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Economic and Community Advisory Council
August 16, 2023

The Federal Reserve Bank of Philadelphia's Economic and Community Advisory Council (ECAC) convened the second meeting of 2023 on August 16, in person at the Federal Reserve Bank of Philadelphia, with an option to attend virtually. The ECAC consists of national and regional leaders offering a broad range of perspectives, including business, philanthropy, hospitality, community development, and organized labor. At the meeting, 11 ECAC members attended in person, and one member attended virtually. More information about the ECAC and its members can be found on the Federal Reserve Bank of Philadelphia website.

Deborah Hayes, senior vice president of Corporate Affairs, opened the meeting and facilitated introductions. Chellie Cameron, the council chair, provided welcoming remarks before introducing President Patrick Harker, who shared his reflections on the state of the economy. Then Ryo Tashiro, senior outreach economist in the Research Department, delivered a presentation on economic, business, and consumer conditions, and Chair Cameron facilitated a group discussion.

Several members noted shifts in consumer behavior during the weeks leading up to the meeting, underscoring that inflation remains a concern, particularly for low- and moderate-income households. A manufacturing leader reported that consumers are delaying back-to-school supply spending, downtrading their purchases to value stores, and being more selective about what they buy. A healthcare leader made a similar report, noting that healthcare offerings have become one of the fastest growing product segments in value chain stores. Reflecting on consumer trends in hospitality, a member noted that consumers react more quickly to price increases in casual or quick-serve establishments, leading to declining sales when compared with full-service restaurants. According to a nonprofit leader, food insecurity has worsened because of the high cost of food and limited supports. A member from the housing sector noted that the demand for affordable housing and rental units is much greater than the supply. Rising insurance premiums were also noted as an emerging concern across the country; in response, some property owners and landlords are passing insurance premium increases to the residents in their rental units, making housing less affordable.

In contrast, those consumers who can afford luxury items are still willing to spend their money, according to members who serve a more affluent market. Members in the hospitality and entertainment sectors reported that entertainment and merchandise sales are robust and that upscale dining demand is strong. A member in the homebuilding industry stated that even with mortgage rates rising, the demand for new homes is not subsiding; the same member noted that lack of land to develop is one of the largest challenges the industry is encountering. The member also noted that larger home developers have a competitive advantage over smaller developers and independent homebuyers because they can offer mortgage companies large, multimortgage deals in exchange for lower rates. A member representing the energy sector reported that the demand for natural gas is still seeing historic growth, mostly due to natural gas conversions as consumers seek longer-term cost savings. From a policy perspective, the member added that proposed regulations on gas stoves do not seem to have any impact on the pace of conversions and the demand for new natural gas installations.

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Another concern mentioned by several members is the viability of commercial real estate (CRE) investments in major cities. A chamber leader said that while industrial space is still in demand, CRE absorption rates are down significantly, and the CRE market is volatile because of outstanding debt, the inability to restructure, and the inability to sell. A member with a footprint in Philadelphia and other urban areas reported seeing office buildings empty out in cities across the country and noted that, in some cases, large commercial developments are shutting down. Another member in the homebuilding industry noted the significant challenges of repurposing large office buildings into apartments or condominiums in downtown areas, as few office buildings have a suitable structure and layout to make such deals economically feasible.

As the conversation continued, other issues that could impact the health of the economy surfaced. Several members mentioned climate risk as a factor to consider. A housing leader said that in certain states, insurance coverage is nearly impossible to obtain because of fires or floods pushing insurance premiums up 30 percent in those areas. Several members cited the federal debt as a concern that may be influencing consumer and business confidence, and others pointed to political unrest. A healthcare leader commented that most health systems nationally continue to operate in a negative position. As a result, the industry is seeing many consolidations and is undergoing a digital transformation in terms of how healthcare is delivered. Finally, two members noted that the demand for sponsorships of events is softening, which may be a sign of future economic headwinds.

For the second portion of the agenda, Ryo Tashiro shared a presentation on labor market conditions, and Dennis Pullin, the council vice chair, facilitated a group discussion. Again, members noted differences in labor market dynamics among different types of workers. A member emphasized that the cost of childcare alone can provide hybrid or virtual workers with a significant advantage over workers who are required to be onsite. A labor leader noted that while unemployment rates are historically low, they are higher when looking at communities of color and when considering the impact of inflation on wages. Two members anticipate future layoffs, with one highlighting the entertainment sector and the other highlighting lower-wage jobs across sectors. A third noted that temporary workers in multiple sectors have already been let go and that some permanent workers are getting fewer hours through shift adjustments, which is, in effect, limiting their income and benefits.

Several members noted that younger generations of workers are different from the baby boomer generation. Members said that the younger workers are less loyal to their employers, more likely to switch jobs for better pay, and have different expectations regarding career advancement. With the need to attract these younger generations into the workforce, businesses will have to adapt their organizational culture and retention strategies as baby boomers retire over the next 10 years.

On the topic of bringing workers back to the office, a chamber member reported that employers in Philadelphia are consistently mandating more in-office time to foster collaboration, shape future leaders, and support the local economy. At the time of the meeting, the number of in-person workers in Philadelphia was 76 percent of the prepandemic number. However, for employers who are not able to offer hybrid work, such as employers in the hospitality and healthcare industries, hiring and retaining workers is challenging. The level of pushback from workers also varies by location; a member with a

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suburban footprint noted that workers in the area will leave a job if they are asked to come in any more than three days per week.

Finally, the discussion turned to the implications of an increasingly digital world and the potential impact of artificial intelligence (AI) technology in the workplace. Although some members shared that AI tools can be beneficial for specific tasks to accelerate productivity, other members expressed concerns about job loss and the devaluing of human capital. Several members noted that they are exploring or have already adopted AI in some capacity, but one member warned that new technology requires careful cost and cybersecurity considerations. A member in the homebuilding industry suggested that businesses should anticipate that their workforce may already be using AI to handle some tasks, such as writing letters to customers. A member in the healthcare industry noted that the institution's goal is to balance the use of technology with human capital effectively.

After the group discussions, Vice Chair Pullin turned the meeting back over to President Harker for closing remarks. President Harker reflected on points raised by council members during the meeting and expressed his appreciation for the members' valuable perspectives on the state of the economy, business dynamics, consumer trends, and labor market challenges. The council will reconvene for its final meeting of the year in November 2023.