



Summary of Economic Activity

Economic activity in the Third District rose slightly after declining slightly last period. Manufacturing activity continued to rise modestly, and nonmanufacturing activity picked up after falling last period. Retailers, both auto and nonauto, reported mostly steady sales. Tourism, which was boosted by mega events in the region, rose moderately. Employment levels continued to decline slightly during the period, while wage growth remained near its modest pre-pandemic rate. Prices continued to rise moderately. Firms continued to report increased cost pressures and raising prices to offset these higher costs. Expectations for growth over the next six months varied by firm type. Manufacturers' growth expectations remained widespread and above their historical average, but nonmanufacturers' expectations were limited and less widespread than in the prior period.

Labor Markets

Employment continued to decline slightly. On balance, nonmanufacturing firms again reported a decrease in full-time employment and little change in part-time employment. Meanwhile, manufacturing firms reported an increase in overall employment, an improvement since the prior period. Most firms continued to report no change in employment overall.

Staffing contacts reported an uptick in hiring activity for the second consecutive period. One staffing contact said they believe the industry has passed the bottom and is entering an upward cycle, but multiple contacts noted that demand for labor remains low by historical standards. Most contacts reported little trouble with labor supply. However, a couple of contacts highlighted that the lack of skilled labor has constrained manufacturing activity, an issue that has worsened in recent months with competition for skilled labor picking up and the existing workforce continuing to age into retirement. A staffing contact shared that a client would like to increase capacity and hire more assembly line workers, but they have been unable to find skilled machinists and operators to run the production. Another contact reported that a shortage of electricians has delayed data center projects in the region.

Wage inflation appeared to hold steady at a modest pace. Contacts reported little upward wage pressure, with wage increases in line with or slightly below their average pre-pandemic rate.

Prices

Firms' prices continued to rise moderately this period. Our monthly surveys continued to suggest overall increases in prices: The prices paid and prices received indexes for manufacturers and prices received index for nonmanufacturers all remained above their historical averages in June. The prices paid index for nonmanufacturers declined and was roughly in line with its historical average.

Most contacts across sectors reported higher input costs this period. Contacts reported that fuel surcharges became more widespread in the last six weeks and noted that the costs of plastic- or fertilizer-dependent products were elevated owing to the ongoing conflict in the Middle East. The willingness and ability to pass on these higher costs varied from firm to firm, and according to one contact, from customer to customer within a firm. One retailer reported their prices were up 3 percent from a year ago, less than those of their competitors, as they tried to sustain demand.

Looking ahead, most contacts don't expect significant easing in the pace of price increases over the coming months. While contacts expect fuel surcharges to ease if the conflict in the Middle East is resolved, many believe other elevated material costs will be stickier. The indexes for future prices paid and future prices received for manufacturers remained well above their historical averages in June.

Manufacturing

Manufacturing activity rose modestly in the current period, a continuation of the average trend last period—however, month-to-month volatility appears elevated. The index for new orders rose to a moderately positive level, while the shipments index remained modestly positive.

Nearly three-quarters of surveyed firms indicated that uncertainty acted as a constraint on capacity utilization in the most recent quarter. However, contacts reported continued strength in activities related to data centers, AI, and defense-related manufacturing. This strength led one contact to say that they believe it is now a capital expenditure-driven economy rather than a consumer-driven one.

Looking ahead, manufacturers' optimism about growth over the next six months remained widespread. The indexes for future new orders and shipments stayed elevated above their historical averages. The share of firms expecting an increase in capital expenditures over the next six months was also elevated.

Trade and Services

On balance, firms across a broad spectrum of nonmanufacturing industries reported a slight increase in activity after a modest drop last period. The sales/revenues index improved to a modestly positive level, while the new orders index suggested little change.

Retailers (nonauto) reported little change in sales over the current period, after sales declined modestly in the last period. One retailer explained that any reported increase in sales was due to higher prices, noting that the volume and frequency of customer visits remained down, similar to last period, but customers spent slightly more each visit. Meanwhile, another contact highlighted that they continue to be surprised by the amount people are willing to spend.

Auto dealers reported mostly steady auto sales this period, up from a moderate decrease last period. Affordability concerns continue to keep many consumers holding on to older cars rather than buying new vehicles, according to contacts.

Tourism activity continued to rise moderately, in line with contacts' prior expectations that were boosted by the World Cup and America 250 events around the Philadelphia area. Tourism contacts reported strong domestic leisure travel, which has been bolstered by many travelers opting to vacation closer to home instead of traveling internationally.

Expectations among nonmanufacturers for their own

growth over the next six months were less widespread than in the prior period, with surveyed firms split equally between an increase and a decrease in their expectations for future activity.

Real Estate and Construction

Existing home sales declined slightly this period, after declining modestly last period. Contacts reported that limited supply continued to push already-elevated home prices even higher. One contact succinctly summarized the environment as "a long-term stagnant housing market."

New-home builders reported little change in sales, following a modest decline last period, but described an overall low level of activity by historical standards.

Nonresidential construction activity appeared little changed after recording slight declines in the prior two periods. Contacts reported continued construction activity by firms in the data center and related manufacturing spaces but little new activity elsewhere. One retailer reported accelerating new-store construction and capital expenditure plans for the rest of this year and next, citing favorable labor and material availability and better-than-expected cash flow. In nonresidential markets, leasing activity was little changed.

Credit Conditions

The overall volume of bank lending (excluding credit cards) rose modestly during the period (not seasonally adjusted), compared with little change last period and a slight decline one year ago.

District banks reported moderate increases in commercial and industrial lending and home mortgages. Home equity lines of credit and commercial real estate lending rose modestly, while auto lending declined slightly. Credit card volumes rose moderately, which is typical for the season.

Banking contacts reported mostly steady loan demand, noting some clients remained hesitant to start new projects because of economic uncertainty, while others are feeling a little better and starting to move off the sidelines. Multiple bankers reported increased competition for loans, leading to some changes in loan pricing and structure. Overall, contacts reported no deterioration in credit quality. ■

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