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## Bailouts Aside, the Fed Sees Red Ahead

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By No Author      Thu, May 28, 2020

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*'The outlook remained highly uncertain and most contacts were pessimistic about the potential pace of recovery,' the Federal Reserve's latest Beige Book said. Photo: Fed chairman Jerome Powell.*

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The Federal Reserve's Beige Book, a report on the U.S. economy that appears eight times each year, includes assessments received by Fed officials from various contacts outside the Federal Reserve System. The latest [Beige Book](#), released May 27, 2020, appears below.

### **Overall Economic Activity**

Economic activity declined in all Districts—falling sharply in most—reflecting disruptions associated with the COVID-19 pandemic. Consumer spending fell further as mandated closures of retail establishments remained largely in place during most of the survey period.

Declines were especially severe in the leisure and hospitality sector, with very little activity at travel and tourism businesses. Auto sales were substantially lower than a year ago, although several Districts noted recent improvement.

A majority of Districts reported sharp drops in manufacturing activity, and production was notably weak in auto, aerospace, and energy-related plants. Residential home sales plunged due in part to fewer new listings and to restrictions on home showings in many areas.

Construction activity also fell as new projects failed to materialize in many Districts. Commercial real estate contacts mentioned that a large number of retail tenants had deferred or missed rent payments. Bankers reported strong demand for PPP loans.

Agricultural conditions worsened, with several Districts reporting reduced production capacity at meat-processing plants due to closures and social distancing measures. Energy activity plummeted as firms announced oil well closures, which led to historically low levels of active drilling rigs.

Although many contacts expressed hope that overall activity would pick-up as businesses reopened, the outlook remained highly uncertain and most contacts were pessimistic about

the potential pace of recovery.

### Employment and Wages

Employment continued to decrease in all Districts, including steep losses in most Districts, as social distancing and business closures affected employment at many firms. Securing PPP loans helped many businesses to limit or avoid layoffs, although employment continued to fall sharply in retail and in leisure and hospitality sectors. Contacts cited challenges in bringing employees back to work, including workers' health concerns, limited access to childcare, and generous unemployment insurance benefits. Overall wage pressures were mixed as some firms cut wages while others implemented temporary wage increases for essential staff or to compete with unemployment insurance. Most Districts noted wage increases in high-demand and essential sectors, while wages were flat or declining in other sectors.

### Prices

Pricing pressures varied but were steady to down modestly on balance. Weak demand weighed on selling prices, with some contacts noting discounting for apparel, hotel rooms, and airfare. Several Districts also reported low commodity prices, including oil, steel, and several agricultural commodities.

Supply chain disruptions and strong demand led to higher prices for some grocery items including meat and fresh fruit. One District reported that firms faced additional costs related to safety protocols and social distancing compliance, while another District noted that the costs of personal protective equipment had risen due to strong demand.

### Highlights by Federal Reserve District

#### Boston

Activity continued declining as a result of pandemic-related economic shutdowns and social distancing guidelines. Retail and tourism firms cut employment, staffing firms saw reduced demand, and most manufacturing contacts froze hiring. Respondents said the outlook was very uncertain.

#### New York

The regional economy continued to contract since the last report, though there were scattered signs of a pickup in early May. Businesses reported widespread layoffs and flat to declining wages, but the vast majority of separations were deemed temporary. Prices paid rose slightly, while selling prices edged down. Leisure & hospitality and retail trade have remained the most severely affected. Financial firms reported weaker activity.

### Philadelphia

Business activity continued to fall sharply during the current Beige Book period, as the COVID-19 pandemic persisted. Nearly all sectors are operating at lower levels of activity. Government assistance eased liquidity concerns and addressed rapidly rising joblessness. General prices have begun to fall, but the wage path remains mixed. Firms also remain uncertain of the future.

### Cleveland

Customer demand declined in a broad range of industries. The few areas of strength were limited to grocery sales and business lending. Firms responded with widespread layoffs, deep cuts to capital spending, and wage reductions for a growing minority of firms. Inflation pressures eased because of weak demand and lower commodity prices. Though many firms believe the worst declines have passed, few are expecting a strong recovery.

### Richmond

The Fifth District economy contracted further in recent weeks as the shutdown measures to slow the spread of the COVID-19 outbreak continued to have severe consequences. Retail, travel, and hospitality remained some of the hardest hit industries, but negative impacts were reported in every sector. Employment declined sharply and price growth slowed slightly, remaining modest.

### Atlanta

Economic conditions remained weak. Labor markets were soft and non-labor costs decreased. Retail sales of essential products and services rose and ecommerce activity grew. Hospitality activity continued to weaken. Residential real estate slowed somewhat and commercial real estate activity was mixed. Manufacturing activity decreased as new orders fell. Banking conditions were mixed.

### Chicago

Economic activity declined sharply as the coronavirus caused major economic upheaval. Employment, consumer spending, business spending, construction and real estate, manufacturing, and agriculture all decreased substantially. Wages edged up and prices were little changed. Financial conditions improved modestly.

### St. Louis

Economic conditions have weakened moderately since the previous report. Around half of firms are closed temporarily. Among the firms that are closed, about one-third expect to reopen in the next 3 weeks. Banks indicated a sharp increase in delinquencies, primarily in

mortgages, credit cards, and auto loans, but expect fewer delinquencies in the third quarter.

#### Minneapolis

The Ninth District economy contracted further. Employment fell significantly, and wage pressures fell due to the decline in activity along with wage and salary cuts by some firms. While most sectors declined, oil and gas exploration and supporting industries saw a particularly steep decline as oil prices fell dramatically. Restaurants, lodging, and tourism continued to suffer, and agriculture fell from an already low level.

#### Kansas City

Economic activity declined substantially since the previous survey, and contacts remained pessimistic about future levels of activity. Contacts reported broad-based declines in consumer spending. Real estate activity declined significantly, and sales fell at transportation, wholesale trade and professional and high-tech services firms. Manufacturing activity contracted sharply, and energy and agricultural sectors weakened further.

#### Dallas

Economic activity contracted further, though the pace of decline moderated from April to early May in manufacturing and services. Oilfield activity fell to record lows. Home sales dropped sharply but were beginning to slowly improve. Employment plummeted, and selling prices fell. Outlooks were bleak and uncertain, largely centered on the speed and scope of the reopening.

#### San Francisco

Economic activity in the Twelfth District contracted markedly. Employment declined dramatically due to virus related disruptions. Prices remained generally flat. Activity in retail trade, consumer and business services, and manufacturing all contracted noticeably. Activity in the agriculture sector slowed further. The residential real estate market was mixed, while the commercial side slumped. Lending activity increased due to PPP loans.