

Regional summaries and construction-related comments in the July 17, 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 July 17, is based on information collected from late May to July 8 and includes the following comments relevant to construction.

This issue contains relatively few comments about construction activity, materials costs, labor availability, or supply chain issues.

U.S. Summary:

Economic activity maintained a slight to modest pace of growth in a majority of Districts this reporting cycle. However, while seven Districts reported some level of increase in activity, five noted flat or declining activity—three more than in the prior reporting period. Wages continued to grow at a modest to moderate pace in most Districts, while prices were generally reported to have risen modestly....Reports on residential and commercial real estate markets varied, but most banks reported only slight changes, if any, in recent weeks.

Labor Markets

Skilled-worker availability remained a challenge across all Districts; however, several Districts reported some improvement in labor supply conditions. Additionally, labor turnover was lower, which reduced demand to find new workers. Looking ahead, contacts in several Districts expect to be more selective on who they hire and not backfill all open positions. Wages grew at a modest to moderate pace in most Districts. However, several Districts reported some slowing of wage growth due to increased worker availability and less competition for workers.

Prices

Most Districts noted that input costs were beginning to stabilize; however, Atlanta specifically noted products like copper and electrical supplies have seen a notable increase over this period.

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

Summary of Economic Activity

Business activity expanded at a modest pace in recent weeks. Employment was flat amid slow wage growth, and prices increased slightly.

Commercial Real Estate

First District contacts described commercial real estate activity as flat overall. Office leasing slowed somewhat, as is typical for summer, but fell to an extremely low level in Hartford, CT. Office rents were flat, and office vacancy rates increased slightly. After having softened earlier in the year, industrial leasing was stable. Industrial vacancy rates remained extremely low, and industrial rents have reportedly stabilized at levels well above 2019 averages. The retail sector experienced steady demand, but tenants showed greater caution amid worries about consumer spending. Investment sales were flat, even though demand for non-office properties remained healthy. In general, bank lending to commercial real estate remained weak, but the CMBS market and life insurance companies continued to provide funding. However, one small regional bank expanded its (non-office) CRE portfolio modestly. Construction was flat or down slightly and still concentrated in the multifamily sector. For non-office properties, contacts expected stable, if restrained, activity going forward, reflecting elevated political and economic uncertainty. The outlook for office properties weakened further, as contacts expected a significant increase in foreclosures in the coming 12 months.

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

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

Summary of Economic Activity

On balance, economic activity in the Second District was little changed in the latest reporting period....Commercial real estate markets weakened further.

Labor Markets

...employment continued to increase slightly, with gains in leisure and hospitality, personal services, retail, business services, and education and health partially offset by losses in manufacturing and construction.

Prices

...contacts in the region reported particularly steep increases for insurance, and multiple contacts expressed concern about rapidly rising freight costs, as well as the ensuing rise in the cost of goods, due to shipping disruptions in the Middle East.

Real Estate and Construction

Commercial real estate markets weakened further as demand continued to soften. Office vacancy rates in New York City increased during the reporting period. Further, many tenants are putting space up on the sublease market instead of waiting for leases to expire as they work to right-size office footprints for hybrid work. While some legal and finance firms have continued to pursue office space, the tech sector has shed significant space, exerting a drag on overall demand. The industrial market continued to cool, with price-sensitive tenants seeking lower-quality space, leaving pricier new developments vacant. Rents in the northern New Jersey industrial market have begun to adjust downward, while rents in Long Island have held steady. Sales of commercial real estate fell to new lows, with pricing remaining elevated. Construction contacts reported that activity edged down following a sharper contraction earlier in the year. Although there were high numbers of multifamily units under construction in Brooklyn and Queens, new construction generally remained muted across regions and segments.

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 continued to grow slightly.

Prices

Most contacts noted little to no remaining supply chain issues and few commodity price spikes. Having anticipated higher costs, some sectors, such as construction, saw their margins grow when costs fell instead.

Real Estate and Construction

Nonresidential construction activity held steady at lower levels, as completed projects were replaced in the pipeline by newer entries—largely industrial, institutional, infrastructure, and multifamily projects.

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, business activity in the Fourth District declined slightly in recent weeks, and contacts expected flat activity in the months ahead.

Labor Markets

Wage pressures continued to be moderate in recent weeks....Nevertheless, several retail and construction contacts noted increased employee pressure to raise wages to align with inflation.

Prices

Some construction, manufacturing, and retail contacts reported that equipment, raw materials, and commodities costs were generally leveling off. These contacts attributed the stabilization of their costs to improved supply chains, lower industrial activity, and supplier discounts....One construction contact said, “We continue to get a premium on our services due to the large amount of construction projects that are occurring throughout our footprint.”

Manufacturing

Reports from multiple manufacturers indicated fewer orders because of softer residential and commercial construction activity or because of agricultural equipment producers' adjusting their production levels down. Steel producers attributed fewer orders to customers' postponing purchases because they expected steel prices to fall further.

Real Estate and Construction

Nonresidential construction activity declined moderately over the last two months. Higher financing costs discouraged new construction projects, and one contact noted that large infrastructure projects were "in a holding pattern" because of elevated interest rates. However, several builders reported stable, strong demand. While one general contractor mentioned "significant potential projects" in the pipeline, contacts generally anticipated a continued moderate decline in demand over the months ahead.

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 Fifth District economy grew slightly this cycle, down from the modest pace of growth reported in our previous report.

Real Estate and Construction

...developers were facing challenges with project approvals due to higher interest rates and local government policies impacting financial viability amid rising labor costs.

For more information about District economic conditions visit: 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

Economic activity in the Sixth District was fairly flat, on balance, over the reporting period. Labor markets and wage pressures eased further, and worker availability and turnover improved. Cost growth moderated overall, but some construction and freight costs increased.

Labor Markets

Worker shortages persisted in construction, maintenance, retail, nursing, and tourism. Employers in South Florida and Nashville said the lack of housing affordability hindered their ability to attract and retain workers. Firms continued to turn to automation and outsourcing for cost savings, or to compensate for current or expected labor shortages. Most contacts indicated wage growth continued to ease. However, wage pressures remained elevated in construction and skilled trades.

Prices

Some nonlabor construction input costs, like copper and electrical supplies, increased notably over the reporting period, although greater competition among subcontractor bids provided for some offset. Freight costs, especially container rates, also rose.

Construction and Real Estate

Commercial real estate (CRE) activity was mixed. Slowing activity in office and multifamily resulted in rising vacancy rates and flat-to-declining rent growth; foreclosure activity in these segments accelerated. Industrial starts slowed. Contacts noted an increase in "clicks-to-bricks" investments, where online sales are supplemented by a brick-and-mortar presence.

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 late May and June, and contacts generally expected a similar rate of increase over the next year. Employment was up modestly; business and consumer spending rose slightly; nonbusiness contacts saw little change in activity; and manufacturing and construction and real estate activity edged down.

Prices

...Nonlabor input costs continued to rise, with manufacturing contacts highlighting increases in the costs of energy and some raw materials, notably copper.

Business Spending

...Despite high interest rates, many contacts said they were moving forward with capital spending projects and that rates staying higher than they had expected earlier in the year was unlikely to affect their decision making....There were isolated reports of supply chain issues. Several contacts said a low supply of switchgears (used for regulating the flow of electricity) was causing headaches for electric utilities.

Construction and Real Estate

Nonresidential construction activity was unchanged, as were sales prices. Several contacts said that the industry had adjusted to high interest rates. The number of new projects was solid and unchanged, though across all segments developers of new buildings were cutting back on the size of projects and amenities. Office tenants were downsizing but updating their spaces. Demand for retail store remodeling was also solid. Commercial real estate activity decreased slightly. Prices were unchanged, rents fell slightly, and vacancy rates were unchanged. Contacts reported that several local restaurants near office buildings had closed recently because of an ongoing lack of weekday traffic. In Southeast Michigan, contacts noted ample availability of industrial floor space because of lower-than-expected battery electric vehicle production.

Manufacturing

Orders for steel were down slightly, with contacts noting slower demand from construction. Fabricated metals sales were steady overall, with higher demand from utilities but lower demand from the auto industry....Machinery sales decreased modestly, with reports of slower demand from the construction, agriculture, and aerospace industries.

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, northern MS, and eastern MO)

Summary of Economic Activity

Economic activity across the Eighth District has increased slightly since our previous report, a continuation of trends reported over the past few months.

Real Estate and Construction

...Commercial real estate conditions are mixed, depending on the property type. Office leasing activity remains depressed. One contact noted that upon renewal, square footage was down by 20 to 30 percent. The industrial market remains weaker than a one year ago, but brokers are seeing a slight uptick in leasing activity. The retail market remains strong with low availability rates and stable construction activity. In the multifamily rental market, a contact noted that supply had increased and that demand continued to be strong, particularly in suburban areas.

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

Summary of Economic Activity

Economic activity in the Ninth District was flat to slightly down since the previous report. Employment grew slightly, but labor demand continued to soften. Price pressures increased modestly, and wage growth was moderate....Construction improved slightly, while real estate markets were mostly flat.

Construction and Real Estate

Construction improved slightly since the last report. Industry data showed that new projects and overall activity increased compared with last year. However, contacts were more mixed in their assessment. A Montana source said that contractors were busy, but projects were seeing more bids and smaller markups. A Minnesota contact in commercial glass said the company was “feeling the softening of the nonresidential construction market.”

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 continued to expand at a moderate pace.

Real Estate and Construction

...Vacancy rates rose across property types, but with stark differences between their reported drivers. The net supply of new industrial space and multifamily housing units were both significantly above their 10-year average in recent months, which contacts suggested drove vacancies higher for the near term and tempered rent growth. However, demand for office space remained subdued and declines in office leasing activity were the primary drivers of higher vacancies, a dynamic which contacts expect to persist.

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

The Eleventh District economy expanded slightly over the reporting period.

Construction and Real Estate

Commercial real estate activity was little changed from the previous reporting period. Apartment leasing picked up, but there continued to be downward pressure on occupancy rates and rents due to elevated supply. Office leasing activity remained sluggish and was primarily concentrated in class A space. Retail and industrial demand grew moderately, and rents were stable to up. Outlooks were cautious, with certain commercial market segments expected to remain challenging due to weak demand, high interest rates, election uncertainty, access to financing, and/or elevated supply.

For more information about District economic conditions visit: 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 stable on net during the mid-May through June reporting period.

Labor Markets

The size of the labor force overall reportedly grew, and some firms found it easier to fill jobs, particularly those at the entry level. However, challenges continued for firms recruiting specialized workers in sectors such as information technology, manufacturing, and construction. Demand for workers with specialized skills rose more than overall labor demand in these sectors.

Prices

Costs for some inputs, such as energy, utilities, and insurance, rose at a slight pace, while prices for inputs used in construction, including asphalt, wood products, steel, and equipment, rose more slowly or even fell slightly.

Real Estate and Construction

.... Contacts reported that new multifamily housing starts generally decreased across the District. Commercial real estate activity remained mixed on net. Demand for office space continued to decrease, while demand for industrial space was solid. High financing and material costs as well as downward pressure on valuations and some lingering supply chain issues hampered construction in the commercial sector, putting some projects on hold. One contact in the retail sector mentioned lower investments in new developments, focusing instead on existing commitments and remodeling projects.