

ECONOMIC ALERT

“What is the Beige Book?”

Commonly known as the Beige Book, this report is published eight times per year. Each Federal Reserve Bank gathers anecdotal information on current economic conditions in its District through reports from Bank and Branch directors and interviews with key business contacts, economists, market experts, and other sources. The Beige Book summarizes this information by District and sector. An overall summary of the twelve district reports is prepared by a designated Federal Reserve Bank on a rotating basis. The latest Beige Book was released by the Federal Reserve on May 27, 2020, and included information gathered through May 18, 2020.

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

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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.

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