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# The Beige Book

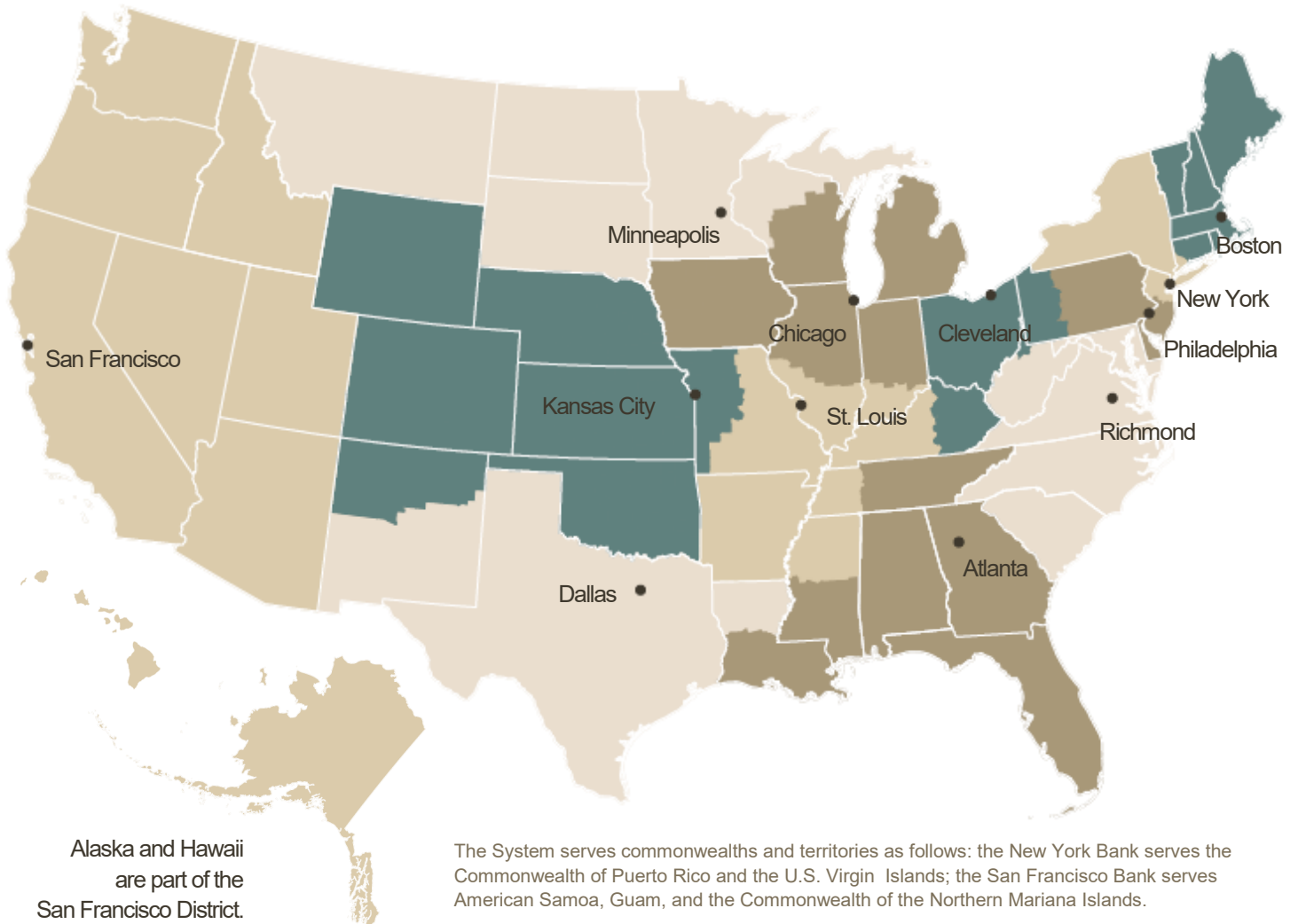
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Summary of Commentary on Current Economic Conditions

By Federal Reserve District

February 2022

## Federal Reserve Districts



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This report was prepared at the Federal Reserve Bank of St. Louis based on information collected on or before February 18, 2022. This document summarizes comments received from contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.

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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 ■ February 2022

## Overall Economic Activity

Economic activity has expanded at a modest to moderate pace since mid-January. Many Districts reported that the surge in COVID-19 cases temporarily disrupted business activity as firms faced heightened absenteeism. Some Districts attributed a temporary weakening in demand in the hospitality sector to the rise in cases. Severe winter weather was also cited as disrupting activity. As a result, consumer spending was generally weaker than in the prior report. Reports on auto sales were mixed. Manufacturing activity continued to grow at a modest pace. All Districts noted that supply chain issues and low inventories continued to restrain growth, particularly in the construction sector. Reports from banking contacts indicated some weakening of financial conditions, although loan demand was generally unchanged. Demand for residential real estate was generally strong, although many Districts reported no change in home sales due to seasonal trends and low inventories. Agriculture reports were somewhat mixed, as some Districts experienced difficult growing conditions while others benefited from higher crop prices. Reports on the energy sector indicated modest growth. Among reporting Districts, the overall economic outlook over the next six months remained stable and generally optimistic, although reports highlighted an elevated degree of uncertainty.

## Labor Markets

Employment increased at a modest to moderate pace. Widespread strong demand for workers remained hampered by equally widespread reports of worker scarcity, though some Districts reported scattered signs of improving labor supply. Many firms had difficulty maintaining their staffing levels due to high turnover; this challenge was exacerbated by COVID-19 disruptions in January, though workers and firms recovered more quickly than during previous waves. Firms continued to increase compensation and introduce workplace flexibility to attract workers—especially in historically low-wage positions—with mixed success. Contacts reported they expect the tight labor market and consequent strong wage growth to continue, though a few Districts reported signs of wage growth moderating.

## Prices

Prices charged to customers increased at a robust pace across the nation. A few Districts reported an acceleration in prices. Rising input costs were cited as a primary contributing factor across a broad swath of industries, with elevated transport costs particularly significant. Labor cost increases and ongoing materials shortages also contributed to higher input prices. Firms reported an increased ability to pass on prices to consumers; in most cases, demand has remained strong despite price increases. Firms reported they expect additional price increases over the next several months as they continue to pass on input cost increases.

## Highlights by Federal Reserve District

### Boston

Business activity expanded at a slight to modest pace. Labor demand remained very strong, but employment appeared roughly stable. Upward wage pressures remained substantial but eased for some positions. Prices increased moderately. Contacts were optimistic for spring but noted downside risks tied to inflation and supply chain disruptions.

### New York

Growth stalled in the latest reporting period, constrained by ongoing supply disruptions, worker shortages, and the Omicron outbreak. Moreover, unusually high absenteeism made it difficult for firms to maintain adequate staff. Businesses continued to report substantial increases in selling prices, input prices, and wages. Despite these challenges, contacts remained optimistic about the near-term outlook.

### Philadelphia

Business activity continued to grow modestly during the current Beige Book period, and some sectors remained below pre-pandemic levels. The surge in COVID-19 cases from the Omicron variant caused significant business disruptions before easing. The labor market remained tight with modest growth, while wages and prices grew sharply. However, there were signs that wage and price increases may be plateauing.

### Cleveland

The District economy grew at a more modest pace as the Omicron wave temporarily dampened activity in high-contact services. Employment rose moderately. Labor shortages and supply chain challenges resulted in widespread increases in wages, nonlabor costs, and selling prices. Firms expected a solid year for sales, but they were concerned that labor scarcity and supply chain difficulties would persist.

### Richmond

The regional economy has grown moderately since our previous report. Firms across a variety of sectors reported modest to strong growth in demand, but many struggled to meet that demand due to shortages of labor and persistent supply chain issues. In many cases, higher costs to businesses were passed through to customers, leading to a continued elevated rate of price growth.

### Atlanta

Economic activity expanded moderately. Labor markets remained tight and wage pressures grew. Nonlabor costs rose. Retail sales were strong. Leisure travel softened somewhat. Housing demand was robust. Commercial real estate conditions were mixed. Manufacturing activity was robust. Banking conditions were stable.

### Chicago

Economic activity increased moderately. Employment increased strongly; consumer spending, business spending, and manufacturing grew modestly; and construction and real estate activity was up slightly. Wages and prices rose rapidly, while financial conditions deteriorated some. Expectations for 2022 agriculture income moved up.

### St. Louis

Economic conditions have remained unchanged since our previous report. Employers reported robust wage increases and continued difficulties finding workers. Firms reported improved ability to pass on price increases and anticipate continued increases. The Omicron COVID-19 variant contributed to decreased activity in the transportation and hospitality sectors.

### Minneapolis

The region's economy grew moderately over the first weeks of the year. Price pressures remained strong. Though employment increased overall, many firms reported decreased staffing levels due to higher turnover and recruitment difficulty. Contacts generally felt that wage acceleration was driven by tight labor markets rather than inflation expectations. New entrepreneurs reported quitting their outside jobs or cutting hours.

### Kansas City

The Tenth District economy expanded at a modest pace in the first two months of the year. The temporary surge in COVID-19 cases slowed spending and hours worked in the leisure and hospitality sector, but activity rebounded quickly and grew steadily across other services and manufacturing sectors. Prices grew at a robust rate, and nearly all contacts reported they expect cost pressures to persist throughout the year.

### Dallas

Expansion in the District economy moderated, with the COVID-19 surge exacerbating labor and supply chain shortages and disrupting demand in certain sectors. Employment rose fairly robustly, and wage growth pushed to new highs. Supply chain issues continued to drive up costs, and prices rose at a rapid clip. Outlooks remained positive, though uncertainty spiked.

### San Francisco

Economic activity strengthened moderately over the reporting period. Employment grew further while overall conditions in the labor market remained tight. Wages and price levels climbed notably. Retail sales increased strongly, while conditions in the consumer and business services sectors picked up following the peak of the Omicron wave. Lending activity was steady.



## Summary of Economic Activity

Business activity expanded at a slight to modest pace in recent weeks. Consumer spending on goods, including autos, increased at a moderate pace, but restaurants sales plummeted during the Omicron surge. Manufacturers enjoyed robust demand, and revenues increased slightly on balance. Revenues at staffing firms were mixed but up modestly on average. Office leasing activity gained some momentum, and rents for industrial and life sciences space reached record highs. Home sales slowed further in a return to seasonal norms. Labor demand remained very strong, but employment appeared roughly stable as some firms struggled to hire and/or retain workers. Upward wage pressures remained substantial but eased for some positions. Prices increased moderately on average. Contacts were almost unanimously optimistic for spring, although some mentioned downside risks tied to inflation and supply chain issues.

### Labor Markets

First District labor markets remained tight on balance, as upward wage pressures persisted, and employment appeared stable. Headcounts were flat among retail contacts. Restaurant contacts noted a modest improvement in labor supply but did not report on headcounts. Manufacturing headcounts were up by modest to large margins on a year-over-year basis but were mostly stable recently. Manufacturers offered mixed descriptions of the labor market, as some experienced no hiring difficulties and others complained of high turnover or faced a scarcity of candidates. Staffing firms noted that turnover remained elevated at their own firms as well as at client firms. Staffing contacts also said that wages faced strong upward pressure across a wide variety of jobs and skill levels amid rising price inflation. However, wage growth appeared to slow or level off for selected positions and was relatively moderate among manufacturers. Contacts expected robust labor demand to persist but said that wage growth could slow moving forward in light of the substantial wage increases already seen in recent months.

### Prices

Prices increased moderately on average, but reports varied widely across contacts. Buyers of computer chips complained of “extortive” pricing while other goods makers enjoyed stable input prices. Although some manufacturers held off on raising their prices, those selling directly to consumers said that they had been forced to in-

crease their prices because demand was exceeding production capacity. High freight costs caused one retailer to forgo shipments of otherwise attractive merchandise. Restaurateurs relayed that in the last quarter food input prices increased at their fastest pace in 40 years. Restaurants’ menu prices also increased, but incomplete pass-through led to lower profits. According to a New Hampshire auto industry contact, new and used car prices remained very high, but used car prices softened somewhat at recent auctions. Staffing firms’ billing rates increased commensurate with increases in pay rates, leaving their margins roughly unchanged.

### Retail and Tourism

Contacts reported a strong holiday season and a solid start to 2022 for retail sales, while auto sales increased moderately, and restaurant sales dropped due to the rise of the Omicron variant. Among retailers, higher inventories boosted December 2021 and January 2022 sales at a salvaged-goods chain, and an online goods seller continued to enjoy volume and revenues well above pre-pandemic levels. The latter seller also said that inventories had stabilized somewhat and were expected to normalize further in the coming months. Auto sales in New Hampshire increased moderately in January owing in part to improved inventories of new vehicles, but supplies are not expected to fully normalize until 2023. Sales of RVs defied typical seasonal trends and remained robust throughout the winter. Massachusetts restaurant



owners suffered a very challenging winter due to the surge of the Omicron variant in December and January. Sales were weakest in the Greater Boston area while suburban and outlying areas saw fewer disruptions. Nonetheless, a sense of optimism is emerging about the return of restaurant guests in the coming months as the rate of COVID infections declines and food supplies stabilize .

### **Manufacturing and Related Services**

All eight contacts reached this round reported strong demand, but in some cases supply chain issues held back revenue growth, and sales increased slightly on average. Supply disruptions mostly affected production, but some firms' customers cancelled their orders because other suppliers could not deliver. One firm suffered from production delays in January when many workers were out sick with COVID. Most contacts were trying to hire, although one planned to focus on retention after expanding headcounts by a very large margin in 2021. Planned wage increases were low to moderate, but signing bonuses and recruiting fees also boosted labor costs. Contacts reported no major revisions to capital expenditure plans, but some indicated that spending was up due to "catch-up" following limited investment during the pandemic. The outlook was generally positive although some contacts expected supply chain problems to persist or even intensify moving forward.

### **Staffing Services**

Revenues at staffing firms increased modestly on average, as two contacts reported no changes from the previous quarter, one recorded substantial growth, and one experienced a modest decline. Talent acquisition remained a challenge for all firms, especially in filling temporary positions and jobs requiring in-person work. One contact offered bonuses to new hires who stayed in their roles for at least 90 days, and another boosted salary for its own recruiters to improve retention. Scarcity of childcare continued to crimp labor supply, but contacts said they were surprised to have seen relatively little pushback to vaccine mandates. In response to labor scarcity one firm moved to accelerate the placement of available candidates, and another said that the ease of starting remote work had also sped up the hiring process. However, the faster placement pace put more pressure on clients to train and fully vet new hires. Looking ahead, all contacts were optimistic about the coming months in light of the resilience the economy had shown during the Omicron surge and the strong ongoing demand for workers in a variety of roles. Some contacts

expressed concern over the inflation outlook, however, and one perceived an increased risk of recession.

### **Commercial Real Estate**

The First District's commercial real estate markets were mostly stable in recent weeks. The life sciences and industrial property sectors remained very strong, even "frothy," as rents reached record levels and vacancies hovered near zero. Pension funds fueled strong investment demand for these sectors, but contacts perceived downside risks to returns. The office leasing market showed some signs of life, with relative strength in the suburbs, but stayed slow relative to historical norms. Multifamily construction increased amid rising rents, but supply and labor shortages caused some delays. Retail market performance varied widely by location and type of business, as outlets that relied on office workers continued to struggle, grocery-anchored centers stayed strong, and experiential retail started to bounce back after an Omicron-induced slowdown. Contacts expected further momentum in office leasing for spring, but large office users are still poised to give up significant amounts of space. The industrial outlook was mixed, as at least one contact expected a slowdown in demand.

### **Residential Real Estate**

Residential real estate sales posted a modest seasonal slowdown in December and January as prices were stable on balance and inventories remained very low. (All New England states except Connecticut reported results.) Closed sales were down over the year (to either December 2021 or January 2022) for both single-family homes and condominiums. Although the decline in single-family sales extended recent trends, the slide in condo sales marked a reversal from the previous report. Several contacts interpreted the latest results as a return to normal seasonal patterns, together with the fact that in late 2020 the market had been unusually busy. Home inventories fell and median prices increased year-over-year in all reporting markets, by robust margins. Those over-the-year changes were mostly on par with the previous report, with the exception that Boston's condo prices posted somewhat slower growth recently. The Rhode Island, Massachusetts, and Boston contacts all anticipate high demand this spring, as many prospective buyers are expecting mortgage rates to increase and are eager to purchase a home before that happens.■

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





## Summary of Economic Activity

Growth stalled in the Second District in early 2022, with ongoing supply disruptions, worker shortages, and the Omicron outbreak impeding activity. Despite these challenges, contacts expressed fairly widespread optimism about the near-term outlook. Businesses continued to report substantial increases in selling prices, input prices, and wages. The job market has remained exceptionally tight, with businesses continuing to add staff, on net, and dealing with unusually high absenteeism. Consumer spending weakened noticeably in January, though retailers noted some rebound in business toward the latter part of the month and into early February. The home sales and rental markets remained robust in early 2022, and commercial real estate markets were slightly stronger. While commercial construction activity remained dormant, there was some pickup in multifamily residential construction. Finance-sector contacts reported some pullback in activity, while regional banks reported some weakening in household loan demand, along with steady to lower delinquency rates.

### Labor Markets

Despite ongoing worker shortages, job growth picked up to a moderate pace. Staffing agencies reported that job openings remained plentiful, particularly for technology, sales, and human resource workers. One agency in New York City noted that many job candidates are being selective based on telecommuting policies, while an upstate New York agency noted that vaccination policies are a major sticking point. Worker shortages persist across a wide range of industries and occupations. Businesses in most major industry sectors plan to add staff, on net, in the months ahead.

Contacts in all sectors reported that they were raising wages and planned to do so in the months ahead. An upstate New York employment agency noted particularly rapid wage growth, and a New York City agency reported that companies have become somewhat more flexible on pay. The January 1st hike in minimum wages across New Jersey and much of New York State reportedly prompted many businesses in manufacturing, distribution, and leisure & hospitality to raise wages more than they otherwise would have—not just for workers at the threshold but for those somewhat higher in the wage distribution as well to mitigate wage compression.

### Prices

The vast majority of businesses continued to report rising input prices. Businesses noted shortages and exceptionally high costs of freight, as well as a wide range of supplies. Contacts in all major industry sectors expect input prices to rise further in the months ahead.

A large and growing proportion of businesses report that they have raised selling prices, most notably in the manufacturing, wholesale & retail trade, and leisure & hospitality sectors. One large retail chain indicated that its selling prices in most categories would be ratcheted up over the course of 2022, reflecting higher merchandise acquisition costs. A large but steady share of businesses indicated plans to raise selling prices in the months ahead.

### Consumer Spending

Consumer spending weakened somewhat in early 2022. Non-auto retailers reported that sales fell in January due to the Omicron outbreak and harsh winter weather, but showed signs of rebounding late in the month and into early February. Supply disruptions have continued to cause pockets of stockouts, but inventories overall have remained at or near desired levels. New York City continued to lag the rest of the region, hampered by the

Omicron wave. Consumer confidence among New York State residents declined in January but remained at a fairly high level.

New vehicle sales remained weak in early 2022, restrained by the ongoing lack of inventory. The microchip shortage, which has kept inventories low, is not expected to abate until the second half of the year. Moreover, sales of used vehicles, which had been fairly solid in late 2021, also weakened, reflecting a combination of depleted inventory and exceptionally high prices, which have deterred some prospective buyers.

### Manufacturing and Distribution

Manufacturing activity was essentially flat in early 2022, whereas businesses in the wholesale, transportation, and warehousing sectors continued to report fairly brisk growth. Contacts in these areas have indicated that continued worsening in supply disruptions and escalating prices have further impeded activity. Still, businesses in all of these sectors continued to express optimism about the near-term outlook, though to a somewhat lesser degree than in the last report.

### Services

Activity in the service sector contracted in early 2022. In particular, leisure & hospitality businesses noted further weakening in activity—apparently driven largely by the Omicron outbreak. Education & health providers also noted some slowing. However, businesses in the information and professional & business services sectors reported that activity was steady to slightly higher. Still, businesses in all these industries remained broadly optimistic about the near-term outlook.

The Omicron outbreak led to a slump in both tourism and related service-sector activity in New York City in January, though there were scattered signs of a pickup in February. Hotel occupancy and revenue, which fell sharply in January, have begun to rebound, and trade shows have picked up, and this trend is expected to continue into March. A record low number of Broadway shows were open in January, but a dozen new shows are slated to open soon. Subway ridership, which had turned down sharply in December, began to resume its upward trend in January and through mid-February.

### Real Estate and Construction

Home sales and rental markets have been robust, though activity has been constrained thus far in 2022, due to harsh weather, the Omicron wave, and a dearth

of homes on the market. However, demand has remained strong, and prices have risen. Real estate contacts in upstate New York indicate that inventories remain exceptionally low, driving up prices and spurring multiple offers and bidding wars. Housing affordability is a growing concern in the region, and efforts are underway to rehabilitate “zombie” homes in some areas and convert some commercial space to residential.

New York City’s residential rental market has picked up steam in recent weeks, as vacancy rates have continued to edge down and rents have accelerated. Rents have fully rebounded across much of the city.

Commercial real estate markets were mixed but, on balance, slightly stronger. Office markets were mostly steady, with both office availability rates and market rents essentially flat throughout most of the District. However, there were scattered signs of improvement in northern New Jersey, Lower Hudson Valley, and Fairfield County. The industrial market has continued to strengthen modestly, with vacancy rates steady but rents continuing to escalate. In contrast, the market for retail space, which had shown signs of picking up in late 2021, has weakened in the first few weeks of this year.

Construction activity was sluggish, likely reflecting unseasonably harsh winter weather. Non-residential construction starts weakened from already low levels, while multi-family residential starts picked up modestly. There continues to be a good deal of multi-family construction in the pipeline. Looking ahead, construction sector contacts expressed a good deal more optimism than in recent months about the general outlook, despite the ongoing challenge of elevated materials prices, supply bottlenecks, and shortages.

### Banking and Finance

Contacts in the broad finance sector reported some weakening in business conditions but remained fairly optimistic about the outlook. Small to medium-sized banks across the District reported weaker demand for consumer loans and residential mortgages, but steady demand for commercial loans and mortgages. Refinancing activity was unchanged on net, though one contact noted strong demand from the commercial segment, reportedly driven by the potential for higher rates in the coming months. Credit standards were largely unchanged across all loan segments, while loan spreads narrowed slightly. Delinquency rates held steady for consumer loans and residential mortgages and decreased for commercial loans and mortgages. ■

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



## Summary of Economic Activity

On balance, business activity in the Third District continued to grow modestly in the current Beige Book period. Activity in several sectors had not yet returned to pre-pandemic levels. Since the prior Beige Book, the rate of cases from the Omicron variant of COVID-19 continued to surge to an all-time high in mid-January, then quickly receded to levels last observed in November. Many contacts noted that disruptions to business operations were significant and pervasive, as workers called in sick. The rate of all persons being fully vaccinated rose to 70 percent. Employment grew modestly as firms continued to face challenges in hiring and retaining workers. Wages rose sharply again, but there were signs that the increases may be plateauing. Prices also rose sharply overall, but among manufacturers, price expectations fell significantly in our quarterly survey. On net, expectations for continued economic growth over the next six months flagged somewhat for nonmanufacturers but held steady for manufacturers.

### Labor Markets

Employment grew modestly, with growth in most sectors more subdued than last period. The share of firms reporting employment increases remained near one-fifth of the nonmanufacturing firms and edged down to one-third among the manufacturers. Overall, about one-fifth of the firms reported a rise in average hours worked; less than one-tenth reported a decline.

Staffing firms and most employers continued to report significant difficulty attracting and retaining labor, while the surge in Omicron cases created daily staffing challenges. One staffing firm noted that one staff member spent most of two weeks just keeping tabs on COVID cases among its placements.

Wages continued to rise substantially, but reports suggest that the rate of change may be plateauing. In our monthly surveys, the share of nonmanufacturing firms reporting higher wage and benefit costs per employee fell to 54 percent in February from 59 percent in December. Less than 5 percent of the firms reported lower compensation, and that represented an increase from prior months when almost no firms reported lower compensation.

On a quarterly basis, firms reported a somewhat lower expectation of the one-year-ahead change in compensa-

tion cost per worker, with a trimmed mean of 5.5 percent in the first quarter of 2022 – down from 5.8 percent in the fourth quarter of 2021.

### Prices

On balance, prices rose sharply over the period – more than the prior period's moderate increase – and were more pervasive. The share of manufacturers reporting higher prices for factor inputs increased to 74 percent, while those receiving higher prices for their own products edged up to 54 percent. The share of nonmanufacturers reporting higher prices for their inputs surged to 70 percent, while the share receiving higher prices from consumers for their own goods and services rose to 45 percent.

Contacts offered a mix of responses regarding inflation, with some expressing optimism that the cost side of inflation will ease first as supply chains improve, but that wage inflation may continue for longer.

From our quarterly survey of firm price expectations, contacts reported further increases in the prices received for their own goods and services over the past year. The trimmed mean for reported price changes rose to 5.6 percent for nonmanufacturers and to 9.4 percent among manufacturers. These price changes have risen steadily since the fourth quarter of 2020, when contacts reported

increases of 1.4 percent and 1.5 percent for manufacturers and nonmanufacturers, respectively.

Looking ahead one year, the prices that firms anticipate receiving edged lower overall – the expected rate of growth fell significantly to 6.4 percent among manufacturers from 7.3 percent in the prior quarter – the first decline since price expectations began rising over one year ago. The rate for nonmanufacturers edged up to 5.0 percent from 4.9 percent in the prior quarter.

### **Manufacturing**

On average, manufacturing activity continued to grow modestly. Overall, the share of firms reporting increases in shipments and new orders edged higher than in the prior period; however, reports softened in recent weeks. Reports of rising backlogs were more pervasive, but increases in delivery times and inventories were less widespread.

### **Consumer Spending**

Retailers (nonauto) and restaurateurs continued to report modest growth, despite staffing disruptions and customer caution rising with the Omicron surge. Contacts noted rising costs as a threat, but that “supply chains were better but fragile.”

Limited supply continued to constrain new auto sales at very low levels. Contacts broached no guess as to when the microchip shortage or the congestion at the Los Angeles and Long Beach ports would ease.

Overall, tourism declined slightly, as the Omicron surge prompted firms to delay a resumption of business travel and to postpone group events, as well as cause a dip in some leisure travel. Ski resorts seemed exempt from fear of COVID and were constrained only by lack of staff.

### **Nonfinancial Services**

On balance, nonmanufacturing activity grew slightly – contacts noted negligible growth early in the period but reported some recovery by the period’s end. Overall, the share of firms reporting increases in sales fell from one-half to about two-fifths, while the share reporting increases in new orders edged down to about one-fourth. However, at the outset of the period, these shares were nearly equaled by the shares of firms reporting decreases in sales and in new orders. Reports of decreases subsequently subsided.

### **Financial Services**

The volume of bank lending (excluding credit cards) was flat during the period (not seasonally adjusted); by comparison, loan volumes grew slightly during the same period in 2019. Loan volumes grew modestly in commer-

cial real estate and auto lending and rose moderately for home mortgages and other consumer loans. However, commercial and industrial lending and home equity lines fell modestly. Credit card volumes declined moderately – similar to the seasonal decline observed during the same period in 2019.

Bankers, accountants, and attorneys noted a continued, if not an increasing, level of uncertainty on the part of their clients. Many are flush with cash and making no big plans, except for automating where possible. Finding and paying for labor remains their primary challenge.

### **Real Estate and Construction**

Homebuilders reported steady contract signings and construction activity but continued to cite problems securing materials and labor, as well as rising costs for both. Amid a heated market for multifamily housing, a year-end deadline to qualify for a popular 10-year property tax abatement in Philadelphia prompted developers to pull permits for eight times more apartment or condo units than in 2019. Contacts noted that the nearly 23,000 permitted units will not all be built, but that completing even a fourth of the total would put downward pressure on apartment rents and condo prices.

Existing home sales held steady at high levels; however, new listings remained scarce, and available homes continued to sell quickly near the asking price. Contacts noted that housing affordability continues to deteriorate for first-time buyers, generating strong demand for new rental units.

Construction activity and leasing activity held steady for most segments of nonresidential real estate. Contacts continued to cite multifamily housing, institutional projects, and industrial/warehouse space as the strongest markets. Prospects for office space and downtown retail will become clearer once workers return to offices on a consistent basis. ■

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



## Summary of Economic Activity

The Fourth District economy grew at a slower, more modest pace in recent weeks. Demand was generally solid, but the surge of Omicron-related coronavirus infections temporarily dampened activity in some high-contact services such as restaurants and retail stores. Contacts reported that their outlooks were largely unchanged and that they continue to expect a strong year for sales. There were scattered reports that supply chain disruptions may have eased for some materials. That said, contacts expected it could be the second half of this year or even 2023 when supply chains normalize. Amid persistent labor shortages, employment increased moderately, while pay increases were widespread. Reports of rising input costs and prices were also widespread. Contacts expected that nonlabor costs will continue to increase in the near term, possibly at a slower rate than last year. However, they expected price pressures to remain elevated in the coming months as they keep up with cost increases and, in some cases, as they try to recover lost profit margins.

### Labor Markets

Employment rose moderately during the reporting period. A few firms indicated it had become slightly easier to hire, but for the most part reports of labor shortages remained widespread. Contacts with customer-facing operations noted that the spread of the Omicron variant had temporarily disrupted operations in early January as staff absences increased. However, such disruptions quickly abated as the month progressed. Many firms commented that employee turnover was high for various reasons, including a greater desire to work remotely, receive higher wages, change careers, or find better working conditions. One university representative expressed great concern that educators were leaving the profession in large numbers because the current work environment was “not what they had signed up for.” Generally, contacts saw few reasons to believe labor supply will soon improve meaningfully.

Reports of wage increases were widespread across sectors as firms struggled with the scarcity of workers. Contacts indicated that recent pay raises were often in the high single-digit or low double-digit percentages and that wage pressures were broad across the pay scale. Despite substantial pay raises, contacts had mixed results in attracting or retaining workers. A few staffing

agents expected wage growth for lower-paid workers to slow in the coming year, saying that businesses cannot afford to pay much more. However, contacts expect wage pressures for higher-skilled workers to remain elevated.

### Prices

Nonlabor input costs rose for most contacts. In a few instances, contacts noted that some costs, such as for steel, had stabilized or come down somewhat. However, such reports were the exceptions. Higher transportation costs were commonly cited as a major strain on firms. One manufacturer noted that freight costs had almost doubled in the past two months. Also, builders noted that lumber prices trended back up after a brief respite late last year. Materials shortages forced some firms to purchase in spot markets or from retailers (as opposed to wholesalers), a situation which greatly added to their costs. Contacts generally expect costs to rise in the coming months, but some indicated the rates of increases could slow from what was seen last year.

Most firms raised prices as they passed through higher costs of materials, labor, and transportation to customers. A little less than half of contacts who had tried to raise prices indicated that customers had been more



accepting of price increases in the past few months, partly because they were seeing cost increases everywhere and had few alternatives. Contacts expected price pressures to remain elevated in the coming months as they keep up with cost increases and, in some cases, as they try to recover lost profit margins.

### **Consumer Spending**

Reports suggested that consumer spending softened following the holidays. Retailers noted that spending was strong in November and December, but the rapid spread of the Omicron variant following the holidays weakened sales. Restaurateurs reported that concerns about the pandemic and poor weather conditions weakened dine-in activity, although some restaurateurs said that the impact of the new variant waned toward the end of the January as case rates dropped. Auto dealers reported limited sales despite generally elevated demand as tight inventories and higher prices deterred buyers. Contacts were optimistic that nonauto consumer spending on goods and services would pick up in the coming weeks as concerns about the Omicron variant abate, and multiple auto dealers expected sales to increase along with inventory levels in coming months.

### **Manufacturing**

Manufacturing orders increased slightly from already high levels. Contacts noted that output was stifled by shortages of raw materials and workers. Aerospace equipment manufacturing continued to recover, but auto suppliers said that carmakers purchased less than they had expected because of shortages of microchips and other parts. High staff turnover and rising wages prompted some firms to spend more on labor-saving technology. That, in addition to increased overtime hours and alternative work arrangements (for example, having non-floor staff step into hands-on roles) allowed some firms to boost production. Most manufacturing contacts expected demand to increase in the coming months, although they expected supply chain disruptions to persist.

### **Real Estate and Construction**

Housing demand remained strong despite rising home prices. One homebuilder compared current housing demand to a fever and noted that customers were buying houses at any price without pushback. An increasing number of homebuilders noted that demand has been so strong that they no longer have the capacity to build spec homes. In addition, supply chain difficulties impeded construction activity. Contacts anticipated that housing demand would remain robust in the near term, although supply chain challenges would continue to constrain construction.

Nonresidential construction and real estate activity continued to increase, driven largely by the heightened demand for industrial space. One contractor indicated that demand for industrial space was so great that rental prices for existing spaces have been increasing to rates comparable to those for newly constructed spaces. Contacts were optimistic that nonresidential construction would increase further, though persistent supply chain disruptions and labor shortages were expected to be constraints.

### **Financial Services**

Overall, loan demand increased modestly. Contacts reported growth in business lending, especially for commercial and industrial loans, and many bankers reported strong loan pipelines. By contrast, demand from households for auto loans and residential mortgages was stable or slightly down as limited inventories in both markets dampened activity. Lenders said that delinquency rates for commercial and consumer loans remained low and that core deposits increased. Looking ahead, bankers expected business loan volumes to improve as clients make capital investments.

### **Professional and Business Services**

Demand for professional and business services remained robust. Contacts noted that clients continued to invest in software upgrades and that demand for cybersecurity services increased. Activity related to mergers and acquisitions was strong, as was demand for human resource services. Furthermore, increased infrastructure investments by state and local governments lifted demand for engineering services. Contacts anticipated demand would remain strong as businesses continue to invest in technology improvements and as infrastructure investments become more widespread.

### **Freight**

Freight volumes increased slightly from already high levels amid strong demand for goods and large backlogs at distribution facilities. Persistent shortages of drivers and vehicle parts was a common complaint among contacts, who noted such shortages restricted their ability to meet demand. One contact said that a third of the firm's drivers reduced their driving hours when awarded a higher wage, thus driving fewer miles while earning the same salary. Looking forward, contacts expected demand to remain strong and their ability to move freight to remain constrained.

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[www.clevelandfed.org/en/region/regional-analysis](http://www.clevelandfed.org/en/region/regional-analysis)



## Summary of Economic Activity

The regional economy grew moderately in recent weeks, but growth continued to be constrained by supply chain and transportation issues and labor shortages. Manufacturers reported a modest increase in new orders, but shipments declined slightly as production was impacted by weather, long lead times for inputs, truck and container shortages, and an increase in employee absenteeism due in part to the Omicron variant. Ports and trucking companies continued to report strong volumes but challenges meeting it because of shortages of truck drivers and transportation equipment. Retailers saw moderate growth in sales and foot traffic in recent weeks. Travel and tourism, on the other hand, declined slightly due to winter weather and the recent surge in covid cases. Residential real estate markets were little changed as demand remained strong but low inventory levels persisted. Meanwhile, commercial real estate activity picked up moderately. Industrial real estate remained the hottest sector, but sales and leasing of multifamily and office properties grew strongly this period. Bankers reported rising loan demand across all loan types, although auto and mortgage lending was constrained by the inventory shortages in those markets. Nonfinancial firms reported a modest increase in revenues but continued to struggle hiring enough workers to meet demand. Employment grew moderately, overall, but a large number of firms reported shortages of workers. In response, firms increased wages and looked to benefits and flexible arrangements to attract and retain talent. Price growth remained elevated in recent weeks.

### Labor Markets

Employment continued to increase at a moderate rate in the Fifth District. Demand for labor remained strong and, for many firms, far exceeded the supply of available workers. This led firms to increase wages moderately and to offer additional benefits, including flexible working arrangements, to attract workers and to retain existing staff. Some firms noted that even after doing so, they lost employees to companies who were willing to pay higher wages or were fully remote. Some employers were willing to loosen requirements on education and experience in favor of on-the-job training to fill open positions. One employer added that advancements in technology allowed them to hire workers without a four-year degree in computer science.

### Prices

Price growth slowed slightly in recent weeks but remained at an elevated rate. According to our surveys, prices received by nonmanufacturing firms were about five percent higher than last year, which was down slightly compared to the peak rate of growth reported in December of 2020. The majority of firms indicated that they were raising prices in response to rising costs of both labor and non-labor inputs, including shipping and energy. A small number of firms, however, were concerned that customers may not be willing to accept further price

increases, and if costs continued to rise they would have to find a way to absorb them.

### Manufacturing

Fifth District manufacturers reported a modest increase in new orders since our previous report. Firms reported a slight decline in shipments, however, which was attributed to winter weather, workforce challenges, availability of shipping containers and trucks, and delays in receiving inputs from vendors. Some of the workforce challenges were due to employees testing positive for covid during the surge of cases from the Omicron variant, while some were simply due to not having enough workers to meet an elevated level of demand. Although most manufacturers reported growth in new orders, one firm said that new orders slowed for them because some of their customers' inventory levels were back up to normal.

### Ports and Transportation

Fifth District ports saw strong growth in import volumes with the terminals at capacity and containers sitting at the ports for extended times. These delays were caused by shortages in inland transportation and a scarcity of warehouse space. Loaded exports were down moderately with the exception of forest products. Spot shipping rates remained elevated, but declined slightly from their 2021 peak. Meanwhile, contract negotiations by shipping



lines with cargo shippers for one-year and multiyear contracts signaled that rates were expected to be higher than in the past. There also were reports of increased air freight due to higher costs and cargo delays with ocean-going shipping.

Trucking companies in the Fifth District reported strong growth since our last report, leading to tight capacity and a continued shortage of drivers. Longer lead times and higher prices for both new truck tractors and trailers led to companies relying more heavily on prolonged use of older equipment, but this has been hampered by delays in receiving repair parts. Trucking firms indicated that they increased shipping rates in response to higher fuel costs, wages, and equipment prices.

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

Fifth District retailers reported moderate growth in demand and revenues in recent weeks. Shopper traffic increased and many stores were able to pass on the higher costs of goods as well as increased labor costs to customers. Auto dealers stated that profitability remained at historically high levels, but that the inventory of new cars continued to be extremely low. Several respondents noted that the Omicron variant led to challenges with employee absenteeism and supply chain disruptions.

Travel and tourism decreased slightly due to weather as well as concerns over the Omicron variant. Contacts noted that group and business traveled remained soft, with passenger counts at airports down since the last report. Tour operators stated that the latest Covid variant caused cancellations of booked business along with large reductions of new bookings. However, visitation was strong at outdoor venues and ski resorts. Prices at hotels were up slightly and average daily room rates have returned to 2019 levels in many places in the Fifth District. Restaurants experienced good demand but many had to limit service because of a lack of staffing.

### **Real Estate and Construction**

Demand for Fifth District homes remained strong since our last report. Low inventory levels persisted and home prices continued to rise; it continued to be a sellers' market and very competitive for buyers. Construction costs increased and shortages of skilled trade labor and materials slowed new residential construction. Buyers were not having any difficulty obtaining mortgages and appraisal have not been an issue because of strong comparable sales.

Commercial real estate activity expanded moderately in recent weeks; however, firms continued to face challenges from higher construction costs, skilled trade labor

shortages, and supply chain disruptions. Investor purchases have been robust with high demand especially for multifamily properties and office building with stabilized occupancy. The industrial segment remained very strong with low vacancy rates, escalating rental rates, increasing sale prices, and continued new construction. Multifamily rental rates have risen rapidly this period. Retail leasing strengthened, leading to falling vacancy rates. Land sales were extremely active and prices increased across all property types. Office leasing activity improved, especially for Class A space with lots of amenities, as tenants are looking to "right-size" due to an increasing hybrid workforce.

### **Banking and Finance**

Most respondents reported that overall loan demand is beginning to increase from the last part of 2021. These increases are being seen across all loan types, including commercial real estate and business loans. One respondent attributed this to the anticipation of higher rates and the winding down of the Omicron variant. Auto and mortgage lending was still being constrained from a lack of inventory. Deposit levels increased, but at a slower pace than previously reported. Credit quality continued to be excellent, but some respondents noted a slight uptick in delinquencies mainly in their consumer portfolio.

### **Nonfinancial Services**

Nonfinancial services firms saw a modest increase in revenues in recent weeks and several businesses said that demand was starting to pick up. One professional service firm said that being able to attend conferences again was helping boost business. Many firms continued to struggle with employee turnover and hiring difficulties, making it challenging to meet demand. One contact also noted that turnover among project managers at their clients' businesses caused disruptions to projects flows. ■

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 expanded at a moderate pace, on net, from January through mid-February. Demand for workers remained strong, and labor market tightness endured. Upward pressure on wages was widespread, especially for lower-paid positions and skilled trades. Nonlabor costs grew, and firms' pricing power increased. Retail sales were healthy, but auto sales remained constrained by lack of supply. Tourism activity softened somewhat due to the surge in the Omicron variant, though advance bookings were strong. Demand for housing remained robust, but sales were constrained by low inventory levels. Activity in commercial real estate was mixed. Manufacturing activity was strong. Conditions at financial institutions were stable, though residential mortgage delinquencies rose somewhat.

### Labor Markets

Demand for workers remained strong over the reporting period and tightness in the supply of labor persisted. However, many contacts indicated labor market conditions have eased modestly since the beginning of the year. Poaching of employees lessened somewhat. Most firms continued to hire to fill vacant positions while others looked to grow headcounts to meet strong business demand. A high-end restaurant noted moving to a scheduling system that utilizes employees' preferences for work, allowing them to "shift surf" among several restaurants to accommodate personal schedules and maximize income, which ultimately resulted in staffing shortages at some establishments. Reports also indicated a significant shortage of skilled technicians resulting in long waits for service calls and repairs to commercial equipment and vehicles. Several firms noted that while there was a spike in absenteeism related to the Omicron variant surge and more employees were impacted, the new variant moved through more quickly than earlier variants.

Although upward pressure on wages was widely reported, particularly at the lower end of the pay scale and among skilled trades, bonuses were used to attract and retain employees as firms tried to hold the line on wage increases. Some contacts noted that positions which offered flexibility were easier to fill. Wages are expected to continue to rise this year, but there is a great deal of uncertainty around the pace of growth.

### Prices

District contacts noted increasing input costs over the reporting period, with considerable growth in the cost of freight, raw materials, and labor. Many contacts continued to describe supply chain issues, particularly a dearth

of available labor, as the driving factor behind rising costs. The concerns over pricing power noted in the previous report eased, with most firms seeing higher margins from price increases with little to no impact on demand. Most contacts expect costs to remain elevated through at least the end of the year. The Atlanta Fed's Business Inflation Expectations survey showed year-over-year unit cost growth increased slightly to 3.7 percent, on average, in January. Firms' year-ahead inflation expectations remain unchanged at 3.4 percent, on average.

### Consumer Spending and Tourism

District retailers reported little change from the previous report. However, with the expiration of the advance on the child tax credit and the anticipation of smaller tax refunds, some softening in activity is expected over the next few months. Demand for vehicles remained strong, limited only by availability. Some contacts reported that trucks and trailers were pre-sold and just pending delivery.

Travel and hospitality contacts reported a slight softening in activity during the first few weeks of January due to the Omicron variant surge. Advance bookings for leisure travel were reported to be strong through the second quarter. While business travel and conventions are expected to improve during the first half of 2022, this segment remains well below pre-pandemic levels.

### Construction and Real Estate

Demand for housing continued to outpace supply in the District. Many markets remained attractive to buyers

relocating from more expensive regions of the country, such as the Northeast and West Coast. Rising interest rates motivated many buyers to purchase or refinance before rates moved higher, leading to increased mortgage originations. Credit quality among borrowers remained healthy, with lenders indicating stronger demand and looser standards for non-qualified and jumbo mortgages. Low inventory levels suppressed sales and pushed home prices higher throughout the District, putting further downward pressure on affordability. Home-builder contacts indicated steady demand from non-primary buyers (i.e., investors, second home buyers) as well as continued cost pressures on materials and labor.

Commercial real estate (CRE) activity was mixed. Conditions in the industrial real estate sector remained robust. The office sector improved modestly as more employers reopened, but contacts indicated that elevated levels of sublease space could hinder market rent growth until absorbed. After a robust year, multifamily activity slowed due to seasonality; however, occupancies remained at healthy levels. Contacts continued to report robust competition among CRE lenders; however, some reported a modest tightening of underwriting standards. Smaller banks and non-bank lenders have been identified by market contacts as the more aggressive of CRE lenders.

### Manufacturing

District manufacturers experienced continued strong demand and healthy pipelines over the reporting period, with several noting historically high sales levels, profitability, and improved margins. Several contacts reported ongoing delays in the procurement of components and spare parts, particularly from China. The outlook for manufacturers, while optimistic about demand, was somewhat to the downside amidst growing geopolitical risks, continued supply chain constraints, and inflation.

### Transportation

Transportation activity in the District strengthened, on balance, since the previous report. Demand for trucking services remained strong amid persistent shortages of drivers, trailers, and chassis. In some markets, warehousing was reported to be at capacity. Sea ports, most notably in Florida, experienced growing container volumes and new cargo vessel business as shipping lines shifted to east coast ports to avoid congestion on the west coast. The outlook among transportation contacts remains positive, with most expecting continued strong demand through the first half of 2022.

### Banking and Finance

Conditions at District financial institutions were stable over the reporting period. Loan growth across most portfolios was obscured by the number of forgiven com-

mmercial and industrial Paycheck Protection Program loans. Credit cards and other consumer loans experienced strong growth. Deposits slowed and institutions increased borrowings to provide additional liquidity. Institutions experienced some increases in delinquencies, particularly in the residential portfolio, but overall delinquencies remained below historical levels.

### Energy

Demand for energy products strengthened since the previous report, resulting in increased activity across energy sectors. Oil and gas production picked up across the region and contacts indicated that liquefied natural gas (LNG) export projects had returned after pandemic-driven delays. At the same time, domestic demand for LNG soared as a result of extremely cold weather in parts of the U.S. Utilities contacts reported that demand for power was up across customer segments. Energy industry contacts continued to describe efforts to develop lower carbon energy feedstocks and products, such as biofuels.

### Agriculture

Agricultural conditions remained mixed. The southern parts of Louisiana and Mississippi experienced moderately dry conditions, while the rest of the District experienced mostly normal conditions. The January production forecast for Florida's orange crop was down from last year's production while the grapefruit forecast was unchanged from last year's production. However, while damages are still being assessed, it was reported that recent cold snaps in Florida are expected to have a material adverse impact on citrus crop yields. The USDA reported year-over-year prices paid to farmers in December and on a month-over-month basis, were up for corn, cotton, rice, soybeans, cattle, broilers, eggs, and milk. ■



## Summary of Economic Activity

Economic activity in the Seventh District increased moderately in January and early February, and contacts expected a similar pace of growth over the coming months. Labor and materials supply constraints as well as the spread of COVID-19 continued to weigh on the expansion. Employment increased strongly; consumer spending, business spending, and manufacturing were up modestly; and construction and real estate grew slightly. Wages and prices rose rapidly, while financial conditions deteriorated some. Expectations for 2022 agricultural income moved up.

### Labor Markets

Employment increased at a strong pace over the reporting period, and contacts expected moderate growth over the next 12 months. Contacts across sectors reported persistent difficulty in finding workers at all skill levels. That said, one contact indicated it was easier to find workers now than in the fourth quarter of last year. A lack of labor was preventing a number of contacts from producing enough to meet strong demand. In addition, a construction contact reported that limited availability of higher skilled workers meant they were relying more on lower skilled workers, reducing productivity. Contacts also noted that the spread of the Omicron variant had pushed up absenteeism and slowed production; however, workers were typically recovering faster and returning to work sooner than in previous waves. Overall, wage and benefit costs increased robustly. A scarcity of applicants for open positions led numerous contacts to raise wage offers, yet not all were successful in filling open positions. In higher education, one contact noted that institutional policies were limiting wage offers and making it very difficult to hire. To retain workers, many employers increased the frequency of pay raises or profit sharing.

### Prices

Overall, prices rose rapidly in January and early February, and contacts expected price increases to continue at

a strong pace over the next 12 months. There were large increases in producer prices, driven by pass-through of higher costs for materials, labor, and transportation. However, some contacts in manufacturing said that pricing pressures appeared to have peaked, highlighting an easing of steel and overseas shipping costs. Consumer prices generally moved up robustly. Sources of higher prices included solid demand, limited inventories, increased costs, and a continued ability to pass cost increases on to customers.

### Consumer Spending

Consumer spending increased modestly over the reporting period from already high levels. Nonauto retail sales were up some, and contacts indicated that sales exceeded expectations given the Omicron variant's negative impact on foot traffic. Sales of office furniture and building materials increased further, while lawn and garden and appliance spending remained elevated. Contacts noted a shift from eating out to eating at home, as grocery sales moved up and food service demand declined. There was a modest decrease in sales in the home furnishings and electronics sectors. Seasonally adjusted light vehicle sales were up, though sales continued to be constrained by low inventory levels. Dealer profit margins remained strong, reflecting higher vehicle prices. Leisure and hospitality spending was unchanged on balance.



## Business Spending

Business spending increased modestly in January and early February. Retail inventories remained low in many sectors due to domestic and international supply chain challenges, and several contacts said they expected the issues to persist into the second half of 2022. Stocks of apparel and food and beverages were especially under pressure. Manufacturing inventories moved up some, though contacts continued to report shortages of a wide range of inputs. One contact indicated that materials availability was more predictable now than in the second half of 2021. Demand for transportation services was little changed as the industry continued to operate at full capacity. Capital expenditures increased moderately, with contacts highlighting technological upgrades (such as new automation equipment) and facility expansions. Lead times for delivery of capital equipment continued to be elevated. Residential and commercial energy consumption edged up. There was a small increase in industrial energy consumption driven by greater utilization by manufacturers.

## Construction and Real Estate

Construction and real estate activity increased slightly over the reporting period. Labor shortages and long lead times for materials persisted for both residential and nonresidential builders, stretching project completion times. Residential construction activity increased slightly, and backlogs continued to build. One homebuilder said strong demand made it feel like the spring building season had already started. A nonprofit builder noted that American Rescue Plan money designated for affordable housing was being released more slowly than desired. Residential real estate activity was flat, held back by limited supply. Home prices ticked up, while rents were up moderately. Nonresidential construction activity increased slightly, with one contact highlighting greater demand for office buildout projects. Pricing increased slightly from already high levels. Commercial real estate activity increased slightly, buoyed by robust demand for industrial and multifamily buildings. Retail leasing also picked up. Commercial rents decreased slightly. Commercial prices and vacancy rates were unchanged, while sublease space availability increased moderately.

## Manufacturing

Manufacturing production increased modestly in January and early February. Despite strong demand for the majority of manufacturers, capacity constraints due to challenges in securing inputs (particularly labor) limited production gains. Auto output dropped slightly, as assemblers and suppliers continued to face shortages of microchips and other materials. Demand for heavy trucks was

steady at a high level, and tight inventories pushed up prices. Steel production ticked up amidst growth in demand from energy and construction customers. Steel availability increased due to large volumes of imports and rising domestic capacity utilization. Demand for building materials was modestly higher, supported by solid orders for commercial and residential construction.

## Banking and Finance

Financial conditions deteriorated some over the reporting period. Participants in the equity and bond markets reported an increase in volatility and net declines in asset values. Business loan demand was flat, and contacts continued to report strong competition for deals. Business loan quality was high and improved slightly, while business loan standards reportedly loosened a bit. In consumer markets, loan demand was unchanged overall. Volumes were largely flat across sectors, except for home mortgage refinancing, which declined. One contact noted that while the quantity of auto loans declined, loan values were up enough to result in an increase in the dollar value of auto lending. Consumer loan quality and standards were unchanged.

## Agriculture

Rising prices for agricultural products buoyed expectations for farm income in 2022, though input costs rose as well. Corn and soybean prices continued to move up, but prices for energy, fertilizers, and herbicides also rose, and concerns deepened about their availability at planting time given supply chain issues. One contact pointed out a planting decision dilemma: seeds that are more readily available do best when used with herbicides that are in short supply. Supply issues were also delaying some new tractor deliveries, possibly past spring planting. Prices for cattle, hogs, eggs, and milk were up again. Farm finances kept improving, and demand for agricultural loans was lower than a year ago. Farmland prices increased more in 2021 than they had in nearly a decade, with continued growth expected in early 2022. ■

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



## Summary of Economic Activity

Economic conditions have remained unchanged since our previous report. Employers reported robust wage increases and continued difficulties finding workers. Price increases were greater than expected across several industries, with supply chain issues and strong demand contributing to ongoing price pressures. Firms reported improved ability to pass on price increases and anticipate continued increases in the short term, although retailers reported signs of softening demand among lower income households. Winter weather, labor shortages, and Omicron COVID-19 disruptions led to decreased activity in the transportation and hospitality sectors. The real estate sector remained strong; although supply shortages continue to affect construction, demand for commercial and residential space is high throughout the District.

### Labor Markets

Employment has increased slightly since our previous report; on net, 5% of contacts reported increasing employment since last year. Firms continued to report a shortage of workers, with some contacts investing in labor saving automation, structural changes, or service reductions. Other contacts emphasized changes in their hiring practices; one industrial contractor, unable to find qualified labor, reached out to a local school district about an apprenticeship program.

Wages have grown robustly since our previous report. On net, 65% of contacts reported increasing wages. Small firms continue to struggle to match ever-growing market wages. Wage increases at firms with worker shortages were compounded by increased overtime; one manufacturer estimated a 5% to 20% increase in labor costs from overtime and hazard pay.

### Prices

Prices have increased moderately since our previous report. A greater share of contacts than usual reported that price increases have been higher than expected. The majority of contacts noted the ability to increase prices charged to consumers in the near future. Several retail contacts indicated they were behind on raising prices to consumers. One retail contact reported that a shortage of in-store staff to physically change price tags

has been an impediment to raising prices and that they had to enlist corporate employees to change price tags. Retailers also reported plans to utilize electronic price tags to reduce the labor needed to change prices. A furniture retail contact reported that a several-month lag on deliveries will result in elevated retail prices this year. An auto sales contact expects prices to fall as inventories build up.

### Consumer Spending

District general retailers, auto dealers, and hospitality contacts reported mixed business activity since our previous report and a mixed outlook for the immediate future. District retailers have noted that their sales are high in part because of a steady demand for higher-priced items. An Arkansas retailer noted that their sales are still being influenced by supply chain issues, as they recently received a shipment that was due in April 2021. An auto dealer in Louisville reported their manufacturer was unable to supply anticipated new vehicle stock and as a result their used vehicle trade-ins suffered. Restaurants in downtown Memphis are still dealing with the effects of the pandemic as of late January since convention business and travel have yet to recover.

### Manufacturing

Manufacturing activity has slightly increased since our previous report. Survey-based indices suggest that

production, capacity utilization, and new orders have all slightly increased. Firms in Arkansas and Missouri reported slight reductions in production and slight upticks in new orders. The Omicron COVID-19 variant applied pressure to manufacturing labor, both in terms of worker hiring and absenteeism. The easing of travel restrictions has increased the availability of raw materials from Europe, relieving some supply chain issues. Firms continue to invest in process automation to address the systemic workforce shortage, with one manufacturing company in Arkansas tripling their number of robotic welders. On average, firms reported they expect slight increases in production, capacity utilization, and new orders in the third quarter, and they remain optimistic about the level of production.

### **Nonfinancial Services**

Activity in the nonfinancial services sector has decreased since our previous report. Airport passenger traffic decreased slightly month-over-month, though it remains well above levels at this point last year. Several contacts attributed below-expected sales at this point in the quarter to the Omicron COVID-19 variant. A healthcare contact reported that the combination of COVID-19 and winter weather led to a decline in patient volumes of over 30%. Despite this, hospitals continue to deal with significant labor shortages. A transportation contact mentioned that a lack of qualified labor—specifically, truck drivers—has hindered business. A technology contact reported that rising interest rates are leading to purchasing hesitancy among customers.

### **Real Estate and Construction**

The residential real estate market has remained strong since our previous report. Home prices remain high relative to incomes and one contact believes many first-time buyers will be priced out this year. Inventory has remained extremely low, and contacts expect it to remain low through at least the next quarter. Apartment rental rates also remained high relative to incomes. One contact stated that the high demand for rentals has increased the rate per square foot substantially. The commercial real estate market has also remained strong, with very high demand for industrial real estate in particular. Demand for retail space has increased since our previous report. One contact believes institutional capital is currently shifting more toward retail spaces, due to continued high demand and diminishing returns in the industrial and residential sectors. Many contacts remain concerned about the uncertainty surrounding potential interest rate increases.

Demand in the construction market remains strong despite supply chain disruptions. Residential construction

demand is slightly higher than in our previous report. Input costs, delivery times, project backlogs, and project completion times have all increased in the past month. Contacts reported that the most important factor impeding business growth during the next few months is the labor shortage.

### **Banking and Finance**

Banking conditions have improved slightly since our previous report. District banks reported an increase in loan demand since the previous survey period. Commercial, industrial, and auto loans increased moderately, while demand for credit card lending decreased. Liquidity remained elevated due to pandemic-related government assistance, but bankers reported difficulties in finding investments to deploy excess funds. Overall delinquency rates decreased modestly, and a contact reported asset quality metrics to be historically strong.

### **Agriculture and Natural Resources**

District agriculture conditions have improved modestly since our previous report. The number of acres of winter wheat planted in the District this season have increased 10% over the same period last year. This increase primarily came from Illinois, Kentucky, and Missouri, which saw their acreage rise an average of 20%. While contacts remain optimistic about 2022, there is continued concern about the increased costs of inputs such as fertilizer, pesticides, and machinery. Of particular concern is corn production, which uses significantly more fertilizer than other crops.

Natural resource extraction conditions increased modestly from November to December, with seasonally adjusted coal production rising 10.6%. December production decreased slightly, by 3.1% compared with the previous year. ■





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## Summary of Economic Activity

Ninth District economic activity increased moderately since early January. Employment saw moderate growth, though hiring was constrained by tight labor availability. Wage and price pressures were strong, with particularly strong pressure on input prices. Growth was noted in consumer spending, professional services, commercial construction, manufacturing, and energy. Residential construction and commercial real estate were flat, while residential real estate fell. Agricultural conditions improved since the previous report, as strong crop prices offset higher input cost pressures. Minority- and women-owned businesses saw growth and were optimistic in their outlooks.

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### Labor Markets

Employment grew moderately since the last report. Hiring demand remained bullish across most sectors, and particularly among large firms. Very few firms were cutting workers. However, actual hiring was more muted; a surprising number of firms reported that staffing levels had dropped due to turnover and an inability to fill openings. A South Dakota transportation company said, “The amount of work I have to turn away due to lack of staff is staggering.” Firms in accommodation, construction, manufacturing, and retail reported more difficulty hiring than those in other sectors.

Wage pressures remained strong. Among surveyed firms, half said wages have risen by 3 percent or more on an annual basis, and one-quarter cited increases of more than 5 percent. Some labor unions reported strong wage gains among new contracts. “Everyone wants more [money] to take a job, and existing employees are getting antsy for more to stick around,” a Minneapolis-St. Paul construction firm noted. Raises have been larger and more common among large firms, and smaller firms reported difficulty competing with those increases. Contacts said that wage acceleration was being driven by recruitment and retention challenges, rather than workers’ inflation concerns. Contacts also reported increased interest in automation as a hedge against both labor availability and fast-rising wages.

### Prices

Price pressures remained strong, particularly for inputs. Manufacturers continued to report that prices were increasing rapidly for transportation, raw materials such as steel, and other inputs, including food. One contact noted that “prices are increasing faster than we can keep up.” More than a third of survey respondents reported that their nonlabor input prices were up by more than 10 percent from a year ago, with similar results for final prices charged to customers. Agricultural input costs also increased sharply, according to a survey of agricultural credit conditions, in which two-thirds of lenders responded that input cost and/or availability was their top concern for 2022. Retail fuel prices in District states as of mid-February were sharply higher than January.

### Worker Experience

Labor supply remained tight across the District. A labor contact in Montana reported that low wages and salaries for many public sector workers are pushing them to seek employment elsewhere. “Government employees may have benefits but working for lower pay than the pizza delivery guy is very demoralizing.” According to another labor contact, more nurses in Minnesota took higher-paying traveling contracts, and some came out of retirement to meet demand. A workforce development contact working with underrepresented populations said that clients with limited digital literacy struggled making occupational changes, while more educated individuals

increasingly looked for jobs that offered retirement plans, time off for self-care, and overall flexibility. A management consulting firm reported seeing a “small but noticeable increase” in the number of independent contractors looking for work, perhaps in response to their need for flexibility. Lateral moves among some professionals were reportedly on the rise.

### **Consumer Spending**

Consumer spending grew moderately since the last report. A mid-January survey found that accommodation, retail, and entertainment firms saw softer business activity compared with most other sectors. A restaurant in Michigan’s Upper Peninsula said the winter season “relies on local customers and that number has greatly declined with the Omicron variant surging.” However, some of that consumption was simply shifting. A Minneapolis-St. Paul grocer said foot traffic slowed due to Omicron, but basket size increased. “We see some increase in sales when [Covid] fears prevent people from eating at restaurants.” Supply chain disruptions and resulting low product inventories continued to hamper sales at many businesses. Winter tourism was healthy; Montana ski resorts have seen strong traffic, lodging tax receipts were above average, and regional airport activity in January was above pre-pandemic levels.

### **Professional Services**

Professional services activity in the District was strong. According to an intellectual property law firm contact, demand for services picked up intensely after a slow January start, driven mainly by larger clients. Contacts in insurance and financial services reported challenges finding qualified talent. “We recently hired two support staff and were able to do so easily by going outside of our industry to find them. But the pay is more than expected, and their training path will be longer,” said a contact. A Minnesota specialty engineering services contact reported increased demand driven by high investments in water and sewer infrastructure and pointed out that ongoing supply chain issues and rising costs were stretching project timelines.

### **Construction and Real Estate**

Commercial construction grew moderately since the last report. Industry data showed that both new projects and active projects in January were higher than the previous two years. Firms reported that current demand was healthy and was expected to continue. However, many noted operational challenges related to lack of labor, including workers sidelined by Omicron, as well as higher materials costs and supply chain problems. A Wisconsin firm was projecting a very strong year ahead,

but “if inflation is not curbed and supply chain issues are not resolved, the outlook is very pessimistic.” Residential construction was flat overall. Single-family permitting was strong in January in Minneapolis-St. Paul compared with a year earlier. However, permitting in other District markets was lower over the same period.

Commercial real estate was flat overall. Industrial space continued to see strong demand, while office and retail vacancy rates continued to climb in many markets, including Minneapolis-St. Paul, and subleasing activity was also rising. Residential home sales remained slow in a majority of District markets amid very low inventories .

### **Manufacturing**

District manufacturing activity increased moderately. Manufacturing survey respondents continued to report solid recent revenue trends, strong demand, and positive near-term outlooks. An index of regional manufacturing conditions indicated increased activity in Minnesota and North Dakota in January compared to a month earlier, while activity decreased in South Dakota .

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

District agricultural conditions improved since the previous report. Farm incomes increased through the end of 2021, according to a survey of agricultural credit conditions. While contacts expressed concern about rising input costs, producers’ finances benefitted from strong commodity prices. District oil and gas exploration activity increased since the previous report.

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

Reports from minority- and women-owned business enterprises remained optimistic overall. A professional working with minority entrepreneurs in the Twin Cities said that the volume of microloans issued for new and existing businesses remained strong. Well established food service businesses began investing in expansions and were looking to invest in commercial real estate. To address labor shortages, businesses have reportedly continued to adjust hours of operation, employee pay, and schedules. New entrepreneurs reported that they had reduced working hours or quit their jobs to prioritize their businesses. A food delivery service contact working with ethnic-specific restaurants said that many clients have adjusted their menus, portions, and prices in response to higher costs. ■

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



## Summary of Economic Activity

The Tenth District economy expanded at a modest pace in the first two months of the year. Although the surge in COVID-19 cases associated with the Omicron variant slowed spending and hours worked in the leisure and hospitality sector, activity rebounded quickly as the surge diminished and grew steadily across other service and manufacturing sectors. Rising commodity prices supported farm incomes and growth in energy activities. Contacts reported that demand for commercial real estate construction grew, bringing project bookings to their highest levels in several years. Supply chain disruptions adversely affected most businesses, leading many retailers and manufacturers to adopt more costly sourcing strategies. Wages grew at a robust pace across industries and occupations. Although wages paid in lower-skill jobs increased, losses in hours worked associated with the pandemic slowed income growth for many low-income households near the start of the year. Contacts reported broad-based cost pressures, which they expect will persist through the coming year. Prices grew at a robust rate but most contacts indicated that they did not fully offset rising input costs.

### Labor Markets

Total hiring grew at a modest pace near the start of the year, constrained by labor shortages. Several businesses reported job openings in excess of twenty percent of their current workforce, with more jobs open than are actually posted. Employment growth at retail businesses offset temporary shortfalls in hiring at hotels and restaurants, resulting in greater services employment overall. Total hours worked in leisure and hospitality declined sharply in early January, but rebounded in recent weeks. Manufacturing employment grew at a moderate pace.

Wage growth remained robust and broad-based in recent weeks. Many low-wage workers reported wage gains obtained by job switching or union bargaining outcomes, but also noted inconsistent incomes due to lost working hours associated with school closures or family illness in early January. Contacts noted they continued to increase non-wage benefits offered to workers, but some reported that these benefits did not attract a larger number of applicants. In particular, applicants for entry-level or low-wage jobs favored higher wages over additional benefits. Most businesses expect wages to continue growing over the medium term.

### Prices

Prices continued to increase at a robust pace. Input costs also grew robustly and generally outpaced growth in selling prices. Most businesses reported being able to pass only a small portion of increased costs to their customers, but some contacts indicated their ability to fully pass-through cost pressures. Nearly all firms reported price pressures were broad-based, citing increases in costs for materials, labor, energy, financing, real estate, and shipping, with expectations for additional increases in costs over the medium term.

### Consumer Spending

Overall consumer spending slowed slightly at the beginning of the year amid the latest surge in the number of COVID-19 cases. However, expectations for growth in spending on services over the next six months remained elevated and contacts noted a quick rebound in activity at restaurants and hotels in recent weeks. Some contacts at retailers expressed concerns that consumers had already purchased several years' worth of goods, particularly those associated with leisure activities. As a result, many goods retailers reported they are "hedging their bets" with regard to ordering inventory for the coming year, even though consumer demand remained high.

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

Growth in the manufacturing sector slowed to a modest pace, with total levels of activity near historic highs. The leisure and hospitality sector remained sensitive to developments related to the pandemic, but other business activity expanded throughout recent weeks. Expectations for growth remained elevated broadly. Nearly all contacts reported no expected changes in business plans related to the pandemic over the medium term.

Contacts across many sectors, geographies and sizes reported changes to their procurement plans for the coming year to include a broader network of suppliers, in an attempt to shorten or stabilize delivery times. Yet, most contacts expect that costs of sourcing from new suppliers will remain elevated. Some indicated that the new relationships with suppliers, or lack thereof, would increase procurement costs over the medium term. Others indicated procurement costs would remain elevated because of the need to double-order inventory, choosing to take on risks of having too much inventory to ensure delivery of needed materials.

The outlook for capital expenditures from business contacts was mixed across sectors. Planned investments among aerospace and other transportation businesses increased recently, and also at food manufacturing businesses. Many of these capital expenditures are aimed at automation to mitigate the effects of labor shortages. In healthcare, planned capital expenditures were suppressed and aimed at maintaining capacity, rather than expanding it. Contacts in hospitality sectors reported growth in plans to renovate and upgrade spaces to attract customers. In addition to capital expenditures, several contacts noted that spending on marketing and advertising is growing amid healthy consumer demand.

### **Real Estate and Construction**

Demand for new construction in commercial real estate grew robustly in January and February. Most contractors reported the level of projects booked currently is at, or above, pre-pandemic levels. However, contacts reported that difficulties in sourcing materials are leading to costly redesigns or delays for their customers. As a result, recent contracts have eschewed commitments on delivery dates and committed only to a price, unable to guarantee both. Moreover, contacts in both the public and private sector reported difficulty in soliciting bids from contractors for projects, eroding their bargaining power that would otherwise mitigate price pressures.

### **Community and Regional Banking**

Loan demand remained stable across a variety of sectors, although some contacts highlighted slight softening in demand for C&I and residential mortgage loans in recent weeks. Credit conditions remained benign with low levels of past due and non-performing loans. Contacts expected credit quality to remain sound over the near term, citing commodity price increases and improvement in pandemic-sensitive sectors as key drivers. Deposit levels also remained stable, with slight growth noted in demand deposit accounts at several institutions as commercial balances were bolstered by strong customer earnings. Contacts were attentive to the outlook for inflation and prevailing difficulties with staffing at their organizations.

### **Energy**

Tenth District energy activity expanded modestly at the start of the year. The number of active rigs continued to increase in Oklahoma and total oil & gas production grew as crude oil prices reached a seven-year high. Natural gas prices also rose; however, future price expectations for natural gas remained more moderate. Higher natural gas prices also led to growth in coal mining activity in Wyoming as electricity utilities substituted toward the less costly fuel. Demand for coal mining equipment and maintenance was expected to remain elevated over the next eighteen months. Energy employment across District states continued to lag pre-pandemic trends but increased slightly from a year ago. Labor costs increased moderately, as many firms continued to report higher wages and benefits for workers.

### **Agriculture**

Prices of most major commodities in the region increased modestly through early February from already high levels, continuing to support farm incomes. The prices of wheat, cotton and hogs increased modestly from the previous month while corn, soybean and cattle prices increased more sharply. Despite growing concerns about supply chain complications limiting shipping activity, U.S. agricultural exports remained strong and supported demand. Rising input costs have put some downward pressure on profitability for producers, but broad strength in the farm economy continued to support agricultural credit conditions, and farm finances were further bolstered by sharp increases in farmland values. ■

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

Expansion in the Eleventh District economy moderated, with the COVID-19 surge exacerbating labor and supply-chain shortages and disrupting demand in certain sectors. Growth in manufacturing and nonfinancial services continued but at a slower pace, and retail sales declined slightly. Loan demand growth decreased a bit amid rising interest rates. Home sales remained elevated. The energy sector saw further expansion, while worsened drought hampered agricultural conditions. Employment rose fairly robustly, and wage growth pushed to new highs due to widespread labor shortages. Supply-chain issues continued to drive up costs, and prices rose at a rapid clip. Outlooks remained positive, though uncertainty surged and businesses expressed concern that labor market tightness and supply-chain disruptions will not soon be resolved.

### Labor Markets

Employment growth remained robust. Job gains were widespread across sectors and strongest in manufacturing, banking, real estate, and health care. Acute worker shortages persisted, however, and many contacts said the recent COVID-19 surge brought on new or worsened hiring difficulty. Contacts cited a lack of applicants as the primary hiring impediment, with significantly more saying the availability of applicants worsened than improved in January. Increased absenteeism was also a major problem over the reporting period, as workers called out sick due in large part to the Omicron surge. These absences resulted in significant widespread disruption to business operations.

Wage growth pushed to new highs over the reporting period, driven largely by labor shortages. Manufacturers noted persistent difficulties in retaining employees, saying they were having to increase wages significantly to try to convince workers to stay. This sentiment was echoed in the service sector as well, with some firms being forced to give out significant pay increases or lose key employees. A bank raised their minimum wage to \$18 per hour, slightly mitigating retention issues.

### Prices

Input and selling price increases remained at or near historical highs. Contacts continued to cite supply-chain issues as the primary driver of rising costs. Construction contacts reported sizable increases in the price of concrete, steel, PVC, drywall, and lumber. A machinery manufacturer reported raw material increases of 10 to 20 percent each month. Transportation costs continued to surge, driven by a combination of supply-side constraints and higher fuel prices. A few contacts said broad-based price increases have led to a pullback in consumer demand and business capital spending.

### Manufacturing

Expansion in the Texas manufacturing sector continued but at a slower clip in January and February. Seventy percent of manufacturers noted a negative impact from the COVID-19 surge—namely increased employee absenteeism and new or worsened supply-chain disruptions—according to a Dallas Fed survey of nearly 100 Texas manufacturing firms. Demand and output growth remained robust, though, led by nondurable goods like food and chemicals. Strength was also seen in construction materials manufacturing, while weakness was seen in high-tech manufacturing. Outlooks improved modestly, though uncertainty escalated amid the Omicron surge.



## Retail Sales

A marked decrease in auto sales prompted a slight reduction in overall retail sales over the past six weeks. Auto dealers cited low inventories and pandemic-related disruptions to both demand and employee availability as primary sales restraints. Sales among wholesalers increased slightly, though contacts noted supply-chain issues remained a strong headwind. While uncertainty surged, outlooks were largely unchanged and most retailers still expect to see higher sales six months from now.

## Nonfinancial Services

Growth in Texas service-sector activity slowed sharply in January but rebounded in February. Seventy percent of firms noted a negative impact from the COVID-19 surge, and the biggest drag on January growth came from the leisure and hospitality sector, where revenues declined notably. Hotels reported cancellations and decreased business travel due to the Omicron variant, and restaurants experienced less business and severe worker shortages with employees out sick. Transportation services firms saw flat activity overall. An airport said passenger travel declined over the past six weeks due to the effect of Omicron, with many passengers cancelling or rescheduling trips for later in the year, though bookings have recently begun returning. A major Texas seaport posted record-high tonnage numbers in 2021, and developments in early 2022—including new routes and equipment—are expected to spur continued growth. A bright spot in the service sector was staffing services, which saw a pickup in revenues and broad-based, robust demand. Overall, pandemic-related weakness in the nonfinancial services sector was largely transitory, as revenue growth increased markedly in February.

Outlooks held steady in January and improved in February. Headwinds include uncertainty surrounding the path of the pandemic, supply-chain stresses, and inflation.

## Construction and Real Estate

Home sales continued to be solid, and contacts said that rising mortgage rates have not yet impacted demand. Builders reported capping sales and/or holding off putting homes on the market until they had more clarity regarding their costs. Prices continued to trend upward, in part due to climbing material costs, particularly lumber. Operational challenges were ongoing, preventing builders from being able to finish as many units as planned. Outlooks were cautiously optimistic, with very low supply relative to demand.

Apartment leasing moderated slightly. On the commercial side, office leasing was picking up, the retail market

was on a stable footing, and industrial construction and demand remained elevated.

## Financial Services

Loan demand increased over the past six weeks, as did loan volumes, though both rose at a slightly slower pace than in the prior period. Loan volume increases spanned lending types, led by commercial real estate. Nonperforming loans continued to decrease, and credit standards and terms tightened slightly. Loan pricing increased for the first time since mid-2019. Contacts expressed concerns about the effects of interest rate increases, inflation and staffing shortages. However, general business activity continued to improve, and outlooks for loan demand and general business activity six months from now remain optimistic.

## Energy

Oilfield activity rose over the past six weeks, with a notable increase in the Eleventh District rig count. Lead times for machinery orders were stabilizing at high levels, but delays are expected to continue throughout the year. Industry sentiment improved with high oil prices, strong demand from consumers, and increasing confidence that global supplies will struggle to keep pace with demand for the remainder of the year. As such, firms revised up their expectations for oilfield activity in 2022.

## Agriculture

Drought conditions worsened further, with severe drought expanding in much of the district. Agricultural commodity prices rose across the board over the reporting period, though input costs rose just as much. Producers fear profits will get squeezed with such high costs; good yields will be important for their financial position this year. On the cattle side, prices rose and consumer demand for beef remained solid. An annual inventory report from the U.S. Department of Agriculture showed fewer cattle in Texas; tighter supplies should buoy beef prices this year. ■

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 strengthened moderately during the reporting period of January through mid-February. Employment grew further while overall labor market conditions remained tight. Wages and price levels continued to climb notably, driven by materials and labor shortages. Sales of retail goods increased solidly, while conditions in consumer and business services picked up following a decrease in new COVID cases related to the Omicron variant. Conditions in the agriculture and resource-related industries remained unchanged on balance, whereas the manufacturing sector was mixed. Activity in the residential real estate market continued to increase robustly, while commercial real estate activity improved slightly. Lending activity was steady over the reporting period.

### Labor Markets

Employment levels grew further, with reports focusing on labor market tightness. Firms across the District continued to cite difficulties attracting qualified candidates for both high- and low-skilled positions, with many reporting elevated numbers for job openings and few applicants. Labor shortages for entry-level and low-wage positions were widespread, especially in the consumer services and farming industries. Firms in the finance, manufacturing, and energy sectors reported stable employment levels and comparatively lower turnover. Meanwhile, firms looking to fill openings for accounting, legal, technology, architecture, construction, and engineering positions continued to compete intensely for talent. Many contacts across the District mentioned higher rates of voluntary quits and early retirements, partially due to concerns about health risks during the recent Omicron wave. A few employers in Alaska and Utah highlighted especially difficult hiring conditions, citing candidates who missed scheduled interviews and newly hired workers who failed to show up on the first day at their new job.

Wages increased considerably over the reporting period. The mismatch in supply and demand for workers continued to put upward pressure on wages, especially in the consumer services sector. Contacts across the District reported increasing wages from 3 to 20 percent, depending on the skill level and sector. California contacts mentioned additional pressure from new minimum wage legislation that came into effect in early 2022. A few from

the manufacturing sector observed a slight deceleration in the rate of wage inflation.

### Prices

Prices climbed notably across the District. Contacts reported widespread price increases as higher material and labor costs were partially passed on to clients. Energy, transportation, and storage costs also contributed to further price increases across most sectors, including prices for construction materials and paper products. In agriculture, lower export sales increased domestic supply levels, which partially offset upward price pressures from higher input costs. A few contacts raised concerns that price hikes arising from wage increases may fuel further wage pressures going forward.

### Retail Trade and Services

Sales of retail goods increased solidly over the reporting period. Retailers across the District generally reported strong brick-and-mortar and online sales. Shipping delays and increased input costs continued to considerably affect the retail sector, causing inventory levels to be erratic in some areas. Contacts in the textile and garment sector reported tighter inventory, with some taking over their own wholesale supply in response. A few retailers noticed that sales of high-end or discretionary goods declined somewhat due to price increases. In the Mountain West, a contact mentioned that local and regional firms expanded into locations vacated by national brands. A contact in Arizona highlighted even tighter availability of retail goods in certain tribal communities,



partially due to a higher incidence of COVID-19 cases.

Activity in the consumer and business services sectors picked up in recent weeks, following a decrease in new COVID cases related to the Omicron variant. Consumer services, such as those related to tourism, hospitality, entertainment, and restaurants, observed increased demand in many areas, including Hawaii and Alaska. Nonetheless, providers continued to report supply chain disruptions and worker shortages, which impacted their ability to meet demand. Some professional services, including business consulting and legal services, observed increased demand and faster fulfillment of existing contracts despite difficulties in hiring. Health care, with still-elevated demand for medical services and hospital beds, struggled to reconcile with supply and staff shortages.

### **Manufacturing**

Conditions in the manufacturing sector were mixed. Many manufacturers continue to report difficulties in filling orders due to supply chain disruptions, worker shortages, tight inventories, and increased material costs, such as those for lumber and steel. Manufacturers in the tourism-related sectors, such as for luxury products including leisure boats, noted a push to hire management consulting services from local markets as a way to respond to supply chain issues. Other contacts reported experiencing a better standing in dealing with supply hurdles and higher costs, resulting in fulfillment of more orders and elevated capacity utilization. A manufacturer of packaging machinery noted increased demand for process automation equipment in the face of widespread worker shortages. A manufacturer of renewable energy equipment highlighted uncertainty regarding fiscal policy and continued infrastructure investment.

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

Conditions in the agriculture and resource-related industries remained largely comparable to the previous reporting period. Sales of agricultural goods remained strong overall, with shipping delays and slightly fewer orders from abroad somewhat offset by domestic customers looking to fill back orders. Inventories of crops such as nuts and raisins remained at reasonable levels, while those for cut flowers, potted plants, fruits, and other tree crops dwindled a bit. Short supply of labor, materials, machinery, water, and fertilizer impacted the early polli-

nation process for this year's crop. One exporter in the Pacific Northwest highlighted that the recent shift in sales toward the domestic market negatively affected profitability, while another grower in California expected this shift to be reverted once supply chain issues are alleviated.

### **Real Estate and Construction**

Activity in the residential real estate market increased robustly. Residential construction and sales remained strong in both single-family and multifamily housing sectors. Nonetheless, ongoing shortages for material, workers, and land, as well as increased costs for lumber in particular, continued to delay construction projects' completion times. The pace of home price increases remained elevated but decelerated slightly relative to recent trends, while inventories remained tight. A contact in Alaska noted that supply chain delays from Canada further tightened the availability of materials in the area. A few contacts mentioned increased uncertainty concerning fiscal support for infrastructure investment. Reports also highlighted higher rents for multifamily units in major metropolitan areas.

Commercial real estate activity increased slightly on balance, with recovery in the sector reportedly lagging that of the overall economy. Sales and rentals of commercial and office spaces have picked up somewhat over the reporting period, but new business investment in commercial real estate remained generally lackluster. A financier in the Pacific Northwest noted that expectations for increased borrowing rates have already affected demand for new commercial construction. Conversely, demand for construction of manufacturing, storage, and distribution facilities remained strong.

### **Financial Institutions**

Lending activity was steady over the reporting period. Loan demand remained high despite long-term rate increases, but demand for commercial loans lagged that of consumer loans. Liquidity remained elevated, which further contributed to tight competition for loans. Most bankers reported high and improving credit quality, but a few others cautioned against a slight relaxation of underwriting requirements. A financier in Arizona highlighted that lending conditions within traditionally underserved communities remained quite tight. ■



