms continue to make significant investments and expand hiring in the Memphis and Louisville areas. An education contact reported that it has been difficult to secure large quantities of school supplies such as laptops and paper for the upcoming school year. A remediation services contact reported increased demand for their services driven by requirements to remediate coal ash.

### **Real Estate and Construction**

Residential real estate activity remains unchanged since our previous report. Total home sales across the largest District metro areas remain high in spite of increasing home prices. Despite slowing in recent months, contacts remain optimistic that sales levels will hold at current

levels throughout the remainder of the year. In St. Louis, the median price for a home increased by 20.5% and the median price for a condo increased 17.5% compared with a year earlier. Meanwhile, apartment rental prices across the largest District metro areas have risen moderately since our previous report and sharply since this time last year. The median number of days a house is on the market has decreased since our previous report, reaching as low as 10 days in Louisville. A contact reported that new construction will be needed to increase inventory in the market and the falling lumber prices should help to boost construction. Housing permits are also up in the St. Louis metro area.

Commercial real estate activity continues to vary across different sectors. Industrial real estate activity has increased strongly since our previous report, with leasing activity increasing across all the largest District MSAs. In Memphis, the industrial vacancy rate has fallen sharply since our previous report. Meanwhile, office and retail rental activity has improved slightly, with more square footage being occupied since our previous report.

### **Banking and Finance**

Banking conditions in the District have improved slightly since our previous report. District banks reported an increase in overall loan demand since last quarter. One contact indicated this quarter was one of the best quarters in terms of loan volumes. Credit quality remained unchanged and generally good. Deposit levels continued to expand, but the growth rate has slowed significantly. Banks remained flush with liquidity, and a contact reported trying to find ways to deploy the excess capital. Looking ahead, banking contacts expressed concern that material supply shortages would affect the demand for construction loans.

### **Agriculture and Natural Resources**

District agriculture conditions declined modestly relative to the previous reporting period but remain steady relative to the same period last year. Between the end of May and end of June, the percentages of corn, cotton, rice, and soybeans rated fair or better decreased modestly across the District.

Natural resource extraction conditions improved modestly from April to May, with seasonally adjusted coal production increasing 7%. May production was up strongly compared with a year ago, increasing 34%. ■



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## Summary of Economic Activity

Ninth District economic activity grew at a strong pace since mid-May. Employment saw solid growth, with strong hiring demand outpacing improved labor availability. Wage pressures were strong, with wholesale price pressures remaining higher than those for consumer prices. Growth was noted in consumer spending, construction, real estate, manufacturing, agriculture, and energy. Minority- and women-owned businesses in the region reported moderate improvements in business activity.

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### Employment and Wages

Employment saw moderate-to-strong growth overall since the last report. Two separate employer surveys showed labor demand continuing to increase in recent weeks. Staffing firms across the District reported strong job orders. Hiring demand was healthy across all sectors, but noted especially in retail, hospitality, manufacturing, construction, transportation, and health care. Despite growth, further gains were constrained by labor availability. A North Dakota staffing firm reported that it typically had 300 job openings daily but was “filling only a small percent.” A Minnesota contact said virtual job fairs were seeing more employers than job seekers, and another said many businesses “would eagerly expand if they could find workers.” A Montana staffing contact said employers often bemoaned the fact that there was “so much [hiring] demand and no applicants.”

Wage pressures were strong. Recent surveys showed a growing share of employers raising wages by 3 percent or more. Numerous contacts also reported additional incentives, including hiring and retention bonuses and tuition reimbursement. A company in central Minnesota reported offering on-the-spot cash for job applicants simply showing up for job interviews. A Montana staffing contact said that most employers were “willing to pay what is needed to gain the people they need.”

### Worker Experience

Labor supply increased since the last report.

Unemployment insurance claims continued to decline across all District states. Staffing and workforce contacts in states that have ended pandemic-era unemployment programs reported that the number of job seekers in the labor market increased, but not as much as expected. A recent survey showed that low pay at available jobs and concerns over COVID-19 exposure were the top challenges keeping some job seekers from accepting employment. Transportation and the need for more training or education were quoted as being moderate or significant challenges. While government benefits may be keeping some job seekers on the sidelines, many expressed that they would rather work in their preferred fields if given the opportunity. Nonprofit professionals working with diverse youth shared that the lack of paid internships and the narrow range of workforce development options were major challenges for their clients. Furthermore, some are struggling to find first-time job opportunities because automation is increasingly reducing the number of entry-level positions.

### Prices

Price pressures remained elevated since the previous report. An overwhelming majority of respondents to a survey of District professional services firms noted increased nonlabor input costs over the past year, though a much smaller proportion reported having raised selling prices; the outlook for both over the coming year was elevated. A separate survey of general District

businesses revealed similar pricing experience. Manufacturing contacts noted continued steep input cost pressure across the board for raw materials and transportation, with one contact describing metals markets as “out of control.” Retail fuel prices in District states increased moderately since the previous report. Prices received by farmers in May increased from a year earlier for most important District commodities but decreased for lentils and chickpeas.

## **Consumer Spending**

Consumer spending was moderately higher since the last report and remained high overall. A Minnesota shopping mall contact reported that more stores were opening, and customer traffic and spending were improving. Hospitality and tourism firms reported improving activity in recent weeks; a central Minnesota contact said there was “pent-up demand for any entertainment.” But many operations remained constrained by lack of workers and low inventories of vehicles, recreational equipment, and other products. Airline travel increased significantly in June compared with a month earlier, most of it coming from higher leisure travel. A Montana contact reported that rental car and lodging shortages were hampering otherwise-strong tourism activity there. Tourism traffic also improved in Michigan’s Upper Peninsula in May and June.

## **Services**

Activity in the services sector increased moderately. Preliminary results from an annual survey of professional services firms indicated that sales, profits, and productivity had all increased, and expectations called for continued growth over the coming year. Several providers of broadband and network management services noted that demand remained brisk. Accounting contacts reported that they remained busy due to supporting pandemic aid documentation requirements.

## **Construction and Real Estate**

Commercial construction grew slightly since the last report, with some variation among contacts. There was widespread concern over cost increases, but materials supply contacts said demand has remained healthy in most market segments. An industry tracker showed that total active projects in May and June remained slightly below last year, but the gap has been shrinking. An asphalt contact said that work has been “a little low” in Minnesota and the Dakotas, especially for public projects. Residential construction saw modest growth and remained at healthy levels. But contacts said some buyers were backing away from projects due to higher costs, and contractors were also less willing to start speculative building projects, fearful of taking losses.

Commercial real estate improved modestly. Office and retail markets continued to improve, though return-to-office occupancy in some core markets like downtown Minneapolis remained sluggish. Residential real estate improved slightly; demand remained strong, according to contacts, but very low inventories of homes for sale has dampened total sales in many markets.

## **Manufacturing**

District manufacturing activity remained strong since the previous report, despite continued challenges with input costs and availability. A regional manufacturing index indicated broadly increased activity in Minnesota, North Dakota, and South Dakota in May relative to the previous month. District manufacturing contacts generally reported solid new orders. However, a few contacts reported that raising final prices due to constraints on raw material and input availability was hampering demand. Due to substantial backlogs in maritime shipping, noted one contact, “anything made overseas takes longer and is more expensive.”

## **Agriculture, Energy, and Natural Resources**

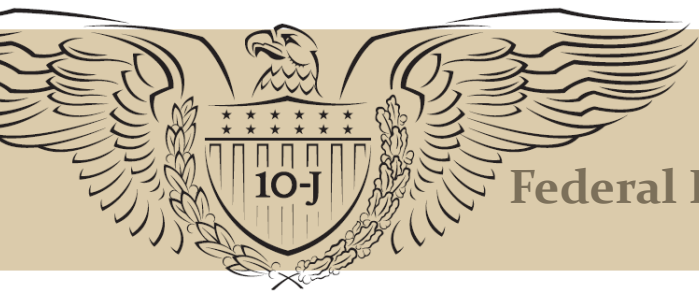
District agricultural conditions continued to benefit from strong commodity prices. However, severe drought conditions across most of the District had many crop producers concerned about yields, as most corn, soybean, and wheat acres in the District were rated in fair or poor condition. Oil and gas exploration activity increased slightly since the previous report.

## **Minority- and Women-Owned Business Enterprises**

Minority- and women-owned business enterprises (MWBEs) in the region continued to report moderate improvements in business activity and had an overall optimistic outlook on the economy. Personnel recruitment remained a challenge, but some were seeing more applicants for available jobs compared with previous months. MWBEs across several industries expected wage and input cost increases to continue putting pressure on their operations, and some planned to increase prices for their products within the next quarter. A nonprofit financial contact said that the pandemic hit many MWBEs earlier and harder than businesses overall and, given limited support infrastructure and access to credit, their recovery will also take longer. ■

For more information about District economic conditions visit: [www.minneapolisfed.org/region-and-community](http://www.minneapolisfed.org/region-and-community)





## Summary of Economic Activity

The Tenth District economy expanded moderately in June, with broad-based growth across most sectors. Consumer spending increased moderately, driven by strong gains in retail sales and moderate growth in restaurant and tourism activity. Manufacturing activity expanded robustly, and the majority of manufacturers indicated that capital expenditures this year would be similar to or higher than pre-pandemic levels. Sales increased slightly in the professional and high-tech services and transportation sectors, but declined slightly in wholesale trade. Residential real estate activity rose moderately as home sales increased despite low inventories and robust home price growth. Commercial real estate activity improved modestly, with lower vacancy rates and higher sales. The energy sector continued to expand, and most firms reported higher production levels, revenues, and profits. The farm economy remained strong, with relatively high profit margins for most major commodities. Employment increased, and wage growth accelerated as the majority of contacts continued to report labor shortages. Respondents noted robust increases in input and selling prices, and additional strong price gains were anticipated.

### Employment and Wages

District employment increased slightly in the services sector and modestly in the manufacturing sector in June. Within services, gains were concentrated in retail, wholesale trade, and tourism, while employment declined slightly in health services and real estate. Transportation and restaurant contacts noted declines in the number of employees, but gains in the number of hours worked. Looking ahead, respondents from all sectors except health services anticipated employment gains over the next six months.

The majority of contacts continued to report labor shortages, with many noting demand for all positions and others noting a particular need for technicians and hourly labor. In response to labor shortages, half of services contacts and two-thirds of manufacturing contacts reported investing in labor-saving automation strategies, with about a third of all contacts indicating a faster pace of investment than in the past. In addition, two District states implemented return-to-work cash incentives, and four states have opted out of enhanced federal unemployment benefits. Wages increased robustly since the last survey and even stronger gains were expected in the coming months.

### Prices

Over the survey period, input and selling prices rose

robustly in the services and manufacturing sectors, although contacts continued to report that hikes in selling prices were not keeping pace with higher input costs. Within services, input prices rose robustly across all sectors. Transportation and restaurant contacts reported a sizable gap between the pace of growth in input and selling prices. In contrast, retailers were better able to pass along higher input costs onto consumers. Several contacts noted that rising input prices were a primary factor restraining business investment and capital spending. Selling prices for construction supplies increased modestly since the last survey after rising a faster pace earlier this year. Both services and manufacturing contacts expected robust growth in input and selling prices over the next six months.

### Consumer Spending

Consumer spending continued to increase moderately in June. Retailers reported robust sales, while tourism and restaurant sales increased moderately. Auto sales increased slightly, but all auto contacts reported that inventories fell further from already low levels. Sales in health services fell slightly since the last survey, but contacts expected a strong rebound in the coming months. Tourism and retail respondents expected sales to continue to rise moderately, while contacts from the auto and restaurant industries anticipated slight gains. Many contacts noted that stronger demand was a prima-

ry factor supporting business investment and capital spending for the remainder of 2021.

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

Manufacturing activity continued to increase robustly in June, with growth in durable goods manufacturing outpacing that of nondurables. New orders increased modestly for nondurable goods and moderately for durable goods. Similarly, production levels increased moderately at nondurable goods plants and robustly at durable good plants. The majority of manufacturers noted that their capital expenditure plans this year were similar to or higher than pre-pandemic levels, with a quarter indicating significantly higher levels. Many contacts attributed this pick-up in investment to strong demand. When asked about 2022, the majority of contacts expected capital spending levels similar to or moderately higher than 2021 levels. Both nondurable and durable goods manufacturers expected robust gains in production and new orders in the coming months, although slightly stronger levels of activity were anticipated for durable goods manufacturing.

Outside of manufacturing, sales rose at a slight pace in the transportation and professional and high-tech services sectors, but fell slightly in the wholesale trade sector. Respondents from all three sectors expected moderate sales gains in the coming months. Contacts in all three sectors reported moderate increases in capital spending over the past month. Looking ahead, transportation and wholesale trade contacts expected additional moderate gains in capital expenditures, while professional and high-tech services contacts expected capital spending to hold steady .

### **Real Estate and Construction**

Residential real estate activity continued to expand moderately since the previous survey, while commercial real estate activity rose modestly. Home sales increased moderately despite a moderate decline in inventories from already low levels. Home prices experienced robust growth, and contacts expected this trend to continue over the next few months. Construction supply sales were unchanged over the survey period, but contacts expected moderate declines in the coming months. Commercial real estate conditions continued to improve, with modestly lower vacancies and moderately higher sales, prices, and construction. Absorption rates rose modestly, but contacts also noted that developers' access to credit became modestly more difficult. Looking ahead, contacts expected further gains in commercial real estate activity in the months ahead.

### **Banking**

District banking contacts reported moderate growth in overall loan demand in recent weeks. The increase in demand was concentrated in two categories, commercial real estate and commercial and industrial lending. Loan demand edged down slightly in other categories, including residential real estate, consumer lending, and agricultural lending. Credit standards remained stable across all lending categories as loan quality strongly improved in comparison to one year ago. Bankers expected loan quality to improve moderately over the next six months. Finally, overall deposit levels rose at a modest pace, with comments suggesting that deposit growth was concentrated in liquid accounts such as checking and demand deposit accounts.

### **Energy**

District energy activity continued to increase since the last survey period. The number of active oil and natural gas rigs picked up, with the addition of active oil rigs in New Mexico, Oklahoma, and Wyoming. Along with increased rig counts and production, most firms reported higher revenues and profits in June. Moving forward, most firms raised their expectations for the pace of price increases over the next year. However, the average prices firms reported needing for a substantial increase in drilling to occur also rose considerably. Nearly a third of firms reported that uncertainty about future oil and gas prices was the main constraint limiting near-term growth in activity. Over half of District energy contacts indicated their firms have continued to invest in labor-saving automation strategies because of labor shortages.

### **Agriculture**

Agricultural economic conditions in the Tenth District were strong through June, with profit margins for most major commodities relatively high. Prices of most crops were still near multi-year highs, although had declined slightly since the previous reporting period. Hog prices also remained strong. The winter wheat harvest was delayed slightly in parts of the District, but crop quality was not expected to be hindered and higher production was anticipated throughout the region. In addition, the District's corn and soybean crop was in slightly better condition than the nation in all states except Missouri. In contrast to other commodities, profitability for cattle producers continued to be limited. Drought also persisted in some portions of the District and remained a concern for both crop and livestock producers. ■

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



## Summary of Economic Activity

Solid expansion continued in the Eleventh District economy. Growth in the manufacturing and nonfinancial services sectors was strong, though activity remained somewhat below pre-pandemic levels. Retail sales dipped as supply chain issues hampered activity. Home sales remained elevated, but buyer traffic and interest cooled off slightly. Apartment demand surged, pushing up rents. Retail leasing picked up, while office demand stayed weak. Overall loan volumes rose broadly. Energy activity and agricultural conditions saw moderate improvement. Employment growth was moderate, and upward wage pressures increased with labor shortages being a significant issue for many firms. Ongoing supply chain disruptions intensified price pressures. Outlooks improved, though uncertainty increased, and a much larger share of respondents was experiencing supply chain challenges compared with earlier in the year.

### Employment and Wages

Payrolls expanded moderately outside of the retail sector, where employment was flat. Lack of labor availability, particularly for low and mid-skill positions, was a mounting concern among companies looking to hire, and many noted that this was slowing activity and/or expansion plans. Staffing firms noted stiff competition for recruiters and reported having many more positions to fill than qualified candidates to match. One staffing contact noted candidates were filling in applications with little or no intention of showing up for an interview. A few respondents expect some relief in labor challenges given the recent expiration of federal supplemental unemployment benefits in Texas.

Wage growth accelerated, and there were widespread reports of upward wage pressures across industries, including airlines and energy. A manufacturer said that even with a \$500 signing bonus and \$15 per hour starting pay for untrained workers, they were not getting applicants. An education services firm reported increasing entry-level labor compensation by 20 percent. A small coffeeshop owner cited offering signing bonuses and a \$1,000 referral for a barista willing to stay on for three months.

### Prices

Price pressures accelerated further due to growing supply chain issues. A Dallas Fed survey of 382 Texas business illustrated that a majority of respondents were

experiencing supply chain challenges, and among them 60 percent noted conditions had worsened over the past month. Input costs surged, with contacts in the construction, manufacturing, and retail sectors citing the steepest increases. There was continued concern among respondents regarding higher prices of fuel, agricultural commodities, building materials, metals, and motor vehicles. Several contacts, particularly manufacturing firms, noted that they were passing on higher costs with more ease than in the past, though some cannot pass them through which is negatively impacting margins. Selling prices rose at a fast clip in many sectors, and even airlines reported raising fares. Housing contacts noted continued difficulty obtaining appraisals reflective of the final sales price.

### Manufacturing

Texas factory activity gained momentum in June, with output growth accelerating broadly. Several manufacturers noted increasing demand and growing backlogs. Those citing slower activity mostly said supply chain and labor availability issues hampered their ability to meet orders. Refining operations improved further, though utilization rates remained below 2019 levels. Refiners cited strong seasonal demand but noted that margins were still weak. Contacts expect significant improvement in margins in 2022. Petrochemical production has mostly recovered from Winter Storm Uri, though some basic chemical production was still hampered by a combina-

tion of maintenance and outages. Supply chain disruptions were likely to take longer to clear up than anticipated at the time of the previous report. Manufacturing outlooks were optimistic but labor shortages, inflationary pressures, and uncertainty regarding when supply disruptions would be resolved weighed on sentiment.

### **Retail Sales**

Retail sales fell during the reporting period as supply chain issues and tight inventories continued to constrain sales activity, particularly auto sales. A Dallas Fed survey of 47 Texas retailers showed that 87 percent of respondents were experiencing supply chain challenges, and among them 61 percent noted that conditions had worsened over the past month. Multiple auto dealers said that vehicle inventories were at all-time lows, negatively impacting their bottom line. Outlooks were mildly positive, though uncertainty increased due to long lead times, inventory shortages, and shipping challenges.

### **Nonfinancial Services**

Broad-based, solid expansion continued in nonfinancial services, though the pace of growth eased since the last report. Most accommodation and food services firms saw flat to higher revenues, and several contacts noted that the inability to fill open positions was holding back growth. Airlines said passenger demand and bookings surged, exceeding expectations. The acceleration was largely driven by domestic leisure travel and travel to nearby international tourist destinations, however, corporate demand ticked up as well. Most staffing firms reported broad-based increases in demand, ranging from healthcare to construction and hospitality workers, and a continued recovery in business. In transportation services, small parcel shipments rose, and air cargo volumes were flat to down, with demand largely domestic. Container cargo coming through the Port of Houston saw double-digit increases in May. Outlooks were positive, though uncertainty surrounding inflation, supply shortages, labor constraints, and the general business climate slightly increased.

### **Construction and Real Estate**

Activity in the single-family housing market remained hot but cooled off slightly during the reporting period. Sales continued to be robust because of a deep buyer pool, though traffic was off a bit and customers were slower to make buying decisions due to elevated prices. Contacts also noted a slight reduction in waitlists and some push back from buyers on pricing. Builders continued to limit sales due to production challenges, tight lot supply, and escalating costs. Outlooks were mixed, with contacts voicing concern about constrained lot supply, appraisal issues, rising costs, and labor and material shortages.

Apartment demand soared, raising occupancy and rents. Absorption in suburban locations remained robust but activity in the urban core has improved as well. Contacts expect rent growth to remain generally solid through 2022. One contact noted that given the recent price inflation in construction costs, it is becoming difficult to profitably begin new multifamily deals. Industrial construction and leasing remained exceptionally strong. Demand for office space continued to be sluggish and vacancies ticked up further. Retail leasing has picked up, though activity remains below normal.

### **Financial Services**

Loan demand continued to expand at a robust pace, pushing up overall loan volumes. Strength in commercial real estate activity led growth, but residential real estate, commercial and industrial, and consumer lending also increased. Nonperforming loans continued to dip, and credit standards remained largely unchanged. Loan pricing remained competitive, with multiple respondents citing concerns regarding too much liquidity chasing deals and/or margin compression. Sentiment regarding general business activity improved markedly, with eighty percent of respondents reporting an improvement. Outlooks stayed optimistic.

### **Energy**

Drilling and completion activity expanded moderately, and oilfield services firms noted difficulty hiring to support increased oil field activity. Exploration and production firms expect the market to support a West Texas Intermediate price near \$70 in the second half of the year, and reiterated that, at this price, capital spending plans would likely be little changed among large U.S. producers. E&P firms have slightly revised up their production outlook for this and next year due to strong year-to-date results and a higher oil price forecast for 2022. Sentiment in the oil and gas industry continued to improve, though contacts remained cautious about tax policy changes and rising materials and labor costs.

### **Agriculture**

Drought conditions eased in much of the District, though severe drought persisted in West Texas and Southern New Mexico. In areas with sufficient soil moisture, producers were optimistic for robust crops this year. Crop prices were slightly higher overall, supported by concern over U.S. and global drought conditions. For crops like corn and sorghum, cash prices are at an eight-year high. Recent rainfall benefitted pasture conditions, which is a positive for livestock producers amid high feed costs. ■

For more information about District economic conditions visit: [www.dallasfed.org/research/texas](http://www.dallasfed.org/research/texas)



## Summary of Economic Activity

Economic activity in the Twelfth District expanded notably during the reporting period of mid-May through June. Employment levels expanded moderately, accompanied by further upward wage pressures resulting chiefly from labor shortages in many sectors. Prices rose considerably, driven by low availability of raw materials and supply chain disruptions. Retail sales increased at a solid pace due to pent-up demand, whereas further easing of social-distancing restrictions led to a notable increase in demand for services. Manufacturing continued to expand at a modest pace, while activity in the agriculture and resources sectors increased somewhat. Conditions in the residential real estate market remained very strong, while activity in the commercial real estate sector was generally subdued. Lending activity grew slightly, bolstered by demand for residential and auto loans.

### Employment and Wages

Overall employment levels expanded moderately, although labor market conditions varied. Employment accelerated more notably in sectors that benefitted from recently eased business restrictions, such as food services, travel, and hospitality. At the same time, employers reported difficulties in hiring and retaining workers for lower-wage positions and increased competition for higher-wage jobs. Contacts noted a widespread shortage of truck drivers and other workers in the transportation and logistics sector, which exacerbated supply chain disruptions and delays. Worker shortages were also noted in construction, manufacturing, agriculture, and consumer services. Labor supply was more steady in the technology, financial, higher education, and entertainment sectors. Most employers reported improved worker productivity. A few contacts noted a persistent lack of affordable childcare options and an increase in retirements as factors holding back labor force growth. Employers in the agriculture sector highlighted a lack of support for immigrant labor and difficulties in obtaining work visas for transient workers.

Wage pressures increased further, chiefly due to labor shortages and increased competition for workers in many sectors. Many employers reported having to increase wages to attract and retain workers for both low- and high-paying jobs, including those in the construction, manufacturing, utilities, technology, retail, logistics, aerospace, health-care, food services, and hospitality sectors. Employers additionally mentioned extending

more generous offers including sign-on bonuses, reduced or flexible hours, childcare-related benefits, and even vaccination cash incentives. Wage pressures were more subdued in the entertainment and higher education sectors, as well as for some positions in financial services and local government.

### Prices

Prices rose considerably in recent weeks. Continued supply chain disruptions, low availability of raw materials, and increasing labor costs all contributed to upward pricing pressures. Contacts observed pronounced price increases in agricultural goods, fuel and transportation costs, and certain building materials such as asphalt, concrete, and metals. Surging demand for dining and lodging services resulted in some increase in prices at restaurants and hotels. Fees for legal and professional services remained generally stable.

### Retail Trade and Services

Retail sales increased at a solid pace. Sales growth was supported by elevated household savings, pent-up demand, and favorable credit conditions. Demand was particularly strong for clothing, personal care products, and gasoline. A number of contacts reported increased foot traffic in retail stores, while e-commerce sales continued to be strong. Retail trade in Hawaii as well as other tourist destinations also improved over the reporting period. Retailers across the District noted that back orders and logistical delays resulted in reduced inventories and shortages for some products.

Contacts observed a continued shift in consumer spending from goods back to services. This resulted in slightly lower sales of certain products such as electronics and furniture but increased activity in the consumer and business services sector. Further unwinding of pandemic-related restrictions led to improved conditions in the travel, leisure, entertainment, food service, and hospitality industries. However, demand for business travel and hospitality services remained weak. Despite some materials shortages, health-care spending picked up owing to increased overall capacity. Demand for technology and logistic services remained elevated, although sales volumes were somewhat restrained by capacity constraints.

### **Manufacturing**

Manufacturing activity continued to expand at a modest pace. New orders grew further over the reporting period, especially for fabricated metals, aerospace and transportation equipment, renewable energy equipment, and manufactured food products. Contacts reported low inventories and increased capacity utilization. Continued logistical bottlenecks and shortages of raw materials caused additional delays in order fulfillment. Contacts also noted reduced productivity at factories due to inclement weather and higher temperatures. Wood product manufacturers observed that demand for lumber may have already peaked in recent weeks, given dropping prices and excess inventory at lumberyards. One manufacturer in the Pacific Northwest noted lower demand for certain wood products from large home improvement retailers and housing job sites.

### **Agriculture and Resource-Related Industries**

Activity in the agriculture and resources sectors increased somewhat. Eased local restrictions led to generally increased domestic demand for agricultural and resource-related products. International demand for logs, fruits, vegetables, seafood, and other products increased over the reporting period despite an appreciating dollar. Producers noted reduced but still adequate supply and inventory levels of fruits, raisins, and nuts. Supply chain disruptions continued to cause costly delays with trade from Asian markets in particular. Growers in California reported drought conditions and increased costs associated with irrigation. This led some farmers to leave a portion of their acreage fallow, prioritizing water usage on more profitable crops.

### **Real Estate and Construction**

Conditions in the residential real estate market remained very strong. Strong demand for single-family homes outpaced existing home supply, driving sales prices up further. The lack of available homes was further exacerbated by increasing labor and raw materials costs, which somewhat reduced the rates for project completions and sales over the reporting period. Contacts commented on the recent drop in lumber prices, noting that it boded well for construction activity in the near future. Homebuilders also reported an elevated backlog of orders, especially in the suburbs, as well as robust permit issuance. Additionally, contacts highlighted a persistent shortage of affordable housing throughout the District. Demand for multifamily homes also increased, with one contact in California mentioning increased multifamily construction around entertainment, media, and gaming locations. A housing developer in Alaska observed that builders are reluctant to commit to final pricing due to volatility in materials and supply chain costs.

Demand for commercial real estate remains subdued. Although sales of commercial spaces picked up somewhat over the reporting period, general activity in this sector remained lackluster, and commercial permit issuance decreased in some areas. Demand for new retail and hospitality spaces stayed muted with reports highlighting the use of existing capacity as mobility restrictions eased. Demand for industrial, warehouse, and distribution spaces remained robust but generally unchanged. Demand for office space increased slightly due to many businesses' initialization of return-to-work plans.

### **Financial Institutions**

Lending activity grew slightly over the reporting period. Loan demand remained relatively strong and stable across the district, with new loan originations focusing on residential mortgage and refinancing, auto financing, and credit card activity. Reports from across the District noted increased deposits, high liquidity levels, and healthy consumer balance sheets. Contacts mentioned offering lower lending rates due to increased competition for loans but observed small credit quality deterioration. In investment markets, valuations for firms dedicated to intellectual property, environmental, and energy transition grew notably, showing continued investor interest around innovation and sustainability investment opportunities. ■



