

Construction-related comments in the October 21, 2020 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](#), issued October 21, is based on information collected from mid-August through October 9 and includes these **comments relevant to construction** (bolding added)

U.S. Summary: Economic activity continued to increase across all Districts, with the pace of growth characterized as slight to modest in most Districts. Changes in activity varied greatly by sector. Manufacturing activity generally increased at a moderate pace. Residential housing markets continued to experience steady demand for new and existing homes, with activity constrained by low inventories. Banking contacts also cited increased demand for mortgages as the key driver of overall loan demand. Conversely, commercial real estate conditions continued to deteriorate in many Districts, with the exception being **warehouse and industrial space** where **construction** and leasing **activity remained steady**.

Prices

Prices rose modestly across Districts since the previous report. Input costs generally increased faster than consumer prices; however, some sectors—notably **construction**, manufacturing, retail, and wholesale—**passed along the higher costs to consumers**.

Federal Reserve Bank of Boston

Summary of Economic Activity

Business contacts in the First District reported activity continued to improve from mid-August through September, amid ongoing pandemic disruptions. Although overall activity levels were still below average, most responding manufacturers and retailers reported increased revenues compared with a year ago. Revenues at contacted software firms were also up modestly from 2019. Commercial real estate markets continued to diverge, with industrial and lab space doing well, and retail and office in the doldrums.

Commercial Real Estate

Industrial and lab space markets in the First District continued to do well, while retail and office continued to struggle. The industrial market, particularly anything having to do with logistics, was operating at near capacity, and prices and rents increased as a result. Lab space continued to be in high demand, so investment in these types of buildings hasn’t slowed. Retail spaces continued to struggle, notwithstanding states’ advancing reopening plans. Contacts reported that shopping centers with essential businesses such as grocery and home improvement stores, were doing well in terms of rent collection, but malls and lifestyle stores were doing much worse, with rent collection as low as 20 percent in some cases. The retail vacancy rate has increased. Office market activity was still only as-needed, mainly renewing expiring leases. Tenants requested short-term extensions; while they received some concessions, face-value rents remained mostly unchanged. Most contacts estimated that about 20 percent of workers are working from offices now; while this is an increase from August’s 10 percent estimate, the post-Labor Day rise was not as large as anticipated. Contacts were mostly pessimistic regarding the outlook for the rest of 2020 and the beginning of 2021, largely citing political uncertainty and confusion around future stimulus measures. Many contacts said that without further stimulus measures, landlords may not be able to continue covering for their more-affected tenants, so evictions and vacancy rates may increase. Some contacts also noted that **in order for older office spaces to recover post-COVID, many infrastructure improvements will be needed**.

Federal Reserve Bank of New York

Summary of Economic Activity

Economic activity in the Second District economy grew slightly in the latest reporting period, as the pace of reopening has been gradual and the virus spread has remained subdued across most of the District....Housing markets have been mixed but, on balance, somewhat stronger, while markets for office and retail space have softened further. **Commercial construction activity has remained depressed, though residential construction has shown scattered signs of picking up**.

Employment and Wages

... **contacts in the information, transportation, and construction sectors have reported modest staff reductions**.

Prices

contacts involved in construction noted sharply increasing prices for lumber and other construction materials. A number of contacts noted that, aside from the prices of inputs, they have incurred additional costs in adapting to new safety concerns and complying with regulations.

Real Estate and Construction

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

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

Federal Reserve Bank of Philadelphia

Summary of Economic Activity

Third District business activity incrementally improved during the current Beige Book period but remained well below levels observed prior to the onset of the COVID-19 pandemic. T

Prices

...builders continued to note numerous prices hikes (and delays) for lumber, appliances, and other critical inputs.

Real Estate and Construction

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

Federal Reserve Bank of Cleveland

Summary of Economic Activity

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

Employment and Wages

More firms across a wide array of industries reportedly wanted to hire (or rehire) additional workers to meet improving demand. However, many indicated that they had a hard time adding workers. Contacts said that three primary factors contributed to their inability to hire: health concerns, difficulty arranging dependent care, and generous unemployment insurance benefits. Contacts were specifically asked if labor availability increased after the generous supplemental unemployment insurance payments lapsed, and most said that it had not.

Prices

Nonlabor input costs also rose for many firms. **Construction and manufacturing firms reported rising freight rates and materials prices, along with supply chain interruptions, that contributed to higher input costs.**

Many of those firms were able to push such cost increases though to their customers. Contacts in a variety of sectors suggested that adapting their operations to account for COVID-19 also added to their costs.

Real Estate and Construction

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

Federal Reserve Bank of Richmond

Summary of Economic Activity

Economic activity in the Fifth District increased modestly since our last report but remained soft compared to pre-COVID and year-ago levels.

Prices

Some manufacturing and construction firms noted supply shortages and rising prices for certain raw materials. Several businesses reported longer lead times and higher prices for personal protection equipment.

Real Estate and Construction

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

Federal Reserve Bank of Atlanta

Summary of Economic Activity

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

Prices

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

Construction and Real Estate

Demand for housing continued to recover, and new home construction continued to fall short of demand. Inventory levels of existing homes dropped to historic lows and shortages are expected to remain a long-term market headwind. Limited supply and **rising construction costs** have led to increased upward pressure on prices. However, historically low interest rates continued to help offset rising prices. Contacts shared concerns over potential higher mortgage defaults as surges in delinquencies in markets such as Orlando and Miami were noted. Commercial real estate (CRE) contacts reported continued stabilization amidst improving employment conditions and customer traffic. Hospitality, which was especially hard hit at the onset of the pandemic, was

generally stagnant. Retail remained challenged; however, contacts reported marginal improvement as rent collections increased at poor performing shopping centers. The rate of unit leasing remained muted compared with prepandemic rates. Owners of lower-price multifamily properties reported an increase in late rent payments and some softening in occupancies. While improving, low levels of tourism and travel were having a notable impact on activity across the hospitality and retail sectors. Due to slower transaction and leasing volumes, asset valuation remained difficult.

Federal Reserve Bank of Chicago

Summary of Economic Activity

Economic activity in the Seventh District increased robustly in late August and September, but the pace of growth was slower than the prior reporting period and activity remained well below its pre-pandemic level. Contacts expected further growth in the coming months, but most did not expect a full recovery until at least the second half of 2021. Employment and consumer spending increased robustly; manufacturing increased moderately; **construction and real estate increased modestly**; and business spending increased slightly. Wages increased slightly and prices rose modestly.

Business Spending

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

Construction and Real Estate

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

Manufacturing

Contacts noted that while demand for heavy machinery from the infrastructure segment remained solid, they were concerned about a drop-off in spending by state and local governments, many of which face potentially large budget cuts. Specialty metals manufacturers reported a modest increase in sales, with contacts highlighting growth in the construction, medical, and defense industries. Demand for heavy trucks increased moderately. Manufacturers of building materials saw a modest increase in shipments, supported by growth in residential construction. Contacts in food processing reported strong growth and plans to expand capacity.

Federal Reserve Bank of St. Louis

Summary of Economic Activity

Reports from District contacts suggest economic activity has increased slightly but the pace of activity remains highly variable across sectors. Employment and wages increased slightly

Prices

Many raw materials are up moderately, **steel prices are up significantly**, while chemical prices have declined. Contacts attribute **elevated lumber prices** to increased demand and a slowdown in production as a result of the COVID-19 pandemic.

Real Estate and Construction

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

Federal Reserve Bank of Minneapolis

Summary of Economic Activity

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

Prices

Prices for construction materials continued to increase rapidly.

Construction and Real Estate

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

Commercial real estate continued to decline modestly since the last report. With many workers continuing to work from home, office space in downtown Minneapolis and St. Paul was seeing increased lease concessions, according to contacts. Lower foot traffic at office buildings also continued to put pressure on retail and other ancillary businesses, with significant closures of restaurant and other retail outlets. Multifamily vacancy rates were reportedly rising in some cities.

Federal Reserve Bank of Kansas City

Summary of Economic Activity

Tenth District economic activity expanded slightly in September despite a pullback in consumer spending for the first time since early summer....Residential real estate activity continued to increase at a moderate pace, but commercial real estate conditions weakened.

Prices

Selling prices increased moderately for construction supplies, but were expected to remain flat in the upcoming months.

Real Estate and Construction

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

Federal Reserve Bank of Dallas

Summary of Economic Activity

Economic growth resumed in the Eleventh District after a spike in COVID-19 infections over the summer disrupted the budding recovery.

Construction and Real Estate

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

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

Federal Reserve Bank of San Francisco

Summary of Economic Activity

Economic activity in the Twelfth District expanded moderately on balance during the reporting period of mid-August through early October. Employment levels increased modestly on net, but hiring activity varied across sectors and somewhat across the District. Wages rose slightly, and price inflation increased marginally.

Employment and Wages

Hiring in lumberyards and construction firms was somewhat constrained by a shortage of skilled workers.... Hiring firms reported receiving plentiful applications for open positions and ease in filling them. Instances of absenteeism decreased, but workers showed continued concern about COVID-19 exposure and grappled with childcare needs.

Labor shortages in the construction sector fueled increases in wages.

Prices

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

Manufacturing

Demand for manufactured wood products and building materials soared on the back of a very active residential real estate market. Construction activity also underpinned strong sales of fabricated and recycled metals over the reporting period, although one contact attributed the rise in demand mainly to niche markets.

Real Estate and Construction

Residential construction activity increased further, supported by a low interest rate environment. Contacts reported increased demand for new and existing homes throughout the District, which kept inventories low and construction permitting high. Home prices continued to climb at double-digit rates, partially fed by increased demand for suburban homes in the current telework environment. Rents in metropolitan areas dipped. Contacts expressed some concern over the undersupply of affordable housing, especially after some regions suffered from wildfire-led destruction. Homebuilders in the Mountain West and Pacific Northwest reported backlogged projects, increased costs of building materials, and finalized sales well in advance of project completion. Activity in the commercial real estate market remained broadly unchanged. Demand for commercial and office space was either stagnant or decreased in most of the District. **However, new hotels and offices continued to be built in the Mountain West. In other areas, demand for new industrial and warehouse space expanded.** A contact in Alaska noted that prices for commercial real estate remained unchanged despite subdued local activity and more emigration from the area.