



Summary of Economic Activity

Business activity in the Third District grew modestly this period, up from a slight pace of growth in the prior period. Sales activity continued to grow even as many contacts noted that activity was hampered by adverse weather—significant snowfall and persistent subfreezing temperatures. Employment levels increased modestly, unchanged from the last period. Wage inflation was unchanged at a modest pace. Price pressures remained elevated, and affordability concerns persisted for low-, middle-, and fixed-income households. Firms' own-price inflation ticked down but remained at a moderate pace. Expectations for economic growth over the next six months remained widespread across sectors but were stronger among manufacturers than nonmanufacturers.

Labor Markets

Employment continued to increase modestly overall; however, manufacturing firms reported declines in February. The full-time employment index for nonmanufacturers edged higher in January and February but continued to reflect a modest pace overall. The part-time employment index, however, fell flat in January then bounced back to a slight increase in February. Manufacturing firms reported a modest increase in employment in January but a slight decline in February. In February, the average workweek index rose sharply among nonmanufacturers but fell sharply among manufacturers.

Reports from staffing contacts were mixed during this period. While most contacts reported low rates of turnover, which resulted in less need to hire during the period, some contacts reported increased hiring for unskilled jobs in the manufacturing and distribution sectors. Meanwhile, nonprofit contacts reported higher-than-normal turnover in leadership roles and difficulty in backfilling these positions because of a lack of experienced candidates.

Wage inflation remained unchanged at a modest pace. Contacts across all sectors continued to report no wage pressures and annual cost-of-living adjustments in the typical range of 2 percent to 3 percent.

In the first quarter of 2026, firms' expectations of the one-year-ahead change in compensation cost per worker registered a trimmed mean of 3.2 percent—largely

unchanged for a third consecutive quarter. Expected changes in compensation were higher among manufacturers at 3.7 percent than nonmanufacturers at 2.8 percent.

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 first-quarter survey, ticked down to 2.8 percent from 3.0 percent in the fourth quarter, double the 1.4 percent reported one year ago.

Almost 40 percent of the firms reported that their customers have become more price sensitive since last quarter—down from 59 percent in November; 56 percent reported little change. Several contacts reported no plans to increase prices as a result. Nonprofit contacts continued to report increased demand for food; clients are struggling with the increased costs of necessities while reporting stagnant incomes. One nonprofit contact shared that some clients on fixed incomes have begun to cut their discretionary spending to pay for essential goods and services.

Looking ahead, firms anticipate higher price growth in the next year. The trimmed mean of price increases for firms' own goods and services was 3.1 percent in the first quarter of 2026, higher than 3.0 percent for three of the past four quarters. It was at 2.6 percent in the first and

fourth quarters of 2025. The trimmed mean for inflation expectations was 3.6 percent for all firms in the first quarter of 2026, unchanged from the prior quarter and one year ago.

Manufacturing

Manufacturing activity rose modestly in January and February on average, up from a slight pace in the last period. The index for new orders increased, with almost 30 percent of the firms reporting increases in new orders. The index for shipments rose in January and fell to near zero in February, with almost equal shares of firms (22 percent) reporting increases and decreases. The index for general activity turned positive in January and strengthened further in February. Surveyed firms cited a lack of skilled workers and a lack of demand due to tariff uncertainty and weather-related disruptions as challenges to business in February.

Manufacturers' optimism about growth over the next six months was more widespread over January and February. The indexes for new orders and shipments rose in February. On average, 60 percent of the firms expect increases in new orders and shipments over the next six months, up from 50 percent in January. Each future activity index remained near or above its nonrecession average.

Trade and Services

Nonmanufacturers again reported a modest increase in activity over January and February. The sales/revenues index started strong in January and ended at a modest level in February. The new orders index was modestly positive in January and turned modestly negative in February. Nonmanufacturing firms most often cited general economic uncertainty as a challenge to business.

Retailers (nonauto) reported that activity was up slightly, after being steady last period, despite adverse weather reducing traffic to the stores.

Auto dealers reported a moderate decline in sales in January, after a modest decline in December. Contacts attributed decreased showroom traffic to snow and below-average temperatures. Further, contacts noted that affordability challenges persisted for the sector.

Tourism activity rebounded and increased modestly in the current period, after a slight decline in the last period. Contacts reported a strong start to 2026 owing partly to several conferences and conventions being held in Philadelphia. Additionally, the increased snowfall has benefited the ski resorts in the District.

Expectations for own-firm growth in the next six months remained widespread. The diffusion index increased sharply in January and remained largely unchanged in February. However, the index remained below its nonrecession averages.

Real Estate and Construction

Existing home sales declined modestly after a slight decline in the last period. Inventory levels remained low, and one contact reported that the snowfall caused potential sellers to delay listing their homes in January. New-home builders again reported slight declines in sales and construction activity overall. Based on existing contracts, one builder has already sold out its supply of homes for 2026, although the inventory was lower than in 2025. Affordability issues persist, as already-high home prices edged up.

In nonresidential markets, contacts continued to report a slight decrease in activity this period. Building construction declined slightly, and one contact reported that the major construction projects are data centers and health care projects, with no new starts yet scheduled for 2026. One contact in the engineering sector reported winning proposals for new work, but some clients have funding challenges, which has stalled some projects. One contact that leases to restaurants noted an increase in vacancies, as this sector appears to be struggling.

Credit Conditions

The volume of bank lending (excluding credit cards) declined slightly during the period (not seasonally adjusted), after being steady last period.

District banks reported a modest decline in auto loans and essentially no change in mortgages and commercial real estate volumes. This weakness was partially offset by slight growth in home equity lines and a modest increase in commercial and industrial loans. Credit card volumes fell sharply—a typical seasonal trend as consumers paid down holiday balances.

Two banking contacts reported strong growth in commercial loans, as their clients appear eager to get projects started. Three contacts reported no uptick in consumer loan growth because lending standards were tightened in the fall. Consequently, contacts reported no uptick in delinquencies. Small business contacts continued to have challenges accessing capital. ■

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