

Regional summaries and construction-related comments in the May 31, 2023 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 May 31, is based on information collected from early April to May 22 and includes these **comments relevant to construction** (bolding added):

U.S. Summary: Economic activity was little changed overall in April and early May. Four Districts reported small increases in activity, six no change, and two slight to moderate declines....**Commercial construction** and real estate activity decreased overall, with the office segment continuing to be a weak spot.

Labor Markets

Employment increased in most Districts, though at a slower pace than in previous reports. Overall, the labor market continued to be strong, with contacts reporting difficulty finding workers across a wide range of skill levels and industries. That said, **contacts across Districts also noted that the labor market had cooled some, highlighting easier hiring in construction**, transportation, and finance....As in the last report, wages grew modestly

Prices

Overall, nonlabor input costs rose, but many contacts said cost pressures had eased and noted price declines for some inputs, such as shipping and certain raw materials.

Federal Reserve Bank of Boston (covering New England except Fairfield County, CT)

Summary of Economic Activity

Business activity in the First District was about flat on balance....Commercial real estate activity slowed moderately further, with new weakness in the suburban office market. Employment fell slightly amid broad declines in labor demand, and wage growth slowed somewhat. Prices increased at a modest pace on average, but some sizable price increases were noted. The outlook was cautiously optimistic on average, but the commercial real estate forecast weakened further on credit concerns

Commercial Real Estate

...the commercial real estate market experienced a moderate decline in activity since April. In the industrial class, rents continued to level off and leasing began to slow due to a lack of available space. The office class saw a further slowing of deal flow, now impacting both the suburban and urban markets. Office rents were mostly stable but tenant allowances and other concessions increased further. The retail class was reportedly experiencing mixed conditions, with grocery anchored and big-box retail spaces performing the best and the worst, respectively. On average, however, retail rents and leasing activity were unchanged since April. Across property types, investment sales slowed to a trickle and there was no new construction of note, facts attributed largely to financing difficulties. Looking ahead, contacts expected further declines in leasing and investment activity in both the office and retail property markets, with the office sector having the weaker outlook of the two. The industrial class is expected to see relatively stable activity, other than experiencing limited access to credit to finance new construction.

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

Federal Reserve Bank of New York (covering NY, northern NJ, and Fairfield County CT)

Second District

Economic activity in the Second District declined at a moderate pace in the latest reporting period. Still, the labor market has remained solid, though the pace of hiring has slowed slightly, and wage growth was little changed. Inflationary pressures have remained persistent, with the pace of selling price increases picking up slightly in the service sector. Supply availability, while still constrained, continued to improve, though goods production was sluggish. Consumer spending continued to increase at a steady clip, and tourism in New York City is nearing pre-pandemic peaks. The home sales market and rental market have been strong, with record-high rents in New York City. Commercial real estate markets were mostly unchanged. Conditions in the broad finance sector continued to worsen. Regional banks reported ongoing tightening in credit conditions and declining loan demand.

Labor Markets

...**businesses in the construction, transportation, and finance sectors reported a significant decline in employment in recent weeks**....Though still challenging, it has become slightly easier to find workers—particularly for smaller businesses that have struggled to do so through much of the recovery.

Prices

Inflationary pressures have remained persistent. Businesses reported that the pace of input price increases has held steady in recent weeks, though **there has been some abatement in the prices of raw materials such as steel and aluminum**.

Real Estate and Construction

Commercial real estate markets were little changed in recent weeks. Office vacancy rates were steady at elevated levels across the District and rents were mostly flat. New York City's retail market weakened, with increases in vacancy rates and rents trending down. By contrast, vacancy rates remained at low levels in the industrial market and rents trended up modestly, except in northern New Jersey, where vacancy rates increased somewhat.

Overall, construction contacts reported that conditions continued to weaken since the last report. Office construction remained steady at a low level in most of the District, though there were some new starts in northern New Jersey, Long Island, and upstate New York. Industrial construction activity was little changed across the District, with some new space coming to market in the second and third quarters of this year. Multi-family residential starts increased in New York City and parts of upstate New York but remained weak elsewhere.

Federal Reserve Bank of Philadelphia (covering DE, southern NJ, and eastern PA)

Summary of Economic Activity

On balance, business activity in the Third District continued to decline slightly....High interest rates are limiting listings of existing homes for sale, which has helped new home builders.

Labor Markets

A construction contact noted that wages rose about 2.5 percent for basic trades and about 4 percent to 5 percent for specialty trades.

Real Estate and Construction

Market participants in commercial real estate reported a slight uptick in construction activity but noted that the pipeline for future work continues to diminish. Leasing activity fell moderately as weakness in the office market continued to emerge.

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

Federal Reserve Bank of Cleveland (covers OH, eastern KY, southern WV, and western PA)

Summary of Economic Activity

Fourth District contact reports suggested little change in aggregate business activity, though conditions continued to vary by sector....**interest rates remained elevated and were reported to be constraining nonresidential construction.**

Labor Markets

Employment was stable in recent weeks. **Some manufacturing and construction firms reported delaying hiring because of economic uncertainty, while others were reducing "noncritical" staff to cut costs in preparation for future softer demand.**

Prices

Nonlabor input cost pressures changed little in recent weeks. Manufacturers and retailers reported **relief from increasing input costs, in particular for fuel, freight, and some raw materials. By contrast, contacts**

highlighted higher costs for steel and utilities and for electronics and electrical equipment that have been in short supply. Multiple contacts said that costs for business services continued to increase, and some posited these increases were linked to higher labor costs. On balance, contacts expected similar nonlabor input cost pressures to persist in coming months.

Real Estate and Construction

Demand for residential construction and real estate stabilized, and contacts attributed this stabilization to the arrival of spring and to flattening interest rates. One homebuilder indicated that potential homebuyers had been afraid that rates would continue to rise before they could close on a home, but the recent stabilization of rates had helped to increase activity. **A couple of homebuilders reported an increase in speculative construction projects because many individuals want to purchase and move into homes immediately, in part to avoid further rises in interest rates.**

Nonresidential construction and real estate activity softened on balance. One general contractor noted that clients have started to "put the brakes" on projects because of high interest rates and general economic uncertainty. Several commercial real estate brokers also noted that elevated interest rates were negatively impacting leasing activity. However, a contact who specializes in industrial space indicated there had been an increase in construction activity from manufacturing clients in recent weeks that he attributed to an uptick in reshoring projects.

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

Federal Reserve Bank of Richmond (covers DC, MD, NC, SC, VA, and northern WV)

Summary of Economic Activity

Economic activity in the Fifth District was little changed, on balance, in recent weeks...Commercial real estate activity declined modestly, but some segments such as medical, industrial, and retail leasing remained strong.

Real Estate and Construction

Overall commercial real estate market activity slowed in the last month, except for retail, medical and industrial/flex space leasing, which remained robust. Class A office vacancy/subleases increased this period in most markets. Rental rates remained flat; however, landlords were offering higher incentives and/or concessions to potential credit tenants. **Respondents stated there was very little new construction activity and limited credit availability for commercial real estate deals, especially in the office sector.** Additionally, respondents cited some cases of commercial real estate loan defaults. **Commercial contractors noted a continued shortage of labor despite increased wages. As well, they reported that requests for new work had slowed down considerably.**

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

Federal Reserve Bank of Atlanta (covers AL, FL, GA, southern LA & MS, and eastern TN)

Summary of Economic Activity

Economic activity in the Sixth District grew at a slow pace from April through mid-May. Labor markets, while still tight, eased, reducing wage pressures. Nonlabor costs stabilized, on net, though property and liability insurance premiums rose....Demand for housing was strong even amid interest rate fluctuations. Commercial real estate conditions were mixed.

Prices

Nonlabor costs were largely reported as stabilizing over the reporting period. **Construction inputs, particularly steel and other metals, moderated;** freight and container costs were reported as back to pre-pandemic levels.

Construction and Real Estate

New home builders have responded to inventory shortages by increasing speculative inventory production and some have begun to reduce buyer incentives.

Commercial real estate (CRE) conditions were mixed. The industrial sector remained healthy, while office, multifamily, and some segments of retail, slowed. Some contacts reported increasing expenses, especially property insurance, as an area of heightened concern. An increasing number of contacts reported worries about the availability of financing as some lenders reduced funding commitments and increased underwriting standards. Most CRE contacts noted increasing uncertainty and declining property values as a significant industry headwind.

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

Federal Reserve Bank of Chicago (covers IA, northern IL & IN, and southern MI & WI)

Summary of Economic Activity

Economic activity in the Seventh District was little changed overall in April and early May. Contacts generally expected slow growth in the coming months, though many expressed concerns about the potential for a recession over the next year. Employment increased moderately; nonbusiness contacts saw a small increase in activity; consumer and business spending were flat; and **activity decreased modestly** both for manufacturing and **for construction and real estate**. Prices and wages rose moderately, while financial conditions tightened modestly.

Labor Markets

Employment increased moderately over the reporting period and contacts expected a similar rate of growth in the coming year. **Many contacts continued to have difficulty finding workers, especially when hiring for skilled trades positions.** However, more contacts said that hiring had become easier or that they were fully staffed. Wages and benefit costs rose moderately, with several contacts noting continued wage pressures.

Construction and Real Estate

Construction and real estate activity declined modestly on balance over the reporting period. Residential construction activity was down modestly. Contacts reported that high interest rates had led some projects to be postponed or cancelled, and that while construction costs had fallen, the decline wasn't enough to offset higher financing costs. Contacts in the multifamily sector were more sanguine, noting that many projects were moving forward despite tighter financial conditions. Residential real estate activity decreased modestly. Prices and rents declined, and contacts said that the low inventory of homes for sale helped prevent larger declines. **Nonresidential construction moved down slightly, though warehouse building remained a bright spot. Contacts also noted that school construction was robust, supported both by American Rescue Plan funding and the passage of state and local referendums.** Commercial real estate activity decreased moderately, with contacts pointing to high interest rates as a key factor behind the slowdown. Prices and rents were down, and the availability of sublease space increased. **However, there were reports of rising retail rents in some areas because of a lack of high-quality new construction.**

Manufacturing

Manufacturing demand decreased modestly in April and early May. Manufacturing backlogs were down moderately, and inventories were slightly elevated. Contacts reported fewer supply chain problems, though some items were still difficult to find. **Steel orders increased slightly. One contact noted that steel service center inventories were low, in part because high interest rates made it expensive to hold inventory. Fabricated metals orders were down modestly, with contacts pointing to the aerospace and construction sectors as reasons for the decline.**

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

Federal Reserve Bank of St. Louis (covers AR, western KY & TN, southern IL & IN, and eastern MO)

Summary of Economic Activity

Economic conditions have remained unchanged since our previous report. Contacts continued to report difficulty

hiring workers, but generally had a slightly easier time finding and retaining workers. Wages and other input costs increased modestly, which led to margin compression, as firms were unable to pass on these cost increases as sales prices....The residential real estate sector was largely unchanged, but commercial real estate contacts reported softer sales and concerns over looming vacancy and debt issues.

Real Estate and Construction

Commercial real estate has slowed slightly since our previous report. One commercial real estate contact reported concern over "shadow vacancies" – offices that are still leased due to longer-term leases, but not actually used due to remote work. The contact expressed concern that the majority of the leases on these office spaces will not be renewed. **Construction contacts were most worried about shortages of labor, followed by a slowdown in demand for new projects. A majority of construction and commercial real estate contacts reported sales falling short of expectations.**

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

Federal Reserve Bank of Minneapolis (covers MN, MT, ND, SD, and northern MI & WI)

Summary of Economic Activity

Economic activity in the Ninth District increased slightly since the previous report. Employment grew modestly with some volatility; labor demand remained healthy, but some firms reported significant layoffs. Wage pressures remained high, while price pressures were stable. Growth was noted in consumer spending and manufacturing, and agricultural conditions were solid. **Commercial construction was flat and commercial real estate activity fell, while residential construction and real estate remained subdued.**

Labor Markets

Wage pressures remained high. **A survey of construction firms found that about 35 percent reported wage increases of 5 percent (annually), and a similar share increased wages by 3 to 5 percent.** A survey of hospitality and tourism firms found that more than 40 percent gave annual wage increases of 5 percent or more. **Firms in both surveys expected some easing in future wage pressures, even though they also reported strong labor demands and a lack of worker availability.**

Prices

Since the last report, additional price pressures were minimal. Just over half of respondents to a Ninth District business conditions survey reported an increase in input prices in April relative to a month earlier, while a smaller share reported increases in final prices for products or goods sold. Most manufacturing contacts reported no change in recent nonlabor input prices, and about a quarter reported a slight decrease. **Construction survey respondents indicated a mixed picture for materials costs, with an overall flattening in the pace of increases over the past three months. Lumber and certain steel prices decreased. Contacts in construction and agriculture reported that heavy equipment prices remained elevated despite some reduction in demand.**

Construction and Real Estate

Nonresidential construction activity was flat overall since the last report, with subsectors experiencing some variability. Firms in infrastructure and other heavy construction reported generally stronger activity, in part from federal infrastructure initiatives. Firms in industrial and commercial construction reported some softening. However, increases in project cancellations were seen across the industry, the result of high input prices, higher financing costs, and general uncertainty about the economy. New projects out for bid, as well as project backlogs, were also reported to be lower than this time last year. Smaller firms reported some unwillingness to commit to longer-term projects, or doing so only with elevated work bids, due to the volatility of material costs. **On the positive side, supply chains reportedly improved overall, though they have not yet had a material effect on project completion times, in part because of labor shortages. Residential construction remained subdued.** Single-family permitting in April was more than 40 percent lower year over year in the Minneapolis-St. Paul region; most other large markets in the District saw even bigger declines. Discounts have started to appear for some speculative developments. A Wisconsin homebuilder said the "majority of the work comes from people who have cash and not from people taking out loans."

Commercial real estate fell since the last report. **Industrial and multifamily** markets remained strong, and **new construction has slowed recently** in both sectors, helping keep vacancy rates low and rents healthy. Office real estate was seeing real strain from continued low levels of worker occupancy. Incentives to retain tenants were common because many were looking to downsize their office footprint. Those purchasing buildings with debt faced a tightening market for refinancing. Residential real estate remained subdued. Closed sales in April fell notably year over year across the District, with many larger markets seeing declines of 30 to 50 percent. Median sale prices declined in western and central Montana and were flat in several other markets.

Federal Reserve Bank of Kansas City (covers CO, KS, NE, OK, WY, western MO, and northern NM)

Summary of Economic Activity

Total economic activity across the Tenth District changed little during May... Job growth continued to slow. However, the number of job openings remained elevated as businesses indicated they recently became more selective among potential candidates. Worker retention improved substantially, supporting the more cautious recruiting practices among businesses. Prices rose at a moderate pace.

Real Estate and Construction

Several contacts in commercial real estate reported worsening conditions associated with higher refinancing costs over the past month. Heightened requirements for additional equity to reduce loan-to-value ratios were making refinancing deals difficult to close. Challenges in valuing properties reportedly exacerbated headwinds for refinancing activity. Some office property managers indicated assessing tenant quality became more difficult because the large companies that are historically stable renters have become more footloose, asking for shorter lease terms, or are reducing their demand for space altogether.

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

Federal Reserve Bank of Dallas (covers TX, southern NM, and northern LA)

Summary of Economic Activity

The Eleventh District economy continued to expand modestly. Manufacturing output was flat while revenue in the service and retail sectors grew. Energy reports were mixed with oilfield activity steady, but declines seen on the natural gas side. Housing contacts noted a decent spring selling season and stable prices.

Construction and Real Estate

With housing starts notably below year ago levels, building cycle times and labor availability has improved. New land and lot development remained subdued. Outlooks were cautious with some voicing concern about whether demand would hold up beyond the spring selling season.

Activity in the apartment and retail market was little changed since the last report. Apartment rents were flat, and a contact noted an uptick in evictions in some areas. Office markets continued to face headwinds, with rising vacancy and subdued demand. Outlooks were mixed, with concern about the uptick in office commercial mortgage-backed securities delinquency and loans coming up for renewal this year.

For more information about District economic conditions visit: 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 somewhat during the April through mid-May reporting period. Employment levels were stable and overall labor market conditions remained tight, accompanied by wage increases that showed some signs of leveling off. Price increases persisted, although at a slower pace than in the last reporting period.

Real Estate and Construction

one contact in Southern California noted that new multifamily construction put downward pressure on rents in some areas. Despite reported improvement in the availability and cost of materials, construction of new homes was flat to down as developers responded to higher financing costs.

Conditions in commercial real estate were weaker overall. In the face of changing workplace needs, leasing activity for downtown office space remained weak, and **new office construction stalled. Demand for retail and industrial spaces remained stable. Contacts around the District noted that plans for new projects stalled, which has led to more competitive construction bids.**