Federal Reserve Bank of Philadelphia

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Summary of Economic Activity

Business activity in the Third District was steady this period, after a slight decline last period. Employment continued to edge up, with increases in full-time nonmanufacturing jobs offsetting a modest decline in manufacturing jobs. Wage pressures and price inflation continued to moderate, to a still-modest pace for wages and to a still-slight pace for prices. Contacts reported less ability to pass on price increases. Activity in staffing and recruitment was constrained this period, in part because of lower demand for labor. New listings and sales of existing homes improved slightly. Housing affordability remained a concern because home price appreciation and high interest rates persisted. Lower-income households were especially burdened by the high-price, high-rate environment. Expectations for economic growth over the next six months modestly improved, rising among manufacturers and holding steady among other firms.

Labor Markets

Employment continued to edge up in March. Since our February survey, nonmanufacturing firms have reported slight increases in full-time jobs and modest decreases in part-time jobs. Firms in the smaller manufacturing sector continued to report a modest decline in employment. On average, all firms responding to the survey reported little change in the average workweek.

Activity in staffing and recruitment was muted this period, after a slight increase last period. Staffing contacts have noted less demand for labor, as firms have been choosing to maintain their current labor force. Further, some firms have been more selective in the candidates they choose to hire.

Overall, wage inflation continued at a modest pace, and firms reported less competitive wage pressures. Among nonmanufacturers, the distribution of reported changes in wage and benefit costs per employee was similar to the distribution in the years before the pandemic. Most firms reported no change, 38 percent reported increases, and 3 percent reported decreases. Our contacts, including several manufacturers, reported that wage pressures continue to moderate across industries and that wage increases are now in the range of 3 to 5 percent.

Prices

On balance, inflation continued at a slight pace. In our March survey, the prices received index for nonmanufacturers rose to a level near its long-run average—associated with a period of modest increases. Over the prior two months, relatively few firms reported increases, and those increases were slight. The prices paid index remained near its long-run average. Some contacts reported being unable to pass on increasing input prices, as customers have become more price sensitive.

The prices paid and prices received indexes for manufacturing firms remained below their long-run averages. The manufacturers' prices paid index declined to its lowest reading since May 2020, while the prices received index declined slightly.

However, manufacturers continued to expect prices to increase. The future prices received index rose above its long-run average, while the future prices paid index remained near its average.

Manufacturing

Overall, manufacturing activity increased modestly during the period, after a slight decline in the prior period. The indexes for new orders and shipments were positive, at levels somewhat below their nonrecession averages.

Expectations among manufacturers for growth in the next six months were much more widespread in March. Nearly 60 percent of the firms expected increases in new orders and in shipments.

Consumer Spending

On balance, retailers (nonauto) continued to report slight declines in real sales. Despite consistent foot traffic, customers are trading down and purchasing cheaper products during store visits to offset price increases.

Auto dealers reported slightly higher sales of new cars in the current period and continued strong consumer demand. According to contacts, although the industry's patterns of production, inventory, and sales have nearly normalized following the pandemic, the emerging growth of all-electric vehicles has further disrupted the sector. Affordability continues to be a concern, with high prices and high interest rates, despite promotions from dealers and manufacturers.

Tourism continued to slow slightly from the strong recovery in recent years. Contacts reported having less pricing power and lower demand, despite offering more promotions. Leisure travel continued to fall from high levels, despite a minor uptick in March due to spring break. The recovery continued in business travel.

Nonfinancial Services

On balance, nonmanufacturing activity declined slightly, following slight growth in the prior two periods. The sales/revenues index fell to a near-zero reading, from a modest increase, while the index for new orders remained slightly negative. A building equipment contractor reported that customers are deferring projects and ordering minimum quantities because of tighter budgets.

Current sentiment of firms appeared to deteriorate again. The firms' perceptions of general activity for the region fell further into negative territory in March, and the index of general activity at the firm level turned slightly negative. In contrast to manufacturers, expectations among nonmanufacturing firms for their own growth in the next six months changed little and remained well below historical averages.

Financial Services

The volume of bank lending (excluding credit cards) continued to grow slightly during the period (not seasonally adjusted), unchanged from the last period and down from the moderate pace of one year ago.

District banks reported moderate growth in commercial real estate lending and modest growth in home mortgages. Volumes of home equity lines held steady, as did consumer lending (other than auto and credit cards). Auto lending edged lower, and commercial and industrial lending fell moderately. Credit card volumes continued to fall back—this time slightly, after significant seasonal declines last period.

Banks and business clients continued to report stringent lending criteria, which have hampered some business plans. Banking contacts continued to report good credit quality, and delinquencies remained low. However, contacts from many sectors noted that lower-income households are struggling with high prices and high interest rates. Contacts reported upticks in repossessions and delinquencies on auto loans, especially for low-income households.

Real Estate and Construction

Brokers reported that existing-home sales edged up slightly but remained at historically low levels. The inventory of for-sale properties improved slightly through February; however, contacts were uncertain whether listings would continue to rise through the spring buying season. Meanwhile, it remains a seller's market, with sales prices continuing to climb. Contacts continued to report multiple offers, cash sales, buyers paying above the asking price, and homes selling quickly, as evidenced by reduced time on the market.

New-home builders continued to report steady sales. Builders noted that the ongoing pent-up demand for housing and the historically low inventory of existing homes for sale continued to bolster market demand for new construction. Some builders are constructing more speculative houses—confident that the pent-up market demand will spur buyers when their houses are completed.

In nonresidential markets, leasing activity and transaction volumes continued to decline slightly, especially in the office subsector, where investors are waiting for discounts on distressed properties.

Nonresidential construction activity slowed slightly in the current period. One contractor noted some softening in the construction trades recently, and another noted that construction bidding is significantly lower. Many contacts noted that projects have been deferred in anticipation of lower interest rates. Some firms continued to be busy, despite lower backlogs, and have noticed some growth in the planning and engineering phases of public infrastructure projects. ■

For more information about District economic conditions, visit **www.philadelphiafed.org/regional-economy.**