



Summary of Economic Activity

On balance, business activity in the Third District continued to decline modestly. Employment declined slightly despite an uptick in manufacturing jobs. Wage inflation continued to ease, with wages increasing slightly this period, down from a modest increase last period. Firm price inflation increased moderately, although contacts reported that tariffs have not yet affected prices in most sectors. Staffing and recruitment activity was mixed. Manufacturers reported strong demand for and supply of labor, while firms in the nonmanufacturing sector reported declining employment due to attrition and layoffs. Many staffing contacts reported increased hesitancy to hire among firms, citing economic uncertainty. Existing home sales ticked up slightly, and new home sales declined moderately. On balance, expectations for economic growth over the next six months were modest. The index of expectations rose moderately for manufacturers and slightly for nonmanufacturers.

Labor Markets

Employment again declined slightly this period. On average, nonmanufacturers reported moderate decreases in full-time employment in our April and May surveys. Nonmanufacturing firms also reported a slight decline in part-time jobs, down from a slight increase in March. Over the same period, manufacturing firms reported modest increases in employment and a slight decline in the average workweek. Meanwhile, the average workweek index for nonmanufacturers increased moderately.

Overall, a few contacts reported a general hesitancy to hire, given heightened economic uncertainty. One contact who specializes in recruiting for manufacturing sector jobs reported a strong uptick in hiring in May so far, after declines in the first quarter, owing to increased business confidence. Meanwhile, another contact with clients in the food industry reported significant declines in the number of jobs due to attrition and layoffs as supply chain issues weighed heavily on this industry.

Wage inflation continued to ease. Firms across industries reported wages grew slightly this period, down from modest increases in the last period. Most contacts reported less upward wage pressures over the period, and one contact even reported decreased wages for entry-level unskilled jobs.

On a quarterly basis, expectations of the one-year-ahead change in compensation cost per worker for all firms rose to a trimmed mean of 3.7 percent in the second quarter of

2025, up from 3.3 percent one quarter earlier.

Compensation expectations were mixed among firms.

Manufacturers' expectations edged down from 3.7 percent to 3.5 percent, and nonmanufacturers' expectations climbed from 2.8 percent to 3.9 percent.

Prices

Firm price inflation was moderate this period, up from a modest pace in March. Although contacts in the auto and construction industries reported that the effects of tariffs have not yet affected selling prices, they noted that these prices have still been rising.

One retailer reported paying higher prices for coffee that is imported from Canada. However, the contact's firm followed the lead of its competitors and did not pass on these price increases to its already price-sensitive consumers. This increased price sensitivity appears to be broadly based. Approximately half of the respondents to our monthly surveys reported that their customers have become more price sensitive.

Based on our quarterly survey, firms reported increases in prices received for their own goods and services over the past year in the second quarter of 2025 compared with the first quarter, after declines in the prior two quarters. The trimmed mean for reported price changes rose to 2.8 percent from 1.4 percent for all firms. Looking one year ahead, the increases that firms anticipate in the prices for their own goods also increased in the second quarter of 2025. The expected rate of growth increased from 3.1

percent to 3.5 percent for manufacturers and from 2.2 percent to 2.7 percent for nonmanufacturers.

When asked about anticipated changes to their industries' costs over the next six months and how they expect their competitors to respond, more than two-thirds of the surveyed firms anticipated increased costs and expected their competitors to increase prices in as little as two months.

Manufacturing

On average, current manufacturing activity declined slightly this period, after recording a modest increase in March. The index for new orders fell moderately in April before increasing slightly in May. The shipments index declined moderately, remaining negative over the April to May period.

Expectations among manufacturers for growth over the next six months jumped sharply in May, after two months of low readings. More than two-thirds of the firms expect increases in new orders and in shipments over the next six months.

Trade and Services

On balance, firms across a broad spectrum of nonmanufacturing industries reported a moderate decrease in activity. The sales/revenues index decreased modestly. The index for new orders declined moderately, essentially unchanged from March.

Retailers (nonauto) reported a slight decline in sales over the current period. One retailer stated that customers are overly burdened by higher prices and that in-store visits continue to be flat to slightly down despite the extensive use of promotions.

Auto dealers reported a slight decline in auto sales, after strong increases in the last period. Although tariffs have yet to affect auto prices, prices have still been trending up partly owing to lower inventories on hand.

Activity in the tourism sector rose slightly, unchanged from the last period. Leisure travel rose moderately despite minor dips in hotel bookings and air travel. Two contacts reported a slight increase in bookings along the Jersey Shore but noted slight declines in bookings in Cape May County, owing to less demand from the usual Canadian tourists who frequent this area. Business travel increased slightly despite some slowdown, which one contact attributed to lower government expenditures and heightened uncertainty among corporate clients.

Expectations among the nonmanufacturers for their own growth over the next six months recovered from a

moderate decrease in March and April to a slight increase in May. Sentiment for activity in the region overall continued a moderate decline.

Real Estate and Construction

Existing home sales increased slightly this period. The inventory of for-sale properties and the number of closed transactions ticked up in March and April, after a slow start to the year. One contact partly attributed this uptick to seasonal effects at the start of spring buying season. New-home builders reported moderate declines in sales, traffic to offices, and signed contracts.

In nonresidential markets, leasing activity and transaction volumes recorded slight growth. One contact noted an uptick in the logistics and warehousing area, led by smaller warehouses.

Nonresidential construction activity recorded slight declines, unchanged from last period. Contacts reported some activity in the eds and meds spaces and continued public infrastructure projects. One contact noted that some construction projects are being held up because of the inability to properly price material inputs due to uncertainty with tariffs. New construction in office spaces remains muted.

Credit Conditions

The volume of bank lending (excluding credit cards) increased slightly during the period (not seasonally adjusted), after holding steady last period and increasing moderately one year ago.

District banks reported a slight decline in commercial real estate lending. Residential mortgages increased slightly, and volumes of home equity lines increased moderately. Consumer lending (other than auto and credit cards) declined slightly. Auto lending grew modestly, and commercial and industrial lending held steady. Credit card volumes increased slightly, up from modest declines during the same period one year ago.

Banking contacts reported an uptick in activity, good credit quality, and the ability to attract deposits. One contact reported that some clients have put credit facilities on pause and identified the minor uptick in delinquencies in residential mortgages as an area to monitor. Contacts in the nonprofit sector continue to develop contingency plans for alternative sources of funding to offset budget shortfalls due to funding requests taking longer or failing to be approved. ■

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