

## **Regional summaries and construction-related comments in the March 3, 2021 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](#), issued March 3, is based on information collected January 5-February 22 and includes these **comments relevant to construction** (bolding added):

### **U.S. Summary:**

Economic activity expanded modestly from January to mid-February for most Federal Reserve Districts.... On balance, commercial real estate conditions in the hotel, retail, and office sectors deteriorated somewhat, while activity in the multifamily sector remained steady and the industrial segment continued to strengthen.

### **Employment and Wages**

Most Districts reported that employment levels rose over the reporting period, albeit slowly. Labor demand varied considerably by industry and by skill level, and many contacts noted continued difficulties attracting and retaining qualified workers. Labor supply shortages were noted by contacts as most acute among low-skill occupations and skilled trade positions. Constraints on labor supply included those related to COVID-19, childcare, and unemployment benefits....Several Districts reported modest wage increases for high-demand positions with many also noting upward pressure on wages to attract and retain employees.

### **Prices**

On balance, nonlabor input costs rose moderately over the reporting period, with steel and lumber prices increasing notably. In many Districts, the rise in costs was widely attributed to supply chain disruptions and to strong overall demand. Transportation costs continued to increase, in part due to rising fuel costs and capacity constraints.

### **First District (Boston)—covers New England except Fairfield County, CT**

#### **Summary of Economic Activity**

Economic activity was decidedly mixed in the First District, with moderate growth on balance....The commercial real estate market was split between very strong activity for industrial and laboratory space and sluggish to very weak demand for office, retail, and hotel properties.

#### **Commercial Real Estate**

Commercial real estate conditions in the First District were mostly unchanged since December. Throughout the District there remained significant disparities between the industrial sector—which saw robust demand and extremely low vacancy rates—and the retail and hospitality sectors, both of which continued to register very weak demand and declining property values. **The life sciences industry, concentrated in greater Boston, extended its boom in the leasing and construction of lab space.** Although office leasing was mostly sluggish, a Providence contact reported a slight uptick in leasing activity that was noteworthy in that tenants expressed interest in longer-term leases. The same contact noted that concessions on Providence office space had increased, lowering effective rents if not asking rents. Contacts expect demand for office space to remain muted or to improve modestly in the first half of 2021, and to improve significantly in the second half. Hotel demand is expected to rebound in mid-to-late 2021 as well. Nonetheless, contacts are forecasting a permanent decrease in office occupancy of 20 percent or more in the post-pandemic economy, and a glut of lab space in greater Boston remains a risk at the two-to-three-year horizon.

For more information about District economic conditions visit: [www.bostonfed.org/regional-economy](http://www.bostonfed.org/regional-economy)

### **Second District (New York)—covers NY, northern NJ, Fairfield County CT**

#### **Summary of Economic Activity**

Economic activity in the Second District has declined modestly in the latest reporting period....

#### **Employment and Wages**

**Businesses in most sectors—particularly construction and leisure & hospitality—have continued to report weakening employment.**

Wages have accelerated further, with more businesses raising wages than at any time since the start of the pandemic. Wage increases were most widespread in the education & health, retail, finance, and transportation sectors. A number of contacts stated that the January 1st minimum wage hike across much of the District, as well as generous unemployment benefits, have put upward pressure on wages.

### Prices

**Firms' input prices have accelerated since the beginning of the year, particularly among businesses in the manufacturing and construction sectors. In particular, prices of metals and construction materials are said to have escalated substantially.**

### Manufacturing and Distribution

Manufacturing activity picked up somewhat in January and early February, expanding at a moderate pace. In contrast, wholesale trade contacts reported flat activity, and businesses in transportation & warehousing noted some weakening. A large and growing number of firms in these sectors reported supply disruptions and delays—particularly in getting shipments from overseas.

### Real Estate and Construction

... Commercial real estate markets have weakened further, across the District. Retail and office markets have been particularly weak in New York City, where vacancy and availability rates have soared and asking rents have continued to decline, with landlords reportedly offering increased concessions.

**New construction activity has remained sluggish in both the residential and commercial segments. Contacts in the construction industry noted widespread weakening in activity, possibly exacerbated by harsh weather, and they remain somewhat pessimistic about the near-term outlook. Contacts continued to report sharp increases in the cost of materials, as well as supply disruptions..**

For more information about District economic conditions visit: [www.newyorkfed.org/regional-economy](http://www.newyorkfed.org/regional-economy)

### Third District (Philadelphia)—covers DE, southern NJ, eastern PA

#### Summary of Economic Activity

On balance, business activity in the Third District rebounded to a modest pace of growth during the current Beige Book period – the first significant growth since midsummer. However, activity in most sectors remained below levels observed prior to the onset of the COVID-19 pandemic. Net employment appeared to rise slightly after falling slightly in the prior period. Positive wage and price growth trends increased to modest and moderate paces, respectively. Economic gains appeared to reflect waning COVID-19 cases and the relaxation of some business restrictions. However, firms continued to cite disruptions at production sites, consumer outlets, and along supply chains. Moreover, wintry weather conditions have constrained growth in several sectors.

#### Prices

On balance, prices appeared to rise moderately over the period – following a modest increase in the prior period and modest increases over most of the prior year. Over half of the manufacturers reported higher prices for factor inputs, but less than one-third received higher prices for their own products. Similarly, about one-third of the nonmanufacturers reported that prices rose for their inputs, and less than one-tenth noted higher prices received from consumers for their own goods and services. Most firms noted no change in prices.

Most respondents continued to cite COVID-related disruptions in production and supply chain logistics as primary reasons for **shortages and price spikes of various commodities, including some agricultural products, building materials**, cleaning products, and microchips.

#### Real Estate and Construction

Homebuilders reported moderate growth in contract signings stemming from strong demand across all demographics. Contacts noted challenges to production, ranging from land acquisition to cost of lumber to availability of window packages to scheduling of specialized tradespeople. Existing home sales continued to grow modestly. Limited inventories continued to constrain otherwise strong demand and drive prices higher.

**Philadelphia's commercial construction activity appeared to have slowed slightly. The project pipeline and COVID-19 safety protocols continue to support levels at about 80 percent of the prior year.**

Commercial leasing activity slowed slightly after falling moderately in the prior period. Contacts continued to note uncertainty about the future demand for office space and don't expect clarity until large downtown offices are able to resume normal operations..

*For more information about District economic conditions visit: [www.philadelphiafed.org/research-and-data/regional-economy](http://www.philadelphiafed.org/research-and-data/regional-economy)*

#### **Fourth District (Cleveland)**—covers OH, eastern KY, western PA, northern WV

##### **Summary of Economic Activity**

The District's economy regained momentum after it had slowed in the previous reporting period....That said, activity remains below prepandemic levels for most firms. In addition, **many firms, particularly those in construction, retail, and manufacturing, reported that delayed deliveries from suppliers and coronavirus-related employee outages constrained their output.** Hiring activity was modest, even though customer demand improved, and wage pressures increased moderately. Nonlabor costs rose strongly as supply chain disruptions coincided with stronger demand for inputs. Selling prices rose moderately as firms attempted to keep up with mounting input costs.

##### **Employment and Wages**

... Consistent with activity in the last several reporting periods, **a number of firms in manufacturing, retail, and construction noted that they wanted to add staff but found it difficult to fill open positions.** Aside from typical staffing challenges, one in four firms reported that coronavirus-related staff outages impeded their ability to meet customer demand. Such reports were more common among manufacturers and **construction firms where close to one third of firms expressed these difficulties.**

Overall, upward pressure on wages was moderate, and more firms reported increasing wages than at any point in the pandemic. Pay raises were often between 2 percent and 3 percent, although several retailers and manufacturers commented that there were pockets of more sizeable increases for lower-wage workers and some skilled tradespeople such as machinists.

##### **Prices**

Reports suggest that upward pressure on costs and selling prices increased since the last report. Nonlabor costs rose strongly during this period, a change from the last several periods when costs were reported to have risen moderately. Manufacturers and **construction firms indicated that steel and lumber costs continue to increase significantly. Other input costs also rose, including for aluminum, copper, resins, and some concrete products.** Many firms attributed these price increases to supply chain disruptions occurring at the same time as demand was improving. Finally, firms in a range of sectors reported that transportation costs were up significantly because of capacity constraints among shippers and higher fuel costs.

Selling prices rose moderately, on balance, and a greater share of firms reported they increased their prices as compared with the share in the previous report. Price hikes were most prevalent among freight haulers, who, faced with very strong demand and tight capacity in the industry, were able to command higher prices with ease. Many construction and manufacturing firms raised their prices to keep up with escalating input costs, although several of them were concerned that doing so would not be adequate to preserve their margins.

##### **Manufacturing**

...Contacts noted that **demand for home goods, shipping materials, construction equipment, and logistics equipment was particularly strong**....Many manufacturers experienced delayed deliveries of inputs, which impeded their ability to meet demand.

##### **Real Estate and Construction**

...**Nonresidential construction and real estate activity edged higher, on balance, as demand for industrial and distribution space increased. By contrast, activity in the office and retail segments remained weak. Contacts anticipated that nonresidential construction and leasing activity would improve modestly in the next few months.**

*For more information about District economic conditions visit: [www.clevelandfed.org/region/](http://www.clevelandfed.org/region/)*

**Fifth District (Richmond)**—covers DC, MD, NC, SC, VA, part of WV

**Summary of Economic Activity**

The Fifth District economy continued to grow at a modest rate.

**Prices**

... **Construction materials prices, lumber in particular, rose from already-high levels.**

**Manufacturing**

... Many firms reported supply chain disruptions as shortages of materials and packaging, both domestic and imported, led to longer lead times and higher input prices. Some manufacturers were also constrained by labor shortages and employee absences. Several manufacturers reported transportation delays and high prices both from trucking and from sea transport.

**Real Estate and Construction**

... Fifth District commercial real estate leasing increased modestly in recent weeks but was below year-ago levels. While retail vacancies remained elevated, more businesses looked to add locations, and vacated restaurant space sparked interest. Office tenants continued to ask for short-term lease renewals, and many downsized, but others added space and some landlords found new clients. **Industrial** leasing was very strong, as inventories were low and **new construction continued**. Multifamily leasing remained soft, with some landlords upping incentives and reducing rent.

For more information about District economic conditions visit: [www.richmondfed.org/research/regional\\_economy](http://www.richmondfed.org/research/regional_economy)

**Sixth District (Atlanta)**—covers AL, FL, GA, parts of LA, MS, TN

**Summary of Economic Activity**

Economic activity in the Sixth District expanded modestly, on net, from January to mid-February. Labor markets improved some as employers added to headcounts, and wage pressures remained muted. Increases in certain nonlabor costs were noted, and pricing power among firms was mixed.

**Employment and Wages**

... Most contacts noted that wage pressure remained subdued. **Shortages of nurses, skilled trades workers, warehouse workers, and commercial drivers were putting upward pressure on wages** in those occupations according to several contacts.

**Prices**

Consistent with previous reports, **input costs, particularly for lumber and steel, continued to rise notably over the reporting period**. Transportation and shipping costs continued to increase as well, with some contacts noting supply chain constraints creating upward cost pressures. Reports on pricing power were mixed. **Sectors such as construction, manufacturing, and transportation that were affected by rising input costs implemented increases**, while others were unable or unwilling to raise prices.

**Construction and Real Estate**

... Commercial real estate (CRE) contacts reported that the sector continued to be hampered by the effects of the pandemic; however, some areas of CRE showed improvement. Conditions in the retail sector improved modestly and rent collections recovered from the dismal results experienced in mid-2020. Multifamily conditions were mixed; however, leasing activity appeared to be picking up in some of the harder hit areas. The hospitality sector continued to be negatively impacted by low levels of tourism. **Banks reported that financing for commercial projects was available and demand for new construction rose.**

For more information about District economic conditions visit: [www.frbatlanta.org/economy-matters/regional-economics](http://www.frbatlanta.org/economy-matters/regional-economics)

## **Seventh District (Chicago)**—covers IA, norther IL and IN, southern MI and WI

### **Summary of Economic Activity**

Economic activity in the Seventh District increased modestly in January and early February but remained below its pre-pandemic level. Contacts expected growth to pick up in the coming months, but most did not expect to see full recovery until at least the first half of 2022. Manufacturing and consumer spending increased moderately; business spending and construction and real estate increased slightly; and employment was little changed. Wages and prices rose modestly.

### **Prices**

... Numerous manufacturing contacts reported large price increases for primary metals and metal products, particularly copper and steel.

### **Business Spending**

...Manufacturing inventories were generally at comfortable levels, though **several contacts reported supply chain issues related to raw materials (particularly steel and copper)**, microchips, and specialty parts. Capital expenditures were little changed overall. And while some said they were holding back because of uncertainty over the pandemic, contacts overall expected a moderate increase in their capital spending over the next twelve months on the anticipation that the pandemic will continue to recede. Demand for transportation services increased slightly on top of a high level. Contacts continued to report that bottlenecks in shipping, particularly at West Coast ports, were causing delayed deliveries.

### **Construction and Real Estate**

**Construction and real estate activity increased slightly on balance over the reporting period.** Residential construction was flat, but the level of activity remained high. **Contacts noted that difficulties in obtaining building materials, especially steel and lumber, were pushing up costs and slowing construction activity.** Residential real estate activity increased slightly, with reports that tight inventories were holding back sales. Home prices and rents increased modestly on balance, though contacts in parts of the District reported that some homes were receiving multiple offers and selling for well over asking price. **Nonresidential construction activity increased modestly. Contacts in southeast Michigan said there was a noticeable increase in industrial and warehouse construction in vacant areas of Detroit.** Commercial real estate activity was flat. The office sector continued to struggle. Contacts indicated that some office tenants were downsizing their footprint in response to the pandemic. There were also reports of leasing deals that included long periods of free rent. Prices and rents fell slightly, and the availability of sublease space increased slightly.

### **Manufacturing**

**...Production of steel and aluminum increased moderately, responding to a broad increase in demand across most manufacturing subsectors. Manufacturers' sales of specialty metals increased moderately, driven by demand from the automotive, construction, and agriculture sectors.**

*For more information about District economic conditions visit: [chicagofed.org/cfsbc](http://chicagofed.org/cfsbc)*

## **Eighth District (St. Louis)**—covers AR, southern IL and IN, parts of KY, MO, MS, TN

### **Summary of Economic Activity**

Reports from contacts indicate that economic conditions have been generally unchanged since our previous report. Firms continue to report mixed changes in employment levels. Firms reported difficulties attracting candidates for positions despite increasing wages. Inflation pressures have increased, as contacts reported moderate increases in prices; however, most contacts believe it will be difficult to pass on further price increases.

### **Prices**

...Contacts also reported higher steel and soft-lumber prices since our previous report.

## Real Estate and Construction

...Contacts also reported problems and price increases stemming from **high lumber and steel prices**. Also, **shipping delays and production issues have increased lead times on most building supplies** and appliances. Commercial real estate activity has been mixed since our previous report, as office and retail demand are lower this quarter. A contact in Louisville reported the increase in telework has decreased demand for office space, and, going forward, contacts are uncertain if and how telework will continue to impact demand. Meanwhile, demand for industrial properties is up due to e-commerce and micro-fulfillment facilities. **Commercial construction is similarly mixed, as multi-family projects, warehouses, and logistics facilities are the main projects currently being built. Some developers also reported switching hotel projects for apartment buildings.**

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

## Ninth District (Minneapolis)---covers MN, MT, ND, SD, northern MI, northern WI

### Summary of Economic Activity

Economic activity in the Ninth District increased modestly since early January....Employment continued to expand slightly, and wages rose modestly. Input prices continued to rise faster than selling prices, and a large majority of firms reported being negatively affected by higher materials prices or a lack of available materials.

### Prices

**Construction supply contacts noted a moderate increase in selling prices, and they expected prices to increase at a slightly faster pace in the next few months..**

### Construction and Real Estate

**Commercial construction continued to slow overall. Total active, major construction projects across the District were lower than a year earlier. A majority of contacts reported that recent revenue fell compared with both 2019 and fall of 2020, and expectations for the first quarter of this year were similar. The frequency of project delays and cancellations has potentially peaked, according to sources; however, more reported a decrease in new projects out for bid than those reporting increases. Some places, like Rapid City, S.D., and certain subsectors, like utilities, reportedly have not seen a similar slowdown. Residential construction also remained a bright spot, with contacts reporting healthy demand and January permitting activity seeing increases over last year in many locations.**

Commercial real estate was mixed. Industrial property remained generally stable, with steady leasing activity and low vacancy rates in many markets. However, other sectors like office and retail saw increases in vacancy rates and available sublease space.

## Tenth District (Kansas City)—covers CO, KS, NE, OK, WY, western MO, northern NM

### Summary of Economic Activity

The Tenth District economy expanded slightly in January and February, with conditions strengthening in most sectors.

### Prices

**... Contacts in construction supply noted that selling prices rose modestly and expected them to continue to do so in following months.**

### Real Estate and Construction

...the deterioration in commercial real estate conditions stabilized somewhat....Commercial vacancy rates decreased for the first time in over a year, and absorption rates remained flat. In addition, **commercial construction activity increased slightly**. However, sales, prices, and rents fell modestly, and developers' access to credit became modestly more difficult. Overall, commercial real estate conditions remained worse than a year ago. **Expectations for further declines in vacancy rates and increases in absorption and construction** pointed to a gradual improvement in the commercial real estate sector over the next few months.

For more information about District economic conditions visit: <https://www.kansascityfed.org/research/regional-research/>

## **Federal Reserve Bank of Dallas—covers TX, northern LA, southern NM**

### **Summary of Economic Activity**

The Eleventh District economy expanded at a moderate pace, though output in most industries remained below normal levels.

### **Prices**

Input costs continued to increase at a moderate pace overall, except in the manufacturing and retail sectors where supply chain disruptions drove prices up more strongly. Some contacts also noted **substantial increases in agricultural commodity prices**, as well as **lumber and steel**. Selling prices were flat to up slightly outside of the retail and manufacturing sectors where above-average price growth was seen. A wholesaler noted that cost increases were happening so fast that they could not raise prices fast enough to keep up, and margins were suffering as a result.

### **Manufacturing**

... Petrochemical contacts noted **strong demand for consumer packaging, PPE, and construction materials like PVC**.

### **Construction and Real Estate**

**Industrial construction and leasing activity remained strong**. Office leasing stayed weak, but contacts said market conditions appeared to be slowly stabilizing.

*For more information about District economic conditions visit: [www.dallasfed.org/research/texas](http://www.dallasfed.org/research/texas)*

## **Federal Reserve Bank of San Francisco—covers AK, AZ, CA, HI, ID, NV, OR, UT, WA**

### **Summary of Economic Activity**

Economic activity in the Twelfth District expanded at a modest pace during the reporting period of January through mid-February. Employment levels decreased somewhat, while wages increased slightly on net. Inflation has picked up, driven largely by increases in energy prices.... Contacts reported ongoing strength in residential real estate markets, but weak conditions in the commercial sector.

### **Employment and Wages**

... An increasing number of contacts reported difficulty filling open positions, both for high-skilled and low-skilled workers. **Employers in the construction, manufacturing, auto mechanics, and healthcare sectors continued to be constrained by shortages in qualified labor**. Rising employee turnover was another commonly cited concern, mainly due to workers switching industries, moving, or leaving the workforce altogether.

... **Employers in manufacturing, construction, and health-care services also noted upward wage pressures, mainly due to labor supply issues**.

### **Prices**

... **Prices of building materials, such as lumber, wallboard, steel, and asphalt, continued to rise from already high levels**.

### **Manufacturing**

... **Demand for metals and wood products remained strong, driven by the continued expansion in residential construction**. Sales of recycled metals and fabricated steel products have declined somewhat since their multi-year highs at the end of 2020, which one contact attributed to the potential effects of chip shortages in the auto manufacturing industry. Capacity utilization rates in renewable energy and steelmaking industries picked up, although they are still below U.S. historical averages.

### **Real Estate and Construction**

**Residential construction activity continued to grow at a brisk pace**. Demand for residences continued to increase, especially for multifamily homes, although inventories were at historically low levels. Construction of single-family homes continued to fail to meet the high demand....Contacts across the District noted **ongoing constraints due to shortages of construction labor, raw materials, and available land**. As a result, several in the

**Pacific Northwest** noted that **construction projects are sold as soon as they are started, and most builders are at capacity**. Demand for remodeling projects was also noted to have increased. Rents fell in metropolitan areas but increased slightly in suburban areas. One contact in Oregon noted that the upcoming enforcement of stricter green codes for energy consumption might put even greater upward pressure on construction costs.

Activity in the commercial real estate market weakened slightly on net. Demand for retail spaces, office buildings, and hospitality real estate continued to be negatively affected by disruptions stemming from the pandemic. On the other hand, demand for warehouse and industrial properties remained strong, and **a few contacts also noted a rise in public construction projects**. One contact in the Mountain West reported that demand for office space held steady in the area, partly due to the redesign of some offices to better accommodate social distancing measures.