Regional summaries and construction-related comments in the July 15, 2020 Federal Reserve Beige Book

The "Beige Book" is a compilation of informal soundings of business conditions in each of the 12 Federal Reserve districts, which are referenced by the name of their headquarters cities. The latest Beige Book (https://www.federalreserve.gov/monetarypolicy/files/BeigeBook_20200715.pdf), issued July 15, is based on information collected from mid-May through July 6 and includes these **comments relevant to construction** (bolding added):

U.S. Summary:
Economic activity increased in almost all Districts, but remained well below where it was prior to the COVID-19 pandemic....**Construction remained subdued, but picked up in some Districts.**

Employment and Wages
Job turnover rates remained high, with contacts across Districts reporting new layoffs. Contacts in nearly every District noted difficulty in bringing back workers because of health and safety concerns, childcare needs, and generous unemployment insurance benefits. Many contacts who have been retaining workers with help from the PPP said that going forward, the strength of demand would determine whether they can avoid layoffs.

Prices
Contacts in several Districts reported that supply chain challenges were pushing up prices for health and safety equipment used to limit the spread of COVID-19.

First District:
Economic activity picked up somewhat in the second half of May and June, according to First District business contacts, but largely remained well below year-earlier levels....Commercial and residential real estate markets in the region continued to report that activity had paused. Considerable uncertainty characterized respondents' outlooks, as was the case in the May report.

Prices
Prices continued to receive little mention. Manufacturing contacts cited a benign pricing environment with no one reporting significant positive or negative pricing pressure either among their suppliers or in their end-markets.

Manufacturing and Related Services
Reports from manufacturers were mostly negative. Four of the seven respondents reported lower sales versus the same period last year, two reported flat sales and only one firm, a defense contractor, reported higher sales. Several contacts attributed declines to trade issues; **a manufacturer of filtration membranes said that chip manufacturers were delaying new plant construction due to uncertainty about trade policy**….No contacts reported positive revisions to capital spending plans and two reported significant cuts. An industrial supplier planned to cut capital expenditures versus last year by as much as 25 percent versus a previously planned 5 percent increase.

Commercial Real Estate
Commercial real estate activity in the First District has remained on pause because of COVID-19. Most contacts reported an increase in sublease availability in the office leasing market. Most tenants were able to pay May and June rents, except for retail tenants who were hit hardest by the pandemic. Warehouses, grocery stores, and pharmacies were among the few robust leasing sectors. **Across the region's markets, investment sales activity was slow to nonexistent.** All contacts expressed substantial concern about uncertainty. In the Boston area, few leasing transactions have occurred. Vacancies increased in the Boston office market while the industrial leasing market was also quiet, except for warehouse leasing. In the Hartford area, there was little leasing activity; renewals represented the only office leasing market transactions. Hartford's industrial leasing market for buildings over 25,000 square feet was relatively active, but the market for smaller buildings was quiet. In the Providence area, leasing picked up slightly in recent weeks, but most transactions were time-sensitive deals. The pandemic has worsened the historically quiet industrial leasing market in Providence, and contacts expected the availability rate to rise significantly in the near future.

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

Federal Reserve Bank of New York

Summary of Economic Activity

The Second District economy rebounded moderately in the latest reporting period, following a steep contraction, as the spread of the virus subsided and businesses began to reopen. Employment came off its lows across most industry sectors, while wages were steady, on balance. Input prices rose modestly, but selling prices were flat to down slightly overall....Business contacts have grown considerably more optimistic about the near-term outlook, though many businesses expressed concern about PPP loans running out or not being forgiven.... Home sales and residential leasing activity have been sluggish, though some areas have seen a nascent pickup in June, as restrictions were eased. **Commercial leasing and construction activity remained weak.**

Employment and Wages

The labor market has improved slightly, as businesses have begun to recall workers and some have added new workers. Most pandemic-related layoffs are still considered to be temporary, though one employment agency in upstate New York noted that some previously furloughed workers have more recently been laid off permanently. That agency along with another in New York City noted that hiring has remained sluggish. ...Some businesses have noted ongoing challenges in both bringing back furloughed workers and hiring new ones. Among the factors deterring workers are child care needs, safety concerns, and the generosity of unemployment benefits under the CARES Act....One employment agency noted that wages have risen for lower-paid workers, whereas many businesses have cut salaries for managers and other highly-paid workers. Looking ahead, businesses generally expect wages to rise, on balance.

Prices

Business contacts reported that input costs were up modestly, on balance, while selling prices were flat to down slightly. A sizable number noted mostly modest costs related to installing and maintaining safety protocols.

Real Estate and Construction

Home sales...activity across much of New York State picked up substantially when restrictions were lifted in early June, and demand appears to have exceeded supply driving higher prices and bidding wars across parts of the region. Commercial real estate markets across the District remain weak, with availability rates rising, rents flat or declining, and leasing activity very sluggish. Many retail tenants have continued to fall behind on rent— particularly in malls, where restrictions have stayed in place. Still, real estate contacts remained somewhat optimistic, on balance, about the near term outlook. **New construction activity has remained quite sluggish, though many ongoing construction projects have begun to start up again, as restrictions have been eased.**

Federal Reserve Bank of Philadelphia

Summary of Economic Activity

Third District business activity expanded moderately during the current Beige Book period but remained far below levels observed prior to the onset of the COVID-19 pandemic. Business operations resumed or increased, as lower COVID-19 caseloads prompted states to phase out stay-at-home orders and mandated closures. As firms recalled some of their workforce, net employment also grew moderately; however, firms continued to issue permanent layoffs as well. More firms have noted salary reductions than increases. Meanwhile, contacts noted difficulties attracting workers despite high unemployment rates. Prices edged higher, as a fitful economic restart generated spotty price spikes. Modestly positive expectations for growth over the next six months have broadened among firms; however, uncertainty remains high, as contacts cite the duration of the pandemic and the depth of the ensuing recession as key unknowns.

Real Estate and Construction

Philadelphia's commercial real estate construction grew modestly from low levels as more projects restarted. An engineering firm noted that many municipal projects have been shelved, as tax revenues and tolls have fallen. Commercial leasing activity continued to decline modestly, as firms are taking more time to reassess their space needs. Some firms will extend leases when possible to afford more time to understand the changes wrought by the COVID-19 pandemic on demand for their products, their workforce efficiency, and telecommuting's long-term potential. Demand for retail space is in sharper decline.

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

Federal Reserve Bank of Cleveland

Summary of Economic Activity

After declining sharply in March and April, the Fourth District economy expanded in recent weeks as some firms resumed business operations. Contacts across most industry segments reported a rebound in activity during the early phases of reopening, although many suggested that the pace of improvement slowed as the reopening progressed. Most were also careful to point out that demand remained well below pre-pandemic levels despite the recent gains. Looking forward, contacts generally expected activity to pick up further in coming months. However, some questioned the sustainability of the pace of recovery amid a spike in new COVID cases across the country along with weak new orders and declining backlogs in some key industries. That uncertainty likely contributed to softness in capital spending and hiring plans. More than 40 percent of contacts cut capital spending plans since the last report, while less than 10 percent planned to spend more. Contacts across a wide array of industries indicated they were bringing idled workers back only slowly, and are unlikely to rehire all of them in the near term. Wages, non-labor costs, and selling prices were generally flat-to-down.

Prices

Nonlabor input costs were flat to down since the last report. Manufacturers reported that prices for important inputs such as steel and petroleum-related products were mostly flat to down in recent weeks amid weak global demand and excess inventories, while freight haulers indicated that lower fuel prices had offset higher insurance costs. Contacts generally expected nonlabor costs to move higher in coming months as the economic recovery proceeds. With weak demand and little upward pressure on wages and other input costs, selling prices were mostly flat-to-down as well. **Contacts in retail, transportation, and professional and business services were more likely to report increases in selling prices than those in manufacturing and construction.** Still, the price increases were not material and often reversed declines recorded in previous periods.

Real Estate and Construction

Overall construction activity stabilized since our last report. However, conditions varied widely under the surface and contacts expressed concerns about the sustainability of the industry's recovery. Homebuilders reported stronger-than-expected new-home sales in May and June as buyers returned to the market as social distancing restrictions were eased. ...Both builders and realtors expected demand for single-family properties to remain firm in the near term, but several worried that conditions could change in the fall if high unemployment persists. **Nonresidential construction rebounded as delayed projects in some areas were restarted. However, several nonresidential builders indicated that there were few new projects entering the pipeline and that backlogs were being worked down, raising concerns that activity may weaken in the fall.** Meanwhile, nonresidential real estate activity remained weak. Commercial realtors reported that overall demand for space was flat to down as softness in office and retail more than offset some strength in light industrial. Landlords continued to express concerns about cash flow as more of their tenants, particularly small businesses, come under financial strain.

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

Federal Reserve Bank of Richmond

Summary of Economic Activity

The Fifth District economy grew compared to our prior report, although economic activity generally remained well below pre-COVID-19 levels.

Employment and Wages

Since our previous report, employment increased as firms across a wide variety of industries reported calling some of their previously separated employees back to work, hiring new workers, and posting for vacant positions. Despite the rise in employment in recent weeks, total employment remained considerably below prepandemic levels. Several contacts noted challenges bringing workers back, including fear of contracting COVID-19 at work, inability to find childcare, or their ability to make more money on unemployment.

Real Estate and Construction
New [home] construction continued, but starts were delayed due to the remote work and distancing policies of local agencies. Commercial real estate leasing increased modestly but remained soft compared to pre-pandemic levels. Rental rates were somewhat lower, but contacts said buyers were not getting the low prices they expected. Retail remained weak as some stores and restaurants closed permanently. Office leasing was modest, and several tenants asked for short-term lease renewals in order to allow them to re-evaluate their use of and need for office space. Industrial leasing remained strong, and one broker expected a continued rise in industrial leasing to allow companies to hold more inventory. Multifamily leasing was somewhat soft, and some landlords increased concessions to attract tenants.*For more information about District economic conditions visit: www.richmondfed.org/research/regional_economy*

Federal Reserve Bank of Atlanta

Summary of Economic Activity
On balance, economic activity in the Sixth District remained weak from mid-May through June. Labor markets improved somewhat as businesses in parts of the region reopened....Demand for residential real estate strengthened and inventory levels fell resulting in upward pressure on home prices. Commercial real estate market conditions were mixed.

Employment and Wages
As the support from the Paycheck Protection Program winds down, many employers indicated that they will be forced to lay off workers should business remain weak. Contacts continued to report wage and salary cuts, except at the low-end of the pay scale and among essential workers. Reports on the disincentive to work from receiving unemployment insurance benefits were mixed.

Prices
Contacts continued to note muted input costs and little to no pricing power. Though many described rising costs associated with sanitation practices and Personal Protective Equipment used to protect employees and clients from COVID-19, most reported an inability to pass along these additional costs.

Construction and Real Estate
Commercial real estate (CRE) contacts reported continued challenges associated with the effects of the COVID -19 pandemic....multifamily owners reported minor softening in occupancies and were offering greater concessions to minimize lease turnovers. There were growing reports of tenants and borrowers seeking relief. Investment activity was muted compared with preCOVID-19 levels. Contacts reported that capital was readily available at banks; however, underwriting criteria tightened for the financing of operating CRE projects, and originations continued at a subpar pace. Contacts reported that high-quality asset values declined marginally, and hospitality and retail sector assets declined at a more accelerated pace since the beginning of the pandemic.

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

Federal Reserve Bank of Chicago

Summary of Economic Activity
Economic activity in the Seventh District increased strongly in late May and June, but remained well below its prepandemic level. Contacts expected further growth in activity in the coming months, but most did not expect a full recovery until at least the second half of 2021. Employment, consumer spending, and manufacturing increased substantially, while business spending and **construction and real estate activity increased modestly.** Wages edged up, prices declined slightly, and financial conditions deteriorated modestly.

Employment and Wages
Employment increased substantially from a very low level over the reporting period, with gains spread widely across industries. Many contacts who received a Paycheck Protection Program (PPP) loan continued to indicate that the program was helping them avoid layoffs. A number of contacts said that their ability to retain workers after the PPP money ran out depended heavily on future demand....eral contacts again commented that generous unemployment benefits were making it difficult to bring payrolls back to desired levels. Wages edged up across skill levels. Benefits costs also ticked up.

Construction and Real Estate
Construction and real estate activity increased modestly on balance over the reporting period, but remained subdued. Residential construction decreased slightly. One contact reported a pullback in speculative single-family construction. Residential real estate activity increased moderately from a very low level, with gains concentrated in the starter home segment. Contacts continued to report that low inventories were supporting prices. **Nonresidential construction decreased slightly on net, with much of the activity representing work on projects in progress before the pandemic.**

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

Federal Reserve Bank of St. Louis

Summary of Economic Activity
Economic activity has rebounded sharply since late May; however, overall conditions remain significantly depressed and the pace of recovery appears to have slowed since mid-June. Contacts reported reopening and bringing back furloughed workers, but the pace has been uneven across firms and sectors. General retailers, auto dealers, and hospitality contacts report increases in business activity, while manufacturing contacts reported little change. Homes sales increased sharply while **construction activity was mixed.** In comparison with our previous report, the outlook among contacts is slightly more pessimistic while also much more uncertain.

Real Estate and Construction
Construction activity was mixed in late May and early June as businesses reported either no change or a decrease in weekly operating revenue in June relative to prior weeks. A contact in St. Louis reported a slowdown in invoice payments from customers, suspecting that customers were looking for ways to conserve cash.

For more information about District economic conditions, visit: https://research.stlouisfed.org/regecon/

Federal Reserve Bank of Minneapolis

Summary of Economic Activity
Ninth District economic activity was mixed since the previous report, with declines in most sectors, despite some improvements due to emergency federal stimulus and gradual reopening of state economies in the District. Employment rose from very contracted levels, wage pressures were flat, and price pressures remained minimal. The District economy saw growth in consumer spending and tourism, but **decline in services, construction and real estate,** manufacturing, energy, and mining; agricultural conditions remained poor.

Construction and Real Estate
Commercial construction was down moderately overall. The value of May construction starts across District states rose compared with April, but was notably down from 2019. The number of active projects was also trending modestly lower through the end of June. Minnesota construction contacts reported flat or falling levels of new projects out for bid. Recent permit activity showed signs of slowing, particularly in the city of Minneapolis, though not everywhere. Numerous sources also said more firms were competing for available work. Residential construction fell modestly overall, due mostly to a sizable drop in single-family permits in MinneapolisSt. Paul; increases were seen in St. Cloud, Minn., Bismarck, N.D., and Rapid City, S.D. Commercial real estate fell moderately since the last report. Office space was under pressure given the slower

economy and delayed return of remote workers to central business districts. Traditional retail space remained under tremendous strain. A major retailer closed six locations across the District. A Minnesota mall reported that many tenants were still closed in late June. Those that were open "are really struggling, nowhere near break-even," and leases for virtually all tenants had been altered or renegotiated. Residential real estate was down across the District, according to the most recent (May) sales data available at deadline. Most regions saw double-digit declines in closed home sales compared with last year, with many reaching 20 to 30 percent.

Federal Reserve Bank of Kansas City

Summary of Economic Activity

After a sharp contraction in previous months, Tenth District economic activity rebounded slightly in June. Expectations also improved, and contacts in most sectors anticipated higher levels of activity in the months ahead....**Residential** real estate activity increased moderately as home sales, prices and **construction activity rose. However, commercial real estate activity dropped further.**

Prices

Construction supply respondents noted a modest rise in selling prices.

Construction and Real Estate

Residential real estate activity expanded moderately in June, while commercial real estate activity declined modestly. **Residential construction activity rose modestly and construction supply firms noted a slight increase in sales, with one contact noting a surge in sales for deck supplies.** Commercial real estate conditions deteriorated further as vacancy rates increased significantly, while absorption, sales, and prices declined. Many contacts noted that access to credit had become more difficult in recent months, and one respondent reported that retail leasing was particularly challenging.

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

Federal Reserve Bank of Dallas

Summary of Economic Activity

The Eleventh District economy regained its footing following unprecedented declines in the previous two reporting periods. Activity in the manufacturing and service sectors began rebounding, as did retail spending. However, the level of output and demand remained below pre-COVID levels. Loan volumes contracted at a modest pace, and drilling activity fell to new lows. Activity in the housing market expanded, with new home sales outperforming activity in the existinghome market. Employment stabilized, according to contacts, but overall labor market conditions remained weak. Wages were flat to slightly up. While input costs rose modestly, selling prices generally dipped further. Outlooks improved, but a weak economy, depressed activity in the energy sector, the resurgence of COVID-19 infections, and a pause in the reopening of the district economy were causing concern among contacts.

Prices

New home prices rose slightly, and homebuilders noted getting only modest relief from contractors and suppliers on pricing.

Manufacturing

Output growth rebounded in June following steep declines in the previous three months. **Durables and nondurables increased, led by strength in transportation equipment, food, printing, and construction-related manufacturing.**

Construction and Real Estate

Apartment rent collections continued to outperform expectations, but the upcoming expiration of federal unemployment benefits was a downside risk to the outlook. Office leasing remained sluggish, though it did improve slightly compared to the previous reporting period. Activity was concentrated in short-term renewals and/or smaller-sized deals. Industrial demand remained solid.

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

Federal Reserve Bank of San Francisco

Summary of Economic Activity
Economic activity in the Twelfth District contracted modestly on balance during the reporting period of mid-May through June. Employment levels increased slightly, as rehiring activity proceeded cautiously. Wages were generally stable, as were prices....Conditions in residential real estate improved moderately, while the commercial market was mixed.

Employment and Wages
Building material producers reported a tick up in payrolls in response to growing demand from the construction sector....Some contacts reported generous unemployment compensation limited the pace of hiring.

Prices
Building materials' prices ticked up with construction projects restarting or continuing in several regions and residential permitting rising in some areas.

Manufacturing
...a building product manufacturer saw an encouraging increase in production and sales but attributed some of the jump to making up for April's very weak activity rather than improved market conditions. Elsewhere, a renewable energy equipment manufacturer noted a modest rebound in capacity utilization as supply chains passing through China and Mexico reopened. Spotty availability of input materials generally posed an additional challenge for some manufacturers attempting to move toward more normal operations.

Real Estate and Construction
Residential construction activity increased moderately. In most areas, contacts reported solid permitting and building activity. In Seattle, residential permits were slightly higher than in the same period last year, and a Northern California contact noted that permitting activity was picking up, reflecting a return to construction after some stoppages in March and April. Overall, home sales picked up noticeably while inventories declined, putting some upward pressure on home prices. In Oregon, a large backlog of homeowners wanting to list their home for sale indicated that inventory in some areas may rise in coming months. In Idaho and Eastern Washington, observers saw early evidence of buyers moving from higher-cost coastal markets after starting permanent teleworking. .... Activity in the commercial real estate market was mixed. **Contacts in the Mountain West and California noted that some commercial projects that paused due to virus concerns have restarted.** Office occupancy was generally stable in this region. However, **the outlook for office occupancy and new office construction in District cities is highly uncertain, with some predicting a steep decline in occupancy and a freeze in new construction. Demand for warehouse space picked up in Northern California.**