



Summary of Economic Activity

Business activity in the Third District declined modestly after falling slightly in the prior period. Nonmanufacturing activity decreased moderately after a slight decline last period. Nonauto retailers reported little change to a slight decline, with discounts helping to keep customer traffic steady. Auto dealers reported a strong increase in sales thanks to a pulling forward of demand to beat tariff-related price increases. Employment declined slightly, with demand for workers below year-ago levels. Manufacturing activity continued to grow modestly. Wages and prices also continued to rise modestly, albeit at slightly lower rates. Firms continued to note that changes in trade policies pose upside risks to general inflation. Firms expect a modest decline in business activity over the next six months, with rising economic uncertainty weighing on prospects. Nonmanufacturers expected a moderate decline in activity over the next six months, and manufacturers expected slight growth—both lower than last period’s expectations.

Labor Markets

Employment appeared to decline slightly, following a slight increase in the prior period. Based on our March survey, full-time employment fell modestly for nonmanufacturing firms, the first decline since August. The index for part-time employment also fell. However, the index for total manufacturing employment moved higher in March. The average workweek index rose for all firms. More than two-thirds of all firms reported no changes in full-time employment in March, roughly in line with the prior period.

Overall, our staffing contacts reported demand for workers was mostly flat from the prior period but was below year-ago levels. One staffing contact highlighted a recent decline in overtime being offered as well as instances of employers telling temporary workers not to come in for a few days because of a lack of work, something the contact had not heard since before the pandemic. Contacts reported a slight increase in labor supply but noted a decline in already employed persons looking for a new job.

Business contacts continued to report low employee turnover and little issue hiring workers. One contact remarked the firm had recently received applications from several overqualified candidates. Another contact reported that clients were viewing federal government layoffs as an opportunity to hire highly qualified workers who would not otherwise be available. However, reports of fewer hours, hiring freezes, and layoffs were more common than in recent periods.

Wage inflation continued to ease further on balance, but firms still reported modest increases. Across industries, contacts reported little upward wage pressure, with wage increases typical of their long-run average.

Prices

On balance, firms’ prices again rose modestly during the period. In our monthly surveys, the diffusion index for prices paid rose and was above its nonrecession average for both nonmanufacturers and manufacturers. The diffusion index for prices received rose for nonmanufacturing firms, while the index ticked down for manufacturing firms but remained elevated.

One contact reported canceling upcoming price increases, fearing a drop in customer demand. Meanwhile, another contact reported that a significant number of restaurants chose not to participate in an annual local restaurant week promotion because they couldn’t afford to discount their menu items.

Most contacts expected tariffs to increase costs and prices moving forward, and only a few reported an impact this period. The indexes for future prices paid and future prices received continued to suggest that manufacturing firms expect price increases over the next six months. Both indexes moved lower but remained above their historical nonrecession averages.

Manufacturing

Manufacturing activity continued to grow modestly during the period. However, the indexes for new orders and

shipments suggested less widespread growth compared with the prior period.

Manufacturers expected slight growth in activity over the next six months, a slowdown from the prior period. The indexes for future general activity, new orders, shipments, and employment all suggested less optimism than in the prior period. In March, the share of firms expecting higher capital expenditures in 2025 compared with 2024 slightly exceeded the share of firms expecting lower capital expenditures. However, the share of firms expecting higher capital expenditures in 2025 was down significantly from when the identical question was asked in October.

Trade and Services

On balance, firms across a broad spectrum of nonmanufacturing industries reported a moderate decrease in activity following a slight decline last period. The index for general activity, which turned negative in February, weakened further in March. The indexes for new orders and sales/revenues also remained negative, with the new orders index falling sharply in March.

Retailers (nonauto) reported little change to a slight decline in sales during the period, following little to no change last period. One contact indicated more aggressive price promotions contributed to an uptick in store visits, but customers mostly limited their purchases to discounted items. Contacts described consumers as pinched and noted less frequent visits to businesses such as coffee shops, breweries, and restaurants.

Auto dealers reported a strong increase in sales after a slight increase last period. Multiple contacts highlighted that sales hit record highs in March. However, all our auto industry contacts attributed this boost to a pulling forward of vehicle purchases to get ahead of potential tariffs and do not expect the strength in demand to continue.

Tourism activity rose slightly after increasing moderately last period. Contacts reported a significant drop in visits and future bookings from international tourists but noted that domestic travel remained strong during the period. Contacts also highlighted a drag in activity stemming from cancellations for government-related travel and conferences.

The share of nonmanufacturers expecting growth over the next six months fell sharply and turned negative, with the index falling to its lowest level since April 2020.

Real Estate and Construction

Brokers again reported a slight decline in existing home sales. Contacts continued to stress that the lack of

housing inventory was the biggest constraint on sales growth and that a lack of affordability dampened activity further.

Homebuilders reported a moderate decline in activity during the period, slowing from a slight decline last period. In addition to an overall slowing in sales and prospective buyer traffic, contacts reported a drop in average sales prices, with customers opting for smaller homes or less expensive townhomes. One contact noted a backlog of sales will put a floor on activity this year, but multiple contacts cited the stock market volatility in early April and recent drops in consumer confidence as headwinds for future sales.

In nonresidential markets, leasing activity and transaction volumes appeared to hold steady in the retail, commercial, and industrial segments. However, demand for logistics-related industrial space is showing signs of slowing slightly, according to contacts.

Commercial real estate contacts continued to report a slight decrease in construction activity this period. A few contacts noted projects in early development phases have been paused to work out possible tariff-related cost changes. Another contact reported a delay in federal funding impeded previously planned municipal projects.

Credit Conditions

The volume of bank lending (excluding credit cards) held steady during the current period (not seasonally adjusted)—an improvement over last period's slight decline but weaker than the slight growth in the same period a year ago.

District banks reported a moderate decline in commercial and industrial loans and modest drops in auto loans and other consumer loans. Meanwhile, mortgage lending grew moderately, home equity lines grew modestly, and commercial real estate loans ticked up. Credit card volumes declined moderately, in line with the decline in the same period a year ago.

Banking contacts reported little change in overall asset quality despite a slight increase in past due payments and delinquency rates. Multiple contacts also noted a slower loan pipeline due to potential policy and price variability that has caused businesses to delay investment decisions. ■

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