

Regional summaries and construction-related comments in the Dec. 4, 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 December 4, is based on information collected from early October to November 22 and includes the following comments relevant to construction.

U.S. Summary: Economic activity rose slightly in most Districts. Three regions exhibited modest or moderate growth that offset flat or slightly declining activity in two others.

Labor Markets

Employment levels were flat or up only slightly across Districts. Hiring activity was subdued as worker turnover remained low and few firms reported increasing their headcount. The level of layoffs was also reportedly low.... Job growth and wage growth for entry-level positions and skilled trades were an exception, rising robustly and expected to grow further through next year.

Prices

Prices rose only at a modest pace across Federal Reserve Districts.... Although input prices rose generally, contacts in several Districts noted declines in certain raw materials and non-labor costs. In contrast, rising insurance prices were again reported widely as significant costs pressures for many businesses.

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

Summary of Economic Activity

Economic activity was mixed, increasing modestly overall. Employment and wages were flat, and prices increased only slightly....Contacts reported substantial increases in single-family home sales and small-to-moderate increases in condominium sales. In contrast, commercial real estate activity was mostly flat. The outlook was a mix of optimism—mostly about home sales—and increased caution about the direction of consumer spending and labor demand.

Manufacturing and Related Services

Capital expenditure plans were unchanged, although one contact noted that their capital projects had proceeded more slowly than anticipated in the first half of 2024.

Commercial Real Estate

First District contacts described commercial real estate activity as mostly flat, but with improvements along some dimensions. Leasing activity was generally steady across sectors, an outcome that exceeded seasonal expectations, and rents and vacancy rates were also mostly unchanged. Leasing activity stayed much weaker for office properties than for industrial and retail spaces. Contacts agreed that remote work arrangements had dented office demand in a permanent way and that the market was still adjusting. They cited a growing number of financially distressed office buildings that might eventually be torn down. Nonetheless, contacts saw signs that the office market may have bottomed out, as investors showed renewed interest in the sector. Lending activity was also up slightly—particularly for multifamily and senior housing—but large loan originations remained scarce. One contact noted a modest increase in multifamily construction in Boston's nearby suburbs. The outlook improved slightly on balance, but contacts remained very nervous about distressed office properties and cautioned that softer consumer spending could hurt retail properties.

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

Economic activity in the Second District remained flat in the latest reporting period....Housing markets remained solid, with home prices edging up. Commercial real estate markets held steady.

Labor Markets

...some contacts from industries that require in-person work reported some difficulty finding skilled workers, particularly in the skilled trades....On balance, employment was little changed. Firms in construction and information services reported some reduction in headcounts, but employment grew among retail, wholesale, and education and healthcare firms.

Prices

...Although manufacturers reported only modest increases in prices paid for inputs, freight and raw material costs continue to weigh on firms in some industries. By contrast, with slowing construction activity and lower demand, the prices for building materials, especially lumber and concrete, have declined substantially.

Real Estate and Construction

Commercial real estate markets held steady, on balance. The office market in New York City improved slightly, with some decline in vacancy rates and an increase in asking rents. The industrial market was unchanged, with demand at a long-term low and vacancy rates remaining above pre-pandemic levels.

Construction contacts reported that activity decreased slightly. A commercial real estate developer in the District noted that difficulty obtaining credit has constrained new development and has led to a pause in a number of ongoing projects.

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 declined slightly after growing slightly last period.

Labor Markets

Overall, wage inflation remained at a modest pace. Most business contacts reported low or no wage pressure for most jobs outside of specialty trades as labor availability continued to improve.

Real Estate and Construction

Commercial real estate contacts continued to report steady construction activity at lower levels. Contacts noted that institutional, infrastructure, and multifamily projects continued to enter the pipeline. One architecture contact noted that while they've heard activity was starting to slow slightly, their firm remained so busy they had to pass on new projects they would have otherwise pursued.

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

Business activity in the Fourth District declined slightly in recent weeks. Although contacts generally expected activity to increase slightly in the months ahead, reports varied by sector. Demand for manufactured goods softened further, and some contacts noted that shipments had not returned to normal levels after expected summer slowdowns. Consumer spending declined moderately, and retailers generally anticipated flat demand in the coming months. Residential construction and real estate activity declined, a circumstance which contacts attributed to elevated construction costs and mortgage rates deterring prospective homebuyers. Nonresidential construction contacts reported a slight decrease in demand and fewer projects available for bid than in recent years.

Prices

Construction and manufacturing contacts mentioned that most input costs were stable, though some raw material and freight costs rose. Several contacts mentioned that insurance costs continued to increase....Some manufacturers indicated that falling steel and copper prices caused their firms to lower selling prices because of price variation clauses in contracts.

Manufacturing

Demand for manufactured goods declined moderately after a modest decrease in the prior period. Reports indicated fewer orders and shrinking backlogs because of still-soft demand for farm equipment, low construction activity, or slower commercial and consumer vehicle production

Real Estate and Construction

Nonresidential construction contacts reported a slight decrease in demand over the last two months. Fewer projects were available for bid after an increase in activity over the last several years. Contacts anticipated that the slight decline in activity would continue in the coming months. Regarding demand for existing space, commercial real estate contacts expressed differing views: Some reported an increase in offers of rent concessions and discounts, reflecting reduced demand, while one contact reported increased activity in recent weeks despite the typical pattern of seasonal slowness.

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

Economic activity in the Fifth District slowed mildly this cycle, reversing from a slight increase reported last period....Commercial real estate activity picked up slightly amid an increase in demand for retail leasing and continued strength in industrial construction.

Labor Markets

...Finding skilled workers continued to be a challenge. A construction company reported plenty of work but not enough staff despite advertising for open positions.

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

...a cabinet manufacturer's orders picked up as construction clients broke ground on previously delayed projects because they expected interest rates to drop soon.

Real Estate and Construction

Commercial real estate activity continued to increase slightly in recent weeks. Retail leasing picked up, but sales remained flat. New construction continued for pad sites, such as gas stations and fast food, and for repurposing of vacant retail buildings. Office space continued to see rightsizing with more investments going towards luxurious aesthetics to create a "country club feel," as one Virginia agent noted. Industrial remained strong with some projects being limited by power and site availability. Commercial investors were increasingly struggling with loans maturing and were declining replacement rates and potential new buyers were sitting on the sidelines.

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 declined slightly since the previous report....Commercial real estate activity was mixed. Activity in the transportation sector weakened.

Labor Markets

Most contacts indicated that wages grew modestly as wage pressure continued to ease. However, some employers noted ongoing wage pressure for certain specialized positions where hiring challenges persisted.

Construction and Real Estate

Commercial real estate (CRE) activity remained mixed. Vacancy rates rose in the office, industrial, and multifamily sectors. While reporting modestly declining multifamily and industrial starts, CRE contacts noted an increase in "clicks-to-bricks" investment, where online sales are supplemented with a brick-and-mortar presence, driving more sales both in-person and online. Firms reported a slight uptick in property sales transaction volumes, especially for smaller office properties. Increasing CRE loan maturities continued to create challenges for lenders. Underwriting standards remained tight, making access to loans challenging.

Transportation

Transportation activity declined modestly, on balance, over the reporting period. Inland barge carriers reported that overall demand had slowed, and shipments of construction materials declined significantly. Demand for leased industrial space declined, and new warehousing construction remained low.

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 July and early August, and contacts generally expected a similar rate of increase over the next 12 months. Employment and business spending rose slightly; manufacturing activity and consumer spending were flat; nonbusiness contacts saw little change in activity; 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

Business spending increased slightly in July and early August. The pace of capital expenditures slowed modestly, with several contacts mentioning that they had decided to keep operating with their existing stock of equipment instead of purchasing new equipment...There were only a few, isolated instances of supply shortages; contacts again noted long lead times for electrical equipment such as standby generators and transformers.

Construction and Real Estate

Construction and real estate activity decreased slightly overall over the reporting period. Residential construction activity was up slightly. Contacts in environmental engineering reported that they were busy with site reviews for single family homes, while other contacts noted slowing demand for large multifamily construction. Residential real estate sales decreased slightly. Prices edged higher while rents were unchanged. That said, the number of active listings increased as did the average number of days on the market. Nonresidential construction activity was little changed. Contacts reported that advance bookings were solid, though rising costs led a fair number of in-progress projects to be put on pause. Demand remained strong for senior living projects and office refurbishments. Commercial real estate activity decreased slightly, as did prices and rents. However, vacancy rates edged down according to contacts. Demand for large industrial space slowed, while demand for mid-sized space was steady. Several contacts reported that a growing number of small retailers were struggling to stay in business.

Manufacturing

...Fabricated metals orders were down modestly, driven by weaker demand from the construction industry.

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 slightly increased since our previous report....Residential and commercial real estate activity have been slower than expected due to high interest rates and lower demand.

Labor Markets

Employment has remained unchanged since our previous report. Contacts reported a more stable workforce with less attrition and more retention occurring. While contacts continue to report easing in hiring, skilled labor positions continue to be challenging to fill. A Louisville construction contact noted needing to expand training with employees as there are fewer skilled workers available. Several manufacturing and construction firms expect employment growth in the next quarter.

Wages have increased at a moderate pace since our previous report. Contacts expect wages to continue increasing at a similar pace in upcoming months. Manufacturing, construction, and IT services companies indicated that increases to the minimum wage in Missouri were expected to have no major impact on their wage distribution, whereas the opposite was true for workers in rural areas working in childcare, restaurants, or retail.

Nonfinancial Services

...An architecture firm noted that people were holding off starting projects because of potential changes in the underlying business dynamics.

Real Estate and Construction

...Commercial real estate (CRE) activity has slightly softened since our previous report. Contacts in the St. Louis area have shared that slightly lower CRE activity in general has been due to lower demand. Contacts noted that policy uncertainty, interest rate levels, volatility, and elevated insurance costs continue to be the main challenges for the sector. In Louisville, retail and office spaces have not seen enough absorption, resulting in a decrease of new construction in these sectors. Also, electric-vehicle-related facilities currently under construction have either stopped or slowed their work substantially due to the uncertainty of how future policies will affect the EV industry.

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

Summary of Economic Activity

The Ninth District economy saw slight growth since the previous report. Employment increased slightly but was mixed across the region, and labor demand softened. Prices increased slightly and wage growth was moderate. Growth was noted in energy, residential real estate, commercial construction, and tourism. Consumer spending and commercial real estate activity were flat, while manufacturing and residential construction decreased.

Labor Markets

A Minnesota construction employer said they were "expecting quite a bit of work moving forward and are concerned about getting enough skilled labor."

Prices

...Results from a construction industry survey indicated a slowing rate of increase in both prices charged to customers and wholesale prices from vendors over the past three months; several contacts noted reductions in steel product prices. Contacts in multiple industries noted substantial increases to health, liability, and property insurance costs.

Construction and Real Estate

Construction grew slightly overall, though activity varied across subsectors. Firms in industrial and infrastructure reported stronger activity compared with those in commercial and residential markets. A Minnesota mechanical contractor noted that very large projects skewed how busy the sector was overall. "You are in good shape if you have those projects. Companies that don't ... are struggling." Numerous firms reported that new projects out for bid, particularly private market projects, were softer for this time of year. As a result, companies were reaching into new areas for work and increasing overall competition for new projects. A South Dakota developer said the company's project backlog "has dropped off and competition is just as hungry as we are."

Commercial real estate was flat overall. New construction has been slower across most segments, which has helped non-owner-occupied landlords. Leasing rates were said to be healthy, especially for higher-quality property, but contacts said large firms continued to reduce their space needs. Smaller businesses were maintaining space and boosting lease activity, "but this has little effect when big companies give back hundreds of thousands of square feet."

Manufacturing

District manufacturing activity decreased moderately on balance since the last report. More than half of manufacturing respondents to a monthly survey reported that orders decreased in October from the month prior. By contrast, a regional manufacturing index indicated increased activity in Minnesota, North Dakota, and South Dakota in October from a month earlier....demand for construction and other heavy equipment was greater but insufficient to make up for the weakness in farm equipment.

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

Economic activity in the Tenth District remained stable.

Labor Markets

...Businesses reported particular weakness in the labor market for entry-level occupations and in the demand for workers with limited experience. Contacts expressed less willingness to hire inexperienced workers as applicant quality improved with greater availability of more experienced workers. Furthermore, contacts noted they posted fewer entry-level positions as they sought instead to reallocate existing employees from business lines with waning demand. Skilled workers in the trades were a notable exception, where demand for workers remained strong regardless of experience.

Prices

...Contacts in the construction sector reported mixed input cost dynamics, with labor costs rising and some input costs, like drywall, still increasing. However, other material inputs like windows and framing materials are falling alongside moderating lumber prices.

Real Estate and Construction

...Builders of single-family housing also reported expectations construction activity could rise over the near-to-medium term given the availability of development projects that would pencil out at slightly lower borrowing costs, especially given recent declines in the costs of several building materials. However, the limited availability of skilled construction labor remained a challenge for many builders.

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 modestly over the reporting period. Activity grew in the nonfinancial services and energy sectors. Manufacturing output was flat, while retail sales and home sales declined.

Construction and Real Estate

...Apartment leasing was solid during the reporting period. The office market remained weak, though there were reports of a pickup in leasing demand for small spaces. Industrial demand grew moderately, and rents were flat to up. Outlooks were mixed.

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 remained stable on net during the July through mid-August reporting period....Conditions in the agriculture and resource-related sectors continued to soften slightly, as did activity in residential and commercial real estate markets.

Labor Markets

Wages grew at a modest pace on net, up relative to the prior reporting period's pace. Contacts noted wage growth outpaced recent averages in agriculture, banking, business services, community services, and leisure and hospitality. The main drivers behind the increased compensation pressures were competition for specific types of highly skilled labor, union contract renegotiations, and higher minimum wage requirements. Wage growth was relatively tamer in real estate and construction, with a few contacts reporting offers for longer contracts at a lower wage level and others expecting to give lower end-of-year bonuses.

Prices

...Businesses across the District noted higher costs for utilities, energy, insurance, professional services, and shipping.

Manufacturing

Manufacturing activity ticked down a bit in recent weeks. Demand for manufactured goods, capital equipment, and fabricated metal generally weakened, although some contacts reported a recent pickup in inquiries and order pipelines. Sales of manufactured wood products remained modest, largely due to slower construction activity and weaker sales at home improvement centers.

Real Estate and Construction

Residential real estate activity decreased somewhat, similar to the prior reporting period. Demand was down in both single-family and multifamily markets. New residential construction remained slow overall, though demand and construction activity increased in some areas in Hawaii and the Mountain West. Developers reported delaying plans and refraining from starting new projects because of high financing costs. Landlords of multi-family properties lowered rents and gave more concessions amid a general rise in vacancy rates. A Southern California contact noted that vacancies and completion of construction projects were up in the high-end rental market but that vacancies were notably lower in the market for affordable housing.

Conditions in commercial real estate weakened slightly overall. Leasing activity fell for industrial and office space, but a contact in Utah noted that demand for retail space had ticked up. Construction of new commercial properties was down in most sectors as projects shifted towards less costly renovations. However, new construction was stable in the medical sector and up for government and military projects. Building materials and inputs were readily available with little change to costs, though backlogs remained for some products such as electrical components.