

For use at 2:00 PM EDT

Wednesday

October 21, 2020

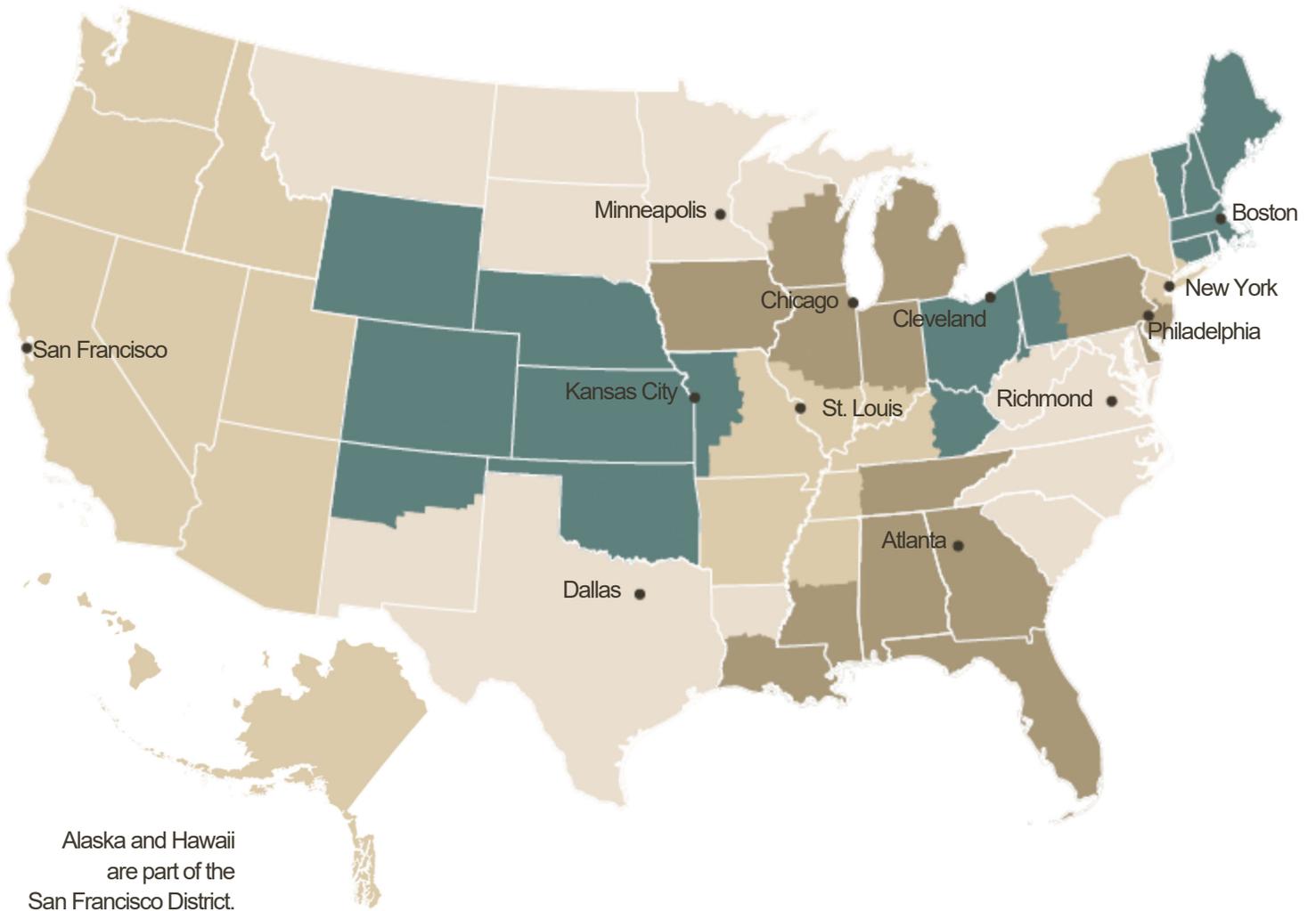
The Beige Book

Summary of Commentary on Current Economic Conditions

By Federal Reserve District

October 2020

Federal Reserve Districts



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

National Summary	1
Boston First District	A-1
New York Second District	B-1
Philadelphia Third District	C-1
Cleveland Fourth District	D-1
Richmond Fifth District	E-1
Atlanta Sixth District	F-1
Chicago Seventh District	G-1
St. Louis Eighth District	H-1
Minneapolis Ninth District	I-1
Kansas City Tenth District	J-1
Dallas Eleventh District	K-1
San Francisco Twelfth District	L-1

What is The Beige Book?

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

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

How is the information collected?

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

How is the information used?

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

This report was prepared at the Federal Reserve Bank of St. Louis based on information collected on or before October 9, 2020. This document summarizes comments received from contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.



National Summary

The Beige Book ■ October 2020

Overall Economic Activity

Economic activity continued to increase across all Districts, with the pace of growth characterized as slight to modest in most Districts. Changes in activity varied greatly by sector. Manufacturing activity generally increased at a moderate pace. Residential housing markets continued to experience steady demand for new and existing homes, with activity constrained by low inventories. Banking contacts also cited increased demand for mortgages as the key driver of overall loan demand. Conversely, commercial real estate conditions continued to deteriorate in many Districts, with the exception being warehouse and industrial space where construction and leasing activity remained steady. Consumer spending growth remained positive, but some Districts reported a leveling off of retail sales and a slight uptick in tourism activity. Demand for autos remained steady, but low inventories have constrained sales to varying degrees. Reports on agriculture conditions were mixed, as some Districts are experiencing drought conditions. Districts characterized the outlooks of contacts as generally optimistic or positive, but with a considerable degree of uncertainty. Restaurateurs in many Districts expressed concern that cooler weather would slow sales, as they have relied on outdoor dining. Banking contacts in many Districts expressed concern that delinquency rates may rise in coming months, citing various reasons; however, delinquency rates have remained stable.

Employment and Wages

Employment increased in almost all Districts, though growth remained slow. Employment gains were reported most consistently for manufacturing firms, although firms continued to report new furloughs and layoffs. Most Districts continued reporting tight labor markets, attributing it to workers' health and childcare concerns, with many firms consequently offering increased schedule flexibility; a few Districts, however, noted some firms were finding it easier to hire workers. Wages increased slightly in most Districts, often tied to firms' difficulty finding workers, especially for low-wage or high-demand jobs. Some firms reported returning wages (and raises) to normal levels, but many reported more stable wages.

Prices

Prices rose modestly across Districts since the previous report. Input costs generally increased faster than consumer prices; however, some sectors—notably construction, manufacturing, retail, and wholesale—passed along the higher costs to consumers. Overall, consumer prices across Districts rose modestly, with the notable exceptions of food, automobiles, and appliances, which increased significantly. Retail gasoline prices declined. Input costs increased at varying degrees, mostly led by increases in materials costs, particularly steel and lumber. Multiple Districts reported continued additional costs for firms due to COVID-19, including personal protective equipment, sanitation equipment, testing equipment, and technology needed for remote work. Changes in row crop prices were mixed, while Districts reported declines in prices for animal proteins.

Highlights by Federal Reserve District

Boston

Economic activity continued to improve during the end of August through September. Revenues of responding firms were generally ahead of the year-earlier period, albeit not strongly. Housing markets saw strong demand and limited supply, leading to home price increases. Outlooks were mostly positive, but contacts expressed considerable uncertainty.

New York

The regional economy has grown slightly in recent weeks, with activity still well below pre-pandemic levels. Manufacturing, housing markets, and tourism have all picked up somewhat, while consumer spending has leveled off. Employment and wages have held steady. Selling prices have been little changed, on balance, though more firms plan to raise their prices in the months ahead.

Philadelphia

Business activity grew slightly during the current Beige Book period but remained well below levels attained prior to the onset of COVID-19. Employment sustained a modest rebound, while wages rose slightly and firms struggled to attract workers. Prices also rose modestly amid price spikes. With the pandemic ongoing and the stimulus ended, uncertainty remained extremely high in anticipation of layoffs, foreclosures, and bankruptcies.

Cleveland

The Fourth District economy expanded at a moderate pace, and more firms increased staffing to keep up with rebounding demand. However, labor shortages persisted, with many workers sitting out of the labor force. While firms expect conditions to improve further in coming months, elevated uncertainty resulted in many firms' opting to hold cash and forgo capital expenditures.

Richmond

The Fifth District economy expanded modestly in recent weeks, but economic activity was below pre-pandemic levels. Employment rose, as demand for part-time and temporary workers increased, but wages and prices held fairly steady. Shipments and manufacturing activity increased, and the housing market was strong, but commercial real estate and lending were soft, and the hospitality market remained weak.

Atlanta

Economic activity improved somewhat. Labor market conditions improved modestly, and nonlabor costs were generally stable. Retail activity was soft. Activity in tourism and hospitality remained muted. Residential real estate demand increased, and home prices rose. Commercial real estate conditions stabilized. Manufacturing activity improved. Conditions at financial institutions stabilized.

Chicago

Activity increased robustly, but growth slowed and activity remained below pre-pandemic levels. Employment and consumer spending increased robustly; manufacturing increased moderately; construction and real estate increased modestly; and business spending increased slightly. Wages increased slightly and prices rose modestly. Financial conditions were little changed. Rising prices lifted farm income.

St. Louis

Reports from contacts suggest economic activity has increased slightly but remains highly variable across sectors. Auto dealers continued to report strong sales despite inventory shortages. Restaurants reported some improvement but expect activity to decline due to cooler weather. Most District crop yields and production are up significantly over the prior year, with only cotton production lower.

Minneapolis

Ninth District economic activity grew slightly. Employment was flat overall, but volatile, with many firms either adding or cutting workforce. Labor availability tightened, and wages gained some traction. Growth continued in manufacturing and residential construction and real estate. But most other sectors were either flat or down; agriculture conditions improved thanks to a good crop outlook, but remained weak due to low prices.

Kansas City

Economic activity continued to increase in September, albeit at a slower pace than during the summer months. Consumer spending declined modestly, with drops in retail, auto, restaurant, and tourism sales. However, activity rose in the manufacturing, residential real estate, wholesale trade, and transportation sectors. In addition, the energy sector stabilized somewhat and the agriculture sector improved slightly.

Dallas

Growth in the Eleventh District economy picked up pace, particularly in services and manufacturing, though activity remained well below normal levels. The housing market continued to perform well. Energy activity remained depressed but started to show some signs of improvement. Outlooks were largely positive but highly uncertain, particularly with regard to the presidential election and the unknown trajectory of the COVID-19 pandemic.

San Francisco

Economic activity in the Twelfth District expanded moderately. Employment levels increased modestly, while price inflation rose marginally. Sales of retail goods rose noticeably, while conditions in the consumer and business services sectors improved somewhat. Manufacturing expanded moderately, and conditions in the agriculture sector improved modestly. Residential real estate activity increased further, while the commercial market was broadly unchanged. Lending picked up at a fair pace.



Summary of Economic Activity

Business contacts in the First District reported activity continued to improve from mid-August through September, amid ongoing pandemic disruptions. Although overall activity levels were still below average, most responding manufacturers and retailers reported increased revenues compared with a year ago. Revenues at contacted software firms were also up modestly from 2019. Commercial real estate markets continued to diverge, with industrial and lab space doing well, and retail and office in the doldrums. Residential real estate contacts cited strong demand and limited inventory, causing home and condo sales prices to rise. Outlooks were mixed, although mostly somewhat positive, with uncertainty the watchword.

Employment and Wages

Reports on hiring varied. One retail contact still has workers on furlough but also reported difficulty hiring warehouse workers; they have permanently increased warehouse worker pay as well as adding additional temporary pay increases from September through December to support added holiday demands. Two-thirds of manufacturing contacts said they were hiring. Several indicated labor market pressure had eased in recent weeks and they were getting more job applicants. One software firm reported its headcount up 5 percent year-over-year reflecting a recently finalized acquisition; they will finalize another acquisition in the coming weeks. That firm also continued hiring for all business functions. By contrast, another software contact noted that while scheduled retirements continued, they were not hiring replacements for any roles, so headcounts were down slightly. Software respondents said annual wage increases continued on schedule and they implemented no wage cuts or layoffs due to COVID-19.

Prices

Contacts again said little about prices. Manufacturers reported that pricing pressure was limited. Two contacts in the paper business said the cost of inputs and their selling prices had both gone up. A drug manufacturer said they were postponing an annual price increase because of COVID. Software firms do not anticipate any changes in prices in the coming months.

Retail and Tourism

Retail respondents continued to report major disruptions related to COVID-19, though several retailers cited strong recoveries through the summer and into fall. One clothing seller said store foot traffic was down 30 percent compared to the same period last year, but a higher conversion rate and strong online sales led to an increase in total September sales of almost 15 percent from year-earlier. An online retailer noted sustained year-over-year growth, albeit decelerating compared to the spring. This contact expects strong e-commerce holiday sales but is concerned about delivery delays, as many couriers are already strained by the increased volume of online shopping. Automobile sales remained strong; a northern New England contact reported the strongest summer on record for sales of automobiles, RVs, and power sports equipment.

Travel industry contacts reported that in one coastal area, hotels reported their best August on record, and for the season they were down a better-than-anticipated 12 percent; short-term rentals were up 5 percent compared to 2019. Restaurants there reported that September was close to normal, although many restaurants that usually close for the winter closed earlier than usual this year due to added restrictions and slimmer profit margins. Restaurants staying open reported difficulty sourcing winterized tents and propane heating units to continue serving outside. Airline passenger counts into Boston

remained down more than 80 percent into the start of fall, an improvement from earlier this spring. International passenger counts were down 90 percent; only half the international routes are currently operating.

Manufacturing and Related Services

Five of six firms responding this cycle reported sales growth from a year ago. The one exception was a paper producer reporting that gains in grocery and mail order offset a slowdown in orders from retailers. A drug firm reported increased sales but said they were held back by people's continued reluctance to get medical care during the pandemic. A producer of frozen fish said sales remained extremely strong and that it was contracting some production to frozen fish producers who sold mostly to restaurants and now have excess capacity. A toy producer said that limits on production of new movies hurt demand for their products.

No contacts reported significant revisions to capital spending plans. The toy maker said they were reassessing their need for office space because of the success of remote work arrangements. Outlooks were generally positive among manufacturing respondents. A diversified manufacturer with substantial military business said their COVID slowdown was more or less over.

Software and IT Services

Software firms responding this round saw slight positive growth in the last quarter; most contacts anticipated ending the year with revenues up 3 percent to 5 percent over last year. For one medical software contact, new bookings remained at 30 percent of the previous year's level; they have relied on their backlog to sustain them during this time. All contacts reported that operating expenses were down, mostly due to moving to a virtual setting for customer visits and marketing events; they anticipate that these virtual interactions may continue even once public health concerns have abated.

Contacts expressed confidence that they have adapted well to what they believe will be the state of the industry through mid-2021. While some felt that the national economy remained uncertain, they were more optimistic regarding their own firm's performance

Commercial Real Estate

Industrial and lab space markets in the First District continued to do well, while retail and office continued to struggle. The industrial market, particularly anything having to do with logistics, was operating at near capacity, and prices and rents increased as a result. Lab space continued to be in high demand, so investment in these types of buildings hasn't slowed. Retail spaces continued to struggle, notwithstanding states' advancing reopening

plans. Contacts reported that shopping centers with essential businesses such as grocery and home improvement stores, were doing well in terms of rent collection, but malls and lifestyle stores were doing much worse, with rent collection as low as 20 percent in some cases. The retail vacancy rate has increased.

Office market activity was still only as-needed, mainly renewing expiring leases. Tenants requested short-term extensions; while they received some concessions, face-value rents remained mostly unchanged. Most contacts estimated that about 20 percent of workers are working from offices now; while this is an increase from August's 10 percent estimate, the post-Labor Day rise was not as large as anticipated.

Contacts were mostly pessimistic regarding the outlook for the rest of 2020 and the beginning of 2021, largely citing political uncertainty and confusion around future stimulus measures. Many contacts said that without further stimulus measures, landlords may not be able to continue covering for their more-affected tenants, so evictions and vacancy rates may increase. Some contacts also noted that in order for older office spaces to recover post-COVID, many infrastructure improvements will be needed.

Residential Real Estate

High prices and substantial inventory shortages characterized residential real estate markets in the First District. (Connecticut data were unavailable. Vermont reported changes from July 2019 to July 2020; all other areas reported year-over-year changes to August 2020.) The inventory of homes for sale dropped by double-digit percentages from a year ago in all reporting markets except Boston condos. In Massachusetts and New Hampshire, the inventory of single family homes decreased by over 55 percent. The median sale price rose in all markets, with double-digit increases for single family homes. Changes in closed sales varied by market, largely reflecting available inventory. Contacts said they did not expect the usual fall and winter slowdown this year. Pent-up demand from the delayed spring market as well as the desire to take advantage of historically low interest rates have fueled the current buying frenzy. While there has been some increase in seller activity, it is failing to match demand. Both the Boston and Massachusetts contacts continued to observe movement from urban areas to suburban and rural locations, with work-from-home arrangements becoming longer term. ■

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



Summary of Economic Activity

Economic activity in the Second District economy grew slightly in the latest reporting period, as the pace of re-opening has been gradual and the virus spread has remained subdued across most of the District. Employment has been steady overall, with some industries adding jobs but others reducing headcounts. Input prices continued to rise moderately, while selling prices were little changed. Consumer spending has flattened out, while tourism has picked up somewhat but remains depressed. Housing markets have been mixed but, on balance, somewhat stronger, while markets for office and retail space have softened further. Commercial construction activity has remained depressed, though residential construction has shown scattered signs of picking up. Finally, banks reported increased demand for commercial and home mortgages, tighter credit standards, and a downward shift in delinquency rates for commercial and residential mortgages. Overall, business contacts have become somewhat less optimistic about the near-term outlook.

Employment and Wages

The labor market has been steady, on balance, in recent weeks. Manufacturers, wholesalers, and leisure & hospitality firms have reported some net hiring, whereas contacts in the information, transportation, and construction sectors have reported modest staff reductions. A major upstate New York employment agency noted a pickup in hiring, particularly for manufacturing and customer support jobs. A New York City agency specializing in office jobs noted scattered hiring in the financial sector but characterized the job market overall as sluggish, with many job-seekers laid off from retail and hospitality. This contact also noted that many companies are still largely operating remotely and are reluctant to on-board new staff to work from home.

Business contacts in most sectors said they plan to increase staffing levels in the months ahead, with the most widespread gains anticipated among manufacturers. In contrast, more transportation & warehousing firms plan to reduce than expand employment.

Wages have edged up overall, except in the information sector, where contacts mostly reported flat to declining wages. Looking ahead, businesses generally expect wages to accelerate modestly—particularly in the trade & transportation sector.

Prices

Business contacts reported that input costs continued to rise moderately. In particular, contacts involved in construction noted sharply increasing prices for lumber and other construction materials. A number of contacts noted that, aside from the prices of inputs, they have incurred additional costs in adapting to new safety concerns and complying with regulations. Retailers and wholesalers reported some increases in selling prices, but businesses in other sectors indicated that selling prices were little changed. Looking ahead, somewhat more contacts than in recent months indicated plans to raise their selling prices—most notably, in the retail sector.

Consumer Spending

Consumer spending showed signs of leveling off since the last report. Retailers reported that sales grew at a subdued pace in recent weeks, as restrictions continued to be gradually eased, though business remained well below pre-pandemic levels. Stores in upstate New York tended to outperform those in other areas.

New vehicle sales softened further in the latest reporting period, with sales down from brisk summer levels, according to dealers in upstate New York. This continued pullback is largely attributed to low inventories, though one contact noted that inventory levels picked up starting

in late September. Sales of used vehicles have held up better due to less pronounced inventory problems. Separately, consumer confidence among New York State residents rose notably in September, reaching its highest level since the beginning of the pandemic.

Manufacturing and Distribution

Manufacturing activity has picked up in the latest reporting period, growing at a moderate pace. Wholesale trade firms noted a brisk rebound in activity, which had been flat or declining since the onset of the pandemic. In contrast, contacts in the transportation & warehousing sectors continued to report weakening business activity, with some noting difficulties in replenishing inventories.

Looking ahead, manufacturers and wholesalers remained largely optimistic, while transportation & warehousing contacts have grown increasingly pessimistic.

Services

Service industry contacts generally reported that business activity has been steady to slightly lower, after weakening during the late summer. Contacts in the professional & business services and education & health sectors reported steady activity, while those in leisure & hospitality and information reported slight declines. Service firms generally indicated they do not expect activity to change significantly in the months ahead.

Tourism has shown scattered signs of a pickup. The more rural tourist destinations across the region have reportedly fared reasonably well. New York City's tourism sector, in contrast, has been depressed, though there have been signs of modest improvement. Hotels have seen some pickup in occupancy, but a sizable proportion remain closed, and those that are open are still at somewhat below half capacity—with about half of that reflecting arrangements with the city to house the homeless. While business travel has remained moribund, a pickup in weekend occupancies signals some return of leisure visitors—a trend that was also evident in strong attendance at the 9-11 memorial site and a modest increase in visits to local museums. New York City restaurants, which benefited from a broad expansion in outdoor dining during the summer, have more recently been allowed to restart indoor dining with limited capacity—a change that occurred earlier on in the rest of the District. As the onset of cold weather inevitably reduces outdoor dining, many are concerned that demand for indoor dining will be limited by safety concerns. Movie theaters have reopened in New Jersey and Connecticut but remain closed in New York.

Real Estate and Construction

Housing markets have improved somewhat across much

of the District. New York City's sales and rental markets have continued to weaken, while markets elsewhere—particularly for single-family homes—have been increasingly robust. New York City's rental vacancy rate has surged to a multi-decade high, and rents have fallen by roughly 10 percent from pre-pandemic levels, as landlord concessions have become more common. Demand for smaller units has fallen particularly sharply. Rents and rental vacancy rates across the rest of the District have generally been stable.

The residential sales market has been mixed. Sales of Manhattan condos and co-ops have been sluggish and running nearly 50 percent lower than a year earlier, while the listing inventory has risen sharply; still, prices have been reasonably steady thus far. Across the rest of the District—even in other parts of New York City and the metro area—inventories have fallen to low levels and prices have climbed. Sales volume has risen but continues to be constrained by limited supply. In some areas, bidding wars were reported to be increasingly common.

Commercial real estate markets have weakened further. Office availability and vacancy rates have risen sharply in New York City and moderately across the rest of the District. Similarly, office rents have declined noticeably in New York City, running about 8 percent lower than a year ago. Across the rest of the District, office rents were steady to down modestly. Retail vacancies have continued to increase, and asking rents have declined further.

New construction activity has remained sluggish and well below year-earlier levels. Single-family construction has increased somewhat in recent months, while multifamily construction has remained sluggish, and commercial construction has been particularly depressed. Contacts in real estate and construction expressed increasing concern about the near term outlook.

Banking and Finance

Small to medium-sized banks in the District reported increased demand for residential and commercial mortgages but little change in demand for other categories of loans. Refinancing activity increased. Bankers reported some tightening in credit standards on commercial mortgages but stable credit standards across all other categories. Delinquency rates declined for residential and commercial mortgages but remained stable for consumer and commercial & industrial loans. Finally, bankers reported increasingly lenient policies for delinquent accounts across all categories. ■

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



Summary of Economic Activity

Third District business activity incrementally improved during the current Beige Book period but remained well below levels observed prior to the onset of the COVID-19 pandemic. The number of COVID-19 cases had been manageable but began rising late in the period. Net employment continued to grow modestly, but the rate of permanent layoffs has persisted as well. On balance, wages continued to grow slightly, and many contacts continued to report difficulties attracting workers. Prices rose modestly – driven primarily by price spikes amid disruptions to production and distribution. Modestly positive expectations for growth over the next six months have broadened among firms. However, extreme uncertainty is uniformly expressed, with contacts citing rising COVID-19 cases, colder weather, rising layoffs, the failure to renew stimulus measures, a divisive political climate, and the consequences after moratoriums on evictions and foreclosures expire.

Employment and Wages

Employment increased modestly overall as firms continued hiring; however, recalls ebbed for previously furloughed workers, while new furloughs and permanent layoffs persisted. Among firms responding to our COVID-19 survey, 35 percent reported that they had hired new workers in September – up from 31 percent in August and 25 percent in July. Likewise, our mid-September surveys indicated somewhat stronger hiring among all types of firms than in the prior month.

Recalls of furloughed workers have slowed – to 5 percent in September from 13 percent in July. Meanwhile, the share of firms issuing permanent layoffs edged up to 7 percent in September from 6 percent in July, while the share issuing new furloughs edged down to 5 percent from 6 percent.

Staffing firms reported that activity continued to increase but tended to remain below pre-pandemic levels by 10–15 percent. Staffing contacts continued to note more orders than they can fill with available labor. In our COVID-19 survey, fewer firms noted impediments to hiring in late September than in late August. Lack of childcare and expanded unemployment benefits were cited by just over one-fourth of the firms, while fear of infection was cited by just under one-fourth. One manufacturer noted that it has provided onsite childcare for

over 25 years – largely removing that barrier. Some firms continue to note offering wage and benefit packages sufficient to retain their workforce with little turnover.

Wages continued to grow slightly. In mid-September, the percentage of nonmanufacturing firms reporting higher wage and benefit costs per employee remained somewhat higher than the percentage reporting lower costs. However, nearly two-thirds of the firms reported no change.

Prices

Prices appeared to rise modestly, as about 25 percent of all contacts reported higher prices for their own goods and services and for their inputs to production. However, over 60 percent of all firms noted no change in prices.

Most contacts were not worried about rising inflation. Instead, contacts continued to describe scarcity, delays, and spotty price hikes because of intermittent demand shifts, production disruptions, and logistics problems. Contacts noted that California wildfires have caused food prices to spike; builders continued to note numerous price hikes (and delays) for lumber, appliances, and other critical inputs.

Manufacturing

On balance, manufacturing activity has grown slightly since the prior period but may have leveled off during

September. At the end of July, manufacturing firms responding to our COVID-19 survey reported that sales and new orders were about 14 percent below what had been anticipated pre-pandemic. At the end of August and September, firms reported demand was about 8 percent below pre-pandemic expectations.

Diffusion indexes for shipments and for new orders from our mid-month surveys also suggested growth. Both indexes had risen since mid-August, indicating that growth was more widespread among firms and that the overall direction of change was positive.

Consumer Spending

On balance, nonauto retail sales improved incrementally over the period but remained below contacts' pre-pandemic expectations by 5–10 percent, depending on the retail segment (restaurants were on the low end or lower). Restaurants continue to survive with a mix of sit-down dining, takeout/delivery, catering, and groceries. Contacts anticipate weaker sales in the coming winter months.

Strong demand persisted for auto sales – new and used; however, inventory constraints limited new car sales to modest growth. Still, new car sales were less than 5 percent below the prior year, which marked a significant improvement. Dealers did note that they are seeing more credit-challenged customers, resistance from bank lenders, delinquencies, and repossessions.

Tourism changed little compared with the prior period as a whole but did grow softer with the move from summer to fall. In the first half of August, activity had improved to about 39 percent below prior-year levels but was averaging 47 percent below in late September. Contacts described mixed results for the summer: Rental homes were doing well, while some hotels struggled, and some restaurants were busy, while others never reopened. Attractions, business travel, and urban destinations remain depressed.

Nonfinancial Services

On balance, nonmanufacturing activity has grown slightly since the prior period, but mostly leveled off during September. At the end of July, nonmanufacturers in our COVID-19 survey had reported that sales and new orders were about 21 percent below what had been anticipated pre-pandemic. At the end of August and September, firms reported demand was 16.7 percent and 16.2 percent below pre-pandemic expectations, respectively.

Diffusion indexes for new orders and sales from our mid-month surveys also suggested slight growth. Both indexes had edged down since mid-August but remained

positive, indicating that growth was slightly less widespread among firms but that the overall direction of change remained positive.

Financial Services

The volume of bank lending grew modestly during the period (not seasonally adjusted); in the same period in 2019, by contrast, loan volumes grew robustly. Residential mortgages and other consumer loans grew moderately during the period, and auto loans and commercial real estate lending grew modestly. However, these gains were offset by moderate declines in home equity lines and steep declines in commercial and industrial loans. Credit card volumes rose slightly; last year, they were essentially flat over the same period.

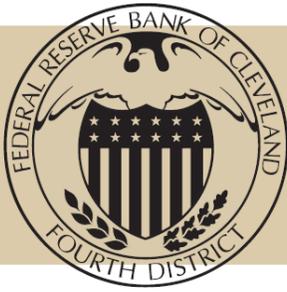
Banking contacts, as well as accountants and attorneys, noted little change in delinquencies or other credit problems. However, most remained concerned that significant problems would arise without renewed government stimulus and as moratoriums on evictions and foreclosures expire.

Real Estate and Construction

Homebuilders reported robust sales relative to a year earlier, while existing home sales grew modestly, as extremely low inventories continued to constrain sales. Builders and brokers alike noted that strong demand persisted because of low interest rates, a pandemic-driven desire for more space, and the emergence of more first-time buyers. Surging demand has enabled builders to raise prices to cover rising labor and commodity costs. For brokers, surging demand has spurred multiple offers and higher house prices for the limited available homes. Banking contacts are becoming wary of appraisals, and some appraisers are beginning to balk at the higher prices.

Activity in Philadelphia's commercial real estate construction sector essentially held steady at about 10–15 percent below the level of activity anticipated before the pandemic. Production remains constrained by crew-size reductions for worker safety. Commercial office leasing activity continued to edge lower. With many workers remote and potential layoffs ahead, firms continued to delay leasing decisions; some are terminating leases. Demand remained strong for warehousing and positive for life science activities, but weak for retail space. ■

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



Summary of Economic Activity

Fourth District economic activity increased at moderate pace since the last Beige Book report. The share of business contacts reporting an increase in customer demand was unchanged over the period; however, far fewer firms noted a decrease in demand. The general improvement was evident across broad industry breakouts, but there was considerable variation within them. For example, spending on interest rate-sensitive goods (such as homes and light vehicles) was particularly robust, while spending in high-contact services segments (such as accommodation and food services) remained weak. The modest increase in customer demand was accompanied by an uptick in staffing levels. However, contacts suggested that hiring was difficult because of limited labor availability, which also exerted more upward pressure on wages. Supply chain constraints and higher costs of freight and some materials pushed up input prices, and a greater share of contacts were able to increase selling prices. While most firms expect demand to increase further in coming months, capital spending remained soft as firms continue to hold on to cash amid persistent uncertainty surrounding the pandemic.

Employment and Wages

Staffing levels increased slightly since the last report, although employment remained well below pre-pandemic levels. More firms across a wide array of industries reportedly wanted to hire (or rehire) additional workers to meet improving demand. However, many indicated that they had a hard time adding workers. Contacts said that three primary factors contributed to their inability to hire: health concerns, difficulty arranging dependent care, and generous unemployment insurance benefits. Contacts were specifically asked if labor availability increased after the generous supplemental unemployment insurance payments lapsed, and most said that it had not. There were a few exceptions noted by manufacturers, transportation firms, and restaurants. Nevertheless, the increase in labor availability was insufficient to meet these employers' needs. Staffing services firms continued to report unusually large numbers of unfilled orders because of these shortages. Moreover, they and other business contacts suggested that some wage rates were rising as a consequence, particularly in lower-wage positions.

Prices

On balance, selling prices rose moderately during the latest Beige Book period. However, pricing power varied

by sector. In consumer-facing segments, auto dealers, furniture retailers, and apparel stores were among those reporting that customers were paying higher prices. Freight haulers said that strong demand, especially for last-mile delivery, was pushing up both spot and contract rates. By contrast, firms in professional and business services indicated that prices to customers were flat to down, with one noting that customers were "fragile" and had little appetite for higher prices.

Nonlabor input costs also rose for many firms. Construction and manufacturing firms reported rising freight rates and materials prices, along with supply chain interruptions, that contributed to higher input costs. Many of those firms were able to push such cost increases though to their customers. Contacts in a variety of sectors suggested that adapting their operations to account for COVID-19 also added to their costs.

Consumer Spending

Reports from retailers suggest that consumer spending increased modestly during the last two months. Auto dealers said that sales remained strong in August and September, and many suggested that sales would have been even stronger if not for unusually low inventories. General merchandisers and apparel retailers said that

sales flattened out in recent months even though customers seemed more willing to shop in brick-and-mortar stores. Hoteliers noted some improvement in occupancy rates relative to those of a few months ago, although they remained low. Looking ahead, contacts noted cautious optimism that consumer spending will continue to recover but expressed some concern about this given uncertainty regarding the path of the virus and the future of fiscal stimulus.

Manufacturing

Manufacturing orders increased moderately. Several contacts attributed stronger orders to customers' replenishing inventories that were depleted earlier in the year. Others said that increased auto production as well as growing foreign demand, especially from China, contributed to their partial recovery. However, several contacts emphasized that activity remained below pre-pandemic levels. Looking forward, almost two-thirds of manufacturing contacts believed demand will increase over the next quarter, although uncertainty about the path of the virus and the upcoming presidential election persisted.

Real Estate and Construction

Residential construction and real estate activity remained strong since our last report. Many contacts said that favorable interest rates and low inventories have persuaded many consumers to go forward with home purchases. One real estate agent noted that sales did not decline after Labor Day as they usually do, and contacts noted that while they anticipate that demand will soften in the coming months, they think demand will be stronger than is typical for fall. One builder reported that some potential homebuyers were pushed out of the market by higher home prices, a situation which resulted from low inventories and higher materials costs, particularly for lumber.

Demand for nonresidential construction was mixed. While public work remained weak, there was a slight uptick in private-sector projects. One general contractor reported that previously delayed projects began to move forward and that bidding activity had increased. For the most part, commercial realtors remained downbeat, citing a lack of interest in commercial space and financial hardship among small businesses and restaurants. By contrast, demand for industrial space remains strong. Looking forward, firms expected nonresidential construction and leasing activity to experience a typical seasonal deceleration as the winter months approach, but persistent uncertainty may further slow construction decisions.

Financial Services

Overall, banking activity increased after going through a

soft patch during the last reporting period. Contacts noted that demand for mortgages and auto loans remained strong as low interest rates persisted, but demand for business loans was flat on balance. Lenders said that delinquency rates for commercial and consumer loans were still relatively low because of forbearance agreements and various fiscal relief measures. However, a number of contacts reported slight increases in delinquencies of commercial loans as the economy remained weak and some deferral programs ended. Looking ahead, bankers expected loan demand to remain unchanged throughout the current quarter but noted that uncertainty regarding the path of the virus clouded their outlook. Moreover, while bankers expressed surprise that they had not yet seen bigger increases in metrics reflecting financial duress, many expected them to rise in 2021.

Professional and Business Services

Customer demand for professional and business services remained strong, and no contacts reported a decrease in business activity. One contact indicated that his firm's demand was picking up along with the broader economy, but his firm was also benefitting from some pent-up demand that built during the slower months earlier in the pandemic. The transition to remote work and online transactions has accelerated the need for new software solutions and increased cybersecurity measures. In spite of the recent strength in demand for professional and business services, a couple of contacts expressed concern that firms may begin to delay purchases as a result of continued heightened uncertainty.

Freight

Demand for freight services increased over the reporting period, driven by an increase in e-commerce and ongoing (and broadening) resumption in economic activity. Eighty percent of contacts reported demand had increased in the last two months, and 70 percent expected demand to continue to increase during the fourth quarter, particularly because more consumers will be holiday shopping from home. Many firms have been unable to adequately respond to increased demand because hiring drivers is difficult, and freight prices have increased as a result. ■

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



Summary of Economic Activity

Economic activity in the Fifth District increased modestly since our last report but remained soft compared to pre-COVID and year-ago levels. Manufacturers saw a moderate increase in new orders and shipments, overall, but supply chain disruptions limited output and increased cost of production. Ports experienced a moderate rise in volumes, particularly of imports, as shipments neared year-ago levels. Trucking companies had strong growth in volumes, particularly of retail goods and noted tight capacity in the market. Retail sales showed modest growth as demand for home goods was strong, but customer traffic at brick-and-mortar stores remained soft. The travel and tourism industry saw modest improvement, but remained weak, as hotel occupancy rates were low. Residential home sales showed robust growth across price ranges, as inventories of both new construction and resales remained low. Commercial real estate leasing saw some declines, as retail was particularly weak. Bankers reported a moderate increase in loans, as demand for home mortgages remained strong, but commercial lending softened somewhat. Overall, demand for nonfinancial services increased slightly, as most firms reported flat to improving sales. Employment rose in recent weeks but remained below year-ago levels, and some businesses struggled to find workers. Price growth was fairly stable but varied across industries, as some firms noted increased costs of raw materials.

Employment and Wages

Total employment continued to rise in recent weeks, but the level of employment remained well below pre-pandemic and year-ago levels. A staffing and recruiting company said that demand for temporary and part-time workers remained somewhat elevated but demand for direct placement was very low. An employer of hourly workers remarked that it was very hard to find workers, particularly for positions paying less than \$20 an hour. Many businesses said that they were offering flexible scheduling and remote work opportunities to workers with children schooling at home. Wages were little changed, overall, but there were some reports of recent wage gains in industries with significant order backlogs.

Prices

Price growth remained modest, overall, since our previous report. According to our most recent surveys, manufacturers reported a slight slowdown in growth of prices received while service sector firms reported a modest acceleration. Businesses in both sectors reported a small increase in prices paid. Some manufacturing and construction firms noted supply shortages and rising prices for certain raw materials. Several businesses reported longer lead times and higher prices for personal protection equipment.

Manufacturing

Manufacturers in the Fifth District reported a moderate increase in shipments and new orders in recent weeks. Food, furniture, and appliances were strong, with demand often exceeding capacity. Manufacturers who had shifted to making hospital gowns, sneeze guards, or other COVID-related equipment saw strong demand. However, manufacturers for retail stores struggled. Supply chain disruptions and tariffs put continued pressure on costs of inputs while unavailability of workers constrained production. Many contacts were cautious about investment because of uncertainty from the virus and the election year, but one West Virginia contact planned to expand factory space to increase capacity.

Ports and Transportation

Fifth District ports observed a moderate increase in shipping volumes since our last report. Many contacts reported volumes exceeded expectations from the spring. Import levels remained above export levels and grew faster than exports. Both import and export automotive shipments were strong, as were consumer goods, with one contact noting high volumes of toy shipments. Imports from east Asia grew, but heavy equipment was soft. Port contacts noted higher shipping rates, as some blank sailings limited capacity. An airport saw

strong cargo shipments of both imports and exports, while capacity on passenger flights was limited.

Trucking companies reported strong growth in recent weeks. Capacity was tight as some companies had experienced closures. This shifted activity to the spot market, which saw rates reach record highs. Retail shipments for certain goods were high as some retailers looked to replenish inventories. Competition for drivers from companies developing their own delivery services led to some attrition and wage pressure. Contacts reported some capital expenditures but remained cautious, citing high uncertainty in the market.

Retail, Travel, and Tourism

Retail sales saw modest growth in recent weeks but remained soft compared to last year. Demand was somewhat mixed across products. Sales of home improvement goods and furniture remained strong. Clothing stores continued to struggle with low traffic and revenues in general, but they noted fairly strong sales of high-end clothing. Several retailers reported that inventories were out of season as excess remained from the spring. Contacts also noted a shift in customer traffic from large malls to individual destination stores. Some business expressed concerns about cash flow after Paycheck Protection Program loans run out.

Travel and tourism in the Fifth District increased modestly since our last report but were below year-ago levels. Hotel occupancy rose slightly in some areas, but hotels still struggled with low prices and occupancy rates that cannot sustain business in the long run. Demand for short term rentals was solid, particularly in areas with outdoor attractions, away from cities. Restaurants struggled, and some closed permanently. Restaurateurs expressed concerns about the effect of coming cold weather on demand for outdoor dining while indoor space remains limited or undesirable. Outdoor attractions saw strong demand but noted that capacity restrictions limited business.

Real Estate and Construction

Fifth District home sales growth remained robust in recent weeks. Demand for homes was strong across locations and price ranges. Inventories were low for both new construction and resales, and new construction remained strong. Prices rose, and days on the market fell. Realtors reported increasing numbers of offers made on homes. Customer traffic remained somewhat sluggish, but customers were eager to buy. Low mortgage rates incentivized buyers, but rapidly growing prices led to unpredictable appraisals. Realtors noted that buyers increasingly want homes with more land,

home offices, pools, and rooms suitable for homeschooling multiple children.

Commercial real estate leasing declined slightly since our last report. Vacancy rates for both retail and office were up, while rental rates fell. Retail was particularly weak, as some stores and restaurants closed permanently or were unable to pay rent. Office leasing was soft. Many office tenants asked for short term lease renewals while determining the space they will need in the future, and some looked to sublet office space. Built-to-suit office construction was soft, and contacts did not see speculative office building. Multifamily leasing struggled in some urban areas, as many tenants moved to the suburbs, but was fairly stable in less densely populated areas. Demand for industrial space exceeded supply, leading to high rent and increasing construction.

Banking and Finance

Overall, respondents reported that loan activity picked up moderately for this period, mainly driven by continued strong demand for mortgage loans. On balance, they indicated conventional commercial lending declined slightly, especially in the hospitality and retail sectors. A few financial institutions stated that downward rate pressure had squeezed their net interest margins. Deposit growth was moderate despite low rates on interest-bearing accounts. Credit quality remained good, but a few respondents noted being more cautious in terms of their underwriting due to the pandemic. In addition, there is some concern that delinquencies may increase as a result of pending layoffs or furloughs.

Nonfinancial Services

Overall, demand for nonfinancial services increased slightly since our previous report. A majority of professional and business services firms reported flat to slightly improving sales and revenue. A few firms noted, however, that a slowdown in retail and office construction led to a decline in demand for their services. Health care service providers reported little change in demand, but one clinic saw an increase in demand for virtual visits and was increasing capital spending on technology as a result. ■

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



Summary of Economic Activity

Economic conditions in the Sixth District improved slightly over the reporting period but remained below pre-COVID-19 levels. Labor market activity improved modestly as employers continued to add to payrolls. Nonlabor costs remained generally muted, but costs related to construction and COVID-19 safety measures continued to rise. Retail sales grew but largely remained below year-earlier levels. Softness in tourism and hospitality persisted as COVID-19 restrictions continued to limit activity in many parts of the District. Residential real estate demand and home prices increased while inventory levels remained tight. Commercial real estate activity stabilized. Manufacturing activity increased and new orders and production levels rose. Banking conditions stabilized, and loan loss reserves continued to grow.

Employment and Wages

Contacts reported modest improvements in labor market conditions since the last report. On balance, District employers continued to add to payrolls over the reporting period. Firms continued to slowly recall workers as demand returned. However, several contacts reported that some prior staff cutbacks had become permanent, while others noted using attrition to shrink headcount. Many contacts indicated that the pool of available workers was ample and speculated that the expiration of the enhanced unemployment insurance benefit had begun to improve the supply of workers for lower-skilled positions. Employers remained concerned about workers' abilities to balance workloads with the demands of childcare and the return to school, in person or virtual.

Reports on wages and compensation varied among contacts. Some businesses rescinded salary cuts, while others maintained pay cuts and salary freezes. Wage increases remained concentrated at the low end of the pay scale.

Prices

Over the reporting period, contacts noted some rising input costs, particularly for lumber and steel. Expenses associated with personal protective equipment, testing, and sanitation practices to protect employees and customers from COVID-19 remained significant, and increased technology expenses for extended work-from-

home postures were also reported. Insurance costs were also cited as increasing. Pricing power remained muted, with little ability to pass through these costs. The Atlanta Fed's Business Inflation Expectations survey showed year-over-year unit costs decreased significantly, from 1.5 percent in August to 1.3 percent on average in September. Year-ahead expectations remained largely unchanged at 1.6 percent.

Consumer Spending and Tourism

Reports from retail contacts were little changed from the previous report. Sales relative to this time last year remained soft but were better than expected with continued strength in home-related products. Contacts in Florida and Louisiana anticipate an uptick in demand as those states implemented final phases of reopening. Contacts shared concerns for the upcoming holiday season sales period, citing political uncertainty and the potential for another spike in COVID-19 cases as potentially hampering sales growth.

Travel and tourism contacts reported that although demand through the summer season was softer than a year ago, tourism activity through early October was recovering slowly. COVID-19 restrictions continued to negatively impact the industry in most District states as hospitality contacts reported that group travel and conference bookings continued to be postponed or cancelled through the second quarter of 2021.

Construction and Real Estate

Demand for housing continued to recover, and new home construction continued to fall short of demand. Inventory levels of existing homes dropped to historic lows and shortages are expected to remain a long-term market headwind. Limited supply and rising construction costs have led to increased upward pressure on prices. However, historically low interest rates continued to help offset rising prices. Contacts shared concerns over potential higher mortgage defaults as surges in delinquencies in markets such as Orlando and Miami were noted.

Commercial real estate (CRE) contacts reported continued stabilization amidst improving employment conditions and customer traffic. Hospitality, which was especially hard hit at the onset of the pandemic, was generally stagnant. Retail remained challenged; however, contacts reported marginal improvement as rent collections increased at poor performing shopping centers. The rate of unit leasing remained muted compared with pre-pandemic rates. Owners of lower-price multifamily properties reported an increase in late rent payments and some softening in occupancies. While improving, low levels of tourism and travel were having a notable impact on activity across the hospitality and retail sectors. Due to slower transaction and leasing volumes, asset valuation remained difficult.

Manufacturing

Manufacturing contacts reported an increase in overall business activity since the previous report. Firms indicated that new orders and production levels rose, and supply delivery times increased. Finished inventory levels were also reported to have increased, after declining over the last three reporting periods. Expectations for future production levels rose, with half of contacts surveyed expecting higher levels of production over the next six months.

Transportation

Transportation activity across the District improved over the reporting period. Trucking firms reported that shipments of consumer staples and building materials remained above pre-COVID-19 levels. Port contacts reported significant growth in container traffic, driven by increases in e-commerce, and ocean carriers were operating at full capacity and reinstating vessels that were suspended as a result of the pandemic. Railroads reported that overall traffic improved, intermodal shipments of consumer goods strengthened, and industrial freight volumes stabilized but were down from year-earlier levels. Inland waterway contacts noted that demand for barge services was below pre-pandemic levels, owing

primarily to fewer shipments of domestically-produced refined products.

Banking and Finance

Conditions at financial institutions stabilized over the reporting period. Earnings remained pressured by compressed net interest rate margins and higher provisions for loan losses. Persistently elevated deposit levels kept liquidity strong. Loan growth was flat as underwriting conditions remained tight for many loan products outside of portfolios such as residential real estate. Requests for additional forbearance on loan payments declined.

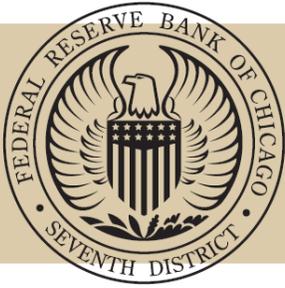
Energy

Hurricanes Laura and Sally made landfall within the District during the reporting period, causing supply disruptions as production, refining, and chemical processing activity stalled, according to energy contacts. Power generation, transmission, and distribution infrastructure in southwest Louisiana was severely damaged by Hurricane Laura, leaving hundreds of industrial sites without power for a sustained period. Crude oil refiners continued to experience weak demand amidst a global inventory glut. Refining contacts noted that utilization rates remained near historically low levels and are expected to remain low heading into the fall or until fuel prices rise enough to justify increasing output. Still, some energy contacts reported that large industrial petrochemical refining and chemical processing plant expansion projects that were delayed earlier in the year were gradually picking up again. Utilities contacts noted ongoing investment and integration of renewable energy resources.

Agriculture

Agricultural conditions remained weak. While drought-free conditions prevailed in most parts of the District, some producers reported crop and infrastructure damage caused by Hurricanes Laura and Sally. The USDA reported that District farmland values were up on a year-over-year basis except in Florida where cropland value was unchanged. Cotton, peanut, and rice harvesting progressed, though below the pace of their five-year averages, while soybean harvesting was near its five-year average. The USDA reported that in August, year-over-year prices paid to farmers were up for cotton, rice, soybeans, and milk, but down for corn, cattle, broilers, and eggs. On a month-over-month basis, prices increased for rice, soybeans, and cattle but decreased for corn, cotton, broilers, eggs, and milk. ■

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



Summary of Economic Activity

Economic activity in the Seventh District increased robustly in late August and September, but the pace of growth was slower than the prior reporting period and activity remained well below its pre-pandemic level. Contacts expected further growth in the coming months, but most did not expect a full recovery until at least the second half of 2021. Employment and consumer spending increased robustly; manufacturing increased moderately; construction and real estate increased modestly; and business spending increased slightly. Wages increased slightly and prices rose modestly. Financial conditions were little changed on balance. Rising prices and additional government support lifted expectations for farm income.

Employment and Wages

Employment increased robustly overall during the reporting period, though the pace of growth slowed. Furthermore, a number of contacts again reported little or no change to their staffing levels. Many retail contacts noted that they continued to operate with reduced hours and were holding staffing levels down accordingly. In spite of high unemployment, some contacts in manufacturing and agriculture reported that finding entry level workers was only a little easier than prior to the pandemic. Contacts continued to report providing scheduling accommodations to workers with young children. Wages increased slightly across skill levels, while benefits costs moved up modestly.

Prices

Prices increased modestly on balance in late August and September, and contacts expected a similar sized increase over the next 12 months. Consumer prices increased moderately, led by higher food and vehicle prices. Producer prices increased slightly. Input costs rose modestly, driven by rising prices for shipping and raw materials, particularly metals. Energy prices remained weak, as inventories of natural gas and crude oil stayed elevated and demand remained slow.

Consumer Spending

Consumer spending increased robustly over the reporting period, though overall spending remained well below pre-pandemic levels. Nonauto retail sales increased moderately, led by growth in the home improvement, home furnishings, and appliance categories. Hobby and sporting good sales remained strong. Apparel sales were lackluster because of low demand for traditional back-to-school wear. Growth in e-commerce eased but continued to register large gains from a year earlier. The pace of vehicle sales strengthened. Dealers indicated that inventories of new light trucks and many types of used vehicles continued to be tight, which supported rising prices and profit margins. Demand for auto repairs increased significantly. Contacts in the leisure and hospitality industry reported large increases in volumes, but activity remained well below its pre-pandemic level. Contacts noted that Labor Day air and hotel bookings were sharply off year-ago levels and that business travel continued to be weak. In a Michigan survey, the majority of restaurant operators believed they would not see sales return to pre-pandemic levels for at least 6 months.

Business Spending

Business spending increased slightly in late August and September. Retailers continued to struggle to maintain inventories for in-demand items such as home improvement, home furnishings, and hobby goods because of supply constraints. A contact said that appliance shortages, especially of refrigerators, hampered multi-family building projects. Most manufacturers indicated that inventories were at comfortable levels, though a number of contacts continued to report minor supply chain problems. Capital expenditures were little changed, and many contacts again said they had paused expansion plans. Demand for transportation services increased modestly, with contacts noting that capacity constraints had led to sizeable price increases. Commercial energy consumption decreased slightly, but industrial energy consumption increased slightly.

Construction and Real Estate

Construction and real estate activity increased at a modest pace over the reporting period. Residential construction grew modestly. Contacts noted that a lack of available lots, material shortages, and rising lumber and dry-wall prices were putting a damper on growth. Residential real estate activity remained vibrant, particularly in the single-family market. Home prices rose and inventories remained low. Nonresidential construction was flat overall and, as with residential construction, was experiencing rising costs. A Southeast Michigan contact indicated that while there was solid demand for new industrial space, there was no new office or hospitality work. Commercial real estate activity fell slightly overall, with deal making largely limited to industrial and multi-family properties. Warehouse and distribution space was in particularly high demand. Commercial real estate prices fell modestly overall. Contacts also reported falling rents for office and retail spaces.

Manufacturing

Manufacturing production increased moderately in late August and September, but remained below where it was before the pandemic began. Auto output continued to rebound and was near its pre-pandemic level. Steel production also continued to recover, but remained low. Demand for heavy machinery was higher than earlier in the year, but remained weak. Contacts noted that while demand for heavy machinery from the infrastructure segment remained solid, they were concerned about a drop-off in spending by state and local governments, many of which face potentially large budget cuts. Specialty metals manufacturers reported a modest increase in sales, with contacts highlighting growth in the construction, medical, and defense industries. Demand for

heavy trucks increased moderately. Manufacturers of building materials saw a modest increase in shipments, supported by growth in residential construction. Contacts in food processing reported strong growth and plans to expand capacity.

Banking and Finance

Financial conditions were little changed on balance over the reporting period. Participants in the equity and bond markets reported little change in conditions overall, though volatility remained elevated. Business loan demand decreased modestly, with contacts highlighting declines in the hospitality and commercial real estate sectors. One contact noted that commercial and industrial loan demand had started to come back because many businesses had used up their PPP funds. Business loan quality deteriorated modestly, with declines concentrated in leisure and hospitality and commercial real estate. Contacts reported that forbearances had ended for many customers and that there were few requests for extensions. Standards again tightened some. Consumer loan demand increased modestly, led by continued mortgage refinancing activity. Loan quality improved slightly while standards tightened slightly. Contacts indicated that forbearances had ended in the consumer sector as well, with limited effects on portfolio quality. Contacts continued to report high levels of deposits for both businesses and households.

Agriculture

Rising prices for key agricultural commodities and additional government support lifted expectations for farm income for the year. Corn, soybean, and wheat prices moved higher, reflecting in part lower stocks compared with a year ago. Increases in corn and soybean exports, particularly to China, also supported prices. In addition, a dry August held back expected yields. Dairy prices were higher, supported by increased sales to food service establishments, and strong exports. Hog prices increased while cattle prices decreased. There were reports that improved income prospects had eased stress on agricultural borrowers somewhat, though concerns remained for next year, when government support was expected to drop substantially. ■

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



Federal Reserve Bank of St. Louis

The Beige Book ■ October 2020

Summary of Economic Activity

Reports from District contacts suggest economic activity has increased slightly but the pace of activity remains highly variable across sectors. Employment and wages increased slightly. Auto dealers continued to report strong sales despite inventory shortages. Restaurants reported some improvement but expect activity to decline due to cooler weather. District banking contacts reported that outstanding loan volumes decreased slightly compared with the previous survey period but remain well above year-ago levels. Home sales in most areas remain strong for this time of the year but have slowed in recent months.

Employment and Wages

Labor market conditions have improved slightly since the previous report, though the pace of job growth has slowed. Contacts across industries reported hiring or re-hiring workers since July, especially in transportation, manufacturing, and healthcare. Firms seeking to hire workers reported a tight labor market, citing workers' ongoing health concerns and family care responsibilities. One firm reported having to threaten furloughed employees' healthcare benefits to pressure enough to return to work. Another firm estimated that 10% to 15% of its workforce was absent daily. Other firms reported business closures or emphasized stability more than growth. Employment trends for small firms were especially mixed. One Memphis contact reported several small business owners were seeking additional part-time jobs to cover their expenses, and aggregate data show little improvement in small business employment since July.

Wages have grown slightly. Contacts reported increasing wages in the face of labor shortages or returning to normal salaries and wages as business normalized. Wages for small businesses remained more stable, with one survey finding no significant changes since our previous report.

Prices

Prices have increased moderately since the previous report. Contacts across industries reported higher input costs due to adding sanitization products and personal protective equipment as inputs. Crop prices have increased moderately, except for rice, which has seen a slight decline. However, rice prices have increased moderately year-over-year. Many raw materials are up moderately, steel prices are up significantly, while chemical prices have declined. Contacts attribute elevated lumber prices to increased demand and a slowdown in production as a result of the COVID-19 pandemic. An agriculture contact attributed the slight growth in cotton prices since the previous report to the first phase of a trade agreement between the U.S. and China. Contacts also noted that the prices of used cars remain elevated.

Consumer Spending

Reports from District general retailers, auto dealers, and hospitality contacts indicate that consumer spending activity has been mixed since our previous report. Seasonally adjusted credit and debit card spending through the middle of September was mixed across the District. Consumers in West Tennessee have an improved outlook relative to June and expect to spend about the same this year as they did last year. General retailers reported mixed business activity. District auto dealers

continued to report strong sales but have experienced inventory shortages. Tourism and hotel contacts continued to report business activity well below typical levels; most contacts reported constant business activity from late summer through early fall but expect a decline through the remainder of the year as cooler weather reduces outdoor dining. Restaurants continued to see increased sales; however, some restaurants that have maintained business through outdoor seating are planning temporary closures in the colder months.

Manufacturing

Manufacturing activity has strongly increased since our previous report. Survey-based indexes suggest that manufacturing activity in Arkansas and Missouri strongly increased. In Arkansas, firms reported a strong uptick in new orders while production remained stable. In Missouri both new orders and production showed a strong uptick. Metal manufacturing contacts in the St. Louis area reported 5% to 10% increases in production. Contacts reported that production is still below pre-COVID-19 recession levels, but conditions are steadily improving. Fluctuations in demand were cited as impediments to further increases in production for these contacts. Contacts in the furniture, military vehicle, and energy and defense products all reported that ongoing projects would considerably expand operations and employment over the next few years.

Nonfinancial Services

Activity in the nonfinancial services sector has increased since the previous report. Airport passenger traffic is up significantly, although it remains down more than 60% relative to this time last year. Cargo traffic is down slightly since the previous report but remains up year-over-year due to e-commerce. Logistics activity is mixed, with several package delivery firms hiring workers as the pandemic and oncoming holiday season increase volume. Other logistics contacts reported lower revenue year-over-year due to the pandemic and low oil production, which have negatively impacted businesses that use their services. Hospital contacts reported revenue and patient volumes are increasing while costs per patient have increased due to higher staffing costs and PPE expenditures. Other healthcare contacts indicated that telehealth will likely become a larger part of the healthcare industry even after the pandemic.

Real Estate and Construction

Residential real estate activity has decreased slightly since the previous report. While home sales have recovered from their lows in the spring, total sales in most of the largest District metro areas have been down slightly since mid-August. Home prices in the largest District

metro areas have increased moderately since mid-August. Contacts continued to report a shortage of housing on the market, with homes selling quickly once listed. Some contacts expressed concern about a future increase in evictions when moratoria are lifted.

Commercial real estate activity has been mixed since the previous report. Contacts reported that demand for office space has varied, with some tenants choosing to keep their current spaces or expand, while others are choosing to move toward remote work on a more permanent basis. Contacts reported continued high demand for industrial space. A contact in Memphis noted that while a greater number of retail tenants have been able to pay rent compared with the spring, some are struggling to pay or have gone bankrupt.

Commercial construction activity was mixed. Contacts reported little speculative activity or construction for office space, while construction for industrial space remained strong. Contacts reported delays with supply chains for materials and a lack of skilled labor.

Banking and Finance

Banking conditions in the District have slightly weakened since the previous report. Overall loan demand continued to decline following the end of new PPP loans. Outstanding loan volumes decreased slightly compared with the previous survey period but were well above year-ago levels. Growth in real estate and consumer loans fell modestly while commercial and industrial loan volumes slightly increased. Liquidity conditions remained strong due to high levels of deposits, despite lower rates on interest-bearing accounts. Delinquency rates remained relatively low; however, several contacts expressed continuing concerns for loans in the entertainment and leisure and hospitality sectors. Competition for loans and low interest rates is expected to narrow net interest margins and profitability.

Agriculture and Natural Resources

Agriculture conditions have slightly improved. Overall, contacts reported that year-to-date revenue remains steady or slightly up. The agribusiness sector has remained steadier than most, but the effects have been diverse across the industry: Restaurant demand has been collapsing, but grocery spikes have been more than filling the shortfall. Most supply chain bottlenecks were early in the spring and have smoothed out in recent months. Overall, contacts expect business activity for the remainder of 2020 will remain steady or increase slightly. ■



Summary of Economic Activity

The Ninth District economy grew slightly overall since the last report. Employment was mixed, with overall conditions remaining volatile. Wage pressures were modest, while price pressures were moderate. The District economy showed growth in manufacturing and residential construction and real estate. But consumer spending and tourism were flat overall, while activity slowed for professional services and commercial construction and real estate. Agricultural conditions improved thanks to a promising crop outlook, but remained weak overall, and energy was stable at low levels.

Employment and Wages

Employment was mixed since the last report, and overall conditions remained quite volatile. Contacts suggested that some firms were in a “hiring chill,” with essential vacant jobs getting filled, but holding overall staffing levels in check. Initial unemployment claims over the most recent six-week period (through mid-September) fell significantly compared with the previous reporting period, but remained quite elevated compared with year-ago levels. Continuing claims also dropped steeply over this relatively short period compared with mid-summer levels. Staffing contacts in Montana and North Dakota said job orders have grown in recent weeks, and labor availability was tightening. However, a survey of hospitality firms in Minnesota showed more firms were downsizing workforces compared with those that were increasing head count. Preliminary results of a larger, Districtwide survey in October showed similar results, and that trend was also expected to carry into the coming months. A Wisconsin contact said recruitment has become harder given pandemic constraints, and there’s “no doubt that automation has accelerated. Some lower-paying jobs probably won’t be coming back.” Job postings improved slightly in recent weeks across most District states, though South Dakota saw a modest decline, and the overall growth trend has slowed notably from the pace seen in June and early July.

Wage pressures rose modestly. A Districtwide survey in early October showed that a slightly higher share of firms have increased wages, and a lower share have decreased wages, compared with a similar July survey. Other, smaller ad hoc surveys in Minnesota, Wisconsin, and South Dakota showed generally similar results. Wage growth was slightly stronger among Minnesota hospitality firms, particularly in tourism regions seeing healthy labor demand. Firms across these various surveys also expected somewhat stronger wage growth in the future.

Prices

Price pressures were moderate since the previous report, though input price pressures appeared greater than final prices. According to preliminary results of a survey of District businesses, half of respondents reported that input prices were unchanged compared with pre-pandemic levels, though nearly one-third said input prices were up by 5 percent or more. Prices for final goods or services increased at a smaller share of firms. Prices for construction materials continued to increase rapidly. A panel of manufacturers reported that input prices had been rising faster than usual in August and September. Retail fuel prices in District states decreased slightly since the previous reporting period. Prices received by farmers in August increased from a year earlier for soybeans, wheat, potatoes, dry beans,

and turkeys, while prices for corn, hay, cattle, hogs, chickens, eggs, and milk decreased.

Consumer Spending

Consumer spending was flat since the last report. Surveys of retail and accommodation firms showed that while many were operating below pre-pandemic capacity, customer demand was still not outstripping available sales or service capacity. Growth in vehicle sales paused after a strong uptick earlier in the summer. A dealership with multiple locations in western District states saw sales decline significantly in August compared with a year earlier, and September sales were flat. Motor vehicle sales in Minnesota and Wisconsin were also lower, according to available data.

Tourism experienced healthy late-summer activity in rural, high-amenity regions, but many firms in these areas worried about off-season business. Conversely, many larger cities continued to see low hotel occupancy rates and overall tourism activity. Air traffic was flat overall. After a modest late-summer increase in screened passengers at the eight largest District airports, activity fell slightly over September and was less than 40 percent of 2019 levels.

Services

Activity in the professional services sector decreased slightly since the last report. Firms providing services to clients in oil and gas and air transportation reported severe contraction in demand. Trucking contacts said that demand for freight transportation decreased recently. Providers of information technology services and consulting said business was steady, while broadband providers reported that demand was up significantly.

Construction and Real Estate

Commercial construction was moderately lower since the last report. In an October sample of several dozen construction firms, one-third saw a decrease in activity compared with earlier in the pandemic, and that share was expected to increase in the coming quarter. Many contractors were also experiencing project delays, particularly related to supply chain disruptions; a Montana contact said product delivery times were double or triple their normal length. Many firms continued to stay busy thanks to project backlogs built up prior to the pandemic. But firms across the District expressed concern about a shrinking pipeline of future work out for bid. Some locations appeared to be bucking the overall trend, including Fargo, N.D., and Rapid City, S.D., where August and September permitting activity was very

healthy. Residential construction rose modestly. After a slow August, single-family permits rose sharply in September in Minneapolis-St. Paul. Permit activity over this period also rose in Bismarck, N.D., Rochester, Minn., and Sioux Falls, S.D.

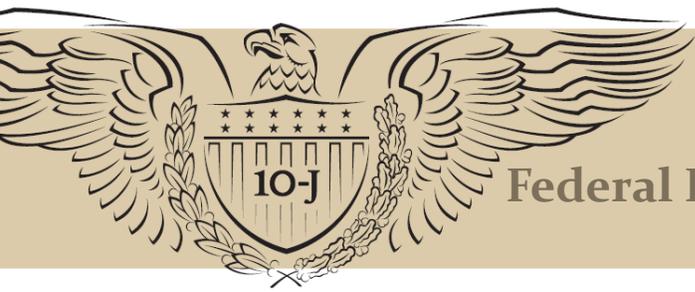
Commercial real estate continued to decline modestly since the last report. With many workers continuing to work from home, office space in downtown Minneapolis and St. Paul was seeing increased lease concessions, according to contacts. Lower foot traffic at office buildings also continued to put pressure on retail and other ancillary businesses, with significant closures of restaurant and other retail outlets. Multifamily vacancy rates were reportedly rising in some cities. Residential real estate continued to grow moderately overall. Closed home sales in August were widely higher, except in Minnesota, where sales were flat. Limited data for September home sales suggested continued growth, with Sioux Falls sales rising by 25 percent over last year, and Missoula, Mont., by 12 percent.

Manufacturing

District manufacturing activity increased moderately since the last report. An index of manufacturing activity indicated expansion in Minnesota and the Dakotas in September compared with a month earlier. About half of participants on a panel of South Dakota manufacturers reported that new orders had increased in August and September compared with the previous two months. A metal fabricator reported that recent demand from automation and packaging had increased, while demand from heavy construction and from oil and gas exploration was down. Manufacturing contacts continued to report pandemic-related bottlenecks in supply chains.

Agriculture, Energy, and Natural Resources

District agricultural conditions improved going into the harvest season, however low prices depressed the outlook for farm incomes. Harvests were generally proceeding ahead of schedule in most areas of the District, and the majority of crop acres as of early-October were in good or excellent condition. Despite recent drought conditions in some parts of the District, early estimates called for strong yields of corn and soybeans and record production in some states. District oil and gas exploration held steady at low levels. The number of drilling rigs in the District as of early October was unchanged from a month earlier, though recent oil production increased slightly. All but one District iron ore mine that shut down earlier in the year has reopened. ■



Summary of Economic Activity

Tenth District economic activity expanded slightly in September despite a pullback in consumer spending for the first time since early summer. Retail, restaurant, auto and tourism sales declined since the previous survey, and expectations for consumer spending were mixed. Retail and auto contacts anticipated moderate gains, while restaurant and tourism contacts anticipated declines heading into the winter months. Manufacturing production and new orders increased modestly at both non-durable and durable goods plants. Transportation and wholesale trade sales also rose modestly, but sales in the professional and high-tech sectors fell. Residential real estate activity continued to increase at a moderate pace, but commercial real estate conditions weakened. Energy activity stabilized somewhat, but revenues, employment and capital expenditures continued to decline in the sector. The agriculture sector improved slightly in September, although drought conditions intensified in parts of the District. Most industries continued to add jobs, but overall employment levels were modestly below year-ago levels. Wages and prices rose modestly, and similar gains were expected in the coming months.

Employment and Wages

District employment increased slightly since the last survey period but remained modestly below year-ago levels. Contacts in the wholesale trade, health services, and real estate sectors reported the largest employment gains, while tourism, transportation and manufacturing contacts reported slight increases. Restaurant contacts noted a slight decrease in employment following a modest gain during the previous survey period. Employment levels remained below year-ago levels in most industries, but contacts in every sector except tourism expected to add jobs in the months ahead.

A slight majority of contacts in the services sector reported labor shortages, including openings for truck drivers, retail workers, and skilled technicians. Wages rose modestly and were expected to continue to do so in the coming months. The majority of restaurant, wholesale, transportation and auto sales respondents expected wage growth over the coming year to be similar to that of last year. However, the majority of tourism and health services contacts expected slower wage growth than a year ago.

Prices

Input and selling prices rose modestly in the services and manufacturing sectors in September and continued modest increases were expected in the next few months.

Prices in the retail industry rose moderately and were well above year-ago levels. Transportation contacts noted a slight increase in input and selling prices, although prices remained moderately below year-ago levels. Selling prices increased moderately for construction supplies, but were expected to remain flat in the upcoming months. Restaurant prices edged up during this survey period and remained moderately above year-ago levels. Prices of raw materials and finished products rose modestly in the manufacturing sector and additional increases were anticipated in the coming months.

Consumer Spending

Consumer spending fell modestly since the last survey period which was the first decline since early summer. Restaurant and auto sales experienced the largest declines, both following moderate increases during the previous survey period. Tourism and retail sales fell slightly, after experiencing consistent gains throughout the summer. Tourism, restaurant, and auto sales were moderately below year-ago levels, however retail sales remained modestly above. In the next six months, many restaurant and auto contacts indicated that they will need to increase marketing or sales and the majority of respondents in the retail and restaurant sectors noted that they will need to hire new employees. Retail and auto contacts expected moderate increases in sales over the next few months, while restaurant and tourism respond-

ents expected continued declines.

Manufacturing and Other Business Activity

Manufacturing activity expanded modestly in September, but remained moderately below year-ago levels. Both the non-durable and durable goods sectors experienced modest gains in production and new orders, marking a slight slowdown in the pace of growth for non-durable goods. Contacts anticipated further increases in production and new orders in the coming months. Capital expenditures were consistent with levels from a year ago in the non-durable sector, while down slightly from a year ago in the durable sector. The majority of manufacturing contacts expected to hire new employees in the next six months.

Outside of manufacturing, sales in transportation and wholesale services increased modestly during the survey period, a weakened pace of growth for both sectors relative to this summer. Sales in professional and high-tech services declined since the last survey and were modestly below year-ago levels. Contacts in transportation and professional and high-tech services expected modest increases in sales and slight declines in capital expenditure in the coming months, while wholesale respondents expected moderate increases in both measures.

Real Estate and Construction

Residential real estate activity grew moderately since the last survey, but commercial real estate conditions continued to decline. Home prices rose moderately as inventories fell further. Home sales held steady, and remained moderately above a year ago. In addition, contacts expected moderate growth in both sales and prices in the upcoming months. Construction supply sales continued to rise modestly, keeping them moderately above year-ago levels. Since the previous survey period, commercial real estate conditions continued to worsen with a modest increase in vacancy rates, a slight increase in developer's difficulty in accessing credit, and slight declines in absorption rates, sales, and rents. Commercial construction, however, increased slightly for the first time following consistent declines since early spring. Overall, expectations improved in the commercial real estate sector compared to the previous survey, but contacts still expected conditions to worsen in the next few months.

Banking

Bankers reported modest growth in overall loan demand, with strong increases in residential real estate loan demand and slight increases in consumer installment loan demand. Other lending categories continued to slow, with slight declines in commercial real estate loan de-

mand and modest declines in commercial, industrial, and agricultural loan demand. Since the last survey, credit standards tightened modestly for commercial real estate lending and tightened slightly for commercial, industrial, and consumer lending. Deposit levels increased moderately over the past few weeks. Bankers reported moderate declines in loan quality compared to a year ago and expected strong declines in quality over the next six months.

Energy

District energy activity stabilized somewhat since the previous survey period, but revenues, employment, and capital expenditures continued to decline. The number of active oil and gas rigs in the District was mostly unchanged from August, and drilling and business activity remained significantly lower than a year ago. Prices for oil and gas remained below the average price District firms reported needing for drilling to be profitable. Expected oil prices for the near term were higher than price expectations from earlier in 2020, but longer-term projections were steady. Over a quarter of firms surveyed expected global oil demand to return to pre-COVID levels by Q2 2021, but the majority of contacts didn't expect oil demand to rebound fully until 2022 or 2023. Moving forward, most firms expected more defaults and bankruptcies in the energy sector, and over half of firms anticipated a large increase in mergers and acquisitions through 2021.

Agriculture

Economic conditions in the Tenth District agricultural sector improved slightly from the previous period despite intensifying drought conditions in some parts of the District. Alongside government payments that were expected to help offset revenue losses, prices for most of the region's major agricultural commodities increased slightly in late September. However, apart from soybean and hog prices, agricultural prices generally remained low. Drought conditions intensified, particularly in western District states. Through September, the share of corn and soybean acres in poor condition was higher than a year ago and above the national average in all states except Missouri. Extreme drought in portions of Colorado, Wyoming, New Mexico, Oklahoma and Nebraska could further lower crop revenues and reduce income prospects for cow-calf producers impacted by the severe conditions. ■

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



Summary of Economic Activity

Economic growth resumed in the Eleventh District after a spike in COVID-19 infections over the summer disrupted the budding recovery. Growth in the services and manufacturing sectors picked up pace in September, and retail sales increased. However, revenues remained well below normal levels in most industries. The housing market continued to perform well. In the banking sector, real estate lending picked up further but was offset by declines in consumer and commercial and industrial loan volumes, and most contacts expect an increase in nonperforming loans over the next six months. Energy activity remained depressed but started to show some signs of improvement. Employment in the district edged higher, with increasing reports of hiring. Input costs rose modestly while selling prices were flat to up slightly. Outlooks were largely positive but highly uncertain, particularly with regard to the presidential election and the unknown trajectory of the COVID-19 pandemic.

Employment and Wages

Employment edged higher, with increasing reports of hiring in certain sectors, including manufacturing. A Dallas Fed survey of well over 200 Texas service sector executives showed that 12 percent of services firms increased employment levels on net in September, which exceeded the share noting net layoffs for the first time since February. Hiring was particularly strong in financial and business services, while recent job growth in health care abated. Airlines continued facilitating voluntary separations and some have now begun furloughing or laying off workers. Job losses continued in the energy sector, though at a more modest pace. Energy contacts noted that though the worst is likely past, more layoffs are coming, especially among exploration and production companies.

Wage growth remained subdued in September. In the energy sector, wages remained frozen and some firms still have pay-cuts in place.

Prices

Input costs rose at a moderate pace, except in transportation and oilfield services where costs were down somewhat. Selling prices were flat to up slightly, with more pronounced increases in the retail and wholesale sectors.

Manufacturing

Recovery in the manufacturing sector picked up steam in September, with production accelerating and outlooks continuing to improve. Month-over-month production increases were seen in both durables and nondurables manufacturing. Nonetheless, about 60 percent of manufacturers said business is still below normal levels, by about 30 percent on average. Petroleum refiners saw a decrease in production and utilization rates due in part to tropical storms curtailing operations. Margins among refiners and chemical manufacturers remained depressed. Overall, sentiment among manufacturers regarding broader business conditions remained positive, though uncertainty persists, particularly surrounding the election.

Retail Sales

Retail sales surged in September, according to contacts. Even still, more than half said revenues were still below normal levels. Growth over the reporting period was led by nondurable goods and building materials sales. Auto sales remained weak, with multiple contacts citing supply chain delays. Among retailers overall, outlooks and expectations of future activity remained positive.

Nonfinancial Services

Growth in nonfinancial services activity picked up notably

in September after the recovery faltered in July and August in the wake of sharply rising COVID-19 cases. The recent pickup was led by professional and business services, which saw a marked acceleration in revenue growth over the reporting period. Leisure and hospitality also saw some recovery in revenues, but contacts noted that with uncertainty surrounding the spread of COVID-19 there has been little change in visitor activity. While above-average growth was seen in nonfinancial services overall over the past six weeks, the sector has not yet recovered from the COVID-19 downturn. As of September, still more than 60 percent of contacts said revenues were below normal. Airlines noted that demand improved over the reporting period but was still down sharply year over year, and that corporate travel continued to be nearly nonexistent.

Looking ahead, outlooks continued to improve, and half of contacts expect increased revenue six months from now, exceeding the less than twenty percent that expect a decrease.

Construction and Real Estate

Activity in the housing market remained solid. Home sales continued to outperform expectations, though the pace was not as robust as in the previous reporting period. Builders said they are raising prices to cover higher construction costs and slow down sales as backlogs remained high. Some contacts noted pouring slabs and holding off on framing houses due to crew shortages and high lumber prices. There were also widespread reports of supply chain issues, particularly for appliances and windows. New home development was active, and inventories continued to be exceptionally tight. Outlooks were generally optimistic, with some concern about the impact of the upcoming elections and a weak labor market on future sales activity.

Apartment demand rebounded in the third quarter, but rents were flat to down compared with year-ago levels and concessions were high, particularly in areas where there's a lot of new apartment units. Office leasing activity weakened further, and available sublease space increased notably in the third quarter. Retail market conditions stayed fragile, while industrial demand continued to be strong.

Financial Services

Overall loan volume held fairly steady over the reporting period, with gains in real estate lending offset by declines in consumer and commercial and industrial volumes. In a Dallas Fed survey of 78 financial institutions, just over a quarter reported an increase in nonperforming loans over the past six weeks while more than 60

percent expect an increase in nonperforming loans six months from now. Contacts believe commercial real estate loans carry the greatest downside risk in terms of credit performance.

In preparation for an increase in past due loans, the majority of contacts were monitoring loan performance more closely and setting aside additional reserves for loan losses. Also, about 70 percent of bankers expect lower profitability over the next six months. Cost cutting measures focus on lowering interest rates on deposits and reducing employment and/or worker compensation. Despite challenges, perceptions of general business activity improved notably, and loan demand outlooks turned positive.

Energy

The Eleventh District rig count remained near historical lows but increased over the reporting period for the first time since the beginning of the year. Most contacts are confident that oilfield activity has stabilized and begun a long slow slog toward recovery. Well completions rose as producers began bringing uncompleted wells into production. Contacts mentioned that the recovery of oil consumption is their primary near-term concern, although uncertainty in both domestic and global affairs, particularly surrounding the U.S. election, are also worries. Most executives don't expect the U.S. oil rig count to increase substantially until the price of oil is at least \$51 per barrel.

Agriculture

Soil moisture conditions deteriorated further across the western part of the district, where drought conditions continued to intensify. Row crop harvesting progressed and yields were quite strong, notably higher than last year for several crops. Grain prices generally improved over the past six weeks and will have reached profitable levels if production is at least average. Drought hampered pasture conditions in parts of the district, which coupled with increased feed costs strained livestock producers. Contacts expressed concern over the La Niña weather pattern that has developed and is likely to persist through the winter, which will bring drier weather and could hinder crop and pasture conditions. ■

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



Summary of Economic Activity

Economic activity in the Twelfth District expanded moderately on balance during the reporting period of mid-August through early October. Employment levels increased modestly on net, but hiring activity varied across sectors and somewhat across the District. Wages rose slightly, and price inflation increased marginally. Sales of retail goods rose noticeably, while conditions in the consumer and business services sectors improved somewhat. Manufacturing expanded moderately. Conditions in the agriculture sector improved modestly. Residential real estate activity increased further, while the commercial market remained broadly unchanged. Lending picked up at a fair pace.

Employment and Wages

Employment levels increased modestly on net. Hiring picked up overall in the Mountain West as most businesses have reopened. Employment levels in California and the Pacific Northwest increased more slowly than in other parts of the District. Hiring in these regions for lower-paid service positions especially lagged, partially due to relatively more stringent social-distancing guidelines and partly due to smaller labor supply as people fled from wildfires. Employment levels in the information technology sector were generally stable over the reporting period, although one contact reported layoffs connected to strategic discontinuation of some product lines. Hiring in lumberyards and construction firms was somewhat constrained by a shortage of skilled workers. Employers in the financial and energy sectors mostly engaged in replacement hiring only. Employment levels in restaurants, hotels, retailers, and the entertainment and tourism sectors remained low. Hiring firms reported receiving plentiful applications for open positions and ease in filling them. Instances of absenteeism decreased, but workers showed continued concern about COVID-19 exposure and grappled with childcare needs.

Wages increased slightly overall, although some employers reported keeping wages fairly unchanged over the reporting period. Labor shortages in the construction sector fueled increases in wages. Some employers in the financial sector observed higher wages over recent weeks despite still high unemployment in their communities and regions. Following other businesses in the Mountain West, a provider of animal health-care products planned to distribute merit increases. Wages in retail and agriculture in some areas in California increased due to regulatory developments concerning overtime pay. Some firms reported that wage increases

are not currently under consideration but noted that plans for next year may change, partially due to renegotiations with unions.

Prices

Price inflation increased marginally on balance. Increased demand and low inventories for durable goods, building materials, and processed foods resulted in markedly higher prices for consumers. Constrained supply chains also put upward pressure on costs faced by restaurants and some retailers, though some firms were able to absorb these costs. In contrast, prices decreased for many agricultural goods, including animal proteins. Many bankers reported charging lower interest rates on loans. Similarly, scheduled price increases for undergraduate tuition and some technology services were deferred this year. A few contacts also noted that prices for air travel and hotel rooms remained subdued.

Retail Trade and Services

Retail sales rose noticeably over the reporting period. The retail sector benefited from further easing of social-distancing restrictions and better adherence to health and safety guidelines. Contacts reported that consumers felt more comfortable shopping, and foot traffic increased. Sales in brick-and-mortar stores picked up strongly but remained below pre-pandemic levels, while online sales continued to be robust. Demand for durable goods such as home appliances, home improvement goods, and vehicles increased noticeably, and retailers noted low inventories. Grocers in Southern California and the Pacific Northwest highlighted limited supplies of many products and more customers stocking up and switching brands. A specialty retailer in Arizona noted strong sales for pet products but weak department store sales for women's fashion products.

Conditions in the consumer and business services sectors improved somewhat over the reporting period. High demand remained for logistics and transportation services, including home deliveries and shipment of health-care products. Activity remained strong in the information technology and health-care sectors as well as the mental health services subsector. Food service, travel, and hospitality providers reported incremental sales increases over recent weeks, though the pickup in activity has been comparatively faster in the Mountain West relative to other areas in the District. Generally, firms in these sectors continued to operate at a fraction of their pre-pandemic levels, and contacts expressed concern regarding prospects for the winter. Conditions in the entertainment and the health and beauty sectors continued to be precarious. One contact in the education sector reported decreased enrollment rates at both two- and four-year undergraduate institutions, which is unusual during economic downturns.

Manufacturing

Manufacturing expanded moderately. Demand for manufactured wood products and building materials soared on the back of a very active residential real estate market. Construction activity also underpinned strong sales of fabricated and recycled metals over the reporting period, although one contact attributed the rise in demand mainly to niche markets. Manufacturers of home appliances and recreational equipment reported limited increases in production, given pandemic-related capacity reductions. In the Mountain West, meat-processing plants saw increased demand for beef products but a reduction in pork sales. These plants continued to experience COVID-19-related staff shortages but remained open per local officials' orders aimed at ensuring adequate food supply.

Agriculture and Resource-Related Industries

Conditions in the agriculture sector improved modestly. Most of the grain crops in the Mountain West and the eastern Pacific Northwest have been harvested, with high yield and quality. Yields of grapes, nuts, peaches, and tomatoes in California's Central Valley also were good. Potato output was not as high as expected, though quality remained high. Domestic sales of peaches, wine grapes, vegetables, oils, seafood, and beef rose on the tailwind of ameliorated supply chain disruptions and reduced costs. Higher output and a recent depreciation in the U.S. dollar contributed to increased international sales of grain, fruit, raisins, and nuts, principally to Asian markets. Growers throughout the District reported the

potential risks of new COVID-19 cases among their workforce as well as wildfires, which could harm supply chains and production.

Real Estate and Construction

Residential construction activity increased further, supported by a low interest rate environment. Contacts reported increased demand for new and existing homes throughout the District, which kept inventories low and construction permitting high. Home prices continued to climb at double-digit rates, partially fed by increased demand for suburban homes in the current telework environment. Rents in metropolitan areas dipped. Contacts expressed some concern over the undersupply of affordable housing, especially after some regions suffered from wildfire-led destruction. Homebuilders in the Mountain West and Pacific Northwest reported backlogged projects, increased costs of building materials, and finalized sales well in advance of project completion.

Activity in the commercial real estate market remained broadly unchanged. Demand for commercial and office space was either stagnant or decreased in most of the District. However, new hotels and offices continued to be built in the Mountain West. In other areas, demand for new industrial and warehouse space expanded. A contact in Alaska noted that prices for commercial real estate remained unchanged despite subdued local activity and more emigration from the area.

Financial Institutions

Overall lending activity picked up at a fair pace. Contacts noted that the bulk of demand was for home mortgages and refinancing as households took advantage of low interest rates, as well as for auto loans. In contrast, utilization of commercial lines of credit was down, as was demand for unsecured personal loans. Financiers noted strong asset quality, liquidity conditions, and capital positions. Deposits continued to grow at double-digit rates. Some contacts suspected that deposit levels remained high partially due to PPP funds being kept in firms' checking accounts. Contacts highlighted some uncertainty regarding loan demand in coming months given expected decreases in activity over the winter. Some bankers in California reported that a few retail bank branches closed due in part to wildfires. One contact expressed concern over mortgage forbearances and eviction moratoriums and their implications for loan servicing and the health of the real estate market once the deferral periods are over. ■



