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April 20, 2022

# The Beige Book

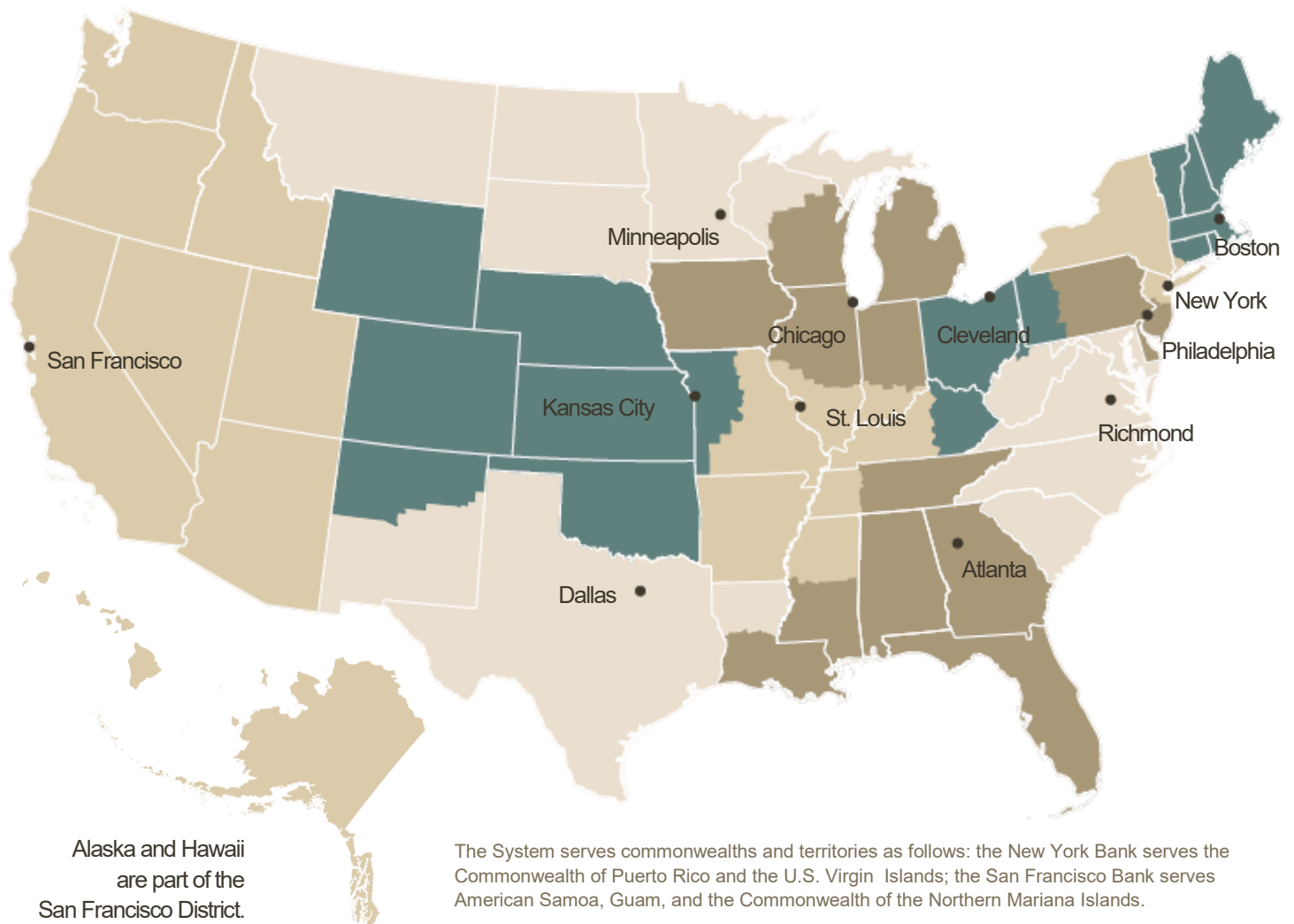
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Summary of Commentary on Current Economic Conditions

By Federal Reserve District

April 2022

## Federal Reserve Districts



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This report was prepared at the Federal Reserve Bank of Minneapolis based on information collected on or before April 11, 2022. This document summarizes comments received from contacts outside the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.

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## What is the Beige Book?

The Beige Book is a Federal Reserve System publication about current economic conditions across the 12 Federal Reserve Districts. It characterizes regional economic conditions and prospects based on a variety of mostly qualitative information, gathered directly from each District's sources. Reports are published eight times per year.

## What is the purpose of the Beige Book?

The Beige Book is intended to characterize the change in economic conditions since the last report. Outreach for the Beige Book is one of many ways the Federal Reserve System engages with businesses and other organizations about economic developments in their communities. Because this information is collected from a wide range of contacts through a variety of formal and informal methods, the Beige Book can complement other forms of regional information gathering. The Beige Book is not a commentary on the views of Federal Reserve officials.

## How is the information collected?

Each Federal Reserve Bank gathers information on current economic conditions in its District through reports from Bank and Branch directors, plus interviews and online questionnaires completed by businesses, community organizations, economists, market experts, and other sources. Contacts are not selected at random; rather, Banks strive to curate a diverse set of sources that can provide accurate and objective information about a broad range of economic activities. The Beige Book serves as a regular summary of this information for the public.

## How is the information used?

The information from contacts supplements the data and analysis used by Federal Reserve economists and staff to assess economic conditions in the Federal Reserve Districts. The qualitative nature of the Beige Book creates an opportunity to characterize dynamics and identify emerging trends in the economy that may not be readily apparent in the available economic data. This information enables comparison of economic conditions in different parts of the country, which can be helpful for assessing the outlook for the national economy.

## The Beige Book does not have the type of information I'm looking for. What other information is available?

The Federal Reserve System conducts a wide array of recurring surveys of businesses, households, and community organizations. A list of statistical releases compiled by the Federal Reserve Board is available [here](#), links to each of the Federal Reserve Banks are available [here](#), and a summary of the System's community outreach is available [here](#). In addition, [Fed Listens](#) events have been held around the country to hear about how monetary policy affects peoples' daily lives and livelihoods. The System also relies on a variety of [advisory councils](#)—whose members are drawn from a wide array of businesses, non-profit organizations, and community groups—to hear diverse perspectives on the economy in carrying out its responsibilities.



# National Summary

The Beige Book ■ April 2022

## Overall Economic Activity

Economic activity expanded at a moderate pace since mid-February. Several Districts reported moderate employment gains despite hiring and retention challenges in the labor market. Consumer spending accelerated among retail and non-financial service firms, as COVID-19 cases tapered across the country. Manufacturing activity was solid overall across most Districts, but supply chain backlogs, labor market tightness, and elevated input costs continued to pose challenges on firms' abilities to meet demand. Vehicle sales remained largely constrained by low inventories. Commercial real estate activity accelerated modestly as office occupancy and retail activity increased. Districts' contacts reported continued strong demand for residential real estate but limited supply. Agricultural conditions were mixed across regions. Farmers were supported by surging crop prices, but drought conditions were a challenge in some Districts and increasing input costs were squeezing producer margins across the nation. Outlooks for future growth were clouded by the uncertainty created by recent geopolitical developments and rising prices.

## Labor Markets

Employment increased at a moderate pace. Demand for workers continued to be strong across most Districts and industry sectors. But hiring was held back by the overall lack of available workers, though several Districts reported signs of modest improvement in worker availability. Many firms reported significant turnover as workers left for higher wages and more flexible job schedules. Persistent labor demand continued to fuel strong wage growth, particularly for foot-loose workers willing to change jobs. Firms reported that inflationary pressures were also contributing to higher wages, and that higher wages were doing little to alleviate widespread job vacancies. But some contacts reported early signs that the strong pace of wage growth had begun to slow.

## Prices

Inflationary pressures remained strong since the last report, with firms continuing to pass swiftly rising input costs through to customers. Contacts across Districts, particularly those in manufacturing, noted steep increases in raw materials, transportation, and labor costs. In multiple Districts, contacts reported spikes in prices for energy, metals, and agricultural commodities following the Russian invasion of Ukraine, and several noted that COVID-19 lockdowns in China had worsened supply chain disruptions. A few reports noted that input suppliers were making use of more flexible contract terms or only honoring price quotes for 24 hours. Strong demand generally allowed firms to pass through input cost increases to customers, for example, via fuel surcharges for freight and airline fares. However, contacts in a few Districts noted negative sales impacts from rising prices. Firms in most Districts expected inflationary pressures to continue over the coming months.

## Highlights by Federal Reserve District

### Boston

Economic activity expanded at a modest pace on average. Headcounts increased modestly despite significant layoffs by one large firm. Wages and output prices alike increased at a moderate pace, but some nonlabor input prices soared. The outlook remained optimistic, but several contacts perceived an increase in downside risks.

### New York

Growth picked up to a moderate pace in recent weeks, despite supply disruptions, worker shortages, and unseasonably inclement weather. Tourism, consumer spending, and manufacturing activity all picked up. Businesses continued to report substantial increases in selling prices, input prices, and wages. Overall, business contacts have become less optimistic about the near-term outlook.

### Philadelphia

Business activity continued to grow modestly during the current Beige Book period, and some sectors remained below pre-pandemic levels. Customer traffic resumed and workers began returning to offices, as the lull in COVID-19 cases continued. The labor market remained tight with moderate growth, while wages eased to a moderate pace and prices grew sharply.

### Cleveland

The District's economy expanded at a moderate pace despite ongoing supply and labor constraints. The war in Ukraine had little meaningful impact on current demand for goods and services, but it added another layer of complexity to supply chains. However, contacts said that the war had significantly increased uncertainty and put further upward pressure on costs, particularly for energy, metals, and agricultural commodities.

### Richmond

The regional economy expanded moderately, but some businesses were concerned that rising energy prices and the war in Ukraine could have adverse effects on business conditions in coming weeks and months. Many Fifth District businesses reported increasing employment and that rising costs of labor, materials, transportation and energy contributed to strong price growth in recent weeks.

### Atlanta

Economic activity expanded at a moderate pace. Labor markets remained tight, and wages continued rising. Nonlabor costs rose. Retail sales were strong. Tourism activity strengthened. Housing demand was strong. Commercial real estate conditions were mixed. Manufacturing activity was robust. Banking conditions were steady.

### Chicago

Economic activity increased moderately. Employment increased strongly, and consumer spending, business spending, manufacturing, and construction and real estate were up modestly. Wages and prices rose rapidly, while financial conditions tightened some. Agriculture markets experienced price increases and substantial volatility related to Russia's invasion of Ukraine.

### St. Louis

Economic conditions have improved at a moderate pace since our previous report. Prices for food and raw materials increased at a robust pace. The pace of hiring rose slightly, but labor shortages continued to limit output and wage growth remained strong. Consumer spending on services rose, but some softening in retail spending pointed to a mixed outlook moving forward.

### Minneapolis

The region's economy grew moderately since mid-February. Despite continued price pressures, overall demand in most sectors remained healthy. Meeting that demand, however, was checked by tight labor, supply chain difficulties, and other challenges. Firms expressed rising interest in automation to address persistent pressures on wages and labor availability. Startup loans to Minority- and women-owned business enterprises in rural areas were on the rise.

### Kansas City

Growth in the Tenth District accelerated to a robust pace. Prices increased rapidly and contacts reported changing prices much more frequently than is typical. Labor markets tightened further. The invasion of Ukraine disrupted supply chains and caused input prices to rise, but District businesses reported no effects on demand, hiring or planned capital expenditures.

### Dallas

Economic activity expanded at a faster clip. Growth was broad-based across sectors, but many firms noted supply-chain disruptions as a primary constraint on revenues. Employment and wages rose robustly. Supply-chain issues and energy prices continued to drive up costs. Optimism in outlooks waned, and uncertainty increased because of mounting headwinds.

### San Francisco

Economic activity strengthened moderately over the reporting period. Employment levels expanded while overall conditions in the labor market remained tight. Wages and price levels significantly increased. Retail sales and consumer and business services sector activity continued to expand, while the agriculture and resource sectors strengthened a bit. Lending activity was little changed.



# Federal Reserve Bank of **Boston**

The Beige Book ■ April 2022

## Summary of Economic Activity

Economic activity expanded at a modest pace on average. Hiring remained difficult for most firms but eased for some, resulting in small employment gains. Wages increased at a moderate pace on average, but some firms offered robust pay increases. Output prices increased moderately amid intense cost pressures. Manufacturers reported softer sales, while retailers saw slightly higher sales. Tourism contacts enjoyed small gains in activity on average, and saw signs suggesting demand would accelerate in the coming months. Software and IT services firms posted moderate revenue growth and had generally robust demand. Home sales slid further amid historically low inventories. Commercial real estate activity increased at a slow pace as the office and retail sectors gained further momentum. The overall outlook remained optimistic on balance, but several contacts perceived an increase in downside risks.

### Labor Markets

Wages increased at a moderate pace on average, hiring activity was mixed, and headcounts increased modestly despite significant layoffs by one large firm. Most contacted firms in diverse sectors continued to face difficulties in hiring and/or retaining workers, but some experienced an easing of labor shortages in recent months. Moderate to robust wage increases were reported by the majority of firms contacted, but some manufacturers said wages were stable in recent months. One retailer increased its wage floor further following a similar increase posted in Q4 2021, and two firms quoted their starting pay for warehouse workers as having risen to roughly \$18 per hour. Retention bonuses and non-wage incentives also increased. Regarding the outlook, software and IT services firms expected to either maintain or moderately raise employment levels moving forward, retail and tourism contacts hoped to raise staffing levels by modest to robust margins, and manufacturers' hiring plans were mixed but positive on balance. Some firms expected upward wage pressures to persist, while others saw the possibility of slower wage growth ahead.

### Prices

Output prices increased moderately amid robust ongoing cost pressures. Two software and IT contacts marked up their prices significantly and were either planning on or considering further price increases moving forward; other IT firms held prices firm, but one was mulling selective increases. Manufacturing contacts faced robust-to-

extreme inflationary pressures across a variety of inputs, including food commodities, fuel, freight, metals, and paper. One held prices steady despite these pressures, as they feared that further price increases, on top of the substantial markups they enacted in 2021, would drive away customers. Two others raised prices on some or all outputs, by modest-to-strong margins, to cover specific cost increases. One firm lowered prices following weak sales. Retailers experienced somewhat slower input price inflation and held prices steady, although one planned to post moderate price increases later in the year. The war in Ukraine injected greater uncertainty into the inflation outlook among some contacts.

### Retail and Tourism

First District retailers reported stable to modestly higher sales in the first months of 2022. At a clothing retailer, recent sales either matched or exceeded their year-ago levels, which had been among the store's strongest on record. A furniture seller saw a modest uptick in sales since mid-February following a slow start to the year, thanks to improved supply chains and increased foot traffic. Tourism contacts reported mixed recent results but expected the recovery to pre-pandemic activity levels to accelerate moving forward. Airline passenger traffic through Boston rose at a fairly brisk pace in recent months, and as of March 2022 had reached 80 percent of its March 2019 level. Advance bookings for April showed moderate further gains, and improvements were



seen in all types of travel. Greater Boston hotel occupancy rates and room rates were moderately lower in February compared with November 2021 from a combination of seasonal and pandemic-related factors, but both rates remained well above those from one year earlier. Retail and tourism contacts expressed an optimistic outlook for the rest of 2022, as the resumption of long-dormant convention activity in Boston—already apparent in March—was expected to give renewed energy to the sectors.

### **Manufacturing and Related Services**

Among firms contacted this round, sales softened on average despite mixed demand conditions. A biotechnology firm and a precision parts maker each suffered idiosyncratic (negative) shocks to demand, resulting in flat or lower sales for the quarter and steep revenue declines from one year ago. A frozen fish producer and a packaging maker both said that, despite very robust demand, sales fell from last quarter owing in part to supply chain issues. A furniture producer saw a moderate increase in sales in the first quarter but noted that sales growth was held back by supply chain delays and labor shortages. Contacts experiencing strong demand wanted to invest in new capacity but said that supply chain issues limited their ability to do so. With the exception of the biotechnology firm, contacts were generally optimistic. Nonetheless, material and labor shortages remained a risk for some, and others faced increased uncertainty tied to government spending and sanctions on Russia.

### **Software and IT Services**

Software and IT contacts experienced moderately higher demand recently, and revenues increased by robust margins year-over-year. One firm experienced a recent surge in hiring, compensating for previous staffing challenges, while others said that hiring and retention remained quite difficult. All firms made at least selective wage increases, and wage growth accelerated to a robust pace at two firms. Wage pressures crimped margins at one firm, but others enjoyed stable or higher margins following recent price increases and/or cost-cutting measures. Capital and technology spending was steady or up slightly. Demand outlooks were generally optimistic, but uncertainty increased. The Russia-Ukraine war worried two contacts, but so far neither firm has been significantly impacted by the conflict. Other risks mentioned included supply chain issues, inflation, and the emergence of a new COVID-19 variant.

### **Commercial Real Estate**

Commercial real estate activity increased at a modest pace on average as the office and retail sectors gained

further momentum. The industrial property sector continued to see very strong leasing and investment demand, driven by e-commerce users. Industrial space remained very tight, spurring robust increases in planned development. Office leasing activity increased further, especially in suburban locations. A Boston contact said that urban tenants were seeking short-term leases given their uncertain space needs, and that landlords were competing with space upgrades more than with rent reductions. The same contact, however, said that real estate professionals in the Boston area were forecasting declines in office rents in the next year. Multifamily housing saw robust investment demand and construction activity, as low vacancy rates contributed to steep rent growth. Retail leasing improved on balance, surprising some contacts, but the number of vacant storefronts remained elevated. Despite some optimism for the next few months, the outlook turned more pessimistic and uncertain, as contacts saw risks to activity from rising construction costs and interest rates, the war in Ukraine, and a possible recession.

### **Residential Real Estate**

Residential real estate sales slowed moderately in February, as the market was dogged by historically low inventories. Closed sales were down over the year (to February) for both single-family homes and condominiums in all states except Connecticut, which did not supply data. Year-on-year sales declines were somewhat steeper than those recorded in late 2021. Contacts attributed the weak results to a stark lack of inventories, as listings again posted year-over-year declines and reached record lows (since 1998) in Rhode Island and in the Boston area. Buyer demand remained strong, however, as properties spent very little time on the market and competition for lower-priced homes was especially fierce. Median sales prices continued to climb at a moderate to very fast annual pace, similar to the results recorded in late 2021, with the exception that Maine's condo prices fell. Contacts expected inventories and sales to increase in the coming months in line with typical seasonal patterns and due to the further easing of pandemic-related restrictions. Contacts noted that buyers wished to purchase homes ahead of further mortgage rate and price increases. ■

For more information about District economic conditions visit:  
[www.bostonfed.org/regional-economy](http://www.bostonfed.org/regional-economy)





## Summary of Economic Activity

Economic growth in the Second District picked up to a moderate pace in recent weeks. Businesses continued to report substantial escalation in selling prices, input prices, and wages, and many noted difficulties obtaining necessary supplies. The job market has remained exceptionally tight, with businesses continuing to add staff amidst high turnover. Consumer spending picked up somewhat in recent weeks, though auto dealers noted that ongoing shortages of vehicles continued to restrain sales. There was also a pickup in tourism and manufacturing activity. The home sales and rental markets strengthened further in March, while commercial real estate markets were steady to stronger. Commercial construction activity remained depressed, while multifamily residential construction continued at a moderate pace. Regional banks reported a decline in household delinquency rates. With growing concern about supply disruptions, worker shortages, and the war in Ukraine, business contacts across the District—especially those in manufacturing, distribution, and construction—have become less optimistic about the near-term outlook.

### Labor Markets

Despite ongoing worker shortages, businesses continued to report moderate job growth. Staffing agencies have seen an ongoing abundance of job openings across a wide range of industries and occupations. Business contacts have noted particularly severe shortages of truck drivers, construction workers, IT staff, and human resource professionals. Restaurants have had trouble maintaining adequate staff. Some businesses say they have grown less picky about required qualifications for open jobs and have become more flexible about remote work arrangements. Businesses in most major industries expect to expand their workforces in the months ahead.

Contacts in all sectors continued to indicate that they were raising wages and anticipated further increases in the months ahead. Some contacts observed that workers in high-demand occupations have seen outsized pay increases when changing jobs. With increasing focus on worker retention, some businesses noted that they have raised wages by 20 percent or more over the past year.

### Prices

Most business contacts noted ongoing escalation in input prices for a wide range of supplies. In particular, costs for both energy and freight (ground and ocean) were widely

cited to be high and increasing. Contacts in all major industry sectors expect input prices to rise further in the months ahead.

A large and growing proportion of businesses report that they have raised selling prices, most notably in the manufacturing, wholesale & retail trade, transportation, and construction sectors. Some businesses have reportedly grown more optimistic about their business prospects after raising prices and seeing them stick. One retail chain noted that it has been able to raise prices on fashion merchandise but less so on more everyday offerings. A large and growing share of businesses plan to increase their selling prices in the months ahead.

### Consumer Spending

Consumer spending picked up somewhat in March. Non-auto retailers generally reported stronger sales, though some contacts noted that inflation has eroded consumers' spending power, dampening demand. In New York City, weak international tourism and harsh winter weather have limited sales growth. Supply disruptions have reportedly prompted many retailers to order merchandise further in advance. Consumer confidence among New York State residents rose briskly in March and was roughly on par with pre-pandemic levels.

New vehicle sales remained sluggish in February and March, still restrained by a dearth of inventory, as the microchip shortage has limited production and kept inventories low. Almost all new cars delivered to dealers have been pre-sold 6-8 weeks in advance. Sales of used vehicles were steady, while prices appear to have plateaued.

### **Manufacturing and Distribution**

Manufacturing activity picked up in March, following a winter slump, while activity in the wholesale, transportation, and warehousing sectors continued to expand at a solid clip. However, a number of manufacturers reported that the combination of the Ukraine war, sanctions on Russia, shutdowns in China, and a severe shortage of trucks and trucking services have impeded some key supply channels. Businesses in these sectors have grown less sanguine about the near-term outlook.

### **Services**

Activity in the service sector has been steady to stronger in recent weeks. Education & health providers and information firms reported little change in activity, while professional & business service firms indicated a modest pickup in conditions. Notably, leisure & hospitality and related businesses noted a substantial pickup in business, following an Omicron-related slump during the winter months.

With COVID cases subsiding in New York City and restrictions being eased, tourism has picked up noticeably in recent weeks. Hotel occupancy rates have increased, even as average daily room rates continued to rebound. Moreover, most hotels have reopened citywide, with the number of rooms in inventory now down less than 3 percent from before the pandemic. Domestic visits to New York City have rebounded to about 90 percent of normal levels, while tourism from abroad has only recovered to about 65 percent. Museums have been increasingly busy in recent weeks, and Broadway theater attendance has rebounded to about 15 percent below normal, with performances occasionally disrupted by COVID. Finally, attendance at trade shows has been growing, and recent events, like Comicon, have seen great turnout.

### **Real Estate and Construction**

Home sales and rental markets have continued to strengthen since the last report, though a low inventory of available homes has restrained sales transactions in parts of the District. Real estate contacts in upstate New York noted that a dearth of homes listed for sale has

continued to drive up prices and spur bidding wars. Throughout the New York City area, resale volume has been increasingly robust, and prices have trended up briskly; inventories are very low, except in Manhattan, where they are still elevated but declining.

Residential rents across the District have trended up briskly. New York City's residential rental market has continued to tighten, as vacancy rates have declined to pre-pandemic levels. Rents have fully rebounded to at or above pre-pandemic levels across most of the city, with greater escalation at the high end of the market. An industry expert noted that rental concessions have become less common across the city and estimates that bidding wars are occurring on about one in five new leases. Both industry contacts and community organizations have been expressing concern about the availability and affordability of housing.

Commercial real estate markets were steady to stronger, on balance. Office markets across the District were essentially unchanged, with vacancy and availability rates steady and rents flat to up modestly. One New York City contact noted that many companies are sub-leasing excess space. The industrial market, however, has continued to strengthen, with vacancy rates steady at low levels, and rents continuing to trend up strongly. In contrast, the market for retail space has remained weak.

Construction activity remained sluggish overall, with activity reportedly hampered by unseasonably harsh winter weather, escalating construction costs, and shortages of both materials and workers. Non-residential construction starts remained particularly sluggish, with little new activity outside the industrial and warehouse segment. Multi-family residential starts have been steady at a modest level, though there continues to be a good deal of development in the pipeline. Looking ahead, construction sector contacts have become less optimistic about the general outlook, citing widespread shortages.

### **Banking and Finance**

Contacts in the broad finance sector reported little change in activity but remained fairly optimistic about the outlook. Small to medium-sized banks in the District reported little change in overall loan demand—lower for consumer loans and residential mortgages but higher for commercial mortgages. Credit standards were largely unchanged, while loan spreads widened somewhat. Finally, bankers reported lower delinquency rates on consumer loans and residential mortgages but no change on other types of loans. ■

For more information about District economic conditions visit:  
[www.newyorkfed.org/regional-economy](http://www.newyorkfed.org/regional-economy)



## Summary of Economic Activity

On balance, business activity in the Third District continued to grow modestly in the current Beige Book period. Activity in a few sectors had not yet returned to pre-pandemic levels. Since the prior Beige Book, the rate of COVID-19 cases has remained relatively low, although a rising wave in the Northeast has been nearing the Third District – county by county. The rate of all persons being fully vaccinated edged up to 71 percent. Employment grew moderately as more job candidates began to apply, although the labor market churned further as workers continued to shift jobs and sectors. Wage growth continued to challenge most firms, but the pace of growth appears to have eased somewhat. Prices rose sharply again and remained a key concern for most employers – propelled by rising energy prices and by ongoing supply chain disruptions for manufacturers. On net, expectations for continued economic growth over the next six months fell somewhat for nonmanufacturers and are near their nonrecessionary historical average for all firms.

### Labor Markets

Employment grew moderately – a stronger pace than in the prior period. However, a few firms noted that they are reevaluating their employment level and may be ready for some attrition to reduce staff size. The share of firms reporting employment increases rose to near one-third of the nonmanufacturing firms and rose to over two-fifths among the manufacturers. Overall, about one-fourth of the firms reported a rise in average hours worked; a few reported a decline.

Staffing firms as well as many employers noted that more job candidates were applying; however, on-the-job training was required more often, and retention remained a challenge. Contacts noted that many workers have switched fields, which has resulted in more training and more mismatches, followed by more churn in the labor market.

Although wages continued to rise broadly, the wage rate appears to have risen moderately – somewhat less than the strong growth in the prior period. In our monthly surveys, the share of nonmanufacturing firms reporting higher wage and benefit costs per employee edged up to 56 percent in March from 54 percent in February. Virtually no firms reported lower compensation, as has been true in most recent months. However, many firms, including staffing firms, reported that the pace of wage

growth has slowed. Still, the prevailing wage growth was sufficient to drive one small local coffee shop out of business when its workers shifted to a nearby chain coffee shop.

### Prices

On balance, strong price increases were evident throughout most of the supply chain, from manufacturing costs of production to those costs of nonmanufacturers. However, prices paid and received by nonmanufacturers rose for fewer firms than during the prior period.

The share of manufacturers reporting higher prices for factor inputs increased to 87 percent, while the share receiving higher prices for their own products edged up to 57 percent. The share of nonmanufacturers reporting higher prices for their inputs edged down to 67 percent, while the share receiving higher prices from consumers for their own goods and services fell to 37 percent.

Contacts most often cited the supply chain, followed by the labor supply, as their current key challenges, with the labor market easing for most firms and the supply chain easing for nonmanufacturers. Over the next quarter, most expect energy markets, followed by the supply chain, to represent the biggest constraints.

Nonmanufacturers tended to note that supply chain issues were easing, while some manufacturers noted

further disruptions for specific commodities because of the Russian invasion of Ukraine and ongoing production shutdowns in China.

About three-fourths of the manufacturers expect to pay higher prices for their factor inputs over the next six months. Nearly as many expect the prices they receive to increase as well.

### **Manufacturing**

On average, manufacturing activity continued to grow modestly. Overall, the share of firms reporting increases in shipments and new orders edged higher than in the prior period. Backlogs continued to rise, and delivery times continued to lengthen.

### **Consumer Spending**

Retailers (nonauto) and restaurateurs continued to report modest sales growth. Customer traffic patterns began normalizing as the Omicron surge eased, but contacts also noted the first hints of tighter wallets in response to fuel price increases.

Ongoing disruptions to the production and delivery of microchips and other key components continued to limit the availability and sales of new cars. While March sales levels improved slightly over February's, the two-month average remained well below the levels for the same two months in 2021 and also 2019.

Tourism resumed a modest pace of growth, as the Omicron surge dissipated and travelers rebooked business travel, group events, and some leisure travel. Contacts anticipate that domestic leisure travel will stay strong through the summer but that stays may be shortened and spending curtailed at destinations as prices of fuel, food, and rooms rise.

### **Nonfinancial Services**

On balance, nonmanufacturing activity grew modestly – an improvement from the slight growth in the prior period. Overall, the share of firms reporting increases in sales held steady just below half, while the share reporting increases in new orders rose to two-fifths. Moreover, the share of firms reporting decreases in sales and in new orders continued to subside.

### **Financial Services**

The volume of bank lending (excluding credit cards) grew moderately during the period (not seasonally adjusted); by comparison, loan volumes grew at a more modest pace during the same period in 2019. Inflation is contributing to some of this growth.

Loan volumes grew moderately for home mortgages, auto lending, and commercial and industrial lending.

Commercial real estate lending grew modestly, but home equity lines and other consumer loans fell modestly. A mortgage services contact noted that rising interest rates had dampened mortgage originations and precluded most home equity lending. Credit card volumes also grew moderately. Typically, credit card volumes fall during this season of the year.

Bankers, accountants, and attorneys noted that ongoing uncertainty and weariness stemming from inflation, COVID-19, and the war in Ukraine have created mental health issues for some households and small business owners. One attorney noted that foreclosures on residential mortgages rose following the end of the moratorium and that a further increase is expected. Another attorney noted that a credit counseling client was struggling to get out of bed. An accountant noted that one client was “completely absent from his business” because of the stress from uncertainty.

### **Real Estate and Construction**

Most homebuilders reported that demand for new homes held steady; however, as costs rise, many customers are shifting toward smaller, less pricey homes. Demand for new rental units remains strong. Following the year-end surge in building permits ahead of the phaseout of a popular 10-year property tax abatement in Philadelphia, permits fell sharply below the norm as this year began.

Existing home sales held steady at high levels. Demand continued to outstrip new listings, and quick sales continued to churn the market – lifting average closing prices to levels at or above average asking prices. Contacts noted that some potential buyers are searching for more affordable housing options in more remote locations and in mobile home parks, or by remaining in rental properties.

Construction activity and leasing activity continued at high levels for industrial/warehouse space, multifamily housing, and institutional projects. Contacts continued to describe concern for the office market. While workers were finally returning to offices, the extent to which firms and workers embrace full in-person, full remote, or hybrid work schedules remained unclear. Several contacts reported the emergence of new specialty stores in the retail sector, which had been dormant through most of the pandemic. ■

For more information about District economic conditions visit:  
[www.philadelphiafed.org/regional-economy](http://www.philadelphiafed.org/regional-economy)



# Federal Reserve Bank of Cleveland

The Beige Book ■ April 2022

## Summary of Economic Activity

Business activity in the Fourth District continued to increase at a modest pace in recent weeks. While demand was generally positive, crosscurrents under the surface were buffeting firms within and across sectors. For example, some consumer-facing contacts reported that spending picked up as concerns over the latest COVID-19 wave subsided, while others noted that spending slowed as consumers became more concerned about rising prices. Meanwhile, lenders reported that higher interest rates pulled forward demand for new mortgage originations while simultaneously curbing refinance activity. For both service providers and goods producers, labor constraints and supply disruptions still hampered their ability to meet strong demand. The war in Ukraine had not yet had a meaningfully adverse impact on current demand for goods or services or on firms' near-term expectations for demand. However, contacts suggested that the war had added another layer of complexity to supply chain challenges and heightened uncertainty for demand in the longer term. In addition, the conflict put further upward pressure on input costs, particularly for energy, metals, and agricultural commodities.

### Labor Markets

Employment continued to increase moderately in recent weeks, even as firms struggled to find and retain qualified employees. Nearly half of contacts indicated that they had increased staffing over the prior two months, with an almost equal share reporting that staffing levels were unchanged. While a few firms reported more success in hiring, many were operating with more vacancies than they would like. Several contacts that were able to add staff suggested that they were hiring workers who were leaving other jobs to seek better opportunities rather than workers who were new to the labor force or returning to it. Looking forward, firms plan to add more workers in the near term; but with limited improvement in worker availability, many contacts have pushed back their timelines for meaningful relief from labor shortages.

Wages continued to rise across a wide array of industries and occupations, but the share of contacts reporting such increases has declined from around 70 percent toward the end of 2021 to less than 60 percent in recent weeks. With firms still competing for many currently employed workers, many firms expected pay rates to rise further in 2022. However, some firms said that prior pay hikes had not led to improvements in hiring or retention rates, and they could not afford to increase pay further.

### Prices

After declining during the prior two reporting periods, the percentage of firms reporting higher input costs increased. Several contacts in manufacturing and construction cited the war in Ukraine as a factor in this reversal of trend. For goods producers, the war had pushed costs higher for a variety of inputs, most notably metals and energy. Moreover, many noted that fuel surcharges had increased, as well. These fuel surcharges were also cited by retailers and restaurateurs, who suggested that their vendors were passing through these cost increases. Outside of the effects of the war, firms said that previously existing supply chain constraints kept upward pressure on a broad array of inputs. Looking forward, more than 80 percent of contacts expected nonlabor input costs to continue rising in the months ahead.

Selling prices continued to increase as firms sought to keep up with rising costs. Firms that sell to other firms reported using more surcharges and flexible contract language to keep up with volatility in costs, with little pushback from their customers. Similarly, goods retailers indicated that they were pushing through price increases to cover the higher costs of inputs and transportation. At the same time, some restaurants said that higher menu prices had led to fewer customers and lower sales.



**Consumer Spending**

Reports suggested that consumer spending improved somewhat following weaker activity in the previous reporting period. Restaurateurs and hoteliers reported a pickup in activity in recent weeks as weather conditions improved and COVID-19 cases dropped, though some hospitality contacts said that inflationary pressures were causing some customers to hold back on spending. General merchandisers and apparel retailers said that demand for goods remained strong, though one general merchandiser said that sales softened in recent weeks. Auto dealers reported limited sales despite generally elevated demand as tight inventories and higher prices deterred buyers. Contacts were generally optimistic that nonauto consumer spending on goods and services would pick up in the coming weeks, though two contacts said that the ongoing conflict in Ukraine clouded their outlook on consumer demand. Auto dealers suggested that sales will remain weak until inventory levels recover.

**Manufacturing**

Demand for manufactured goods increased strongly across a wide range of end-user markets. However, supply chains continued to be disrupted both domestically and abroad, with COVID-related shutdowns in China and the war in Ukraine adding additional new challenges. Worker shortages continued to restrict output growth. Manufacturers struggling to keep up with demand reported some success in doing so by using labor-saving technologies. Finished goods inventories fell modestly because extended lead times for inputs resulted in an excess of unfinished goods. Looking forward, most respondents expected demand to increase in coming months, though their optimism was tempered by continued difficulty sourcing inputs, fears over a recession in Europe, and general concern about rising inflation.

**Real Estate and Construction**

Demand for residential construction and real estate remained robust despite increasing interest rates. Even so, supply chain disruptions continue to hinder new home construction. One general contractor indicated that he has had no issue selling homes, though completing projects has remained a challenge. Going forward, contacts were optimistic that demand would remain strong in the near term, though the longer-term outlook is clouded by elevated prices and rising interest rates.

Nonresidential construction and real estate activity continued to increase. Contacts reported that leasing activity for industrial, retail, and apartment spaces remained strong. There has also been a recent uptick in leasing activity for office spaces. Leasing demand is expected to remain strong going forward, with continual improve-

ments anticipated for office spaces. Nonresidential construction contacts reported strong demand for new construction, though they noted significant challenges around increasing costs and materials shortages (which in many cases have delayed project starts). Overall, contacts were optimistic that demand would remain strong, though they noted increased uncertainty because of the war in Ukraine that is expected to further exacerbate supply shortages and cost increases.

**Financial Services**

Loan demand increased moderately during the reporting period. Contacts reported increased business lending, especially for commercial and industrial loans, and many bankers reported strong loan pipelines. On the household side, some bankers noted a mixed effect of higher mortgage interest rates as demand for new originations increased while refinancing activity dropped. Demand for auto loans was slightly down because of limited vehicle inventories. Lenders said that delinquency rates for commercial and consumer loans remained low and that core deposits increased. Looking ahead, bankers expected business loan volumes to increase further as clients make capital investments, but they expected mortgage refinancing activity to slow further as interest rates rise.

**Professional and Business Services**

Activity for professional and business services remained strong. Software solutions and digital authentication firms reported that demand for their services remained elevated. Going forward, contacts were optimistic that current demand would persist. Wealth management and consulting firms were particularly optimistic, noting recent increases in early-stage business consultations.

**Freight**

Demand for freight services declined modestly from high levels. The softer demand stemmed from continued supply chain disruptions, especially at ports, and growing uncertainty surrounding the conflict in Ukraine. Many respondents reported being at capacity. Worker availability improved somewhat, but many contacts said that staffing was still below desired staffing levels. Looking forward, contacts expected conditions to improve modestly in coming months despite difficulties passing through rising fuel costs, continued difficulty filling driver positions, and the threat of a recession in Europe. ■

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



## Summary of Economic Activity

The regional economy continued to grow moderately amid ongoing supply chain issues, shortages of labor, and rising prices; however, several contacts expressed concerns that increasing energy costs and the war in Ukraine posed risks to near-term business conditions. Manufacturers reported moderate growth in shipments and orders but continued to face inventory and supply chain challenges. Import volumes grew strongly and ports worked at full capacity but struggled to get containers out of the port due to transportation shortages. Trucking companies confirmed the difficulties at the ports, reporting robust demand but limited availability of equipment and drivers. Retailers reported strong demand and were largely able to pass along rising prices to customers. Auto sales remained constrained by low inventory levels of new vehicles. Leisure travel and tourism was strong while business travel started to pick back up but remained well below pre-pandemic levels. Demand for homes remained strong and low inventory levels persisted. Commercial real estate activity was robust, particularly in the industrial and multifamily sectors. Bank lending was also strong, largely driven by commercial activity. Nonfinancial services firms saw moderate growth as the decline in COVID cases and easing of restrictions helped improve business conditions. Employment rose moderately but demand for workers continued to exceed supply, leading to further wage increases to recruit and retain staff. Prices continued to increase strongly due in part to rising fuel and transportation costs in recent weeks.

### Labor Markets

Total employment in the Fifth District rose moderately since our previous report. Firms across a wide variety of industries continued to report labor shortages with many noting that it was particularly difficult to fill positions that required less than a four-year degree. Employers said that main challenges were applicants not having the skills or experience required or applicants dropping out during the hiring process. Some firms saw applicants turn down job offers because the proposed compensation was too low, or the job was not hybrid or fully remote. This led many to increase starting wages and benefits, expand recruiting efforts, and, where possible, provide more flexible working arrangements.

### Prices

Prices continued to increase at a robust rate in recent weeks. According to our surveys, service sector firms reported year-over-year price growth of more than five percent, on average. Several firms noted that recent increases in fuel prices led to higher costs of doing business, which were being passed through to customers. Manufacturers reported strong increases in non-labor input prices, due in part by scarcities of raw materials as well as rising fuel and transportation costs. Firms in both goods producing and service providing sectors also cited higher labor costs contributing to their price escalation

and that strong demand has allowed them to pass costs along.

### Manufacturing

Manufacturers in the Fifth District saw moderate increases in shipments and new orders in recent weeks. Several producers noted that the persistence of long lead times and low inventory levels led to increased backlogs. One manufacturer, on the other hand, said that new orders had softened but production was unchanged as they worked to reduce their backlog. Some contacts noted that higher fuel and energy prices, as well as the war in Ukraine, have led to higher prices with increased uncertainty for the near-term supply chain. One contact said they were beginning to see some European suppliers shut down due to the spike in energy costs.

### Ports and Transportation

Fifth District ports saw strong growth in import volumes with terminals operating at capacity. As such, there were more ships queuing up outside the port due to slower turn times caused by longer container dwell times clogging up the port. There continued to be delays getting containers out of the ports caused by shortages in inland transportation. Spot shipping rates have come off their peak, but new contract rates were much higher than last year. Imports and exports of automobiles and heavy



equipment were volatile, which contacts attributed to the microchip shortage. There were also reports of increased use of air freight due to ocean shipping delays.

Trucking companies reported that demand remained strong, leading to tight capacity. Several companies noted an ability to hire new drivers, and retention also continued to be an issue. Most trucking firms were just now getting the new equipment they ordered in 2021, but they still had to rely on aging truck tractors, chassis, and trailers to meet demand. Trucking firms indicated that they continued to increase shipping rates in response to higher fuel costs, wages, and equipment prices. Respondents indicated that they expect demand for freight to remain strong for the rest of 2022.

### **Retail, Travel, and Tourism**

Fifth District retailers continued to experience strong demand with most stores able to pass on the higher costs of goods, as well as increased labor costs, to consumers. Many retailers cited shortages of labor and inventory as constraints on growth. Auto dealers stated that the inventory of new cars continued to be extremely low. With consumers keeping cars longer, there was higher demand for services and dealerships were having trouble finding technicians despite increasing wages.

Travel and tourism in the Fifth District continued to be strong, driven primarily by leisure travel. In most markets, hotel occupancy and average daily rates both were higher in March. Convention related business was starting to pick up, and events were retuning. Passenger count at airports rose and nearly matched their 2019 levels. Restaurants experienced strong demand but staffing was still a challenge. Overall, vacation travel remained strong, despite consumer concerns over gas prices and rising costs.

### **Real Estate and Construction**

Since our last report, demand for homes in the Fifth District remained strong with a solid amount of buyer traffic. As such, housing inventory levels remained low and home prices continued to rise. There was not enough new home construction to meet demand, and some builders were either sold out for 2022 or were doing a lottery system for completed homes. The cost of some construction components continued to increase, but availability of materials improved slightly. Real estate agents noted that it continued to be a sellers' market and very competitive for buyers.

Overall commercial real estate market activity was strong this period, especially in the multifamily and industrial sectors where demand was high, vacancy rates low and rental rates continued to increase. Class A

office leasing activity picked up with tenants looking to "right-size" their space and lock-in longer term leases. Retail leasing strengthened, leading to falling vacancy rates. However, tenant improvement costs for retail and office spaces increased dramatically. Rising home prices have led to rapidly increasing multifamily rental rates. Land sales were extremely active, and prices increased across all property types. Feasibility was an issue with new commercial development due to high construction costs, the exception being for industrial and multifamily projects. Investment sales activity continued to be robust.

### **Banking and Finance**

Respondents continue to report strong loan demand across all commercial loan types, while residential mortgage demand has started to ease. Respondents noted that while the slowdown in residential mortgages was mainly due to low housing stocks, some potential buyers were deterred by rising interest rates. New auto lending was still being impacted from a lack of inventory, however, used auto lending demand was growing. Deposits continued to grow on pace with last year. Credit quality remained excellent, and delinquencies remained below pre-pandemic levels, but some respondents were seeing consumer loan delinquencies trending upwards.

### **Nonfinancial Services**

Nonfinancial service firms reported moderate growth in revenues and strengthening demand in recent weeks. Several firms noted that the decline in COVID cases and the easing of COVID restrictions helped boost activity. A federal contractor, for example, said that easing made hiring and executing work easier. They also expected a boost in defense spending because of the war in Ukraine. A few service providers, however, noted increased uncertainty and risks to business conditions due to the ongoing conflict as well as from rising energy prices. ■

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



## Summary of Economic Activity

Business contacts in the Sixth District indicated that economic activity expanded moderately, on balance, from mid-February through March. Labor market tightness and wage pressures persisted. Some nonlabor costs continued to rise and the conflict in Ukraine is expected to put additional pressure on commodities. Firms' pricing power was sustained. Retail activity was robust, but auto sales were down. Tourism activity strengthened. Housing demand was strong, though persistently low inventory levels, higher home prices, and rising mortgage rates constrained sales and further diminished affordability. Commercial real estate activity was mixed. Manufacturing saw continued solid demand. Conditions at financial institutions were steady, and consumer lending improved.

### Labor Markets

Most contacts continued to report tight labor market conditions. Some firms reported proactively raising wages to reduce turnover or increasing the frequency of raises to keep in step with the market. Many noted that high turnover has been driven largely by workers chasing higher wages or workers' desire for greater flexibility. Several contacts who had previously resisted hybrid and remote scheduling began offering workplace flexibility to attract or retain staff. Government-funded and charity-based entities were especially challenged with reacting to market wage increases. To recruit and retain staff, employers reported offering more hybrid work arrangements, providing retention bonuses, and making part-time positions available to lure back retirees.

Expectations about accelerating wage increases were mixed. Some firms anticipate wage growth will increase this year across the board, while others plan to be more targeted with raises. More contacts noted that inflation is creating upward pressure on wages. Among those planning to hold the line on wage increases this year, it was noted that sustained higher inflation could push them to re-think their plans.

### Prices

District contacts continued to note rising input costs, particularly for materials like lumber and steel. The conflict in Ukraine, in addition to impacting fuel costs, is expected to put upward pressure on other input costs such as nitrogen and wheat. Contacts reported implementing various mitigations to ongoing supply chain constraints affecting costs, including investments in technology to improve efficiency, consolidation of shipping routes or loads, and renting warehouse space to store more inventory. Margins largely remained elevated

and pricing power was consistent with recent reports, though more contacts expressed concerns over the potential of further price increases dampening demand. The Atlanta Fed's Business Inflation Expectations survey showed year-over-year unit cost growth was relatively unchanged at 4.1 percent, on average, in March. Firms' year-ahead inflation expectations increased significantly to 3.8 percent, on average, up from 3.6 percent in February.

### Consumer Spending and Tourism

District retailers reported solid demand during the reporting period. However, some softening is expected over the next few months amid expectations of smaller tax refunds (due to the advance in child tax credits) and rising gas prices. Automotive unit sales were down, and prices increased over the reporting period as a result of continued supply constraints.

Tourism contacts reported robust spring break activity and cited Florida's beaches as a top destination. Hotel average daily rates and occupancy levels were up over 2019 levels. Some improvement in business travel and conventions was reported, although this segment continues to lag leisure travel.

### Construction and Real Estate

Though demand for housing remained robust during the reporting period, rising costs and limited inventory continued to suppress sales. Cost inflation in the construction of new homes persisted as supply chain disruptions and labor shortages challenged homebuilders. Contacts reported that declining home ownership affordability was a growing concern for buyers. Nashville, Atlanta, Tampa, and Orlando experienced the sharpest declines in afford-

ability over the past year, as mortgage rates rose and home prices in these markets reached record levels.

District commercial real estate (CRE) conditions remained mixed. Activity in the multifamily, industrial and tech-related (data centers, etc.) sectors experienced continued significant upward momentum. The office sector improved modestly as more employers reopened, but contacts indicated that elevated levels of sublease space could hinder market rent growth until absorbed. Contacts continued to report healthy competition among CRE lenders; however, some lenders reported a modest increase in underwriting standards. Smaller banks and non-bank lenders have been identified by market contacts as the more aggressive of CRE lenders.

### Manufacturing

Manufacturing activity was consistent with the previous report. Contacts noted continued strong demand, though rising input and labor costs put pressure on margins for some. According to the Atlanta Fed's Business Inflation Expectations survey, most manufacturers surveyed reported moderate to severe supply chain disruptions including supplier delays, difficulties locating alternate suppliers, production delays and delays in the delivery/shipping of final inventories. Most respondents expect these disruptions to continue over the next 6-12 months. Manufacturers also reported that production levels were hindered primarily by a lack of workers and supply availability. Manufacturing contacts expect further strengthening in demand, but concerns over supply chain disruptions, labor shortages, and rising input costs remained.

### Transportation

Transportation activity was mixed over the reporting period. Some District ports reported continued double-digit growth in container volumes resulting from a shift in cargo by shipping lines from the west coast to the east coast. Demand for industrial space increased, but capacity remained tight despite an increase in new warehouse construction. Air cargo contacts noted growing freight volumes; however, new COVID lockdowns in China diminished air carriers' ability to move cargo in and out of the country. Railroads saw a significant decrease in total rail traffic year to date as compared with year-earlier levels, led by double-digit declines in petroleum and petroleum products, motor vehicles and parts, metallic ores and coal. Intermodal volumes also fell.

### Banking and Finance

Conditions at District financial institutions remained stable. Loan growth improved, with consumer lending experiencing the strongest growth among loan portfolios. Deposit balances were flat. Some banks reported increases in short-term borrowings to fund the stronger

loan growth. Asset quality remained strong. Delinquency rates were stable for most portfolios and net charge-offs held steady. With the increase in loan growth, provisions for loan losses also slightly increased.

### Energy

Activity continued to strengthen across energy sectors. Drilling increased as global demand boosted exports of crude and natural gas and kept prices elevated. Energy contacts noted that oil that would typically be sent to domestic storage hubs was being routed to the Gulf Coast for export. However, some contacts reported that labor and equipment availability challenges hindered oil and gas production. Refinery operations across the region were largely at full capacity. Utility contacts reported that the tight natural gas market kept the price of electricity elevated; still, demand for power across customer segments was stable. Investment in renewables continued to grow, particularly solar power projects and offshore wind planning in the Gulf of Mexico; however, contacts expressed concern about potential disruptions to domestic solar power manufacturing and development projects resulting from tightness in parts availability related to reduced imports.

### Agriculture

Agricultural conditions remained mixed. Parts of the District experienced moderately dry conditions. On a month-over-month basis, Florida's orange crop and grapefruit productions were down 5 percent in February and both forecasts were below last year's production. Agriculture contacts noted fertilizer and chemical costs have doubled recently and are expected to remain elevated over the next six months. The conflict in Ukraine is expected to have a "profound effect" on commodity prices going forward, especially for potash, a critical component of fertilizer. ■



# Federal Reserve Bank of Chicago

The Beige Book ■ April 2022

## Summary of Economic Activity

Economic activity in the Seventh District increased moderately overall in late February and March, though contacts expected a more modest pace of growth over the coming months. Labor and materials supply constraints continued to weigh on the expansion. Employment increased strongly, and consumer spending, business spending, manufacturing, and construction and real estate were up modestly. Wages and prices rose rapidly, while financial conditions tightened some. Agriculture markets experienced price increases and substantial volatility related to Russia's invasion of Ukraine.

### Labor Markets

Employment increased at a strong pace over the reporting period, and contacts expected moderate growth over the next 12 months. Contacts across sectors reported ongoing difficulty in finding workers at all skill levels. High turnover rates continued to be an issue for some contacts, with one noting that several senior level managers resigned for permanent work-from-home opportunities at other firms. A lack of labor continued to prevent a number of firms from producing enough to meet strong demand, with one manufacturer expressing the desire to add a third shift but unable to find workers for it. Overall, wage and benefit costs increased rapidly, both to attract new workers and retain existing talent. Still, some contacts noted that despite higher wage offers, they were unable to fill open positions due to a scarcity of applicants. Others, however, indicated they were seeing improvements in their ability to hire, which they attributed to greater labor force participation. One contact noted that although they were able to hire, new workers required more training than they had historically.

### Prices

Overall, prices rose strongly in late February and March, and contacts expected price growth to continue at a strong pace over the next 12 months. There were large increases in producer prices, driven by pass-through of

higher costs for labor, transportation, energy, and materials, notably metals. Consumer prices generally moved up robustly due to solid demand, limited inventories, and pass-through of increased costs. Contacts continued to indicate that they were experiencing only limited pushback on price increases from customers.

### Consumer Spending

Consumer spending moved up modestly on balance over the reporting period. Some retailers mentioned that foot traffic picked up and attributed the change to reduced concern about COVID-19. Nonauto retail sales increased slightly. Spending on furniture, appliances, and electronics rose modestly, but grocery sales were flat. Contacts also noted an increase in sales at discount stores. Light vehicle sales volumes decreased moderately and continued to be constrained by low inventory levels; profit margins remained strong due to elevated vehicle prices. Leisure and hospitality spending increased, led by greater tourism activity.

### Business Spending

Business spending increased modestly in late February and March. Retail inventories remained low in many sectors due to supply chain challenges. For key items, retailers were taking extraordinary measures to get inventory, including ordering earlier and using air freight.



Many manufacturers' inventories were not at desired levels, with the number reporting levels as too high about the same as the number reporting levels as too low. Manufacturing contacts continued to cite shortages of a wide range of inputs and expressed concern that the COVID-19 outbreak in China could cause further supply disruptions. Transportation services continued to operate at full capacity. Growth in capital expenditures was modest, with greater spending on equipment upgrades and intellectual property. Lead times remained lengthy for some types of capital equipment. There was little change in industrial energy consumption, while commercial energy consumption increased slightly, led by growth in office usage. Residential energy demand decreased slightly.

### **Construction and Real Estate**

Construction and real estate activity moved up modestly on net over the reporting period. Contacts in both residential and nonresidential construction noted that higher labor and materials costs and rising interest rates were weighing on demand. Residential construction was up on net, with growth varying by location and segment. According to a survey of builders, single family home construction was flat, with many still limiting contract sales as they continued to navigate supply-chain bottlenecks. There were notable delays in deliveries of key items, such as windows, doors, framing, HVAC equipment, appliances, and cabinets. Multifamily construction strengthened as demand remained robust. Residential real estate activity was little changed. Inventory levels of homes for sale remained low, contributing to further increases in prices and rents. In the nonresidential construction sector, project costs escalated, and builders reported delays in receiving steel. Nonetheless, construction increased due to strong demand in the industrial, single-tenant retail, and medical office areas. Commercial real estate activity held steady, with little movement in transaction activity, prices, or rents. There was a modest increase in the availability of sublease space.

### **Manufacturing**

Manufacturing production increased modestly in late February and March as challenges in securing labor and materials limited production despite strong demand for many products. Shortages of microchips and other materials resulted in an outright decline in auto output. Heavy truck demand increased moderately but there was only a small increase in production, which reduced inventories and boosted prices. Steel production was flat, though demand moved up, driven in part by increased orders from energy customers. Steel prices remained high, especially for stainless steel. Manufacturers of office

furniture noted that demand for new, renovated, or re-configured office space was supporting sales. Fabricated metals manufacturers reported little change in order books overall.

### **Banking and Finance**

Financial conditions tightened some on balance over the reporting period. Participants in the equity and bond markets reported rising interest rates, an increase in volatility, and net declines in asset values. Business loan demand increased modestly, with growth spread across sectors. Contacts highlighted greater usage of lines of credit to finance inventories as well as growth in acquisition financing. Business loan quality was unchanged overall, while business loan standards tightened slightly. In consumer markets, loan demand decreased slightly, led by lower demand for mortgage lending. Consumer loan quality remained unchanged on balance, while standards tightened slightly.

### **Agriculture**

Agriculture markets experienced price increases and substantial volatility during the reporting period related to Russia's invasion of Ukraine. Prices for corn, soybeans, and wheat moved higher, as did input prices, particularly for fertilizer and diesel fuel. Some farmers switched to using manure as fertilizer, though availability was limited, particularly in areas without substantial livestock activity. Rising input costs led to a shift in planting plans from corn to soybeans, which require less expensive inputs. In addition, concerns deepened about whether input deliveries would be in time for planting. On average, prices for cattle, hogs, eggs, and milk were all up from the prior reporting period. Strong gains in farmland prices continued, in part because of greater interest by investors. ■

For more information about District economic conditions visit:  
[chicagofed.org/cfsbc](https://chicagofed.org/cfsbc)



# Federal Reserve Bank of St. Louis

The Beige Book ■ April 2022

## Summary of Economic Activity

Economic conditions have improved at a moderate pace since our previous report. The pace of hiring rose modestly, and wage growth remained strong. Prices, particularly for raw materials and food, increased at a robust pace. Reports on consumer spending were mixed, with notable signs of improvement in the tourism sector and softening growth in retail sales. Reports from manufacturers remain positive, with continued strong growth in new orders despite labor shortages and supply-chain disruptions restraining production. Real estate contacts reported a surge in seasonal buying activity coincided with a rise in mortgage rates, creating an uncertain outlook. Banking contacts reported a slight increase in loan demand and expect competition among lenders to put downward pressure on rates.

### Labor Markets

Employment has risen modestly since our previous report. Although some contacts reported early signs of improvement, labor shortages all along the supply chain continued to hinder firms' expansion and output. One Indiana contact reported that an air pilot shortage was causing economic difficulties for their whole region. Companies, nonprofits, and local governments alike tried to connect employers to potential employees with career fairs and other programs.

Worker preference for telecommuting was so strong—and so at odds with employer preferences—that one local Chamber of Commerce offered separate employee and employer seminars on the topic to ease the tension. One major corporation incentivized workers' return to the office with a new coffee shop, decorative improvements, more collaborative spaces, and an arcade-style area.

Wages have grown strongly. The tight labor market continues to drive up wages and related benefits across industries and skill levels. Workers increasingly cited inflation when demanding higher wages. One food service employee cited their relatively low pay as a primary driver in recent unionization efforts.

### Prices

Prices have increased robustly since our previous report. Lumber prices are once again at record highs after declining in the second half of last year. Contacts reported a surge in steel prices since our previous report. Some construction suppliers have several planned price increases for the near future; increases range from 6% for roofing materials to 75% for glass fiber felt sheets. Some suppliers and trucking companies are adding fuel surchargers or delivery fees to orders, which most contacts are passing on to consumers. Agriculture contacts noted higher fuel and fertilizer costs, which will be passed on to consumers. A contact in the restaurant industry reported that chicken and butter prices have increased since the beginning of the year.

### Consumer Spending

General retailers, auto dealers, and hospitality contacts reported mixed business activity and a mixed outlook. West Tennessee consumer sentiment about current and future conditions has worsened since December. Memphis general retailers experienced a slow first quarter, citing ongoing supply chain and product availability issues, and have a mixed outlook for the upcoming months. A St. Louis auto dealer reported that business activity was up in March compared with February; however, they noted that new vehicles are slow to leave

factories due to shortages in parts previously sourced from companies that went out of business during the pandemic. One restaurant in Louisville reported that, despite rising prices and energy costs, they believe their business activity won't be greatly impacted because of a shift to more profitable takeout orders. Tourism has started to rebound throughout the District with hotel bookings showing notable improvements, although contacts noted that risks to further recovery include rising gas prices and future COVID surges.

### **Manufacturing**

Manufacturing activity has strongly increased since our previous report. Firms in both Arkansas and Missouri reported moderate to strong upticks in new orders and production. Demand has continued to remain strong despite significant price increases, exceeding production capacity and creating order backlogs. Some firms are concerned demand may soon soften due to these continued price increases. Labor inputs and wages also remain high due to worker shortages. One contact in trailer manufacturing noted that they "could double their sales if they had the workers." Firms continue to invest in process automation to reduce their reliance on human labor.

### **Nonfinancial Services**

Activity in the nonfinancial services sector has increased since our previous report. Airport passenger traffic increased in March, nearing 90% of pre-pandemic levels. Transportation sector contacts have implemented fuel surcharges to partially offset the rapid rise in fuel prices and continue to face a shortage of drivers; some are testing autonomous vehicles as a long-term solution. An Arkansas transportation contact reported revenues exceeding pre-pandemic levels due to increased demand, although a shortage of parts for needed repairs has been an issue. Hospitals continue to face shortages of nurses and lab supplies, although declining COVID-19 cases have improved morale. A community college in Southwest Tennessee is experiencing an uptick in overall applications after three semesters of dropping enrollment.

### **Real Estate and Construction**

The residential real estate market has remained strong since our previous report. Apartment rental rates have continued to increase strongly. Multiple contacts reported high competition, with rental properties getting as many as 50 contacts in the first day after posting. Despite climbing interest rates since our previous report, home buyers have remained undeterred. Demand has held strong; inventory has fallen and remains around 25-30% lower than this time last year in the District's major MSAs. One contact believes that higher interest rates

should help soften demand throughout the year but real estate will continue to be a seller's market in the short-term because of low inventory.

Reports on commercial construction have been mixed. One contact previously believed that demand would have tapered off by now, but despite increases in input costs and supply chain problems demand continues to be strong. However, a Memphis area banker reported two instances where customers delayed or cancelled developments because of high input prices. A contact in Arkansas mentioned that the shortage of skilled labor coupled with shipping delays is hampering project completion. One example is the lead time for electrical switchgear, which has risen from 20 weeks pre-pandemic to 60 weeks.

### **Banking and Finance**

Banking conditions have improved slightly since our previous report as banks reported an increase in overall lending activity. Commercial and industrial loans increased slightly, while consumer and real estate loans increased moderately. Deposit levels remained elevated, but deposit growth slowed. A Memphis banking contact reported an influx of customers asking to fix their adjustable-rate loans or extend their fixed-rate loans in light of the recent interest rate increase and uncertainty around future rates. At least one large lender continues to lend at low rates for long terms. Overall, banking contacts expect high liquidity throughout the system to keep downward pressure on interest rates.

### **Agriculture and Natural Resources**

Agriculture conditions have improved slightly since our previous report. The number of acres planted across the District for corn, cotton, rice, and soybeans was little changed from last year. Tennessee saw the most growth of all District states, with a moderate increase of 10% in acres planted. Corn and rice were planted in lesser quantities compared with last year, while cotton and soybeans increased in acreage. Contacts have expressed concern about a continued rise in input costs and availability of inputs, particularly fertilizer.

Natural resource extraction conditions saw little change from February to March, with seasonally adjusted coal production decreasing by 0.5%. March production went down moderately compared with a year ago, decreasing over 8%. ■





## Summary of Economic Activity

Ninth District economic activity increased moderately since mid-February. Employment saw moderate growth, as robust hiring demand continued to be restrained by tight labor supply. Wage and price pressures were strong, with particularly strong pressure on input prices. Growth was noted in consumer spending, commercial construction and real estate, manufacturing, and energy. Residential construction was flat and residential real estate slowed. Agricultural conditions improved heading into the planting season, with strong crop prices offsetting high input costs. Reports from minority- and women-owned businesses were mixed, while rural startup loans were on the rise.

### Labor Markets

Employment grew moderately since the last report. Hiring demand remained strong according to both formal and ad hoc surveys of employers. Construction, hospitality, and manufacturing firms reported particularly robust labor needs. Most firms were interested in increasing the overall size of their full-time workforce, while a smaller share also noted openings to fill turnover or seasonal needs. However, firms struggled to fill open positions. Labor availability was considered poor by a majority of employers, with little expectation of near-term improvement. A North Dakota staffing contact said that for a job order of 10 workers, clients are told that “we’ll try to get you two or three.” Among firms using work visa programs, a majority reported significant difficulties in filling labor needs through such channels.

Wage pressures remained strong. Surveys suggested that a large share of firms were giving raises, particularly in construction and hospitality sectors, and the size of wage hikes was growing as employers competed for labor. A small Minnesota health care firm said the inability to find workers required higher salaries “to avoid [staff] poaching or resignations.” Numerous contacts reported increased interest in automation to tackle growing wage pressure and lack of workers. Sources also reported that rapid wage inflation induced more turnover among lower-wage positions.

### Prices

Price pressures intensified further since the previous report. Two-thirds of District firms responding to a survey said they increased their selling prices in March from a month earlier, while 70 percent reported that their non-labor input prices increased from February. Manufacturing contacts noted that after a brief slowing of price increases for certain raw materials, prices increased suddenly and steeply with the onset of the war in Ukraine. Retail fuel prices in District states increased briskly since the previous report. Prices received by farmers in February increased from a year earlier for corn, soybeans, wheat, canola, dry beans, potatoes, hay, hogs, cattle, turkeys, chickens, eggs, and milk.

### Worker Experience

Labor supply remained tight across the District. A recent survey of workers in Minnesota and North Dakota showed that better pay and benefits, increased flexibility, and career advancement were the main priorities among respondents looking to make occupational changes. Staffing shortages put pressure on some workers. “My work life is stressful, we are understaffed, and I don’t have the support I need to do my job,” said an education industry worker. Many survey respondents reported making substitutions or reducing consumption of some food items and clothing in response to higher prices, but absorbing the added costs of more essential items such

as medicine, rent, fuel, and electricity. Working parents struggled to find and afford childcare, and workers with student loans worried about their finances once the payment moratorium ends. A construction labor contact said that elevated vehicle and gas prices were of great concern to industry workers because of long commutes to working sites.

### **Consumer Spending**

Consumer spending grew moderately since the last report. Overall, more hospitality and tourism firms reported higher revenues of late compared with those reporting a revenue decline. However, some reported that increased revenue was due to higher costs flowing through to customers. Firms in the Minneapolis-St. Paul region were more likely to report positive revenue growth, but many continued to report that revenues were below pre-pandemic levels. Nonetheless, these firms were expecting solid revenue growth in the coming months compared with last year. Retailers in general reported modestly higher sales, but noted higher costs were eating into profits and supply chain problems continued to hamper product inventory and related sales.

### **Construction and Real Estate**

Commercial construction grew moderately since the last report. Overall, contacts were positive about recent revenues and reported a healthy pipeline of work to bid on. Activity was robust in South Dakota. Numerous contacts reported that activity would have been stronger were it not for high material costs, significant delays in obtaining materials, and a lack of skilled workers. Growth in residential construction showed signs of slowing. Single-family permits in February and March were mixed across the District's larger markets. A western South Dakota contact said that pricing and subsequent sales of speculative homes were being delayed until completion to keep up with rising costs.

Commercial real estate improved modestly since the last report. Downtown employers continued their return to offices, which helped nearby retail and other businesses. Industrial space remained at low vacancies despite considerable new construction. Residential real estate demand remained healthy, though overall sales were slow due to low inventories of homes for sale. An eastern South Dakota contact said that anything "remotely close to good condition" sells in less than 24 hours without having to list. Higher mortgage interest rates were expected to dampen demand, and sources reported slightly more home price reductions compared with the previous month.

### **Manufacturing**

Manufacturing activity increased moderately, while contacts noted worsening input availability challenges. A regional manufacturing index indicated increased activity in Minnesota, North Dakota, and South Dakota in March relative to the previous month. Most manufacturing respondents to a survey of District businesses reported increased sales in March from the previous month, along with continued input cost and availability challenges. Several contacts noted that raw materials suppliers were only holding price quotes for 24 hours in some cases. A few contacts noted a decline in new orders because of price increases or limited inventory, while a metal fabricator reported a sharp drop in new orders since the Russian invasion of Ukraine.

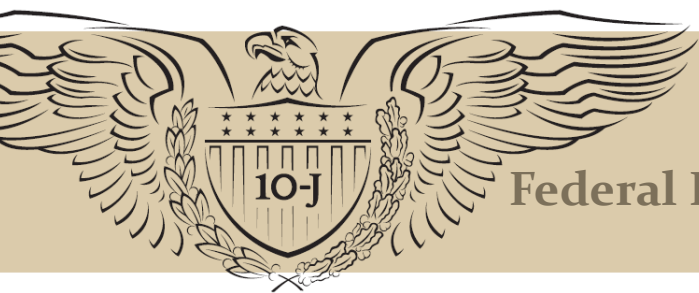
### **Agriculture, Energy, and Natural Resources**

District agricultural conditions improved moderately heading into planting season. Strong crop prices appeared to outweigh increases in input costs, bolstering incomes, according to contacts; however, livestock and dairy producers were seeing their margins squeezed. Early reports indicated a reduction in District corn acres planted and an increase in wheat and soybean acres in 2022. District oil and gas exploration activity was steady since the last report, despite a crude price surge. Industry contacts suggested that labor availability challenges were constraining oilfield activity and that drilling would respond only gradually to oil prices greater than \$100 a barrel, even if sustained. An iron ore facility in northern Minnesota announced that it would idle operations in the spring.

### **Minority- and Women-Owned Business Enterprises**

Reports from minority- and women-owned business enterprises (MWBEs) in the District were mixed. In Minneapolis-St. Paul, some downtown retailers were hopeful as more workers transitioned back to the office, but also uncertain about the impact of hybrid work. Staffing continued to be a challenge for MWBEs. "Employees are practically setting their own schedules; they otherwise don't take the job," shared a Minnesota contact. The director of a nonprofit serving MWBEs said it was also struggling to hire talent despite offering generous pay and benefits. The same contact reported higher entrepreneurship in rural areas. Higher input costs became reportedly harder to pass on to consumers among smaller businesses, as the cost of fuel and other necessities continued to rise and compete for people's budgets. ■

For more information about District economic conditions visit: [minneapolisfed.org/region-and-community](https://minneapolisfed.org/region-and-community)



## Summary of Economic Activity

Growth in the Tenth District economy accelerated to a robust pace over the last several weeks. Manufacturing production grew rapidly bringing overall activity to its highest level in fifteen years. Services sectors also grew at a robust pace. In particular, demand at leisure and hospitality businesses bounced back quickly as the Omicron wave faded, and spring break activity significantly exceeded expectations for most contacts. Real estate activity and demand for mortgages remained at exceptional levels, even as interest rates rose in recent weeks. Contacts reported the invasion of Ukraine further disrupted global supply chains and led to higher input prices, but has not affected overall demand, hiring plans or planned capital expenditures. Uncertainty about ongoing effects of disruptions in Ukraine is elevated in the agriculture and energy sectors. Labor markets continued to tighten. District states concentrated in agriculture and energy sectors had exceptionally high numbers of vacancies per job seeker. Prices increased at a robust pace across the District. Moreover, contacts indicated that they increased their prices more frequently over recent months.

### Labor Markets

Total hiring grew at a moderate pace. While labor shortages remained challenging, some contacts reported an improvement in their ability to recruit or retain workers. Hiring in the services sector outpaced job growth among goods-producing businesses, driven largely by gains in leisure and hospitality employment. Labor markets continued to tighten across the District. The number of vacant jobs for each unemployed person was at all-time highs, and generally above the national average. States concentrated in agriculture and energy sectors had exceptionally high numbers of vacancies per job seeker, a trend that emerged as commodity prices rose in recent months.

Wage growth was robust and broad-based over the last month. Contacts reported that the pace of wage gains was relatively faster among lower-wage occupations, as measured on a percentage basis. The transportation sector also exhibited large wage gains. Contacts continued to report increasing non-wage benefits, such as more personal time off, in order to attract applicants. Expectations that wage growth would exceed its pace from recent years were unchanged.

### Prices

Prices increased at a robust pace across the District. Moreover, contacts indicated that they increased their prices more frequently in recent months. Most businesses indicated that higher prices were insufficient to fully offset rising input costs. Businesses linked more closely to the production, processing or delivery of commodities exhibited greater ability to pass higher prices to their customers. Retail businesses and contacts in the agricultural sector noted that the costs of ongoing supply disruptions have yet to fully reach customers.

### Consumer Spending

Consumer spending grew at a moderate pace in recent weeks. Contacts in the leisure and hospitality sector indicated that the spring season has been much better than expected as COVID-19 cases abated quickly, and that bookings extend throughout the summer. Moreover, several contacts noted that planned business travel grew moderately in recent weeks. Several retailers indicated that uncertainty about growth in consumer spending for the next several months is elevated, particularly for lower income households. Contacts noted that higher food and gasoline prices are expected to curb other retail spending as essential goods become more expensive.

**Manufacturing and Other Business Activity**

The manufacturing and services sectors in the District expanded at a robust pace in recent months, bringing reported activity well above levels exhibited over the past fifteen years. However, most contacts reported that profit margins decreased recently amid rising cost pressures. New orders among manufacturers outpaced growth in their inventories of materials, leading to rapid increases in backlogs. Expectations for growth over the next six months remained elevated broadly, but constrained by difficulties hiring workers and sourcing key inputs.

Contacts reported that the invasion of Ukraine further disrupted global supply chains and led to higher input prices, but has not affected overall demand, hiring plans or planned capital expenditures. The disruptions to supply chains due to the invasion were broad-based. For example, contacts in professional business service sectors highlighted losses in communication with Ukrainian software engineers supplying regional businesses. Also, deliveries of vehicles and other equipment to energy and manufacturing businesses have been delayed because key components fabricated in Ukraine were not available. Uncertainty remains elevated among District contacts about further disruptions tied to the conflict. Given Ukraine's prominence in supplying neon – a gas used in the manufacturing of microchips – several contacts noted exacerbated concerns about the availability of electronic equipment looking ahead. Uncertainty about future supply disruptions was also pronounced among agricultural contacts and steel manufacturers.

Growth in planned capital expenditures has not kept up with growth in overall production in recent months, expanding only at a modest pace. Several businesses highlighted cash flow constraints on investment activity. Strains in transportation prompted more suppliers to require upfront payment, rather than upon delivery. Alongside delays in production and sales, cash flows available for investment became less abundant.

**Real Estate and Construction**

Demand for construction of multifamily and single-family housing continued to grow at a robust pace. Development of single-family housing projects proceeded with most being completely pre-sold. New construction of multifamily housing faced challenges in securing financing as the repricing of both debt service costs and construction costs were occurring too rapidly to settle terms on lending. Housing markets remained extremely tight, with demand growth outpacing the inventory of new homes available for sale.

**Community and Regional Banking**

Loan demand grew moderately over the past month as banking contacts highlighted increased levels of commercial real estate financing. Demand for commercial and industrial loans and residential mortgages were stable amid rising interest rates. Credit quality was unchanged and contacts did not anticipate material changes going forward, although some noted concerns related to agricultural input costs and the effects of rising interest rates on borrowers. Deposits grew moderately from historically high levels. Several contacts noted near-term risks stemming from rising inflation, elevated home prices, increased labor costs, and considerable economic uncertainty.

**Energy**

Energy activity increased moderately across the Tenth District in recent weeks. Access to credit expanded in recent months, and most firms expected credit availability to expand further in the next six months. Higher crude oil and natural gas prices led regional firms to report higher profitability compared to late 2021, supporting access to credit. Prices rose significantly and production continued to rise. More oil and gas firms reported increasing jobs than at any time since 2014, and wages and benefits have also risen considerably. Several contacts also noted that rising prices for steel and the unavailability of piping inhibited production growth. The invasion of Ukraine, and a disruption to imports, further constrained the availability of pipe needed for drilling activities. Higher labor and materials costs led firms to report increases in the oil price levels necessary for a substantial increase in drilling to occur. Overall, the number of active rigs in the District increased slightly since February.

**Agriculture**

The Tenth District farm economy remained strong alongside elevated commodity prices, but volatility and uncertainty in global markets emerged as a risk for the sector. The price of wheat and corn increased rapidly, and soybean prices increased modestly in March as the conflict in Ukraine led to expectations of substantial disruptions in global production and trade activity. The turmoil also led to rapid increases in the price of major inputs such as fuel and agricultural fertilizers. While crop prices supported farm revenues, concerns about the cost and availability of agricultural inputs intensified, and higher feed prices could also pressure profit margins for livestock producers. In addition, surging grain prices increased costs for food processing facilities in the District. ■

For more information about District economic conditions visit:  
[www.KansasCityFed.org/research/regional-research](http://www.KansasCityFed.org/research/regional-research)



## Summary of Economic Activity

Expansion in the Eleventh District economy accelerated during the reporting period as the impact of the Omicron wave faded. Most notably, growth in nonfinancial services, particularly the leisure and hospitality sector, strengthened. Manufacturing output growth was solid, while retail sales dipped slightly. Loan demand increased strongly, and home sales remained solid despite a spike in mortgage rates. Activity in the energy sector expanded further in part due to the recent run-up in energy prices, while worsening drought hampered agricultural conditions. Employment rose robustly, and wage growth continued to be highly elevated due to labor market tightness. Supply-chain issues remained acute, driving up input and selling prices. Outlooks were mixed, and uncertainty climbed, with rising concern about the effects on future growth of escalating geopolitical tensions, climbing wages, rising interest rates, inflation, lingering supply-chain disruptions, and labor shortages.

### Labor Markets

Employment expanded strongly, with job gains widespread across sectors. Worker shortages remained endemic, and many firms noted continued difficulties in hiring and/or retaining employees, particularly those in the healthcare, IT, and education sectors. One contact noted an uptick in workers being poached by large tech companies offering sizable (up to 50 percent) salary increases. Nearly two-fifths of the more than 300 Texas business executives responding to a Dallas Fed March survey cited staffing shortages as a key restraint to revenue growth.

Wage growth remained at or near record highs, driven largely by labor shortages. Firms said that workers were looking for higher compensation, better benefits, and increased flexibility to work from home. According to the above-mentioned March survey, Texas businesses expect wages to rise by 6.9 percent on average this year, after increasing 7 percent in 2021.

### Prices

Input and selling prices continued to increase at a rapid clip. Contacts cited supply-chain issues, rising wages, and/or high energy prices as mainly driving the rising costs. A manufacturer commented that many vendors were either not providing price quotes or were quoting

prices that were valid for less than 24 hours, making it difficult to process both existing and new orders. Sustained pricing pressures were impacting small firms more than large firms, and a contact noted that large discount retailers were fining suppliers for late or incomplete deliveries. Transportation costs surged, and there were widespread reports of transportation firms raising rates and/or instituting fuel surcharges. Airline contacts said air fares have increased recently, and they plan to add surcharges due to the spike in fuel prices.

### Manufacturing

Expansion in the Texas manufacturing sector continued at a solid pace, despite enduring supply-chain issues and labor challenges. Output growth was led by durable goods such as machinery and construction materials manufacturing. Strength was also seen in high-tech, fabricated metals, and food manufacturing. Gulf Coast refinery utilization rate rose to 93.8 percent in March supported in part by surging margins. Manufacturing outlooks were mixed as uncertainty arising from geopolitical tensions, inflation, high energy prices, supply-chain delays, and labor shortages weighed on manufacturers' sentiment.



**Retail Sales**

Retailers reported a slight reduction in overall sales in March due to low inventories and ongoing challenges with supply chains. A wholesaler in food services noted difficulty sourcing proteins, and auto dealers cited continued declines in sales stemming from low inventories, particularly for new vehicles. Availability of auto parts was also cited as a factor hampering revenues in the auto repair side of the business. In contrast, contacts in the Rio Grande Valley noted that an increase in border crossings had boosted retail traffic in the area. Overall, however, outlooks were pessimistic, with continued concern regarding supply side stresses.

**Nonfinancial Services**

Activity in the service sector accelerated after slowing in the previous reporting period due to the Omicron surge. Revenue growth was robust and broad-based, with strong increases seen in the leisure and hospitality, transportation and warehousing, other services, and professional and business services sectors. Staffing firms noted continued strong demand, particularly for healthcare and IT workers. Air travel picked up during the reporting period, with demand primarily driven by leisure travel, particularly spring break travelers, though business travel ticked up as well. A major Texas seaport continued to post strong increases in container traffic, and air cargo shipments also rose. Service-sector outlooks were less optimistic due to increased uncertainty surrounding the impact of the Russia-Ukraine war on inflation and supply-chain issues and concerns surrounding new COVID variants and labor shortages.

**Construction and Real Estate**

Activity in the housing market remained solid, despite a sharp rise in mortgage rates. There were scattered reports of slowing traffic, which contacts attributed to rate sensitivity, but by and large sales were holding up well. A few builders noted providing closing cost incentives that could be used by buyers to buy down rates. Prices continued to trend upward, keeping pace with rising costs. Operational challenges were ongoing, keeping new home supply limited. Outlooks were cautiously optimistic, with contacts expressing concern about the impact of rising mortgage rates and higher home prices on affordability and future sales.

Apartment leasing remained solid, further bolstering occupancy and rents, and contacts foresee continued strong growth in rents. On the commercial side, office leasing was slowly bouncing back from the COVID-induced slump, pushing down vacancy rates. The retail market continued to see measurable gains in absorption, and industrial construction and demand remained near

historic highs. While investment sales activity remained robust, rising rates were noted as a headwind.

**Financial Services**

Loan demand continued to increase at a robust pace over the past six weeks, despite a sharp rise in loan pricing. Loan volume increases spanned lending types, and growth remained strongest for commercial real estate loans. Nonperforming loans continued to decrease, and credit standards and terms tightened slightly. Contacts expressed concerns about the effects of interest rate increases, inflation, rising wages, and staffing shortages. Respondents expect increases in loan demand and decreases in nonperforming loans over the next six months. While general business activity continued to improve, expectations for six months from now were mixed.

**Energy**

Oilfield activity increased during the reporting period, with the Eleventh District rig count climbing further and oil and natural gas production rising. Many upstream contacts said their firm's oil production will expand this year, with smaller firms expected to ramp up activity at a faster pace than larger ones. Lead times for machinery orders were extended, and oilfield equipment manufacturers and servicers said that capacity remained constrained due to labor shortages and supply side challenges. While uncertainty surged, outlooks were optimistic, bolstered by strong consumer demand and expectations of limited global supply growth this year.

**Agriculture**

Drought continued to worsen across much of the district, hampering agricultural conditions. Higher input costs—including fuel, fertilizer, and machinery—are pinching the financial position of many agricultural producers. While higher crop prices can help alleviate some of the financial pressure, it remains to be seen if prices will still be high at harvest time when producers have a crop to sell, and drought risk is deterring many from forward contracting at current prices. On the livestock side, cattle prices have been flat to down over the past six weeks and feed costs have risen sharply, and as a result some herd culling has begun. ■

For more information about District economic conditions visit:  
[www.dallasfed.org/research/texas](http://www.dallasfed.org/research/texas)



## 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 expanded, accompanied by higher wages. Overall labor market conditions remained tight. Price levels significantly increased, driven by growing costs and labor shortages. Retail sales and activity in the consumer and business services sector continued to expand, as local economies lifted COVID-related restrictions. Conditions in the agriculture and resource sectors strengthened a bit, while the manufacturing sector improved somewhat. Activity in the residential real estate market remained strong, while commercial real estate activity improved slightly. Lending activity was little changed over the reporting period.

### Labor Markets

Labor markets remained tight over the reporting period. A combination of rising wage demands and reported lack of qualified candidates for both low- and high-skilled positions led to substantial worker shortages. Contacts in Alaska and Hawaii mentioned that migration out of their states further contributed to smaller pools of workers. The sectors reporting extreme difficulties filling positions include food services, hospitality, and health services. A few contacts highlighted the airline industry's staffing struggles, resulting in a notable reduction of flights. Firm contacts across sectors reported higher rates of employee turnover and early retirements and workers asking for higher pay, better benefits, and more work flexibility. Contacts also reported that more employees, particularly in larger companies, sought to unionize. In search for workers, the hospitality industry planned on hiring more foreign exchange students over the summer as well as younger workers.

Wage pressures remained high across all sectors. Contacts reported budgeting wage increases by an average of 5% for the current fiscal year. Contacts in health care and financial services noted even higher wage increases. Nonetheless, one contact in banking mentioned steady wages following adjustments made last year.

### Prices

Prices grew notably over the reported period. Widespread price increases for food, housing, and energy were mentioned. Manufacturing costs, notably for raw

materials, labor, and shipping, expanded considerably and resulted in higher prices for final goods and services. Additional price pressures were reported in services, including banking, legal services, housekeeping, and repair. Oil and gas prices spiked following the onset of the war in Ukraine, directly impacting the costs of fuel and transportation. Contacts from the airline industry expected higher air transportation prices over the next few years due to continued expected increases in fuel prices. Steel manufacturing saw sharp increases in the prices of raw materials. Agriculture was also impacted by the war due to the sizable increases in fertilizer costs.

### Retail Trade and Services

Retail sales remained strong. Consumers continued to purchase goods at a high rate despite inflationary pressures. However, sales growth of durable goods such as electronics and vehicles has slowed as rising food and energy prices have eaten away at household budgets. Understaffing continued to be an issue for hospitality, food, and retail trade.

Spending activity in the consumer and business services sector trended up, as Omicron infections declined, and local economies continued to lift COVID-related restrictions. Contacts from the hospitality industry noted robust demand for leisure travel and dining. Professional events and conventions slowly returned to being held in person but are not yet at pre-pandemic levels of attendance. Demand for air travel recovered further and, in some cases, outpaced pre-pandemic numbers, particu-



larly for flights to Las Vegas and Hawaii. Some new restaurants opened to replace some of those that had closed down during the pandemic, as noted by a contact from the food industry in California. At the same time, many service providers, such as in travel and hospitality, continued to face labor shortages. A contact in legal services noted demand for talent had stabilized.

### **Manufacturing**

Activity in the manufacturing sector improved somewhat, and demand remained strong across the District. Packaging and renewable energy contacts reported notable growth for new orders. Many manufacturers are near capacity, and some reported order backlogs. Production continued to be affected by labor shortages and supply chain disruptions including the impact from the more recent COVID-19 outbreaks in China. Nevertheless, a contact from California mentioned a somewhat better ability to hire workers. Some manufacturers noted adjusting to a new normal by investing in automation to reduce their reliance on labor supply, increasing precautionary stockpiles of parts and supplies, and reshoring more of their production to counteract supply chain disruptions. The recent surge in fuel prices brought new concerns regarding shipping and distribution costs.

### **Agriculture and Resource-Related Industries**

Conditions in the agriculture and resource sectors strengthened a bit. Strong demand for regional agricultural products contributed to elevated food prices that are expected to continue to rise. At the same time, input cost increases also accelerated with one contact projecting most farmers to break even as the best scenario this year. Greater costs were attributed to higher expenses for fertilizer, labor, and fuel. A stronger dollar contributed to a decline in agricultural exports over the first quarter of 2022. Additionally, multiple contacts reported periodic disruptions in agricultural exports due to lack of shipping containers and port congestion. Transportation costs were reported to increase two-fold over the last year. While these disruptions are expected to subside, many believed that prices will remain elevated relative to the pre-pandemic level. A contact from the petroleum indus-

try reported declining production of certain oil derivatives, which could add additional price pressures. The recent surge of oil prices to elevated levels is expected to persist.

### **Real Estate and Construction**

Residential real estate demand remained strong despite historically high prices and rising mortgage rates. Nonetheless, some contacts mentioned that they expect a slowdown in demand due to increasing mortgage rates. Widespread price surges are not limited to house sales, but also include rentals of single- and multi-family houses and apartment. Supply chain disruptions caused uncertainty in material costs, forcing contractors in Alaska to limit bids to three days. Contributing to soaring housing prices were higher construction costs, lack of land availability, and low housing inventory. As a result, there is a severe housing shortage especially in California and Alaska. One contact in California even noted that the shortage of affordable housing is at crisis levels.

Commercial real estate activity picked up somewhat over the reported period. Hybrid and remote work slowed down the recovery of office, retail, and hotel sectors. Commercial sales ticked up. Construction of multi-use properties began to rise as noted by a contact in Utah. Another contact from the Pacific Northwest mentioned high crime rates hindering the recovery path for commercial real estate in metropolitan areas.

### **Financial Institutions**

Lending activity remained unchanged on balance. Consumer and commercial loans increased somewhat, while demand for residential mortgages edged down due to higher rates. Additionally, consumer mortgage loan refinancing has started to slow down. The majority of bankers report a very competitive environment that prevents banks from raising rates on most lending products. Some banks have eased credit standards to compete for loan customers. Liquidity remained high, supported by a steady growth in deposits and lending. However, one contact in California noted slowing deposit growth due to waning COVID relief payments. ■



