Summary of Economic Activity

On balance, Third District business activity held steady for most of the current Beige Book period and remained below levels observed prior to the onset of the COVID-19 pandemic in most sectors. Net employment continued to grow modestly, wages continued to grow slightly, and price increases remained modest. However, numerous contacts noted that the sharp rise in COVID-19 cases had disrupted economic activity, and a downward trend emerged as November began. The cases heightened concerns that the winter months would prove difficult, if not impossible, to survive for some firms. Bankruptcies have already begun within the retail, restaurant, and hospitality sectors. Contacts are concerned that when unemployment benefits and moratoriums on evictions and foreclosures expire, an avalanche of bankruptcies will emerge among other small and medium-sized businesses, as well as households. Positive expectations for growth over the next six months have narrowed among firms.

Employment and Wages

Employment continued to increase modestly overall. The share of manufacturers reporting employment increases held steady at one-third, while the share reporting declines fell. Among nonmanufacturing firms, the share reporting increases has risen since the prior period, while the share reporting decreases held steady. On balance, average hours worked rose across all firms. Activity at staffing firms remained below pre-pandemic levels, with most firms noting more openings than candidates. Firms have more success at placements for those clients willing to pay competitive wages. Even in outlying areas of the District, this often means that firms seeking workers for low-skilled jobs must compete with billboard advertisements by warehouses for positions that start at $15 an hour and higher. Rising COVID-19 cases and sporadic school closings continue to deter workers, especially women, from reentering the labor market.

Wages continued to grow slightly. In mid-November, the percentage of nonmanufacturing firms reporting higher wage and benefit costs per employee remained somewhat higher than the percentage reporting lower costs. However, two-thirds of the firms reported no change.

Prices

Prices continued to rise modestly overall. Nearly 40 percent of the manufacturers reported that prices rose for factor inputs (and none reported a decline), but only about 25 percent received higher prices for their own products. In turn, about 25 percent of the nonmanufacturers reported that prices rose for their inputs, but only about 10 percent received higher prices from consumers for their own goods and services (and 6 percent reported declines). Generally, well over half of all firms noted no change in prices.

Various contacts noted that supply disruptions, shortages, and price spikes were easing. However, as COVID-19 cases surged, more businesses were coping with sporadic shutdowns and labor shortages, and many feared worse conditions in the winter months ahead. Looking ahead one year, manufacturers now anticipate receiving prices for their own goods and services that are modestly higher than they expected one quarter earlier. However, nonmanufacturing firms have raised their expectations significantly. Overall, firms also reported slightly higher expectations for annual consumer inflation.

Manufacturing

On average, manufacturing activity continued to grow slightly over the prior period; however, the trend softened in early November. The diffusion indexes for shipments
and for new orders from our mid-month surveys in October and November remained positive — suggesting some growth. However, the indexes rose from September to October, then fell in November.

Manufacturing firms responding to a question drawn from our COVID-19 survey reported that sales and new orders were about 8 percent below what had been anticipated pre-pandemic — the same as was reported at the end of September.

One contact with a diverse and global footprint noted that U.S. manufacturing softened at the beginning of November, as had manufacturing in Europe after COVID-19 cases began rising. In contrast, cases are few in China, and activity is holding steady. Although China’s economy would be expected to slow as global demand wanes, the contact noted that some production has shifted back to Chinese facilities — free of virus-induced disruptions.

**Consumer Spending**

Nonauto retail sales appeared to edge lower beginning in late October. Contacts cited rising COVID-19 cases and falling temperatures as contributing factors. Rising caseloads worried consumers and disrupted purveyors with staff shortages and sporadic closures. Sales held steady for some firms but still disappointed, since holiday shopping (and eating out) would typically have begun to boost brick-and-mortar sales.

Auto dealers continued to report strong consumer demand for new and used autos; however, the growth rate in new car sales remained modest on average. Dealers noted that inventory problems had mostly cleared and that margins were greater, as labor expense was lower and terms with manufacturers were more favorable.

Contacts noted that leisure travel held up later into the fall, but business travel and group travel picked up less than usual. Shore destinations reported better-than-normal activity well into October. However, overall tourism remained at almost half of prior-year levels and appeared to decline slightly at the end of October. A hotel contact expects a tough winter for the industry and has already observed more “jingle mail” — when the operator sends the keys to the lender.

**Nonfinancial Services**

On balance, nonmanufacturing activity has fallen slightly since the prior period. In responding to a question from our COVID-19 survey at the end of September, nonmanufacturers had reported that sales and new orders were about 16 percent below what had been anticipated pre-pandemic. In our mid-month surveys for October and November, firms reported demand was nearer to 19 percent below pre-pandemic expectations.

The diffusion indexes for new orders and sales from our mid-month surveys also suggested slight declines. Both indexes have fallen into negative territory since mid-September, indicating that declines were somewhat more widespread among firms and that the overall direction of change was no longer positive.

**Financial Services**

The volume of bank lending fell modestly during the period (not seasonally adjusted); in the same period in 2019, by contrast, loan volumes grew modestly. Residential mortgages grew modestly but were offset by modest declines in home equity lines, auto loans, and other consumer loans. Commercial real estate lending was flat, and commercial and industrial loans fell sharply again as Paycheck Protection Program loans continued to roll off the books. Credit card volumes fell moderately; last year, they grew modestly over the same period.

Banking contacts, as well as accountants and attorneys, continued to note little change in delinquencies or other credit problems, except in the retail, restaurant, and hospitality sectors. However, concerns remained that significant problems will arise as moratoriums on evictions and foreclosures expire and unemployment benefits end.

**Real Estate and Construction**

Homebuilders reported moderate sales growth in which demand continues to outpace the availability of land and labor. Raising prices has helped builders to slow demand and cover rising costs. Existing home sales have also grown moderately — relative to very low levels from the prior year. Inventory levels remain extremely low; however, the recent high demand for homes may be depressing inventory levels because new listings are snapped up so quickly.

Philadelphia’s commercial construction activity held steady at about 13 percent below the level of activity anticipated before the pandemic. The existing pipeline of construction should keep activity steady through the first half of 2021. Commercial office leasing activity has fallen moderately in the suburbs and in central business districts. Demand remained strong for warehousing construction and leasing.