## Summary of Economic Activity

Business activity in the Third District increased modestly, after rising slightly in the last period. Employment rose slightly, as both manufacturing and nonmanufacturing firms reported an uptick in hiring during July and August. Wage inflation remained steady at a modest pace. Firm price inflation rose at a modest pace in this period, down from a moderate pace in the last period. Retail contacts reported that their customers are more price sensitive and have changed their buying behavior in light of higher fuel prices. As a result, retailers reported slight declines in sales. Housing contacts continued to report slight declines in sales of both new and existing homes. Tourism remained a bright spot in the District, as strong domestic travel offset a decline in international visitors. Expectations for economic growth over the next six months broadened among manufacturers but narrowed among nonmanufacturers.

### Labor Markets

Employment rose slightly during July and August, up from a slight decline in the last period, although most firms reported no change in employment. On balance, nonmanufacturing firms reported slight increases in both full- and part-time employment, and manufacturing firms reported a modest rise in overall employment.

Recruitment activity increased across many sectors, and contacts reported adequate candidate availability, although a few contacts noted a continued struggle to fill skilled and specialized positions. Two retail and staffing contacts reported that hiring had increased to support growth, while one utility company limited hiring to replacement positions only. A banking contact reduced back-office hiring through automation while prioritizing customer-facing, revenue-generating roles. Nonprofit staffing contacts reported increased demand for entry-level job placements but fewer openings, resulting in longer waitlists. Employee turnover remained minimal across sectors.

Wage inflation remained largely unchanged at a modest pace, slightly above its pre-pandemic average. Contacts continued to report limited upward wage pressure over the period and annual merit increases or cost-of-living adjustments in the range of 1 to 3 percent across industries.

### Prices

On balance, firm prices rose at a modest pace, down from a moderate increase both in the last reporting period and one year ago. In the current quarter, both manufacturing and nonmanufacturing firms reported smaller increases in prices received over the past year, compared with the second quarter, when prices edged up.

Contacts across a range of retail sectors reported holding prices steady, with some indicating plans to reduce prices on select items. Retail contacts offered mixed reports on promotions: One increased promotions to strategically lower prices on select items, while another declined to expand promotions because the contact felt it would not boost sales owing to limited consumer spending capacity. A restaurant contact reported keeping prices steady amid commodity price changes through menu adjustments and diversification. A tourism contact serving high-income consumers noted greater pricing power and raised prices.

Price sensitivity remained a concern for price setters. In the current quarter, more than 90 percent of all survey respondents reported that their core customers' price sensitivity has increased or stayed the same relative to the prior quarter, a trend that has held steady over the past year.

Nearly 60 percent of nonmanufacturers but just over 40 percent of manufacturers reported that they could clearly anticipate changes in their industry's costs over the next six months. Of those reporting, nearly 60 percent of the nonmanufacturers expected their competitors to hold prices steady (26 percent expected price hikes), while 80 percent of the manufacturers expected their competitors to raise prices. Price increases were typically anticipated within three to five months.

## Manufacturing

On average, manufacturing activity surged to a strong increase in the current period, up from a modest increase in the prior period. Firms reported that net increases in new orders and shipments were significantly higher than during nonrecession periods.

The manufacturing firms surveyed reported challenges that included difficulty hiring for various skilled roles and some supply chain issues, along with increasing freight and utility costs, both of the latter of which they are unable to pass on to their customers.

Overall, optimism about future growth strengthened further for manufacturers. The indicators for new orders and shipments remain elevated, and approximately 60 percent of the firms expect increases in both new orders and shipments over the next six months.

## Trade and Services

Firms across a broad spectrum of nonmanufacturing industries continued to report slight increases overall, although reports of new orders and sales or revenues softened considerably near the end of the period.

Among retailers (nonauto), two contacts noted a decline in store visits, which they attributed to the psychological effects of higher fuel prices on consumer behavior. Both contacts said that promotional efforts have failed to boost sales. In contrast, a restaurant industry contact reported that promotions remained effective and drove increased spending among lower-income customers.

Auto dealers again reported that sales were steady this period but were slightly higher than one year ago. One contact attributed steady sales to customers adjusting to current prices, although affordability remained a concern.

Tourism activity continued to grow at a moderate pace. Contacts reported growth in leisure travel over the period, driven by strong domestic tourism, although international visitors declined. Business travel also remained strong. One contact reported fewer cancellations during the period, along with an uptick in federal government travel.

Expectations among nonmanufacturers for their own growth over the next six months improved slightly from the prior period but remained below historical trends.

## Real Estate and Construction

Existing home sales again declined slightly this period, although one contact described this as typical for this time of year. The inventory of for-sale properties ticked up slightly year over year but remained below historical levels, contributing to continued modest increases in average selling prices. According to the contact, prevailing interest rates continue to make both buyers and sellers reluctant to enter the market.

New-home builders reported a slight decline in sales, following little change in the previous period. Contacts attributed soft demand to elevated interest rates, which continued to make potential buyers hesitant, and weaker consumer sentiment.

Nonresidential construction activity again remained flat this period. Despite this, contacts noted signs of improvement across several sectors. One contact noted increased development activity in Delaware across almost all property types except offices. Contacts also pointed to more bidding opportunities for new projects, suggesting potential future growth. Nonresidential leasing activity continued to edge up, with one contact citing the strongest growth in the sector since 2022, primarily driven by logistics firms.

## Credit Conditions

The volume of bank lending (excluding credit cards) rose slightly this period (not seasonally adjusted), following a modest increase last period, but was unchanged from one year ago.

District banks reported moderate increases in commercial real estate loans and modest increases in commercial and industrial loans, mortgage lending, and auto loans. Home equity lines of credit fell slightly during the period. Credit card volumes were flat during this period, after increasing moderately in the prior period.

Banking contacts reported steady levels of activity, with consumer demand for credit up slightly over the period. While two contacts reported no uptick in delinquencies, one banking contact expressed concern about the growing pressure on consumers due to the rising cost of living. Nonprofit contacts continued to be concerned about funding following changes in federal and state policies. ■

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