

Beige Book Notes Price Pressure

March 7, 2018



Economic activity in the Southeast continued to grow modestly from early January through mid-February, according to the Federal Reserve Bank of Atlanta's latest Beige Book report on conditions in the six states of the Sixth Federal Reserve District, released on [March 7](#).

Among the noteworthy items in the report are signals that inflation could be inching upward in the coming months. Some business contacts said they are able to pass along rising costs in the form of price increases, which has not been common in recent years. Trucking firms, for example, reported some pricing power amid strong demand and tight capacity.

And respondents to the Atlanta Fed [Business Inflation Expectations survey](#) indicated they expect their unit costs to rise 2 percent over the next year, which would match the Fed's inflation objective. Inflation has hovered below the Fed's objective for the past several years.


Finally, in another sign of possible upward pressure on prices, a growing number of contacts said they either recently increased wages or plan to do so in the coming months. This was the case among companies across several industries including transportation, retail, finance, construction, and professional and business services.

One of the forces pressing wages upward is that firms continue to report a scarcity of qualified workers across skill levels. For instance, contacts in the energy industry indicated that a surge of oil and gas projects along the Gulf Coast exacerbated the shortage of skilled workers in that business.

In other sectors of the economy, the Beige Book reports:

- Travel and tourism contacts said business and leisure travel picked up early in the year. Looking ahead, advanced bookings are healthy across the District through the first quarter of this year.
- The outlook among most retail contacts remains positive.
- Reports from residential real estate contacts signaled continued modest growth. Builder reports on construction activity in January compared to one year earlier were mixed. Builders and brokers indicated that home sales were flat to slightly down from

a year ago.

- Meanwhile, many commercial real estate contacts said stronger demand was fueling higher rents, particularly in industrial and warehouse-distribution properties.
 - Manufacturers reported solid overall activity. Contacts are generally optimistic about future demand, suggesting that they expect sales levels to be up over the short to medium term.
 - Transportation firms cited mixed results since the [previous](#)  Beige Book. Ports and trucking companies said business was strong, but rail traffic early in the year was down by double digits compared with the same period a year ago. This decline was mostly because of decreased shipments of grain, nonmetallic minerals (such as sand, limestone, marble, clay, and salt), iron and steel scrap, and metallic ores.
 - Credit remained readily available for most qualified borrowers except for some contacts in energy and commercial real estate industries.
 - Agriculture conditions were mixed in the early part of the year. Drought persisted in much of the Southeast. In Florida, the January forecast for orange crops worsened because of the lingering effects of Hurricane Irma.
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Charles Davidson

Staff writer for *Economy Matters*
