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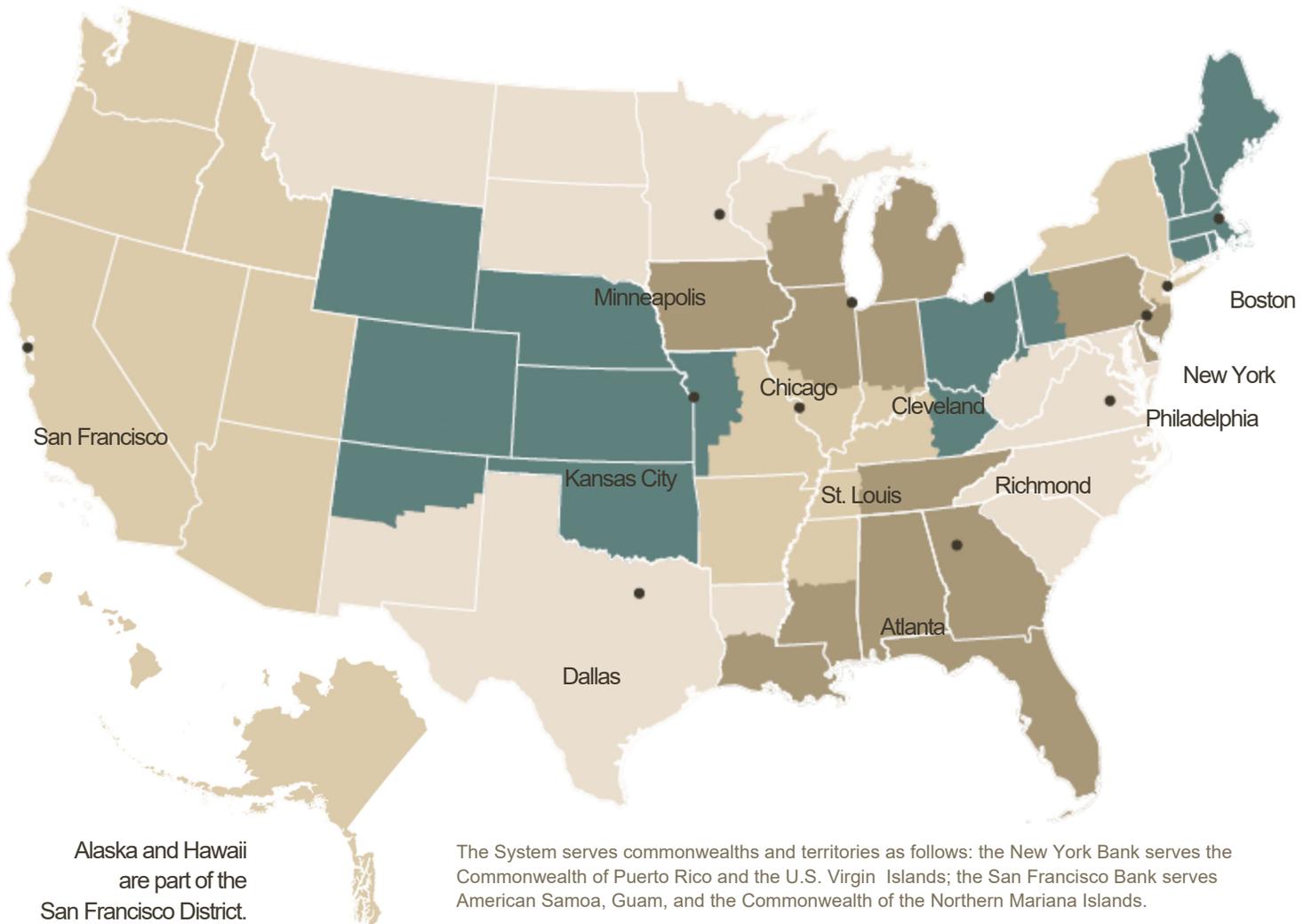
The Beige Book

Summary of Commentary on Current Economic Conditions

By Federal Reserve District

April 2021

Federal Reserve Districts



This report was prepared at the Federal Reserve Bank of Dallas based on information collected on or before April 5, 2021. This document summarizes comments received from contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.

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What is the Beige Book?

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

What is the purpose of the Beige Book?

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

How is the information collected?

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

How is the information used?

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

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

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



National Summary

The Beige Book ■ April 2021

Overall Economic Activity

National economic activity accelerated to a moderate pace from late February to early April. Consumer spending strengthened. Reports on tourism were more upbeat, bolstered by a pickup in demand for leisure activities and travel which contacts attributed to spring break, an easing of pandemic-related restrictions, increased vaccinations, and recent stimulus payments among other factors. Auto sales grew, even as new-vehicle inventories remained constrained by microchip shortages. The picture in nonfinancial services generally improved, partly supported by strengthening demand for transportation, professional and business, and leisure and hospitality services. Despite widespread supply chain disruptions, manufacturing activity expanded further with half the Districts citing robust growth. Bankers in most reporting Districts saw modest to moderate increases in overall loan volumes. Sustained high demand and tight supply of single-family homes further pushed up prices, and builders noted ongoing production challenges, including rising costs. Reports on commercial real estate and construction varied, with activity in the hotel, office, and retail segments generally remaining weak. Agricultural conditions were mostly stable over the reporting period. Activity in the energy sector was mixed; coal production fell, while oil and gas drilling was flat to up. Outlooks were more optimistic than in the previous report, boosted in part by an acceleration in COVID-19 vaccinations.

Employment and Wages

Employment growth picked up over the reporting period, with most Districts noting modest to moderate increases in headcounts. The pace of job growth varied by industry but was generally strongest in manufacturing, construction, and leisure and hospitality. Hiring remained a widespread challenge, particularly for low-wage or hourly workers, restraining job growth in some cases. Commercial and delivery drivers were specifically cited as in short supply, as were specialty and skilled tradespeople. Some firms noted absenteeism due to COVID-19 was down. Employment expectations were generally bullish. Wage growth accelerated slightly overall, with more significant wage pressures in industries like manufacturing and construction where finding and retaining workers was particularly difficult. Some contacts mentioned raising starting pay and offering signing bonuses to attract and retain employees.

Prices

Prices accelerated slightly since the last report, with many Districts reporting moderate price increases and some saying prices rose more robustly. Input costs rose across the board, but especially in the manufacturing, construction, retail, and transportation sectors—specifically, metals, lumber, food, and fuel prices. Cost increases were partly attributed to ongoing supply chain disruptions, temporarily exacerbated in some cases by winter weather events. There were widespread reports of increased selling prices also, but typically not on pace with rising costs. Contacts generally expect continued price increases in the near term.

Highlights by Federal Reserve District

Boston

Economic activity in the First District expanded at a modest to moderate pace in late February and March. Tourism seemed poised for a summer rebound. Two firms enacted large layoffs, but otherwise headcounts were stable or up. The outlook was mostly optimistic, but several contacts expressed growing concerns about inflation.

New York

The regional economy grew at a strong pace for the first time during the pandemic, with growth broad-based across industries. Hiring picked up and wages continued to grow moderately. Consumer spending and tourism picked up noticeably. Input price pressures have intensified, and more businesses are raising their selling prices.

Philadelphia

Business activity picked up to a moderate pace of growth during the current Beige Book period. However, severe myriad supply constraints continued to hamper potential growth from demand described as “on fire,” and activity remained below levels attained prior to the pandemic. Employment ticked up modestly, as wage growth and prices continued at modest and moderate paces, respectively.

Cleveland

The District’s expansion accelerated with a new round of government stimulus and more widely available vaccines. There were even signs of improvement in the hard-hit accommodation and food services sector. Supply chain disruptions spread, however, limiting growth and putting upward pressure on input costs. Looking forward, firms expect the economy to grow robustly in 2021 as supply chain constraints ease later in the year.

Richmond

The regional economy grew moderately in recent weeks. Production increased strongly and importing picked up, leading to high volumes for ports and trucking companies. Consumer spending also picked up. Both manufacturers and retailers faced delays and shortages of raw materials and finished goods. Employment increased and firms looked to fill open positions. On balance, prices rose moderately.

Atlanta

Economic activity expanded at a modest pace. Labor market conditions improved. Some nonlabor costs continued to rise. Retail sales increased. Hospitality and tourism activity strengthened. Residential real estate activity remained strong and home prices rose. Commercial real estate conditions were mixed. Manufacturing activity improved. Banking conditions were stable.

Chicago

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

St. Louis

Reports from contacts indicate that economic conditions have been moderately improved since our previous report. Many contacts cited faster-than-expected pace of vaccinations for stronger-than-expected activity and an improving outlook.

Minneapolis

The District economy grew moderately, with signs of acceleration. Job openings and employment rose, but unemployed workers faced obstacles in job searches. Construction showed renewed signs of growth, manufacturing continued to increase, and higher commodity prices benefited farmers. Despite improved oil prices, drilling remained subdued. Minority-owned firms reported more financial instability than firms overall.

Kansas City

Economic activity expanded moderately in March, and contacts were optimistic about growth in the coming months. Consumer spending rose moderately as retail, restaurant, auto, and tourism sales increased. Activity also expanded moderately in the manufacturing, professional and high-tech services, wholesale trade, transportation, residential real estate, and energy sectors.

Dallas

The District economy accelerated and was boosted by strong growth in manufacturing, retail, and nonfinancial services. Activity in the housing market remained robust, and energy activity rose further. Supply chain disruptions led to marked increases in goods prices. Outlooks were more positive and less uncertain than in the previous reporting period.

San Francisco

Economic activity in the District expanded at a moderate pace as labor markets conditions improved. Wages and inflation picked up. Retail sales growth accelerated, while activity in the services sector rose slightly. Conditions in the manufacturing sectors strengthened modestly. Residential construction continued to be strong. Lending activity grew further but loan refinancing tapered somewhat.



Summary of Economic Activity

Economic activity among First District contacts increased at a modest to moderate pace. Retail sales strengthened in the first quarter at two of three firms, advance travel bookings increased, and sales were either stable or up modestly among contacts in the manufacturing sector and in software and IT services. On a year-over-year basis, more than half of manufacturers and two of three retailers saw robust gains, while air travel remained below pre-pandemic levels as did sales at software and IT services firms and at one retailer. Commercial and residential real estate markets extended their earlier trends, as industrial properties and single-family homes remained in high demand and short supply, and year-over-year gains in home sales moderated. Hiring activity was mixed and wage increases were moderate on balance. The outlook was stable or increasingly optimistic but concerns about inflation intensified at several firms.

Employment and Wages

Hiring activity was mixed and wage increases were moderate. One manufacturer and one travel industry contact laid off large numbers of workers in recent months, but otherwise headcounts were either flat or up. A few manufacturing contacts added significant numbers of employees in 2020 and modest numbers recently, and others were trying to hire new workers with little success. A life sciences manufacturer paused an ambitious hiring plan for 2021 pending the resolution of regulatory uncertainty. Software & IT contacts were engaged in limited to modest hiring activity, following a 20 percent increase in headcounts at one firm in 2020. Hospitality contacts anticipate seasonal worker shortages this summer due to limits on visas. Among contacts in software and IT, manufacturing, and retail, more than half implemented wage increases for 2021 ranging from 3 to 4 percent, one held wages fixed, and others did not provide wage information. One manufacturer raised its minimum wage to \$15 to attract more workers, and two retailers also boosted pay for low-wage workers to reduce turnover.

Prices

Reports raised the possibility that inflation could increase in the coming months. Most manufacturers and one retailer reported steep input price increases—in the double digits on a year-over-year basis in most cases—for goods such as paper and paper pulp, wood, pollock fish, fabric, foam, plastics, and shipping and transportation services. A furniture retailer had already raised

prices (as did their competitors) to pass along increased materials costs, and three manufacturers planned to raise their prices in 2021 in response to cost pressures. Some cost increases were attributed to logistical issues, weather-related disruptions, and/or to higher oil prices, but several contacts also mentioned robust demand as a factor. Based on a recent surge in advance bookings on Cape Cod, one contact forecasted that hotel room and vacation rental rates could reach record levels in the coming months. Among software and IT contacts prices were unchanged but margins increased year-over-year on cost savings from remote work postures.

Retail and Tourism

Retailers reported strong sales throughout the first quarter of 2021. A furniture retailer experienced a record setting March, which was attributed to customers accessing stimulus funds, but also faced extended delays in receiving goods. A clothing retailer said that recent sales were up 30 percent over their pre-pandemic levels on the strength of online sales; the same retailer saw a sharp reduction in post-holiday returns relative to 2020. A home décor retailer reported steady sales across US stores throughout the winter months, but added that sales remained below pre-pandemic levels by low single-digit percentages.

Travel industry respondents continued to report major disruptions related to COVID-19 for air travel. The number of airline passengers through Boston remained down

about 70 percent in February and March compared with the same months in 2019, and the decline for international flights was estimated at nearly 80 percent. Contacts expected leisure travel to increase in the coming months as vaccination rates progress, and scheduled flights are already on the rise. Advance hotel bookings and short-term rentals for summer stays on Cape Cod are up dramatically from their typical April levels, and occupancy rates, hotel room rates, and short-term rental rates there are on track to break records this summer.

Manufacturing and Related Services

Most contacts said that sales were roughly stable in recent months, and two reported modest increases. Year-over-year sales results were mixed, as 5 of 8 contacts reported robust increases and others saw moderate declines or flat sales compared with 2020Q1. Firms with double-digit sales increases from 2020 included a manufacturer of membrane materials that said growth was strong across all business lines and all regions of the world, including Europe. Several contacts said that sales were limited only by their capacity. Firms that posted over-the-year declines included a drug company that lost patent protection on a key product, and a toy manufacturer that depends on new entertainment products to boost sales and so was hit hard by the pandemic.

Capital investments were ongoing at most contacts, although only a few had revised their spending plans upward in response to strong sales. Several contacts reported that delays in the delivery of capital goods had reduced capital expenditures in 2020 and that they planned to spend more in 2021 as a result.

All contacts were optimistic for 2021 but most had not changed their forecast in recent months. A frozen fish manufacturer held a cautious outlook because, despite exceptionally strong recent sales, the end of the pandemic was seen as a potential damper on demand for their products. Contacts also expressed concern about rising inflation over the rest of the year.

Software and Information Technology Services

Most contacts enjoyed steady or improved activity in recent weeks but also said that demand remained well below pre-pandemic levels. At two firms, demand for subscription-based cloud computing services extended an upward trend. Most contacts were optimistic for the remainder of 2021. Contacts forecasted that progress in vaccinations and the return of in-person activities would boost consumer and business confidence as 2021 unfolds, translating into stronger demand for their products.

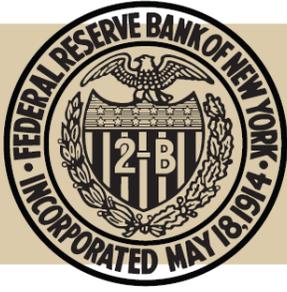
Commercial Real Estate

Commercial real estate conditions in the First District were mostly unchanged in recent weeks. Industrial vacancy rates remained extremely low and rents increased further at a strong pace. Investors and users alike sought to build new warehouses and distribution centers despite high construction costs. A lender to commercial real estate faced increased competition from large national banks on mid-priced deals, as the large banks faced weak demand for larger commercial real estate loans. Construction activity in the life sciences sector remained robust, and extended to the conversion of vacant office space. Retail leasing was better than expected for smaller urban spaces but remained weak for big box stores and malls. The office sector continued to struggle with large quantities of sublease space, and although rents held mostly steady, contacts expect downward pressure on rents to increase moving forward. Reportedly, some landlords were holding office space off the market in anticipation of stronger demand in late summer, although office footprints are expected to stay well below pre-pandemic levels for an extended period. Contacts remained concerned that speculative construction of lab space at current rates could yield a glut by 2023-2024.

Residential Real Estate

Extremely low inventory and high demand continued to characterize the residential real estate market in the First District through January and February. (Vermont reported changes from January 2020 to January 2021, most other areas provided changes from February 2020 to February 2021, and Connecticut provided no data). Closed sales increased in all reporting areas, but by a smaller margin than in recent reports. The Rhode Island contact attributes the slowdown to reduced inventories. Home inventories were down by double digit percentages for all reporting markets except Boston condos, where inventory again posted a year-over-year gain. Some contacts noted that while interest rates increased slightly in February, the increase so far had not blunted demand. Prices increased in all reporting areas. Extending a pandemic-related trend, suburban single-family homes remained the most favored product type. Contacts expected demand to strengthen further moving forward but they expressed concern that low inventories would crimp sales and limit affordability for many potential buyers. ■

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



Summary of Economic Activity

Economic activity in the Second District has accelerated sharply in the latest reporting period, growing at a strong pace, despite an upturn in reported COVID cases across the District. Moreover, business contacts have grown increasingly optimistic about the near-term outlook. The labor market has strengthened, with contacts reporting a pickup in hiring activity, hiring plans, and wages. Input price pressures have continued to intensify, and more businesses report that they are raising their selling prices. Consumer spending has strengthened, with retail sales exceeding expectations. Tourism has continued to strengthen, though it remains well below pre-pandemic levels. Housing markets have generally remained robust, while markets for office and retail space appear to have stabilized at weak levels. Finally, contacts in the broad finance sector reported modest improvement in conditions, while regional banks reported steady to higher loan demand and little change in delinquency rates.

Employment and Wages

The labor market strengthened moderately in March, with businesses in most major industry sectors reporting a pickup in employment. A major New York City employment agency noted that financial sector hiring, though still subdued, has improved to levels not seen since before the pandemic. An upstate employment agency reported that hiring activity has picked up across the board and that it remains difficult to fill lower-wage jobs.

Hiring plans for the months ahead increased markedly—particularly in the manufacturing, leisure & hospitality, and information sectors. Hiring and retaining tech workers has been cited as a particular challenge, due to competition from major tech firms as well as visa restrictions.

Wages have continued to grow moderately, at a similar rate as in the last report. Wage increases were particularly widespread in the retail, transportation, information, and construction sectors. Looking ahead, more businesses reported plans to raise wages than at any time during the pandemic, with the most widespread hikes expected in the leisure & hospitality, professional & business services, transportation, and retail trade sectors.

Prices

Firms' input prices have continued to accelerate, with

exceptionally widespread increases reported from contacts in manufacturing, as well as sizable increases in construction, transportation, retail trade, and leisure & hospitality. Businesses in most sectors continue to expect widespread hikes in the prices they pay in the months ahead.

Selling prices have also continued to accelerate but more moderately. Still, contacts in the manufacturing and distribution sectors report widespread increases in their selling prices and also in their plans to hike prices in the months ahead.

Consumer Spending

Consumer spending has strengthened in recent weeks. Non-auto retailers reported that both business and foot traffic have picked up but were still short of normal levels. One retail chain noted that its sales across the District have exceeded plan, though sales at New York City stores continued to lag. Demand for home goods remained strong and luggage sales have reportedly picked up, whereas clothing sales have picked up somewhat but remain weak. Sales in some categories, notably furniture, have reportedly been constrained by inventory shortages due to supply chain delays. Retail contacts remained optimistic about the near-term outlook, but the uncertainty associated with the long lead time between ordering and receiving merchandise has been a concern.

New vehicle sales showed signs of picking up noticeably in March, despite low inventories—a constraint that is expected to persist for several months, due to various factors including a shortage of microchips used in new vehicles. Used auto sales have been somewhat constrained by low inventories. Dealers indicate that credit availability is not much of an issue.

Consumer confidence among New York State residents climbed in March to its highest level in a year, led by a surge in expectations.

Manufacturing and Distribution

Manufacturing activity picked up further in March, expanding at a robust pace. Contacts in wholesale trade and transportation & warehousing also reported that activity picked up briskly. Contacts in these sectors continued to report supply disruptions and delays—particularly in getting shipments from overseas.

Looking ahead, businesses in all these sectors expressed increasingly widespread optimism about future business prospects.

Services

Service industry contacts also reported a strong pickup in growth in the latest reporting period. Contacts in information and professional & business services reported a brisk pickup in business, while education & health providers noted a moderate pickup. Contacts in the leisure & hospitality sector noted a significant upturn in activity for the first time since the onset of the pandemic. Looking to the months ahead, contacts in all these sectors expressed widespread optimism about business prospects.

Tourism has continued to trend up. Leisure air travel reportedly increased sharply in March, and flight bookings are being made longer in advance. In New York City, weekend hotel occupancy rates have risen steadily since the last report, recently surpassing 50 percent, though nightly room rates are still substantially below pre-pandemic levels. Future bookings have also expanded. Some hotels that had previously announced permanent closures have more recently announced plans to reopen. Museums and restaurants have also seen a steady uptrend in business. Most of the rebound in tourism has been from day-trippers and other domestic visitors, though tourism from Central and South America has reportedly increased.

Real Estate and Construction

Housing markets have strengthened further in the latest reporting period. Sales markets in upstate New York have been particularly robust, with brisk sales volume,

lean inventories, and strong price appreciation, with many homes reportedly selling for well above asking price. Home sales activity in areas around New York City has strengthened as well, with prices holding steady but running 5-10 percent ahead of pre-pandemic levels. Inventory levels remain low but have been stable since the start of the year.

New York City's co-op and condo market has picked up further since the last report, with apartment sales volume so far this year surpassing comparable 2020 levels. However, price trends have been mixed, down nearly 10 percent in Manhattan but edging up to record highs in the outer boroughs. The inventory of unsold units has come down but remains somewhat above historical norms. New York City's rental market has stabilized, though rents are still down 15-20 percent from early-2020 levels in Manhattan and down 8-10 percent in Brooklyn and Queens. However, leasing activity has remained fairly brisk.

Commercial real estate markets have been mixed across the District. Office markets in New York City and northern New Jersey have continued to soften, but markets elsewhere across the District have steadied. The market for retail space has been fairly steady in recent weeks, though still quite slack, especially in New York City.

New office construction has remained sluggish, but residential construction has picked up outside New York City. Contacts in the District's construction industry remained somewhat negative about current conditions but have grown increasingly optimistic about the near-term outlook; the main concerns expressed pertain to costs of materials and shortages of materials and skilled workers.

Banking and Finance

Businesses in the broad finance sector reported modest improvement in business activity. Small to medium sized banks in the region reported rising demand for business loans, as well as commercial and residential mortgages, but steady demand for consumer loans. Bankers reported unchanged credit standards for all categories, steady loan spreads, and no change in average deposit rates. Contacts reported little change in delinquency rates, with bankers reporting some decrease in lenient policies for delinquent consumer loan and home mortgage accounts.

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



Summary of Economic Activity

On balance, business activity in the Third District picked up to a moderate pace of growth during the current Beige Book period from a more modest pace in the prior period. The share of adults who have received at least one dose of a COVID-19 vaccine climbed past one-third. With the reduced risk from the coronavirus and the return of spring weather, contacts expressed sentiments ranging from “hot demand” and “on fire” to “giddy and euphoric.” Still, supply constraints were noted in nearly every sector, including a tighter labor market, a diminishing inventory of for-sale homes, and severe supply chain disruptions. Thus, activity in most sectors remained below levels observed prior to the onset of the pandemic. Net employment picked up to a modest pace of growth. Positive wage and price growth trends continued at modest and moderate paces, respectively. More than 60 percent of the firms expressed positive expectations for continued growth over the next six months – the percentage has broadened further among all firms since the prior period.

Employment and Wages

Employment appeared to increase modestly overall – an uptick from the slight pace of growth in the prior period. The share of firms reporting employment increases broadened to one-fifth among nonmanufacturers, while reported increases remained near one-third among manufacturing firms. The smaller share of firms that reported employment decreases fell further for manufacturers and held steady for other firms. Moreover, average hours worked rose again for a still larger share of all firms.

Staffing firm contacts reported that demand for new orders continued to be strong, while hiring and retaining qualified job candidates remained a challenge. Numerous manufacturing contacts lamented a growing lack of machinists and other skilled workers. Contacts from several sectors noted challenges because of a lack of delivery drivers for trips ranging from commercial long-haul to last-mile deliveries. A homebuilder related that a landscaper had hired 20 laborers in early February and none showed up for work.

Wages continued to rise modestly. The percentage of nonmanufacturing firms reporting higher wage and benefit costs per employee remained near one-third, while the share reporting lower wages fell to near zero. Firms are

competing more aggressively for lower-wage workers. One contact noted a bidding war for housekeepers in that resort location. Signing bonuses – a common practice in the warehouse sector – were reported by several contacts in the hospitality sector; for example, one restaurant had begun offering \$1,000 if workers stayed for at least 90 days. Another retail contact reported possibly raising the firm’s minimum wage to \$15.00 an hour sooner than previously planned.

Prices

On balance, prices continued to rise moderately over the period. About three-fourths of the manufacturers reported higher prices for factor inputs, but those receiving higher prices for their own products remained near one-third. Similarly, about one-third of the nonmanufacturers reported that prices rose for their inputs, but about one-fourth noted higher prices received from consumers for their own goods and services.

Ongoing disruptions of the supply chain were cited by nearly every sector. In addition to the persistent COVID-related disruptions to production and logistics, the Texas freeze and the Suez Canal blockage further contributed to commodity shortages and price spikes.

Nearly three-fourths of the manufacturing contacts reported expectations of paying higher prices over the next

six months, and half expected to receive higher prices for their own goods.

Manufacturing

On average, manufacturing activity continued growing at a moderate clip. About 40 percent of the firms reported increases of shipments, and about 50 percent reported increases in new orders. On net, manufacturing activity remained below pre-pandemic levels, although some firms have reported increased demand for their products.

Several contacts described demand as nearing pre-pandemic levels in much of the world. However, most contacts continued to note supply chain disruptions from COVID-19 cases and protocols at plants and ports. Order backlogs and inventories grew further and delivery times were reaching record levels.

Consumer Spending

Contacts noted modest growth of nonauto retail sales with ongoing incremental gains among retailers and more of a surge for restaurants as vaccinations and spring weather combined to release “cooped-up demand.” However, pockets of weaker demand persist, especially in urban retail neighborhoods that are oriented toward daytime office workers.

Reports from auto dealers suggest that sales may have grown slightly. As with other sectors, demand is strong, but a lack of inventory on dealer lots is constraining the upside on volumes; however, profit margins are stronger.

Overall, tourism appears to have grown modestly, with the greatest demand from leisure travelers outside of urban areas. Contacts describe business and group travel as still inching back and anticipate several years before those return to pre-pandemic levels.

Nonfinancial Services

On balance, nonmanufacturing activity appeared to pick up to a moderate pace of growth following a modest increase in the prior period. About half of the firms reported increases of sales or revenues; however, most firms continued to note that output remains below pre-pandemic levels.

Financial Services

The volume of bank lending rose modestly during the period (not seasonally adjusted); in the same period in 2020, by contrast, loan volumes grew sharply. Commercial and industrial loans rose sharply this year, but not nearly as much as the massive surge last year when the first Paycheck Protection Program loans were issued. Commercial real estate lending rose modestly, but auto lending and other consumer loans fell modestly, and

home mortgages and home equity lines fell moderately. Seasonal factors drove credit card volumes down moderately – roughly equal to the pace over the same period in 2020.

Bankers, accountants, and bankruptcy attorneys continued to report relatively few problems with loans or debt. Contacts noted that the latest stimulus package had eased the concerns for many harder-hit businesses. Contacts noted that some businesses are beginning to make investment decisions, especially mergers and acquisitions; however, other firms are still waiting. Some firms that provide direct services are unsure whether consumer demand will return to pre-pandemic levels. A few firms are in “deep financial trouble” and are beginning to explore bankruptcy.

Real Estate and Construction

Homebuilders continued to report moderate growth in contract signings stemming from very strong demand across most demographics. Contacts noted that sales and construction would be higher still, but for continued myriad supply chain disruptions and a tight labor market.

Despite strong demand, existing home sales grew slightly, at best, as the supply of available for-sale homes continued to shrink. Growth slowed in nearly all local markets, and several reported declining sales but rising prices.

Analysts reported modest declines in demand for commercial office space – citing negative net absorption and rising vacancy rates throughout the Greater Philadelphia region. Rents edged down in the Wilmington and South Jersey submarkets but edged up in Philadelphia. Many major office tenants continued to operate remotely. Meanwhile, accounting contacts noted that some of their clients (and some of their own firms) have made the decision to permanently increase remote work. In particular, some smaller nonprofits have gone completely virtual. ■

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



Summary of Economic Activity

The pace of business activity accelerated in recent weeks, and the pickup appeared widespread across the Fourth District and by industry segments. Contacts often suggested that additional government stimulus and progress in the fight against the COVID-19 pandemic were the key factors supporting the recent improvement in current conditions. Those same factors were cited as leading to a decidedly more optimistic outlook for demand moving forward. The improved outlook likely contributed to an increase in capital spending plans as some firms appeared more willing to move forward with projects that had been delayed as a result of uncertainty surrounding the pandemic and its effects on demand. More firms also appeared ready to increase staffing, although their plans to do so were often constrained by a dearth of qualified applicants for open positions. These labor constraints contributed to supply chain disruptions such as shortages of key inputs and freight and shipping delays. The effects of supply chain constraints included longer lead times and project delays and higher nonlabor input costs. Many firms reported that they were trying to pass through these higher costs to their customers, with varying degrees of success.

Employment and Wages

Staffing levels increased modestly, according to our contacts, even as firms continued to face a dearth of available talent. Staffing services firms said that demand for their services increased further from already strong levels, with search requests coming from clients in a wide array of industries. Among these were manufacturers, some of which had been using overtime to keep up with demand but had recently decided to add more permanent workers rather than overextend their existing workforce. Even some firms in the hard-hit energy and accommodation sectors recently added to their staffs. Quite often, however, plans to add workers were hampered by the limited availability of qualified applicants to fill open positions. In some cases, contacts indicated that they were planning to adopt more technology (in lieu of more employees) to keep up with demand.

A little more than 40 percent of our survey respondents reported that they had raised wages over the past two months, with the remainder indicating that wages had not changed. Reports of wage increases spanned a variety of industries but were particularly prominent in reports from staffing services firms, construction contacts, manufacturers, and transportation firms. One staffing services firm, which has been surveying its employees for five years, noted that in its latest survey for the first time pay had surpassed the type of work as the top priority of job seekers.

Prices

Reports of increases in input costs and selling prices have grown more frequent in recent weeks. Two-thirds of our contacts reported that nonlabor input costs increased in the last two months. This is the highest share to report an increase in more than two years. As was the case with wages, the increases were widespread across industries, with contacts' suggesting that prices were rising meaningfully for many materials (such as wood, steel, plastics, and glass products) and for some services (such as shipping, logistics, and advertising). In many instances, rising input costs were attributed to supply chain disruptions that have been rippling through the economy for several months.

At the same time, about half of our survey respondents said that selling prices had increased over the prior two months. This number compares with roughly a third who reported the same toward the end of 2020. As was the case with input costs, reports of price increases were evident in every industry. Some contacts said they increased prices to offset higher costs, in most cases only partially. But a few acknowledged that strong demand allowed them to boost margins. Contacts generally expected cost pressures to persist in the near term, with one suggesting that "the imbalances causing costs to rise are not likely to be resolved quickly." However, many expect supply chain challenges to dissipate later in the year, and this will ease cost and price pressures.

Consumer Spending

Reports suggest that consumer spending grew significantly toward the end of the reporting period, primarily supported by recent fiscal stimulus and continued progress in the fight against the pandemic. General merchandisers and apparel retailers said that demand was up notably in recent weeks, and auto dealers commented that sales remained very strong. Restauranters and hoteliers reported improvements in leisure activity and group events, and one hotelier said that although business travel remained weak, there was an uptick in recent weeks. Contacts were optimistic that consumer spending will continue to recover in the coming months thanks to fiscal stimulus, rollback of government-mandated restrictions, and expanded vaccination efforts.

Manufacturing

Manufacturing orders increased strongly across a range of end-user markets. Some firms reported stronger orders from customers who are seeking to replenish inventories. Conversely, aerospace remained depressed but saw modest gains. As a sign that activity in this sector might improve, one supplier said it recently received double the normal number of requests for quotes. Supply chains continued to be disrupted for many manufacturers, especially for products sourced from abroad. A number of contacts said that future delays in acquiring raw materials and intermediate products from foreign suppliers were likely. On balance, the majority of respondents expected conditions to improve in the coming months, though difficulty in hiring, rising input and transportation costs, and material shortages tempered expectations for continued growth.

Real Estate and Construction

Demand for residential construction and real estate remained strong. However, exceptionally lean inventories and elevated materials costs pushed up home prices, a situation which, along with moderately higher mortgage interest rates, has reduced average affordability. Looking ahead, contacts worried that demand will begin to diminish if home prices continue to rise.

Nonresidential construction and real estate activity increased since our last report, although this increase was uneven across segments. Demand for light-manufacturing and industrial space remained solid, and demand for office and retail space, while still weak, experienced a modest rebound. Contacts attributed the increase in activity to the loosening of business restrictions and improved consumer confidence. Overall, contacts were optimistic that demand would increase further as governments continue to roll back restrictions and vaccines become more widely distributed.

Financial Services

Banking activity increased moderately during the reporting period. Contacts noted that demand for auto loans and mortgages remained strong, although the recent uptick in mortgage rates dampened refinancing activity. While business lending remained relatively soft, multiple contacts reported an improvement in demand, especially for commercial real estate loans. Lenders said that delinquency rates for consumer and commercial loans were still low and that the number of active forbearance agreements continued to drop. Most banks saw growth in core deposits as households received fiscal stimulus funds. Looking ahead, bankers were optimistic that loan demand would continue to pick up as COVID-19 restrictions ease and more vaccines are distributed.

Professional and Business Services

Strong demand persisted for professional and business services firms as many of their client businesses began to return to normal operations. The owner of a construction and real estate publication noted that business optimism had increased significantly, and an increasing number of firms was willing to put more of a focus on advertising. Contacts anticipated demand will continue to grow as the business climate improves and the broader distribution of vaccines gives firms the confidence to implement projects and initiatives that had previously been put on hold.

Freight

Demand for freight services remained strong in recent weeks as the recovery continued to spread across geographies and sectors. While many freight haulers reported a need to increase freight capacity, a scarcity of truck drivers made growth difficult. Looking forward, more than two-thirds of transportation contacts expected demand to improve further in coming months even as driver shortages persist. ■

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



Summary of Economic Activity

The Fifth District economy grew moderately in recent weeks. Manufacturers experienced robust growth and demand that often exceeded production capacity, due in part to labor constraints and shortages and shipping delays of raw materials. Ports also saw strong increases in shipping volumes, particularly for retail and medical goods. Trucking volumes were little changed at near-record high levels. Retailers reported moderate growth in consumer spending but also faced shortage and delays receiving inventories. Travel and tourism picked up modestly in recent weeks and vacation rental bookings were strong. Residential real estate demand remained strong and low inventory levels led to higher selling prices. Commercial real estate leasing rose modestly, overall, but some firms downsized their office space. Loan activity grew moderately, lifted by new PPP applications, plus strong deposit growth from stimulus payments. Nonfinancial service demand also picked up moderately, overall. Employment rose modestly as hiring was constrained by challenges filling open positions. Prices rose moderately, on balance. Manufacturers reported sharp increases in both prices paid and prices received while construction materials were little changed at elevated levels and service sector prices rose moderately.

Employment and Wages

Employment increased modestly in recent weeks, with wide variation across sectors. Several contacts noted that they had open positions, but difficulties recruiting workers constrained employment growth. A hotelier said they were able to hire some front desk workers but had unfilled cleaning staff positions and little interest from workers in those jobs. Several firms also reported increased turnover and challenges retaining workers. One manufacturer said that they needed to hire and train three workers to retain one. In contrast, a professional business firm said it was difficult to find engineers and technical professionals because those workers were hesitant to change jobs. Wages rose moderately, on balance. A staffing agency noted that firms seeking hourly and lower-wage workers were raising wages due to challenges filling open positions.

Prices

Overall, prices rose at a moderate rate in recent weeks, but price growth was uneven across sectors. Manufacturers reported sharp increases in both prices paid and prices received. In particular, prices for durable goods, such as autos and home appliances, increased amid strong demand and low inventories, due in part to the shortage of microchips. Prices for construction materials were little changed in recent weeks but remained consid-

erably higher than year-ago levels, particularly for copper, steel, and lumber. Service sector prices rose moderately, on balance. Some legal and professional business services were able to increase prices in response to strong demand.

Manufacturing

Fifth District manufacturers reported robust growth since our last report, as both shipments and new orders increased sharply. Producers of furniture and food saw especially high demand, often exceeding supply. Contacts reported that decreases in COVID cases were leading to fewer delays from labor constraints. However, manufacturers saw capacity constraints resulting from supply side disruptions, particularly lengthening lead times on imports. Shortages of packaging and raw materials were especially pronounced. Manufacturers also struggled to ship finished goods amid limited trucking supply and a shortage of containers for exports. While input costs were elevated, profits remained strong as manufacturers were able to pass costs through to customers.

Ports and Transportation

Ports continued to see robust growth in shipping volumes in recent weeks. Growth of imports far exceeded growth of exports. Furniture, retail goods, and medical

products drove much of the growth on the import side, but auto imports weakened somewhat. Agricultural exports increased, and contacts noted a decrease in the number of empty containers being exported. Sea ports struggled with delayed arrivals but reported efficient processing of goods once they reached shore, as turn times for loading trucks fell significantly. Air shipments increased, and a Fifth District airport relied on temporary workers to handle high cargo volumes.

Fifth District truckers reported that volumes held fairly steady at near-record highs since our last report. Demand for freight was strong across many industries, as shipments of home improvement goods and manufacturing inputs remained particularly high. In many cases, companies were unable to meet demand for freight, as capacity was constrained by a lack of drivers and delays in orders of trailers. Contacts expected these constraints to continue and demand to rise, leading to longer delays in shipments.

Retail, Travel, and Tourism

Fifth District retailers saw moderate growth in demand and revenue since our last report. Contacts reported increased shopper traffic, although some clothing retailers reported that many shoppers did not make purchases. Meanwhile, retailers of food and home goods saw especially high demand. Retailers reported shipping delays, shortages, and higher prices for some inventories. Profit margins on both new and used cars increased, as inventories of new cars shrank, which auto dealers attributed to microchip shortages.

Travel and tourism in the Fifth District grew modestly in recent weeks. Vacation rentals saw strong bookings and restaurants had more business, particularly on the weekends. Beach destinations saw high visitation, and other outdoor attractions and activities registered strong demand. Hotel rates remained low, although occupancy picked up in some areas. In the District of Columbia, tourism remained low, and some restaurants and hotels closed, both temporarily and permanently. However, museum visitation increased and restaurants were hopeful that warm weather would attract more outdoor diners.

Real Estate and Construction

Demand for homes remained strong in recent weeks, although some realtors noted a slight decrease in sales, resulting from shrinking inventories of both new and existing homes. Prices continued to rise, and days on the market remained low, with most homes selling in less than a week and many selling within hours. Builders limited their number of weekly sales to preserve invento-

ry and some were holding lotteries to accept customers. Home builders experienced delays in and high costs of materials and appliances. Realtors reported due diligence payment prices are rising.

Commercial real estate leasing grew modestly since our last report but remained below pre-pandemic levels. Multifamily saw strong demand and new construction. Retail conditions were mixed as some businesses closed, but new ones expressed interest in vacated spaces. Many office tenants downsized, and office vacancies rose, even as landlords increased concessions. Businesses continued to ask for short-term extensions on leases. One contact noted an increased interest in small office spaces for individuals working remotely who want to leave home. Demand for industrial real estate was strong, as rates increased and new construction continued, both speculative and built to suit.

Banking and Finance

Overall, loan activity grew moderately this period and was attributed to improving sentiment. Respondents indicated modest growth in business lending, led by a new round of PPP. Contacts stated that commercial real estate lending also experienced slight growth. Mortgage volume remains moderately strong despite rates moving off of historic lows and the lack of housing inventory. Deposit growth was strong due to the new round of stimulus payments. Interest rates on deposits continued to decline slightly, but respondents noted significant market pressure to increase loan rates on the long end. Overall credit quality and delinquencies remained good.

Nonfinancial Services

Overall, the demand for nonfinancial services rose moderately. Firms in the legal and professional business services saw increased revenues and demand as some in-person visits and travel resumed. Life science companies reported steady to increasing business. Demand for health care services was little changed, overall, as non-COVID-19 related demand rose to offset the decline in COVID-19 related care. One health care administrator saw a return to surgical procedures and huge demand for physician services but noted a steep decline in the maternity care unit as births were down almost 10 percent compared to last year. ■

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



Summary of Economic Activity

On balance, economic activity in the Sixth District expanded modestly from mid-February through March. Labor market conditions improved, and wage pressures remained muted. Some nonlabor costs continued to rise, and pricing power was mixed. Retail sales activity rose, and auto sales increased. Tourism and hospitality activity strengthened as hotels reopened and capacity limits were eased. Housing demand was steady, but inventories of new and existing homes remained constrained. Overall, home prices continued to rise. Commercial real estate conditions were mixed. Manufacturing activity was strong and new orders and production levels increased. Conditions at financial institutions were steady, however loan demand remained slow.

Employment and Wages

Sixth District contacts reported improvements in labor market conditions since the previous report. While the remote work stance remained in place for many firms, some began bringing employees back into the office or were making plans to do so over the coming months as vaccine accessibility increases. A majority of contacts anticipate hybrid work models will become the norm for many office workers, and some firms plan to utilize full-time remote positions to attract and retain workers for hard-to-fill positions. Among on-site workers, absenteeism due to illness was down sharply and some firms have eliminated pay premiums and leave policies related to COVID-19. The ability to attract and hire employees varied considerably among contacts, depending on the industry. For example, challenges to fill commercial driver and nursing positions remained. While firms in the hospitality sector were generally successful at filling permanent positions, temporary positions were extremely difficult to fill. Employers noted that unemployment insurance benefits have made it hard to attract workers for temporary and low-wage positions. Some noted that child-care and concerns about COVID-19 exposure continued to lessen worker availability as well.

Most contacts noted that wage pressures remained subdued and mostly limited to occupations in short supply such as nurses, commercial drivers, and warehouse workers. Despite shortages of low-wage workers, there seemed to be less talk of raising wages as compared with reports of late last year. Many expect

normal merit increases during 2021, with higher increases in critical and high-demand fields.

Prices

Consistent with previous reports, input costs, particularly for lumber, steel, transportation, and shipping continued to rise over the reporting period. Some contacts expect a portion of these increases to diminish as supply chain constraints ease. Reports on pricing power were mixed. Industries with strong demand have managed to pass through most input cost increases, while others plan to implement price increases over the coming year as activity returns. The Atlanta Fed's Business Inflation Expectations survey showed year-over-year unit costs were relatively unchanged at 2.2 percent on average in March. Year-ahead expectations increased to 2.4 percent in March, up from 2.2 percent in February.

Consumer Spending and Tourism

District retailers reported an increase in sales since the previous report. Some contacts noted that spending by consumers, driven by increases in tourism, rose above 2019 levels. Automobile dealers noted that auto sales levels continued to improve, even as production and inventory levels have been adversely affected by chip shortages.

District travel and tourism contacts reported a significant uptick in leisure travel activity since the previous report. Many hotels fully reopened and reported occupancy levels in the 80-90% range over the first three weeks in March. Restaurants and attractions reported a continuation of COVID-19 capacity limits; however,

demand in some areas of the District exceeded capacity. Hospitality contacts noted solid bookings for the remainder of spring and through the summer months and beyond.

Construction and Real Estate

Despite a slight uptick in mortgage interest rates, housing demand throughout the District remained steady. Existing home sales continued to increase over year-earlier levels. Meanwhile, existing home inventory levels contracted as homes for sale did not keep pace with demand. As demand for new homes continued to surge throughout the District, builders noted persistent challenges with rising material and labor costs. Both existing and new home prices continued to rise. Although low interest rates have kept housing moderately affordable overall, affordability declined in many markets as prices rose. Mortgages either in forbearance or in delinquency remained elevated, especially in tourism-dependent markets like Central and South Florida, as well as rural areas along the Gulf Coast.

Commercial real estate contacts reported that the sector remained somewhat hindered by the effects of the COVID-19 pandemic. Conditions in the retail segment improved modestly as more stores reopened, and consumer spending at traditional retail establishments rose. Multifamily conditions were mixed; however, leasing activity appeared to pick up in some of the harder hit areas. Office dynamics struggled across the District as more space was delivered and absorption was negative.

Manufacturing

Manufacturing contacts reported a solid increase in overall business activity since the previous report. New orders and production levels rose at a robust pace. Supply delivery times increased significantly due to challenges in supply chains, while finished inventory levels grew slightly. Expectations for future production remained optimistic, with almost two-thirds of contacts expecting higher levels of production over the next six months.

Transportation

Transportation activity expanded moderately, on net, since the previous report. Railroads experienced considerable growth in intermodal traffic as compared with year-earlier levels, largely offset by substantial declines in shipments of grain and farm products, petroleum and petroleum products, aggregates, and motor vehicles and parts. Air cargo contacts noted significant improvements in freight volumes over the reporting period. District ports saw strong container

cargo activity. Most transportation contacts expect continued growth in activity over the next six months.

Banking and Finance

Conditions at District financial institutions were steady. Banking contacts reported that cash balances continued to increase as deposits remained elevated, and overall loan demand weakened. Net interest margins remained compressed. Financial institutions also continued to add to their securities portfolios. Loan portfolio balances remained flat across most portfolios with commercial real estate balances declining slightly. Increases to loan loss reserves have slowed as credit quality has not deteriorated.

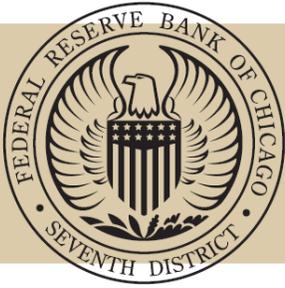
Energy

Contacts reported that domestic demand for energy products picked up gradually over the reporting period. Fuel delivery and carrier capacity remained tight as trucks worked to clear backlogs resulting from February's winter storms and fuel supply issues caused delivery delays. Renewable generation projects geared up, especially solar power, biodiesel, and renewable diesel. Industrial construction contacts noted that craft workers remained sidelined, waiting for activity to pick up. Utilities contacts cited continued softness in commercial and industrial segments, while residential markets remained elevated. Overall, District energy contacts noted an improved recovery outlook.

Agriculture

Agricultural conditions remained mixed. Abnormally dry conditions persisted in some areas. On a month-over-month basis, the March production forecast for Florida's orange crop was down while the grapefruit production forecast was unchanged; both forecasts were below last year's production. The USDA reported year-over-year prices paid to farmers in February were up for corn, cotton, soybeans, broilers, and eggs but down for cattle and milk; rice was unchanged. On a month-over-month basis, prices increased for corn, cotton, rice, soybeans, cattle, broilers, and eggs, but decreased for 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 moderately in late February and March but remained below its pre-pandemic level. Contacts expected growth to pick up in the coming months, but most did not anticipate full recovery until at least the first half of 2022. Employment, consumer spending, business spending and manufacturing production increased moderately, while construction and real estate was flat. Wages and prices rose modestly. Financial conditions were little changed. Prospects for agriculture income in 2021 improved.

Employment and Wages

Overall, employment increased moderately over the reporting period and contacts expected a robust increase over the next 12 months. Contacts indicated that employee absenteeism due to Covid-19 infections or exposures was minimal. Numerous contacts reported difficulty finding workers, particularly at the entry level. Some said that hiring challenges were greater than prior to the pandemic. Manufacturers indicated that turnover of new temporary workers was elevated, with some never showing up for work. Employers, temp agencies, and workforce development organizations pointed to a number of factors limiting labor supply, including health safety concerns, childcare challenges, cutbacks in public transportation schedules, job search fatigue, and financial support from the government. Overall, wages and benefit costs increased modestly, though multiple contacts in manufacturing noted strong wage pressures, particularly at the entry level.

Prices

Prices increased modestly overall in late February and March, and contacts expected a moderate increase in prices over the next 12 months. Consumer prices moved up modestly overall, though there were larger increases in new and used vehicle prices. Business output prices generally moved up only modestly even though input

costs were up moderately, led by higher shipping rates and large increases in energy and raw materials prices. Prices for metals, metal products, and lumber were noticeably higher. Many manufacturers reported passing on at least some higher wage and materials costs to their customers, though one indicated that he could not raise prices until contracts come up for renewal in the summer. A construction contact noted that some single-family homebuilding contracts are now being written with allowances for changes in the cost of lumber.

Consumer Spending

Consumer spending increased moderately over the reporting period. Contacts said that looser pandemic-related restrictions and stimulus checks from the American Rescue Plan helped support activity. Demand for leisure and hospitality services, most notably air travel and restaurants, was noticeably stronger. Nonauto retail sales increased moderately, with high levels of demand for groceries, appliances, furniture, electronics, home furnishings, and jewelry. E-commerce spending continued to be robust. New and used vehicle sales increased at solid rates despite low inventories in both markets, leading to increased profits for some dealers. Spending on vehicle services and parts rebounded to normal levels.

Business Spending

Business spending increased moderately in late February and March. Inventories continued to be lean in many retail segments due to high demand, and shortfalls in select categories were expected to persist into the second half of this year. Shortages were particularly notable in motor vehicles, with some dealers reporting stockouts of certain popular light truck models and many expressing uncertainty over deliveries from manufacturers. Contacts expected little improvement in the supply situation over the remainder of 2021. Manufacturing inventories were slightly below comfortable levels. Contacts continued to report supply chain issues related to raw materials (particularly steel and lumber), microchips, specialty parts, and appliances to outfit new construction. Some contacts reported that shipping bottlenecks, made worse by the Suez Canal closure, were delaying deliveries. Capital expenditures were up moderately, and contacts expected a moderate increase over the next twelve months. There was a small increase in commercial energy consumption, helped by greater demand from restaurants, but little change in industrial energy consumption. One contact noted that higher natural gas prices resulted in greater usage of coal for electricity generation.

Construction and Real Estate

On the whole, construction and real estate demand was flat over the reporting period. Residential construction increased somewhat, led by a rise in home remodeling activity. Residential real estate activity increased slightly. Although demand was at a strong level, very tight inventories were slowing the pace of sales, especially for starter homes. Home prices increased moderately, while rents increased slightly. Nonresidential construction fell marginally, led by a decline in the office segment. One contact noted an increase in backlogs because developers had to pause building while they obtained additional financing to cover rising construction costs. In commercial real estate, sales, prices, and vacancy rates all were relatively unchanged. Demand for industrial properties remained high while demand for office and retail properties remained low. Contacts noted that, as rental deferrals expired, a growing number of retailers were signing contracts where rent is specified as a percentage of sales. In addition, there were reports that contracts were either being written for shorter periods or with gradual rent increases over the life of the lease.

Manufacturing

Manufacturing production increased moderately in late February and March. Some manufacturers reported that business was above pre-pandemic levels. Auto output declined slightly as some assemblers and suppliers were

constrained by shortages of parts, such as microchips. Steel production increased moderately, driven by rising demand from the construction and energy sectors. Demand for heavy machinery increased slightly, led by growth in agriculture. Specialty metals manufacturers reported a moderate increase in sales, with growth spread across a wide range of sectors. Many contacts in specialty metals said that materials shortages were resulting in delayed deliveries. Demand for building materials increased moderately, supported by growth in new homebuilding and remodeling.

Banking and Finance

Financial conditions were little changed on balance over the reporting period. Participants in the equity and bond markets reported a small improvement in conditions, though volatility remained elevated. Business loan demand increased slightly, led by growth from manufacturing and healthcare. Contacts reported continued aggressive pricing of financial products and that lending standards loosened slightly. Business loan quality improved slightly on balance, though there were declines in the hospitality sector. In consumer markets, loan demand was little changed overall and across most sectors. Residential mortgage activity was solid, though refinancing slowed. Contacts reported a decrease in consumer loan balances following the latest round of stimulus payments. Consumer loan quality increased slightly, while standards loosened slightly.

Agriculture

Prospects for agriculture income in 2021 improved as many agricultural prices rose and more federal support was announced. Corn and soybean prices moved higher during the reporting period, while wheat prices lagged. Dry conditions in much of the District set the stage for a fast planting season, with some types of planting already having begun. Cattle, egg, hog, and dairy prices increased during late February and March. While higher feed costs hurt livestock producers, the outlook for profits was still good. Farm equipment sales continued to be strong, and farmland values again rose. ■

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



Summary of Economic Activity

Contacts reported that economic conditions have moderately improved since our previous report. Some large employers planned for a robust hiring season, including hosting spring job fairs. Area universities also indicated a robust hiring season. Inflation pressures have increased moderately, but the degree of change has varied across industries. Many contacts cited a faster-than-expected pace of vaccinations, stronger-than-expected economic activity, and an improving outlook. Consumer spending reports indicate a high degree of sales volatility stemming from federal aid to households and low retail inventories. Contacts across many sectors continued to cite ongoing supply chain difficulties, such as sourcing imported inputs; however, some contacts reported improvements in domestic supply chains.

Employment and Wages

Employment has increased moderately since our previous report, especially in the transportation, manufacturing, and hospitality sectors. Two large employers—one whose business grew during the pandemic and another who is hopeful growth will arrive with spring and vaccines—held job fairs to fill hundreds of positions. Hiring firms continued to compete for workers, who remain scarce; one employer reported the response rate among applicants offered an interview was as low as 50%. Many other firms, notably smaller firms, reported more mixed employment trends.

Wages have increased slightly; contacts reported raising wages and bonuses to attract potential workers concerned about their health and to keep existing workers lured by new unemployment benefits. Contacts also attributed the stronger wage pressures to higher wage expectations for new hires, particularly from low-wage workers. Growth in wages at small firms remained muted.

Prices

Prices charged to consumers have increased moderately since our previous report, but price changes varied across industries. A regional grocer reported persistent but modest increases in costs but little change in prices

charged to consumers. Several restaurants have raised prices moderately due to earlier cost pressures and now stronger demand. A contact in the banquet industry said they have not raised prices in the past year and have no plans to raise prices within the next year. Another hospitality industry contact expects paper product costs, which have been elevated, to decline in the near future as suppliers catch up with demand and paper product use slows as in-person dining replaces take-out orders. A retail contact in outdoor furniture and equipment reported higher prices charged to consumers since our previous report due to “unbridled demand” and higher freight costs. A retail contact in home furnishing reported higher input costs and prices charged to consumers since our previous report but expects prices to stabilize due to lower demand and increased production capacity. A retail contact expects further price increases of refrigerators over the summer due to a shortage of imported materials among domestic manufacturers.

Consumer Spending

Reports from District general retailers, auto dealers, and hospitality contacts indicate that consumer spending activity has improved moderately since our previous report. Credit and debit card spending is up sharply in recent weeks but remains at levels consistent with spikes after the previous round of federal aid.

The outlook among West Tennessee consumers improved relative to December. General retail contacts reported improved business activity. An Arkansas grocer expects that positive sales trends for groceries will continue after the pandemic. Auto dealers reported that business activity is steady but lack of inventory is a major issue. A St. Louis restaurant contact reported increased business activity due to warmer temperatures and higher vaccination rates. Hospitality contacts reported that business activity has exceeded expectations after the vaccine rollout led to a strong increase in leisure travel.

Manufacturing

Manufacturing activity has strongly increased since our previous report. Firms in both Arkansas and Missouri reported a strong uptick in new orders and production. Several contacts reported that coronavirus-related labor shortages continue to be a challenge, as firms are unable to produce the quantity of products that can be sold. One contact reported that on-going supply chain issues, especially those related to semi-conductor shortages, have worsened for auto manufacturers in the region. A distribution transformer manufacturer in the region is expanding its operations, hiring 150 new workers in the process.

Nonfinancial Services

Activity in the nonfinancial service sector has increased slightly since our previous report. Across District metro areas, nonfinancial service employment was unchanged, declining slightly for education and health services and increasing slightly for transportation and utilities services. Airport passenger traffic increased substantially in March. A healthcare contact reported that although referrals have been increasing in the past several weeks, first-quarter patient volume and revenue were well below pre-pandemic levels due to COVID apprehension and the extreme weather in February. Parcel services companies continue to expand employment and invest in the District. Childcare contacts reported increases in inquiries and enrollment, but are concerned about ongoing staffing shortages and how and when large employers will impose a return to working in-person.

Real Estate and Construction

Residential real estate activity was unchanged since our previous report, with one contact observing that residential demand shows no sign of slowing. The total number of homes sold across the largest District MSAs has risen since February, home prices increased, and the median number of days on the market decreased. The inventory of homes remains extremely low, with levels below this time last month and this time last year. Apartment rental

rates across the District have not changed since our previous report, although rental prices in the Memphis and Little Rock MSAs are higher than one year ago.

Residential construction activity was unchanged since our previous report. Problems continue with building materials for new projects: One contact reported severely extended lead times on appliances, with some extending up to 6 months. The higher prices of wood and steel are making new construction less profitable, with the price of lumber almost doubling since the beginning of the pandemic. Contacts indicated that new residential development is needed to meet the ongoing rise in housing demand.

Banking and Finance

Banking conditions in the District have improved modestly since our previous report. Outstanding loan volumes have grown moderately over the past three months and remained much higher than year-ago levels. Contacts noted strong growth in residential real estate lending and slight growth in consumer and commercial loans. Commercial real estate loan volumes decreased slightly. Banks reported ample liquidity, high asset quality, and decreasing deferral requests on loan payments. Contacts noted that the demand for the second round of PPP loans was much lower than for the first round. A contact in Memphis cited changes in eligibility requirements combined with higher-than-expected revenues as a possible explanation for this trend.

Agriculture and Natural Resources

District agriculture conditions differed little from the previous reporting period. Row crop acres planted was relatively unchanged compared with the same period in 2020, although planting was up moderately in Kentucky, Tennessee, and Mississippi. Corn and rice were planted in lesser quantities compared with last year, while cotton and soybean acreage increased. A national agricultural lender contact indicated an optimistic outlook for the industry. They noted they are returning to operating at pre-pandemic levels and expect strong growth in 2021.

Natural resource extraction conditions declined moderately from January to February, with seasonally adjusted coal production down 7%. February production was also down moderately compared with a year ago, falling over 8%. ■



Summary of Economic Activity

Economic activity in the Ninth District increased moderately since mid-February, with signs of accelerating growth. Employment saw notable gains, with rising labor demand but continued gaps in job matching. Wage pressures were modest but appeared to be rising, and price pressures were moderate. Sources reported growth in consumer spending, commercial and residential construction and real estate, manufacturing, energy, and agriculture. Conditions for minority-owned businesses trailed those of similar firms.

Employment and Wages

Employment saw strong growth since the last report but remained below pre-pandemic levels. Job postings increased steadily across the District through mid-March. Staffing firms reported higher job orders in recent weeks and expected that trend to continue. These firms also reported modestly rising unfilled job orders and were themselves hiring more recruiters. Construction, health care, and manufacturing firms reported moderate to strong labor demand, and hospitality and tourism firms also reported hiring despite recent difficulties in those sectors. Staffing expectations for the coming months were widely higher in most sectors, though labor availability was a widespread concern. Numerous contacts reported concern over the potential labor-dampening effects of renewed enhanced unemployment insurance benefits. A Wisconsin staffing firm reported many job applicants but few taking the next step to interviews. Initial unemployment claims in March continued a downward trend but were still more than twice the level of similar, pre-pandemic periods.

Wage pressures were modest overall but rising. For most firms, wages have been rising by less than 3 percent annually. Greater pressure was reported by manufacturing and construction firms. Multiple contacts mentioned growing prevalence of sign-on bonuses, which helped attract candidates without raising long-term salary commitments. Several workforce contacts suggested that employers might be delaying wage hikes

in hopes of a surge of newly vaccinated job seekers. “Why start raising wages when a lot of labor might be coming back?”

Worker Experience

Contacts reported a continued disconnect between job opportunities and labor supply and a contrast between rural and urban labor markets. Job training professionals, particularly in Minneapolis-St. Paul, expressed their need to know more about the skill sets employers are seeking. Other contacts indicated that training programs and other services don't always meet the needs of low-earning workers, particularly for those with limited English and computer skills. Hospitality and janitorial workers reported that transportation, schedule changes, online learning, relocation, and COVID-19 exposure continued to hamper employment. Several contacts noted that a great number of frontline workers affected by this dynamic were people of color, some of whom don't qualify for public benefits because of their immigration status. A labor contact suggested that some of the automation undertaken during the pandemic was likely to be permanent and emphasized the need for efficient paths to train workers for manufacturing jobs.

Prices

Price pressures remained moderate since the previous report. Preliminary responses to a survey of District businesses indicated a substantial increase in nonlabor input costs in the first quarter of 2021 from a year earlier.

However, most of those firms reported only slight increases in prices charged to customers; expectations for prices over the second quarter were similar. Retail fuel prices in District states continued to increase briskly over the reporting period. Prices received by farmers increased in February from a year earlier for corn, soybeans, wheat, hay, hogs, turkeys, chickens, and eggs, while prices for potatoes, dry beans, milk, and cattle decreased.

Consumer Spending

Consumer spending rose moderately, with signs of growing confidence, likely helped by recent federal stimulus. Hospitality firms reported difficult conditions across the District through February. However, many were seeing improved sales in recent weeks as weather improved and traffic increased among vaccinated customers. The lifting of operating restrictions in Minnesota also helped boost foot traffic there, though sentiment was more cautious in Minneapolis-St. Paul. A regional shopping center said that activity was still well below pre-pandemic levels but saw steady increases in traffic and spending in March. Ski resorts reported strong activity, and vehicle dealers reported healthy demand, with sales limited in some cases by low inventory. Airport passenger levels in mid-March were roughly 50 percent higher than early February levels, and regional airports reported that new flights were being added.

Construction and Real Estate

Commercial construction activity grew modestly overall, with signs of increased optimism. Total active major construction projects as of mid-March remained below year-ago levels. Contacts in the Dakotas and Montana reported stronger activity than those in Minnesota. However, firms across the District noted a moderate upturn in projects out for bid, particularly in Minneapolis-St. Paul. Project cancellations and delays also improved. Residential construction continued to grow moderately, with permit increases in most of the District's larger markets compared with last year. Supply chains and rising input costs were major concerns for the entire sector, and material delivery lead times were rising.

Commercial real estate improved slightly as some firms looked to move workers back to the office and consumer foot traffic also rose. But virtually all categories faced occupancy challenges, save for industrial space, which has experienced growth and relative stability. Residential real estate continued to see strong home sales across the District despite very low inventories.

Manufacturing

District manufacturing activity increased moderately since the previous report. A March index of regional manufacturing conditions indicated expansion in activity in Minnesota, North Dakota, and South Dakota from a month earlier. Heavy equipment producers reported strong demand and long delivery lead times due to ongoing strength in construction and improvement in agriculture. Producers of construction materials continued to report strong demand, especially from residential building; a maker of ready-mix concrete said that recent sales were up 40 percent from a year ago.

Agriculture, Energy, and Natural Resources

Agricultural conditions improved briskly heading into spring planting, as prices for many commodities continued to increase well above their recent levels. Despite some recovery in crude oil prices, drilling activity in the Bakken area increased only slightly compared with the previous report. Industry contacts said that maintenance and service activity on wells had increased, but oilfield employment was still down dramatically from its pre-pandemic level. Iron ore mines continued to operate at capacity since the previous report, while contacts in nonferrous mining reported steady to slightly increased demand.

Minority- and Women-Owned Business Enterprises

Minority- and women-owned business enterprises (MWBEs) continued to report more widespread decreases in revenue than other businesses in comparable industries. However, an economic development contact reported greater success accessing more recent rounds of federal pandemic relief aid among these firms due to longer application deadlines and more clarity about the programs. Minority-owned firms in the hospitality and tourism industry have been more negatively impacted than other firms in these sectors, according to a March survey. Revenue losses have been greater on average, and there was more financial instability among these firms compared with firms overall. In contrast, women-owned firms in these sectors reported slightly better overall revenue trends, financial stability, and outlook than non-MWBE firms. A community-based organization that works with minority-owned businesses indicated that a large number of their clients have seen net losses of up to 60 percent since the beginning of the pandemic. ■



Summary of Economic Activity

Growth in the Tenth District economy accelerated in March, with most sectors expanding at a moderate pace. Consumer spending increased moderately as retail, restaurant, auto, and tourism sales rose. A quarter of consumer spending contacts reported that the pace of vaccinations had boosted demand, and sales were expected to rise further in the coming months. Manufacturing activity also expanded moderately, and new orders rose above year-ago levels for both durable and non-durable goods. Contacts reported moderate gains in wholesale trade, transportation, and professional and high-tech sales, with additional gains anticipated in the months ahead. Home prices rose further as inventories declined and sales increased. Commercial real estate conditions held steady as vacancy rates edged down and absorption rates increased slightly. Energy activity increased moderately, with most District firms reporting higher revenues and profits. Agricultural conditions remained favorable, supported by strong crop prices. Employment and wages rose at a modest pace. Input prices continued to rise faster than selling prices, but more than half of firms experiencing price pressures indicated that they were able to pass through a majority or all of their cost increases onto customers.

Employment and Wages

District employment growth accelerated in March, with jobs added at a modest pace in both the services and manufacturing sectors. Recent gains pushed manufacturing employment above year-ago levels, but employment in the services sector remained slightly lower. Services sector gains were driven by the retail, tourism, and restaurant sectors, while employment in auto sales and health services edged down. Despite recent gains, employment in the tourism, restaurant, and transportation sectors remained moderately below year-ago levels. Overall, contacts in both the services and manufacturing sectors expected modest increases in employment in the coming months.

The majority of contacts reported labor shortages, with strong demand for truck drivers, information technology staff, and skilled technicians. Wages rose modestly, and additional modest gains were anticipated in the months ahead. The majority of firms indicated that the passage of the most recent fiscal stimulus package had no effect on their hiring plans for the rest of 2021.

Prices

Input prices continued to rise at a faster pace than selling prices in both the services and manufacturing sectors, putting additional pressure on profit margins. However, among firms experiencing price pressures, more

than half indicated that they were able to pass a majority or all of their cost increases through to customers. Overall, input prices increased robustly, while selling prices rose moderately in both the manufacturing and services sectors. Contacts expected similar trends in the months ahead, with slightly faster increases in selling prices. Construction supply selling prices also increased moderately and were expected to continue at this pace in the coming months.

Consumer Spending

Consumer spending increased moderately in March, with a quarter of survey contacts indicating that the pace of vaccinations and the trajectory of the pandemic led to stronger demand for their product or service. Sales in the restaurant, retail, and auto sectors increased moderately, and tourism sales were well above their levels earlier this year. Despite recent gains, tourism and restaurant sales remained moderately below pre-pandemic levels. However, retail sales moved modestly above year-ago levels, and auto sales rose above year-ago levels for the first time since early last summer. Sales in health services fell moderately and were even with year-ago levels. Contacts across all sectors expected a moderate rise in sales in the upcoming months.

Manufacturing and Other Business Activity

Manufacturing activity expanded moderately over the

survey period as both production and new orders rose. Activity was slightly stronger among non-durable goods firms, with production rising moderately above year-ago levels. Durable goods manufacturing also increased, and although production remained below pre-pandemic levels, new orders rose above levels from a year ago. Production and new orders for both durables and non-durables were expected to increase moderately in the coming months, while capital expenditures were projected to rise modestly. About 20 percent of manufacturing firms reported that the pace of vaccinations and trajectory of the pandemic had increased product demand, and a quarter indicated that they had relaxed COVID cautionary measures in the workplace.

Outside of manufacturing, sales in transportation, wholesale trade, and professional and high-tech services rose moderately and additional moderate gains were anticipated in the months ahead. Wholesale trade and transportation sales were moderately above year-ago levels, while sales in professional and high-tech services remained slightly lower. Capital expenditures edged down in professional and high-tech services but increased among transportation and wholesale trade firms. In the coming months, capital expenditures were expected to increase slightly in transportation but fall slightly in the wholesale trade and professional and high-tech sectors.

Real Estate and Construction

Residential real estate activity expanded moderately, and commercial real estate activity held fairly stable. Home prices rose notably in March as inventories declined moderately and sales increased. These trends were expected to continue moving into the spring buying season. Construction supply sales fell modestly but were expected to rise in the coming months. Vacancy rates for commercial real estate edged down and prices and absorption rates increased slightly. Commercial construction activity held steady. However, sales and rents fell slightly, and contacts noted that developers' access to credit had become modestly more difficult. Commercial real estate contacts expected modest increases in sales, prices, absorption rates, and construction in the months ahead. Vacancy rates and rents were expected to remain flat and developers' access to credit was expected to get modestly more difficult.

Banking

Banking contacts reported increased loan demand and improved loan quality in March, and expectations for the next six months were increasingly positive. Overall loan demand increased slightly, driven by modest increases in the demand for residential and commercial real estate

loans. Bankers reported a slight increase in consumer, commercial, and industrial loan demand, while agricultural loan demand decreased slightly. Commercial and industrial loan interest rates decreased modestly, with comments indicating a highly competitive market. One business reported that capital was "extremely available", and the terms were the "best that [the company] has ever experienced." Overall credit standards held constant, and loan quality improved modestly in comparison to a year ago. Bankers expected a slight improvement in loan quality over the next six months. Deposit levels increased robustly in March, with anecdotal evidence suggesting stimulus checks led to the large gains.

Energy

District energy activity increased moderately since the previous survey. Revenues and profits expanded for most firms, while employment continued to lag year-ago levels. The number of active oil and natural gas rigs expanded slightly, mostly due to more active oil rigs in New Mexico. On average, most District firms reported needing higher prices for drilling to be profitable for oil, but lower prices for natural gas to be profitable compared to previous survey periods. Across the District, financing options and access to credit improved. Most firms indicated increased regulation (federal, state, or local) and OPEC production decisions posed the greatest risks to their business over the next year. However, firms' expectations for future oil and gas prices remained higher than in recent survey periods, and more drilling and business activity was anticipated over the next six months.

Agriculture

Agricultural economic conditions in the Tenth District remained favorable, but prospects in the cattle industry were slightly weaker than for other major commodities. Contacts continued to report that strong crop prices were supporting a profitable outlook for most producers. However, the price of fertilizers used in crop production increased rapidly in March, and while many farmers likely had already purchased inputs for the 2021 growing season, a sustained increase in expenses could reduce profit margins going forward. In the livestock sector, hog prices increased sharply in March, while cattle prices remained stable and below pre-pandemic levels. In addition to weak price conditions, drought and higher feeding costs, cattle producers in the southern portion of the District also were adversely impacted by recent winter weather events. ■

For more information about District economic conditions visit:
www.KansasCityFed.org/research/regional-research



Summary of Economic Activity

The Eleventh District economy accelerated to a solid pace during the reporting period. Growth in the manufacturing, retail, and nonfinancial services sectors picked up markedly, though activity stayed below normal levels. Home sales and single-family construction remained vibrant, and apartment demand increased. Overall loan volume rose, supported by continued strength in real estate lending. Energy activity increased. Employment rose and wages increased moderately. Supply chain disruptions led to longer lead times and intensified upward price pressures in the construction, manufacturing, and retail sectors. Most contacts reported being adversely affected by Winter Storm Uri in mid-February, and some noted damages to facilities, equipment, and inventories. Outlooks were more optimistic and less uncertain than in the last report, though there was some trepidation about the impact of supply shortages and/or tighter regulation on activity.

Employment and Wages

Payrolls expanded during the reporting period. Solid hiring continued in manufacturing and residential construction. Service-sector hiring, including retail, picked up. Contacts in the restaurant industry said staffing was one of their biggest headwinds in being able to open to 100 percent capacity. Shortages of specialty trades, such as framers, plumbers, and electricians, persisted in homebuilding. Reports were mixed in the energy sector, with exploration and production companies citing flat employment levels and oil-field services firms noting some hiring to meet increased demand.

Wage growth was moderate, though there were reports of significant wage pressure in industries having trouble finding and retaining workers. One professional and technical services firm noted that even with signing bonuses and an increase in starting pay to over \$15 per hour, they were unable to attract qualified entry-level workers. A manufacturing firm said they were able to successfully hire for higher-paid professional positions but filling positions that paid below \$20 per hour was particularly difficult. A restaurateur reported recently increasing wages by 10-15 percent to attract labor.

Prices

Price pressures intensified during the reporting period. Input costs rose strongly in the construction, manufacturing, and retail sectors driven in part by supply chain issues. There were reports of higher prices of fuel, chemicals, agricultural commodities, lumber, aluminum, and steel. Selling prices rose at an above-average pace in most sectors. Exceptions included airline ticket prices, which remain depressed due to weak demand. Shortages of semiconductor chips slowed new-vehicle production, driving up used-vehicle prices. Homebuilders reported increasing base prices by as much as \$10,000 and/or rolling back incentives to offset rapidly rising costs. Land and lot prices continued to climb as well.

Manufacturing

Expansion in the manufacturing sector picked up steam in March. The acceleration was widespread, and firms noted that a portion of the rebound reflected catch-up following the outages caused by the freeze in mid-February which reduced February revenues on average by 21 percent. Some manufacturers, however, noted slower activity due to lingering delays from storm-related and other supply chain disruptions. In particular, petrochemical production has been slow to come back online, and contacts expect the ripple effects of these closures on supply chains to persist into the second half of the

year. Refineries said domestic and export fuel demand was moderate over the past six weeks, drawing down product inventories during the outages. Outlooks improved markedly, although some contacts voiced concern about the dampening effect of supply constraints, extended lead times, and increased federal regulation on activity.

Retail Sales

Retail sales rose sharply in March after being relatively flat for four straight months. Auto sales rebounded strongly as well during the reporting period and demand for building materials stayed robust. However, a few firms commented that the lingering effects of the mid-February winter storms continued to hamper activity. Supply chain interruptions persisted, causing severe inventory shortages and driving up costs. Outlooks turned positive for the first time since yearend 2020, though materials and parts availability and low inventories were a concern.

Nonfinancial Services

Growth in the nonfinancial services sector surged in March following subdued activity in the previous reporting period. Accommodation and food services firms cited very strong activity, particularly during spring break, and a few restaurant owners said traffic was at or above pre-pandemic levels. Airlines also cited increased ticket sales thanks to spring break travel. Leisure travel continued to dominate airline bookings, and contacts noted a pickup in reservations beyond the spring break period. Professional and technical services continued to see robust revenue growth, and staffing firms reported broad-based increases in demand. In transportation services, air cargo volumes were down in part due to seasonality, while shipments coming through the Port of Houston stayed healthy. Outlooks were boosted by the vaccine rollout and reopening of the economy, although some respondents expressed apprehension regarding rising interest rates and increased regulation.

Construction and Real Estate

Activity in the single-family housing market remained robust. Sales continued to be characterized as broad-based and solid, with builders noting capping sales and putting prospective buyers on wait lists. The winter storm resulted in moderate damage and exacerbated existing production challenges for builders, including lengthening building-cycle times and worsening shortages of skilled labor and materials. Lot supply remained very tight as did home inventories. Outlooks were favorable, with continued concern about tight lot supply, labor and material availability and costs, and the recent uptick in mortgage rates.

Apartment demand was higher than normal in the first quarter. Renters continued to favor the suburbs, and contacts noted slight upward momentum in pricing, particularly in middle-market product. Monthly rent collections were stable, but renters were paying later than usual. Industrial construction and leasing activity remained strong. The office and retail markets were still finding their footing, and the glut of office sublease space in some markets continued to be a concern.

Financial Services

Loan demand strengthened, pushing up overall loan volumes over the past six weeks. Commercial and residential real estate loan volumes expanded strongly, while consumer lending dipped, and commercial and industrial lending was flat. Loan pricing remained competitive, and credit standards remained somewhat tight. Sentiment regarding general business activity improved significantly, with nearly half of respondents reporting an increase. Outlooks were optimistic, with contacts expecting a decline in non-performing loans, higher loan demand, and increased general business activity six months from now. One contact indicated that due to increased optimism, community banks were engaging in merger and acquisition activities that were halted in 2020.

Energy

Drilling and completion activity rose further during the reporting period. Oil field services firms noted improved margin outlooks and a pickup in hiring driven by higher demand. Exploration and production firms said they expect continued incremental increases in drilling and completion activity in the second quarter. While sentiment in the oil and gas industry has notably improved, contacts remained anxious about the adverse impact of tighter federal regulations, ample spare capacity, and worsening COVID statistics in Europe on demand, profitability, and pricing.

Agriculture

Drought conditions eased somewhat in parts of the District but intensified in others. Row crop planting was underway with low soil moisture a concern. Crop prices remained largely profitable and some pushed higher over the reporting period, spurring optimism among producers. While the winter wheat crop did not suffer much damage from Winter Storm Uri, damage to other areas of Texas agriculture (citrus, livestock, and vegetables) is estimated to exceed \$600 million. ■

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



Summary of Economic Activity

Economic activity in the Twelfth District expanded at a moderate pace during the reporting period of mid-February through March. Employment levels increased moderately, accompanied by higher wages. Inflation picked up, driven largely by increased material costs and supply chain disruptions. Retail sales growth accelerated, while activity in the consumer and business services sectors rose slightly. Manufacturing activity continued to expand modestly, and conditions in the agriculture and resources sectors remained generally stable. Contacts reported ongoing strength in residential real estate markets, but largely unchanged conditions in the commercial real estate sector. Lending activity grew modestly, with some tapering observed in mortgage refinancing activity.

Employment and Wages

Overall employment levels increased moderately, although conditions varied significantly by region and sector. In general, employment has recovered faster in regions where mobility and commerce restrictions were lifted sooner. Labor demand remained strong in the finance, health-care, construction, and professional services sectors. Employers in hospitality, tourism, and food services sought to rehire former or furloughed employees as local restrictions eased over the reporting period. Employment levels in the entertainment and education sectors remained subdued. Some contacts reported facing difficulties in attracting and hiring workers, but many others highlighted an adequate labor supply. Employers in technology, construction, and transportation reported being especially constrained by labor shortages. Some contacts also reported increasing hours for hourly employees. Conversely, a few contacts throughout the District in the utilities, manufacturing, and agricultural sectors mentioned scaling back work hours, reducing hiring activities, or stipulating hiring freezes. These cost-cutting decisions were brought about partially by shortages in input materials, disruptions to supply chains, and a tightening of capacity constraints.

Wages increased further over the reporting period. Employers in sectors that reported difficulties in attracting and retaining workers also highlighted tight wage competition, especially for hourly workers. Wages and benefits for positions in construction, food services, hospitality, security, and custodial services were boosted at a rela-

tively faster pace. Wages for telework positions were more stable. A contact in California highlighted more complex wage structures brought about by a more widely dispersed remote workforce.

Prices

Inflation picked up modestly over the reporting period. Price pressures built up across the region as manufacturers, homebuilders, and providers in health care and in logistics reported rising costs for material, energy, transportation, and labor. Supply chain disruptions and production bottlenecks played a major role in inflationary pressures in recent weeks. Many contacts in construction, health care, and retail reported partially passing these costs onto final prices, while other sectors generally mentioned more stable final prices. Select agricultural products also saw some price increases, which translated into higher prices at grocers.

Retail Trade and Services

Retail sales accelerated over the reporting period. Contacts highlighted a loosening of business restrictions by local governments, a national downward trend in new daily COVID-19 cases until mid- to late March, improving vaccine distribution, and large government transfer payments which jointly bolstered consumers' willingness and ability to spend. Contacts also mentioned pent-up demand and accumulated household savings as additional factors increasing sales. Appetite for online shopping continued to grow at a faster pace than for shopping at brick-and-mortar stores. Home improvement centers and

specialty retailers reported stable or slightly higher sales in recent weeks. Retail outlets that depend on tourist traffic continued to observe only a fraction of pre-pandemic sales. Contacts also mentioned a number of supply factors, including logistical delays and misallocation of empty shipping containers at the international stage which led to insufficient inventories in some retail categories, including paper goods and cleaning supplies. A contact familiar with the textile trade mentioned that inclement weather conditions outside of the Twelfth District led to impacts on the availability of chemicals and yarn used in fabric production, thereby affecting sales.

Activity in the services sector increased slightly. Conditions in food services, tourism, leisure, entertainment, and hospitality improved marginally following the relaxation of pandemic-related restrictions in some areas, but overall activity in these sectors remains significantly subdued relative to pre-pandemic levels. Demand for transportation services continued to be strong, though capacity was strained by worldwide logistical complications. Demand for health care rose modestly as capacity shifted from COVID-19 testing to other services. Demand for technology, legal, and other professional services remained largely stable relative to the prior reporting period.

Manufacturing

Manufacturing activity rose modestly. Demand remained strong for manufactured metals, food and beverage products, wood and paper products, computers, electronics, and appliances. Contacts reported widespread shortages of input materials and parts, such as semiconductors and wood adhesives, which held back production, thereby reducing inventories and postponing sales. An increase in air traffic and the resolution of aviation certification issues helped restart demand somewhat for aircrafts and parts. Capacity utilization rates in metal fabrication picked up reasonably after a temporary drop in early March but are still below historical averages for the sector. A contact in California reported improved investment conditions for manufacturers in sectors that proved more resilient to the pandemic, which helped initiate plans for new plants in some areas.

Agriculture and Resource-Related Industries

Conditions in the agriculture and resources sectors remained stable overall. Inclement weather negatively affected some crop yields, but sales of wheat, corn, raisins, nuts, fruit, and soybeans were generally steady. Inventories moved down but from relatively high levels earlier in the year. Growers reported seeing some tapering in demand from abroad on account of an appreciating dollar. Others noted ongoing negative effects of international supply chain disruptions, which were exacerbated by the temporary closure of the Suez Canal.

Contacts also mentioned continued concerns about COVID-related labor shortages. In California, producers highlighted low water availability as a risk to production. Demand for timber remained elevated, and higher oil prices and additional permit issuances bode well for drillers even though little activity was observed in terms of new oil wells over the reporting period.

Real Estate and Construction

Residential real estate demand and construction continued to grow at a fast pace. Demand for single family homes, in particular, remained strong. Nonetheless, contacts mentioned that the rapid rise in home prices, the recent rebound in mortgage rates, and continued tightness of housing inventories have begun to weigh on home sales growth. Although construction activity has been strong, homebuilders reported constraints stemming from labor costs, shortages of raw materials, and lack of available land have exacerbated construction backlogs across the District. Demand for multifamily homes was more varied, with suburban locations receiving more inquires and observing higher rents than their urban counterparts. Contacts raised concerns about affordability, especially for low- and moderate-income families.

Conditions in the commercial real estate market remained mostly unchanged. Demand for new office, retail, and hospitality space remained depressed due to disruptions stemming from the pandemic. Contacts reported elevated vacancy rates and some softness in commercial space valuations. Demand for warehouse and industrial properties remained strong. One contact in Southern California noted that commercial space was being converted into warehouses in order to meet this long-observed shift in demand. Another contact reported that demand for overall commercial space held steady in Utah.

Financial Institutions

Lending activity grew modestly during the reporting period. Most banks reported further growth in business loan originations, mostly due to demand for smaller, second-round PPP loans. Demand for commercial real estate loans remained tepid outside of those involving industrial properties. Growth in residential loan origination was robust but slower than in the previous reporting period as rising mortgage rates reduced somewhat the appetite for mortgage refinancing. Banks reported rising deposits, ample liquidity, and high asset quality. Activity in the financial markets from professional investors also drove up demand for private equity and mergers and acquisitions financing. A contact in Hawaii mentioned that lending activity related to the tourism sector remained subdued. ■



