

## **Regional summaries and construction-related comments in the May 29, 2024 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 29, is based on information collected from early April to May 20 and includes the following comments relevant to construction.

Reports on nonresidential construction activity are mixed but generally subdued. Notably, this edition has almost no mention of price increases, supply shortages, or difficult labor conditions affecting construction.

**U.S. Summary:** National economic activity continued to expand from early April to mid-May; however, conditions varied across industries and Districts. Most Districts reported slight or modest growth, while two noted no change in activity....single-family construction increased, though there were reports of rising rates impacting sales activity. Conditions in the commercial real estate sector softened amid supply concerns, tight credit conditions, and elevated borrowing costs.

### **Prices**

Many Districts observed a continued increase in input costs, particularly insurance, while some noted price declines in certain construction materials.

### **Federal Reserve Bank of Boston (First District--covering New England except Fairfield County, CT)**

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

Economic activity was about flat on balance, but performance was quite mixed both across and within sectors....Commercial real estate activity decreased slightly, with new softness in the industrial leasing market, and the possibility of a surge in office foreclosures remained a significant concern.

#### **Commercial Real Estate**

.... Industrial leasing activity softened modestly overall but declined sharply in Connecticut. Industrial rents continued to rise, albeit less rapidly than in previous months. In the office market, leasing activity was mostly flat at a subdued pace, vacancy rates edged up further, and rents were flat or down moderately. The retail class experienced stable activity and rents. Investment sales remained mostly frozen as borrowing rates remained high, and lending activity was very limited. Unfavorable borrowing terms also contributed to modest declines in construction activity. Banks continued to extend underperforming office loans in anticipation of eventual declines in interest rates, but contacts remained concerned that a significant uptick in foreclosures was inevitable, especially in the class B market. Contacts expected commercial real estate activity to remain largely static moving forward, or if anything to weaken slightly.

*For more information about District economic conditions visit: <https://www.bostonfed.org/in-the-region.aspx>*

### **Federal Reserve Bank of New York (Second District--covering NY, northern NJ, and Fairfield County CT)**

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

On balance, economic activity in the Second District grew slightly in the latest reporting period.... Commercial real estate markets weakened further.

#### **Labor Markets**

Labor market conditions remained solid. On the whole, employment continued to increase slightly, with gains in leisure and hospitality, personal services, and health and education partially offset by ongoing reductions in information, construction, and manufacturing....Wage growth remained moderate during this reporting period, though contacts from trade, personal services, and construction firms noted sharper wage increases.

#### **Manufacturing and Distribution**

Delivery times shortened, and supply availability was little changed. Still, contacts noted ongoing difficulty obtaining some supplies, including copper, various electronics, and heavy equipment.

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

Construction contacts reported that activity continued to fall following a sharper contraction earlier in the year. Office construction remained at low volumes. Multi-family construction starts remained low across the District. Industrial construction was solid in Northern New Jersey but declined in upstate New York.

### **Community Perspectives**

As the cost of providing services to communities has risen, federal, state, and local governments have responded with an array of grants and subsidies to help defray expenses for communities and populations in need throughout the District. With funds made available from the Infrastructure Investment and Jobs Act, the CHIPS Act, and remaining Covid subsidies, these grants and subsidies have been made to cover expenses for homeowners in disadvantaged areas, victims of natural disasters, and to communities in need of infrastructure improvements for utilities and broadband. For more information about District economic conditions visit:

<https://www.newyorkfed.org/regional-economy>.

### **Federal Reserve Bank of Philadelphia (Third District--covering DE, southern NJ, and eastern PA)**

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

On balance, business activity in the Third District was up slightly, after being steady last period.

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

In nonresidential markets, leasing activity and transaction volumes continued a slight decline. One contact noted some strength in logistics and warehousing; however, the office subsector remains subdued. Nonresidential construction activity remained muted in the current period. While some contacts reported less activity in this subsector, another contact that continued to be busy noted that several public infrastructure projects in planning and design could boost activity in the near term. For more information about District economic conditions visit:

<https://www.philadelphiafed.org/regional-economy>.

### **Federal Reserve Bank of Cleveland (Fourth District--covers OH, eastern KY, southern WV, and western PA)**

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

On balance, the Fourth District economy expanded slightly in recent weeks, somewhat more slowly than it had during the prior reporting period....nonresidential construction activity picked up, with increased demand for public sector projects.

#### **Labor Markets**

Wage pressures continued to be moderate in recent weeks. Many contacts across industries continued to report that new-hire wages had leveled off and annual wage adjustments had again become the norm....Nevertheless, many financial services and construction contacts noted strategically raising wages to attract and retain staff with specialized skills.

#### **Prices**

Some manufacturing, construction, and retail contacts increased prices selectively, while other retailers reported decreasing prices or offering larger discounts because of decreased demand.

#### **Manufacturing**

On balance, demand for manufactured goods remained flat during this reporting period. Some manufacturers reported stronger orders related to ongoing federal spending or the construction of data centers.

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

Nonresidential construction activity increased moderately in recent weeks. Construction firms experienced an uptick in activity for public projects, and another contact saw more demand related to green energy projects. By contrast, some commercial real estate developers reported that demand continued to be dampened by higher borrowing costs. On balance, contacts expected activity to continue at a moderate pace in the coming months.

For more information about District economic conditions visit: <https://www.clevelandfed.org/en/region/regional-analysis>

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

**Summary of Economic Activity**

The regional economy grew at a modest rate in recent weeks....Residential real estate activity picked up in recent weeks, as did some commercial real estate leasing; however, very few new commercial construction projects were being started.

**Real Estate and Construction**

Commercial real estate activity increased slightly this period. Retail leasing activity picked up and vacancy rates remained low as new inventory was quickly absorbed. Office leasing increased slightly for class A space but declined for class B and C properties, which drove up vacancy rates in those buildings. Leasing and absorption in new multi-family buildings were strong. Construction of existing projects continued but developers from across regions and across sub-markets of commercial real estate noted that very few projects were being green lit as interest rates made it hard for deals to be financially viable amid continued high prices of material and labor.

For more information about District economic conditions visit: [https://www.richmondfed.org/research/data\\_analysis](https://www.richmondfed.org/research/data_analysis)

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

**Summary of Economic Activity**

The economy of the Sixth District grew slowly since the previous report.

**Prices**

Construction costs were highly volatile, with some contacts noting a wide range of bids on a given project.

**Construction and Real Estate**

Commercial real estate (CRE) conditions remained mixed. Activity in office (especially in highly urban areas) and multifamily sectors continued to slow. Oversupply in the multifamily and industrial segments weighed on market conditions amid delivery of new construction. Vacancy rates grew. Rising insurance costs impeded activity, particularly in coastal markets. Lenders continue to report tight underwriting standards, making access to loans more challenging. Rising CRE loan maturities in 2024 and beyond remained a source of concern.

**Energy**

Activity across most energy sectors remained robust. While liquefied natural gas exports and plant expansions were active, new development was stalled by recent federal permitting limitations, which contacts reported had already slowed some activity. Petrochemical manufacturers reported continued progress in carbon capture and storage projects. Utility companies across the southeast report growing electricity demand in commercial and industrial segments, largely attributed to new and expanded data centers, as well as clean tech manufacturing like electric vehicle battery plants, a trend expected to continue across the southeast.

For more information about District economic conditions visit: <https://www.atlantafed.org/economy-matters/regional-economics>.

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

**Summary of Economic Activity**

Economic activity in the Seventh District increased slightly overall in April and early May, and contacts generally expected a similar rate of increase over the next year. Employment and construction and real estate activity were up modestly; business and consumer spending rose slightly; nonbusiness contacts saw little change in activity; and manufacturing activity edged down.

## **Business Spending**

Business spending increased slightly in April and early May. The pace of new capital expenditures ticked up, with contacts highlighting spending on facilities, including new hotels, office, and retail space. Several manufacturers reported that high borrowing costs led them to delay planned expansions or to purchase used equipment rather than new.

## **Construction and Real Estate**

Construction and real estate activity increased modestly on balance over the reporting period. Residential construction was up slightly, led by growth in single family homebuilding. The bulk of in-progress multifamily construction projects proceeded without delay, though there were reports of new projects moving slowly because of financing challenges. Residential real estate transactions increased modestly, with growth concentrated in the mid-range segment. Contacts noted that when mid-priced homes come on the market, they often receive multiple bids and sell quickly. Home prices increased modestly, while rents increased slightly. Multifamily rent growth was faster than expected in many areas of the District. Nonresidential construction activity rose modestly, and prices and rents were mostly unchanged. In the retail sector, some malls were being converted to senior living while others saw child activity centers move into vacant spaces. Commercial real estate activity decreased slightly. Contacts noted that greater equity commitments were required to close large deals. Property values continued to trend lower, and rents were mostly unchanged. Vacancy rates moved higher.

## **Manufacturing**

Steel volumes were unchanged on balance, and one contact noted that high interest rates were holding back sales to the construction and renewable energy sectors.

For more information about District economic conditions visit: <https://chicagofed.org/cfsec>.

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

### **Summary of Economic Activity**

Economic activity across the Eighth District continued to increase slightly since our previous report.

### **Real Estate and Construction**

...Commercial real estate sales leasing activity has slowed since our previous report, and construction has remained stagnant. Contacts indicated that the prospect of higher-than-expected interest earlier this year has kept prospective developers on the sideline. A construction contact reported many have delayed projects due to higher interest rates. However, construction demand for transportation, federal, and lodging projects remains elevated.

## **Federal Reserve Bank of Minneapolis** (Ninth District--covers MN, MT, ND, SD, and northern MI & WI)

### **Summary of Economic Activity**

The Ninth District economy grew slightly since the previous report. Employment grew slightly, and labor demand continued to moderate. Price pressures increased moderately, and wage growth was also moderate. Commercial and residential construction improved slightly.

### **Labor Markets**

...Labor demand in construction remained healthy despite widespread reports of slower activity....In separate surveys, construction and hospitality firms both reported that wages were rising overall, but at somewhat slower rates than the previous year.

## **Construction and Real Estate**

Construction activity improved slightly since the last report. Industry data showed that recent activity increased as the sector moved into the traditionally busier spring season. A larger share of firms also expected increased activity going forward compared with those who expected a decline. However, other metrics were more cautious. Firms overall reported a decline in new projects out for bid for this time of year; project backlogs were also shorter, and cancellations continued to challenge the sector. Firms doing infrastructure work reported more activity and a better outlook; those in residential and commercial reported mixed but improving activity, and industrial firms reported slowing business. Large firms also reported consistently stronger activity than smaller firms. Commercial real estate was flat and remained soft overall. Office vacancy in Minneapolis-St. Paul stabilized, but loan renewals were reportedly seeing discounted property appraisals and high loan-to-value ratios. Vacancy rates for industrial space nudged higher, though from low levels. Multifamily property benefited because new construction “has stopped in its tracks,” according to a Minnesota source.

### **Manufacturing**

...a producer of construction equipment reported its sales were very weak compared with seasonal norms.

For more information about District economic conditions visit: <https://www.minneapolisfed.org/region-and-community>.

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

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

The Tenth District economy expanded at a moderate pace, led by rising household consumption and growth in professional business service activity....Commercial real estate activity stabilized across the District, but at low levels.

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

Many aspects of commercial real estate (CRE) activity that were declining for several quarters reportedly stabilized over the past month, albeit at low levels. However, ongoing increases in vacancy rates kept downward pressure on rents. Property sales rose moderately throughout the District with slight increases in transaction prices, though contacts noted more self-funded equity was needed to finance deals. Contacts reported only modest increases in private equity funding being deployed but generally indicated that substantial amounts of equity remained on the sidelines. Bank lending and lending from insurance companies to the CRE sector reportedly declined recently. Despite the reportedly tight financial conditions, District contacts' expectations regarding property valuations improved moderately compared to earlier in the year.

#### **Energy**

...Renewable energy capacity has grown at a moderate pace in the District this year, driven by wind installations in Oklahoma and solar installations in New Mexico. However, District growth in non-wind renewable capacity lags the U.S. and is expected to continue underperforming the national average in coming months.

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

### **Federal Reserve Bank of Dallas (Eleventh District--covers TX, southern NM, and northern LA)**

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

Economic activity in the Eleventh District was flat to up slightly over the reporting period. Some growth was seen in the manufacturing, banking and energy sectors, while activity in nonfinancial services was flat, and declines were seen in retail sales.

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

Commercial real estate market conditions were little changed from the previous reporting period. Apartment leasing growth remained moderate, but there continued to be downward pressure on occupancy and rents due to elevated supply. In the office market, leasing activity stayed subdued and was largely concentrated in class A space. Industrial demand grew moderately, and rents were stable even as vacancy rose. Outlooks were mixed, with some commercial market segments expected to remain challenging in the near to medium term.

*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 (Twelfth District--covers AK, AZ, CA, HI, ID, NV, OR, UT & WA)**

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

Economic activity in the Twelfth District was unchanged on balance during the April through mid-May reporting period.... Activity in services sectors weakened a bit, as did activity in residential real estate markets. In contrast, commercial real estate activity was unchanged.

#### **Labor Markets**

Employment levels were generally flat over the reporting period. Reports of low attrition rates continued, and employers preferred to fill only critical positions. One contact described the labor market to be in a “lock-in” situation—employers are generally not laying off workers, and workers are not quitting as often as in recent years. Employers across sectors reported receiving more applications for entry-level positions than before. However, they are still finding it difficult to attract experienced engineers as well as electricians and other skilled trades workers including machinists and welders

#### **Prices**

Prices continued to increase at a slight pace on net. Contacts emphasized the discrepancy between recent movements in goods and services prices. Good prices—such as for food products, lumber, steel, and building materials—fell or were unchanged, while services prices, particularly for insurance and utilities, rose notably.

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

...Multifamily housing starts fell, but construction completions continued to expand the supply of rental units, slightly lowering rents, raising vacancy rates, and increasing leasing incentives. A contact in California noted that a recent change in state regulations has raised construction costs. Commercial real estate activity was unchanged on balance. Demand for retail space strengthened, which led to lower vacancies and higher rents in this subsector. Industrial leasing declined slightly, but activity remained robust. Construction of new commercial space was stable. Builders continued to work through a backlog of existing projects, although a contact in Arizona indicated that difficulties obtaining financing curtailed some new construction activity.