Summary of Economic Activity

On balance, business activity in the Third District continued to decline modestly. Nonmanufacturing activity again declined moderately. Nonauto retailers and auto dealers continued to report a slight decline in activity, with consumers looking for ways to slow their spending. Manufacturing activity edged up slightly this period, although ongoing economic uncertainty continued to dampen demand. Employment continued to decline slightly, while wages grew slightly again this period. Prices rose modestly after increasing moderately last period. Firms continued to note that changes in trade policies pose upside risks to general inflation, although broad impacts have not yet materialized. On balance, nonmanufacturers and manufacturers both expect a slight increase in business activity over the next six months, with ongoing economic uncertainty weighing on prospects.

Labor Markets

Employment continued to decline slightly this period. Based on our June survey, full-time employment fell slightly for nonmanufacturing firms, and the part-time index signaled no change. The index for total manufacturing employment declined modestly in June and reached its lowest level since May 2020. However, two-thirds of the manufacturers and over half of the nonmanufacturers reported no change in employment.

Overall, our staffing contacts reported a decline in demand—attributed to very low employee turnover rates and relatively few businesses looking to expand. Multiple other business contacts reported increased use of artificial intelligence (AI), with one contact saying AI replaced some call center employees, and another contact noting how AI led to a reduction in accounting jobs. Most contacts reported little issue with labor supply; however, some contacts highlighted that immigration policies led to a shortage of workers in the lowest-wage jobs—a shortage they did not expect to be able to make up.

Firms across industries reported that wages continued to grow slightly this period. Most contacts reported little upward wage pressure over the period.

Prices

Firms' prices rose modestly this period, following a pickup to moderate growth last period. In our monthly surveys, the diffusion indexes for prices paid and prices received in June held steady for nonmanufacturers but declined for manufacturers. The indexes remained above their nonrecession averages for manufacturers, with many firms reporting effects of tariffs on materials. The prices received index remained below its nonrecession average for nonmanufacturers, who are more exposed to price-sensitive consumers than many manufacturers.

Contacts across multiple sectors, including retail, tourism, and residential construction, reported offering discounts to try to boost demand, putting some pressure on profit margins. Overall, costs appeared to rise modestly, with large increases in the costs of some goods being offset by smaller increases or declines elsewhere. One contact highlighted relief in the firm's insurance costs, which recently declined for the first time in a few years.

Many contacts reported tariff-related increases in costs and prices, but some contacts noted that cost increases haven't materialized or were more limited than expected. However, most contacts expected further tariff impacts in the coming months. 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 higher and remained well above their historical nonrecession averages.

Manufacturing

Current manufacturing activity edged up slightly this period following larger declines over the prior two months. The index for new orders fell in June but remained positive, while the shipments index turned positive. Uncertainty significantly constrained capacity utilization in the second quarter for 37 percent of the firms in our June survey, up from 25 percent in the first quarter. One lender reported slower activity across all manufacturing industries, except defense-related manufacturing, with firms adopting a “wait-and-see” approach to changing trade policy and tariff impacts.

On balance, manufacturers expected modest growth over the next six months. The indexes for future general activity, new orders, and shipments all fell below their historical averages in June.

Trade and Services

On balance, firms across a broad spectrum of nonmanufacturing industries continued to report a moderate decline in activity. The new orders index remained negative and declined to its lowest level in over two years. Meanwhile, the index for sales/revenues turned slightly positive but remained low compared with its historical average.

Retailers (nonauto) continued to report a slight decline in sales over the current period. One retailer noted a recent pickup in customer traffic but reported that purchases remained relatively small and that customers were focused primarily on discounted items. Other contacts said that consumers were tightening their budgets, including pulling back on luxury purchases, eating more meals at home, and opting for lower-priced goods when available.

Auto dealers continued to report a slight decline in auto sales following strong sales in early spring. One contact that reported a recent slowdown in sales expressed surprise that sales had not dropped more sharply following the pre-tariff spike in car purchases.

Activity in the tourism sector continued to rise slightly. Contacts reported high traffic counts at the Jersey Shore, Delaware beaches, and Poconos but noted weaker hotel demand and lower spending by travelers at their destinations. Contacts explained that people were taking vacations but also looking for ways to save, such as taking more day trips, waiting for discounts, opting for closer domestic travel, and preferring short-term rentals that offered space to prepare meals in an effort to eat out less. Business travel declined slightly and continued to be weighed down by lower government spending and heightened uncertainty among corporate clients, according to contacts.

Expectations among the nonmanufacturers for their own growth over the next six months continued to rise slightly. Meanwhile, sentiment for activity in the region overall remained negative.

Real Estate and Construction

Existing home sales continued to increase slightly this period, but the level of sales remains low. Contacts reported that sales in May were below year-ago levels and noted that the normally busy spring housing market again failed to develop this year. Homebuilders reported a modest decline in sales, following a moderate decline last period. One contact mentioned that a recent drop in sales prices failed to drive a pickup in buyer traffic, citing a hesitancy from consumers to make large purchases amid ongoing economic uncertainty.

In nonresidential markets, leasing activity continued to grow slightly, while transaction volumes were little changed at low levels, according to contacts.

Nonresidential construction activity continued to record slight declines. Contacts reported that some construction projects continue to be delayed by price uncertainty. One contact also noted that confusion around the status of federal grant money has slowed multiple projects.

Credit Conditions

The volume of bank lending (excluding credit cards) fell slightly during the period (not seasonally adjusted), after increasing slightly last period and experiencing little change in the comparable period a year ago.

The slight decline in lending was largely driven by a strong decline in commercial and industrial lending, according to District banks. Meanwhile, consumer lending (excluding auto lending and credit cards) rose strongly, home equity lines and auto loans rose modestly, and mortgages rose slightly. Commercial real estate lending was unchanged. Credit card volumes increased modestly, similar to the same period one year ago.

Banking contacts reported mostly steady loan demand but noted many businesses have delayed investment decisions or paused projects because of continued uncertainty. Bankers reported a pickup in delinquencies but explained that delinquency levels remain low and overall credit quality remains strong. One business contact reported an improvement in financing conditions in June, citing increased investor demand and growing expectations of future interest rate cuts that have led to a decline in borrowing rates being offered. ■

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