



## Summary of Economic Activity

Business activity in the Third District declined slightly on balance, after growing narrowly in the last period. Employment declined slightly as both manufacturing and nonmanufacturing firms reported slight declines in jobs, although nonmanufacturing firms reported growth in part-time jobs. Wage inflation held steady at a modest pace. Firm price inflation rose moderately this period, unchanged from the last period; however, most of our contacts reported reluctance to pass on price increases because of price-sensitive customers and soft demand. Sales of new and existing homes fell modestly, weighed down by affordability issues and low inventory. Expectations for economic growth over the next six months grew modestly but were mixed. For manufacturers, the future growth index increased further in May, above already elevated readings, while expectations for growth were less widespread among nonmanufacturers and fell below their long-run average.

### Labor Markets

Employment continued to decline somewhat. Most firms reported no change in employment. However, on balance, nonmanufacturing firms reported a decrease in full-time employment, and manufacturing firms reported a decrease in overall employment, marking a deterioration for manufacturers but an improvement for nonmanufacturers since the prior period. A slightly larger share of nonmanufacturing firms reported an increase in part-time jobs than reported a decrease, after a modestly larger share reported a decrease in part-time employment last period.

Staffing contacts across a few sectors reported an uptick in hiring as firms looked to fill open positions, although they noted that some employers are holding out for the perfect candidate who meets all their criteria. Contacts in the manufacturing sector continued to report a lack of skilled workers, and auto industry contacts continued to report a lack of technicians available for hire. One staffing contact who places unskilled youth in jobs noted that young adults with experience in AI were able to find jobs more easily, since some firms noted that their existing employees were hesitant to use the new technology. Most contacts continued to report low turnover.

Wage inflation held steady at a modest pace—typical of its long-run average. Contacts reported less upward wage pressures over the period, but a few contacts shared that some staff are requesting wage increases because of

higher fuel prices. Generally, firms' expectations for future wage and compensation cost inflation remained steady.

### Prices

Firms continued to report moderate increases in prices received for their own goods and services. However, a dichotomy has emerged. Increases in prices received by consumer-facing firms have held steady at about 2.0 percent for the past six months. In contrast, current annual price increases for manufacturers are now at a two-and-a-half-year high. Reports from manufacturing firms indicate that the increases in their prices received now exceed 4.0 percent—more than double their post-pandemic low of 2.1 percent in the first quarter of 2025.

Most contacts across many sectors reported a reluctance to raise prices, citing consumer price sensitivity and softening demand. In each quarter over the past year, equal shares of our survey respondents have described their core customers as being either more price sensitive or about the same compared with the prior quarter. Fewer than 5 percent of the firms have reported less price sensitivity from their customers. Despite their customers' price sensitivity, many contacts noted that if fuel prices remain high or continue to increase, price increases will be inevitable. One utility provider already passed on a price increase in response to a major competitor increasing prices.

When asked about anticipated changes to their industries' costs over the next six months and how they expect their competitors to respond, just about half of the surveyed

firms anticipated increased costs and expected their competitors to increase prices within three months. Nevertheless, firms anticipated raising prices for their own goods and services over the next year at a somewhat lower rate than over the past year, but still within a moderate range.

### Manufacturing

On average, manufacturing activity rose modestly in the current period, following moderate growth in the prior period. However, in the latter half of the current period, the firms reported little to no growth in shipments, new orders, and general activity.

Surveyed firms reported challenges that included increased input costs, lower sales volumes, and some continued headwinds from tariffs.

However, manufacturers remain optimistic. Their expectations for growth over the next six months rose higher from already elevated readings. Over 60 percent 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 modest decrease in activity over April and May, down from a steady pace last period. The sales/revenues index decreased modestly, and the index for new orders improved but remained somewhat negative.

Retailers (nonauto) reported a modest decline in sales over the current period, after sales held steady last period. One retailer reported that although spending per visit is up a bit, the volume and frequency of visits to the stores are down; customers appear to be consolidating trips because of higher fuel prices.

Auto dealers reported a moderate decrease in auto sales this period, down from a slight decrease last period, despite a pickup in demand for hybrid vehicles in response to increased fuel prices. One contact, however, surmises that the conflict in the Middle East and higher fuel prices may be keeping consumers on the sidelines or pushing them to buy used vehicles.

Tourism activity rose moderately, up from a slight increase in the last period, buoyed by continued growth in leisure travel through May. Our tourism contacts expect this growth to be sustained through the summer because of World Cup activity and the nation's 250th celebrations. One contact shared that bookings at the Jersey Shore are up, as people appear to be vacationing closer to home.

Expectations among nonmanufacturers for their own growth over the next six months remained essentially unchanged from the prior period and are well below historical trends.

### Real Estate and Construction

Existing home sales declined modestly in this period, after declining slightly last period. The inventory of for-sale properties ticked up in April, but one contact shared that inventories remained less than ideal as people appear unwilling to buy or sell, possibly due to higher mortgage rates, economic uncertainty, and cost-of-living concerns. This has resulted in some properties still attracting multiple offers and being sold over asking price and driving a continued increase in average sales prices.

New-home builders reported modest declines in sales, following slight declines last period, despite increased incentives on lower-end homes.

Nonresidential construction activity again recorded slight declines this period. Several contacts reported construction activity by some firms in the pharmaceutical and higher education spaces, but at a slower pace, and continued data center construction. Two contacts noted an uptick in bidding activity, a promising sign for future projects. In nonresidential markets, leasing activity grew slightly as third-party logistics firms acquired more square footage.

### Credit Conditions

The overall volume of bank lending (excluding credit cards) was essentially flat during the period (not seasonally adjusted), after a modest rise last period and a small increase one year ago.

District banks reported little change in commercial real estate and home mortgages—the two largest lending segments. Strong growth in home equity lines of credit and other consumer loans, plus a modest increase in auto loans, were offset by a decline in the volume of commercial and industrial lending. Credit card volumes again fell modestly during this period.

Banking contacts reported strong activity, no deterioration in credit quality, and growing deposits. One contact reported increased demand for consumer loans, which is typical for this time of year. ■

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