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Economic and Community Advisory Council
November 14, 2023

The Federal Reserve Bank of Philadelphia's Economic and Community Advisory Council (ECAC) convened the final meeting of 2023 on November 14, with 13 members joining virtually. The ECAC consists of national and regional leaders offering a broad range of perspectives, including business, philanthropy, hospitality, community development, and organized labor. More information about the ECAC and its members can be found on the Federal Reserve Bank of Philadelphia website.

Deborah Hayes, senior vice president of Corporate Affairs, opened the meeting and facilitated introductions. Chellie Cameron, the council chair, provided welcoming remarks before introducing President Patrick Harker, who shared his reflections on the state of the economy and answered questions from members. Then Ryo Tashiro, outreach economist and advisor in the Research Department, delivered a presentation on current economic and consumer trends, labor market dynamics, and commercial real estate conditions. Following the presentation, Dennis Pullin, the council vice chair, facilitated a group discussion.

During the discussion, members pointed to issues contributing to the overall health of the economy, including inflation concerns, the threat of a government shutdown, rising COVID-19 cases, and political unrest. Anchor institutions, in particular, are continuing to face economic stresses that are forcing consolidations, modifications to how institutions operate, and services-level changes. A member in the healthcare sector reported that, while the industry is working at the highest capacity, most major health systems are operating at a loss. As a result, certain services are being eliminated; closings, consolidations, and layoffs will increase; and optimized care will require more automation and innovation. A member in the higher education sector also reported financial challenges as student enrollment numbers have declined, with some students opting for less costly educational alternatives to a four-year degree, including online certifications and trade schools. The member further noted that these shifts will cause additional consolidations among higher education institutions, especially smaller liberal arts colleges and historically black colleges and universities. The institutions that survive will have to adapt quickly to job market demand and provide new ways to effectively educate the future workforce. Another stressor facing higher education leaders is the heightened concern regarding matters of social and civic justice, as college students, alumni, and funders demand response and action when events unfold.

Council members in the retail sector who track consumer behavior reported that sentiment remains value-oriented and selective, especially for lower-income households that have been particularly impacted by inflation. A member in the retail manufacturing sector reported that demand has softened, with more cautionary spending by consumers. Another member noted that overall spending was above prepandemic levels, but that holiday shopping had, as of the date of the meeting, been delayed. In the tech industry, where competition is strong and switching providers is easy, a member reported a softness in consumer demand that is necessitating more human interaction to guide service adoption. According to a member in the hospitality sector, business activity at more casual restaurants is flat, particularly in cities where foot traffic has diminished on weekdays. On the business side, some retailers are hesitating to hold inventory and have cut merchandising and promotional spending.

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Conversely, members observed affluent consumers who were willing to spend on luxuries. A member in the hospitality sector noted that high-end event and catering space is booked up to 18 months in advance, although some clients are still booking at the last minute, which could reflect less predictable discretionary funds due to economic uncertainty. Another member in the sports and entertainment sector noted that consumers are still spending well on food and drinks at professional sporting events, even with the economy softening. However, this business is also correlated to team performance.

Members also reflected on labor market dynamics and the differences between in-office and remote work environments. There was agreement among members that, for certain occupations, having an in-office workforce improves productivity, enhances collaboration and innovation, and assists in the development of future leaders. Large employers occupying buildings in the city also contribute to fostering local economic activity and supporting the surrounding businesses. However, some members reported negative reactions to the implementation of measures requiring more in-office time, particularly from the newer generation of workers. According to a member in the digital service industry, getting this generation of workers to understand the value of the in-office experience can be challenging. A second member raised concerns about members of the new generation looking to advance their career somewhere else, instead of having the patience to build experience at their current workplace. A member in the healthcare industry related to this sentiment, noting that high school and college graduates, who are normally hired in the region, are leaving the state for work opportunities, causing a shortage of talent to sustain new businesses. When asked about how artificial intelligence (AI) could impact organizations, a member in the technology services sector reported that the institution will use AI-enabled software to help staff to be more efficient and for certain human resource functions. Additionally, the institution is already using AI for self-help and self-service functions, at least for customers willing to engage with the technology. Other members mentioned that they are carefully considering the use of AI, but none of them are expecting the technology to replace human staff in the near future.

Members reported mixed sentiments on wage pressures, with some noting pressures persist and others nothing that they have seen wages even out. The cost of labor continues to be an issue in the healthcare industry, but a member in the manufacturing industry reported that wage pressure is not as acute as it was a year ago. Additionally, a member in the technology industry noted that outside opportunities for fully remote roles are becoming devalued as wages and salaries have normalized from where they were a year ago. A service industry member noted that, because the talent shortage has subsided somewhat, there is a renewed interest in how tipping impacts overall wages. However, operators often experience pushback when they implement explicit gratuity add-ons. A member in the energy industry noted that the institution is spending more money on recruiting, retention, and positioning itself as an employer with a dynamic culture to compete in attracting workers to the industry.

Housing supply remains a top concern, as mentioned in previous meetings. A member focused on the affordable segment of the market noted that inadequate supply is a known issue all around the country, including in Pennsylvania, and voiced concern that it will become a major problem in the future. A homebuilder reported that finding new places to build is becoming more challenging and that the current supply of homes has deteriorated, making it costly and difficult to find the skills to renovate. Additionally, the same member shared that the population and job growth occurring in certain markets requires not just the preparation of the land and the building of houses, but also the willingness of local officials to support the creation of new infrastructure, such as schools, sewer plants, and wider roads. In addition, a member in the energy sector noted the push for decarbonization and need for robust infrastructure to support a successful energy transition. In preparation, companies continue to research and invest in renewable energy sources, such as wind, solar, biogas, and other emerging energy solutions.

Finally, several members noted the need to strengthen Philadelphia's economic viability by bringing remote workers back into the office, attracting new workers to the area, and implementing other strategies to engage visitors and residents. A chamber leader discussed a new plan to attract workers — especially those in the tech industry — to the Philadelphia area. Recent research has revealed that tech workers are unaware of the opportunities in Philadelphia, so the chamber is marketing the region to attract future workers and residents and implementing measures to make it easier for both businesses and workers to move to the area. A member in the sports entertainment sector noted the organization's commitment to work with a larger portion of Black-owned businesses as vendors to be fully reflective of regional demographics, a model the member hopes other businesses will replicate. Another member in the hospitality sector set up a workforce program for undocumented workers in the Philadelphia region, most of whom work in the hospitality, agriculture, and construction fields. The program provides immigration assistance, literacy instruction, job training, food pantries, and community health days, so that workers can ascend to better jobs.

After the group discussion, Vice Chair Pullin turned the meeting back over to President Harker for closing remarks. President Harker expressed his appreciation for the members' insights on the current state of the economy and for their perspectives as employers. The council will reconvene in February 2024.