



Summary of Economic Activity

Business activity in the Third District increased modestly after declining modestly in the prior period. Employment levels held steady during the period, as did wage growth, which remained near its modest pre-pandemic rate. For some entry-level positions and some workers, wage increases are no longer keeping pace with price increases—especially as firms adjust both workforces and prices in response to tariffs. Firms' own price inflation ticked up but remained at a moderate pace, above its pre-pandemic rate. Moreover, firms reported that expectations for general inflation held above 4.6 percent and that expected wage inflation ticked down. Several contacts expressed concerns that joblessness rates and prices are rising and that wages are stagnating for lower-skilled workers and lower-income households; in addition, rising tariffs and tighter credit standards are straining small businesses. Expectations for economic growth over the next six months broadened across most sectors but were stronger among manufacturers than nonmanufacturers.

Labor Markets

On balance, employment was unchanged after falling slightly in the prior period. A modest rise in the full-time nonmanufacturing employment index for July was offset by a comparable decline in August, while the part-time employment index edged down over both months. However, over the same period, manufacturing firms reported a modest increase in employment. Also, the average workweek index rose among all surveyed firms.

Several contacts continued to report a lack of certain skilled workers, although most contacts noted an overall increase in job candidates, in part because of an uptick in layoffs. One nonprofit reported receiving 275 applications for an executive-level position.

Meanwhile, job opportunities have fallen, in part because existing workers “are hunkering down” in their current positions and because more firms are automating. Contacts in the banking, tourism, and auto sectors all reported the continued adoption of AI technology to replace some jobs/functions.

Nonprofits noted rising unemployment among their clientele. One contact reported that people are working several part-time jobs (without benefits) to make a sufficient income if they either lose or fail to secure a full-time job. Several private firms expressed concern that recent cuts to transit services, including the Southeastern Pennsylvania Transportation Authority in Greater Philadelphia, will hurt employees and customers.

On balance, contacts reported that wage increases steadied near (modest) pre-pandemic rates after running somewhat hotter in the prior period. A staffing contact reported that clients with larger firms had slowed hiring, while some clients with smaller firms had lowered salaries for entry-level positions. However, a hotel contact reported ongoing upward wage pressure for low-skilled labor in urban markets with union contracts.

On a quarterly basis, firms' expectations of the one-year-ahead change in compensation cost per worker fell to a trimmed mean of 3.3 percent in the third quarter of 2025, from 3.7 percent in the second quarter. For comparison, wage expectations averaged 3.2 percent over the four years prior to the pandemic (2016–2019).

Prices

On a quarterly basis, firms continued to report moderate increases in prices received for their own goods and services over the past year. The trimmed mean for reported price changes, based on responses from all firms to our third-quarter survey, ticked up to 2.9 percent from 2.8 percent in the second quarter. Reported price increases averaged 2.0 percent over the prior five quarters.

Several contacts noted that incomes are not keeping pace with rising prices for an increasing number of households. Firms reported that more than half of their customers have become more price sensitive since the prior quarter. One retailer reported reluctance to pass on price increases

from its suppliers and is finding other ways to cut costs. Nonprofits reported that higher prices have increased the demand for basic needs, including food, shelter, and utilities. Contacts are concerned that federal budget cuts will increase the strain on more households and will affect their own customers and part-time staff.

Looking ahead one year, the increases that firms anticipate in the prices for their own goods rose for the second consecutive quarter. The trimmed mean for all firms climbed to 3.3 percent in the third quarter of 2025, from 3.1 percent in the second quarter and 2.6 percent in the first quarter. However, firms continued to expect that tariffs will drive prices higher. The trimmed mean for inflation expectations was 4.7 percent for all firms in the third quarter of 2025—up from 3.0 percent last year.

Manufacturing

On balance, current manufacturing activity increased modestly after edging up slightly in the prior period; however, the most recent reports for August were flat. The indexes for new orders and shipments rose moderately in our July surveys, then fell in August.

Manufacturers remained optimistic for growth over the next six months. Almost 60 percent of the firms expect increases in new orders and shipments.

Trade and Services

On balance, firms across a broad spectrum of nonmanufacturing industries reported a moderate increase in activity, up from a moderate decline in the last period. Both the new orders and sales/revenues indexes rose modestly in July and moderately in August.

Retailers (nonauto) reported a slight increase in sales over the current period, up from slight declines in the prior period; however, one contact noted that the uptick is partly attributable to aggressive price promotions.

Auto dealers reported a slight increase in auto sales, up from slight decreases in the last period. One contact reported that pre-tariff inventory is almost sold out and that tariffs have begun to cause an increase in new car prices. However, manufacturers have increased incentives to drive sales.

Activity in the tourism sector declined slightly, down from a slight increase in the last period. Leisure travel dipped slightly, despite discounts being offered to attract price-sensitive consumers. One contact noted that luxury travel is the only positive market segment.

Expectations for growth over the next six months have broadened among nonmanufacturers since the prior

period, but the future activity index remains below its nonrecession average.

Real Estate and Construction

Existing home sales continued to increase slightly. The inventory of for-sale properties and closed sales ticked up in June and July. New-home builders also reported a slight uptick in sales in June and July after recording modest declines in the prior period. One contact observed that some homebuyers who were previously on the sidelines because of increased economic uncertainty are now deciding to purchase.

In nonresidential markets, leasing activity and transaction volumes recorded slight growth. Nonresidential construction activity continued to record slight declines in this period, despite the construction of some data centers and power generation plants. Noting the recent post-pandemic supply chain disruptions and rising prices for commodities and labor, project owners and developers are making greater use of escalator clauses and larger contingency funds.

Credit Conditions

The volume of bank lending (excluding credit cards) held steady during the period (not seasonally adjusted)—weaker than the slight growth observed during the comparable period in 2024—and after falling slightly in the prior period.

District banks reported modest increases in commercial real estate lending and auto loans and moderate growth of residential mortgages and home equity lines. Growth was more robust for consumer lending (other than auto and credit cards), while overall loan growth was offset by a strong decrease in commercial and industrial loans. Credit card volumes increased slightly, down from modest increases during the same period one year ago.

Banking contacts reported an uptick in activity, including deposits and loan originations. They also noted a slight rise in nonperforming loans. Likewise, a large service firm noted an acceleration in nonpayment activity that started among low-income consumers and has now spread to other income tiers. Other financial contacts noted that small businesses are disproportionately affected by tariffs and are facing new barriers to access capital. ■

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