

## **Regional summaries and construction-related comments in the April 14, 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 February 23-April 5 and includes these **comments relevant to construction** (bolding added):

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

National economic activity accelerated to a moderate pace from late February to early April.... **Reports on commercial real estate and construction varied, with activity in the hotel, office, and retail segments generally remaining weak.**

### **Employment and Wages**

**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**

**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.

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

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

Economic activity among First District contacts increased at a modest to moderate pace.

#### **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.**

*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 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.

### **Employment and Wages**

**Wage increases were particularly widespread** in the retail, transportation, information, and **construction** 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.

### **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..

### **Real Estate and Construction**

**...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.**

*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 picked up to a moderate pace of growth during the current Beige Book period from a more modest pace in the prior period.

#### **Prices**

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.

#### **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](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 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**

... 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.

### **Manufacturing**

...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**

...**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.

*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 grew moderately in recent weeks.

**Prices**

... **Prices for construction materials were little changed in recent weeks but remained considerably higher than year-ago levels, particularly for copper, steel, and lumber.**

**Real Estate and Construction**

... Home builders experienced delays in and high costs of materials and appliances....

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.**

*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**

On balance, economic activity in the Sixth District expanded modestly from mid-February through March.

**Employment and Wages**

...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.

**Construction and Real Estate**

... As demand for new homes continued to surge throughout the District, builders noted persistent challenges with rising material and labor costs....

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.

## Energy

...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.**

*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 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....

### 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.

### 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.**

### Business Spending

...**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..

### 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....

### Manufacturing

... **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.**

*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**

Contacts reported that economic conditions have moderately improved since our previous report...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.

**Prices**

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

**Real Estate and Construction**

... 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.

*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 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.

**Employment and Wages**

**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.

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?"

**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 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.**

**Manufacturing**

**...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.**

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

**Summary of Economic Activity**

Growth in the Tenth District economy accelerated in March, with most sectors expanding at a moderate pace.... 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.

**Employment and Wages**

Payrolls expanded during the reporting period. **Solid hiring continued in manufacturing and residential construction....Shortages of specialty trades, such as framers, plumbers, and electricians, persisted in homebuilding.**

Wage growth was moderate, though there were reports of significant wage pressure in industries having trouble finding and retaining workers.

**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....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.**

*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 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.

**Manufacturing**

...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.

**Real Estate and Construction**

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..

*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 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....Contacts reported ongoing strength in residential real estate markets, but largely unchanged conditions in the commercial real estate sector.

**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....** 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.**

**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.**

**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....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.**

**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.