Summary of Economic Activity

On balance, business activity in the Third District fell modestly during the current Beige Book period after plateauing in the prior period. Activity in most sectors remained below levels observed prior to the onset of the COVID-19 pandemic. Net employment appeared to decline slightly after rising modestly in the last period. Positive wage and price growth trends continued at slight and modest paces, respectively. The sharp rise in COVID-19 cases, renewed restrictions, and colder weather further reduced economic activity across most of the District, especially within the retail, restaurant, and hospitality sectors. Numerous firms across all sectors noted disruptions to operations as COVID-19 cases emerged at worksites or employees' homes. Positive expectations for modest growth over the next six months have narrowed among manufacturers but broadened among other firms.

Employment and Wages

Employment appeared to decrease slightly overall. The share of nonmanufacturing firms reporting employment decreases exceeded the share reporting increases for both full- and part-time employees. Among the reporting manufacturers, employment increases still exceeded decreases, but by less than in the prior period. Moreover, average hours worked rose for a smaller share of manufacturing firms and fell, on net, among nonmanufacturers.

Staffing firm contacts described continuing demand for employees and an ongoing lack of willing and qualified job candidates. During the current period, this mismatch was compounded by increased workplace disruptions, as COVID-19 cases caused temporary plant or store shutdowns and forced employees to quarantine at home. Employers and staffing agencies alike noted difficulties finding workers to fill shifts. Given childcare needs, agencies are increasingly compelled to fill some positions with such hours as a candidate can supply.

Wages continued to grow slightly. The percentage of nonmanufacturing firms reporting higher wage and benefit costs per employee remained somewhat higher than the percentage reporting lower costs. However, three-fourths of the firms reported no change.

Prices

On balance, prices continued to rise modestly, although reported increases were generally less widespread than in the prior period. Nearly 30 percent of the manufacturers reported higher prices for factor inputs, but only 20 percent received higher prices for their own products. Similarly, about 20 percent of the nonmanufacturers reported that prices rose for their inputs, and 20 percent noted higher prices received from consumers for their own goods and services. Over half of all firms noted no change in prices.

Supply disruptions, shortages, and price spikes became more prevalent again, as COVID-19 cases rose. However, few contacts noted significant lasting price hikes.

Manufacturing

On average, manufacturing activity was essentially unchanged as trends continued to soften from November into December. The diffusion indexes for shipments and for new orders remained positive, but just barely so for new orders. Firms also reported that sales and new orders were about 7 percent below what had been anticipated pre-pandemic – only slightly better than in the prior month.

Contacts offered a diversity of comments, including several firms noting gradual improvement. One firm noted overwhelming orders and huge backlogs for packaging materials, while another observed a return to caution from buyers of electrical equipment. A primary metals firm observed weak demand from customers serving the energy and hospitality sectors, while strong demand emanated from the utility and transportation sectors. Other contacts noted strong demand for pharmaceuticals and medical devices.

Consumer Spending

Nonauto retail sales appeared to fall modestly as rising COVID-19 cases, cold weather, and new restrictions further hampered consumer spending. Restaurants and the hospitality sector were most heavily impacted, especially compared with a typically busy holiday season. Stores selling food or other necessities observed some operating difficulties but little deterioration in demand.

Auto dealers reported slight growth in year-over-year sales but noted that consumer activity had slowed since late October as COVID-19 cases spiked. Black Friday sales were lackluster, and December sales were hampered by snow.

Although ski resorts have opened, the destinations are operating at lower capacity and with restrictions on restaurants and other attractions. Overall, tourism activity has slipped below half of prior-year levels – trending modestly lower as the weather grows colder and COVID-19 spreads.

Nonfinancial Services

On balance, nonmanufacturing activity has fallen modestly since the prior period. Firms reported that sales or new orders had edged down to 19 percent below pre-pandemic expectations. Another measure of firms' new orders and sales (which had been slightly negative) deepened – significantly for sales or revenues – indicating that declines were more widespread among firms.

Financial Services

The volume of bank lending fell slightly during the period (not seasonally adjusted); in the same period in 2019, by contrast, loan volumes grew modestly. Residential mortgages and commercial real estate lending grew modestly, while home equity lines fell moderately and commercial and industrial loans continued to fall sharply. Auto loans and other consumer loans were essentially flat on net. And while seasonal trends drove credit card volumes up moderately, they rose at a significantly greater pace over the same period in 2019.

Banking contacts were preparing for another round of Paycheck Protection Program loans, even as some uncertainty remained about the dispensation of the first round. Although some problem loans have begun to emerge, bankers continued to note that overall loan delinquencies remain low.

Real Estate and Construction

Beginning in November, homebuilders reported some slowdown to a modest pace of growth. However, the level of demand remained strong – in part reflecting first-time buyers moving out of apartments and well-heeled buyers seeking more space or second homes. Existing home sales also grew modestly – a slower pace than in the prior period. Strong demand for limited inventories continued to drive prices higher and reduce affordability. Appraisal challenges were rising but were often avoided by cash purchases.

Philadelphia's commercial construction activity appeared to remain busy but at lower levels than had been anticipated before the pandemic. Although the pipeline of new construction has thinned, construction should remain active through the first half of 2021. Commercial leasing activity continued to fall moderately, as contacts noted sublease office space being dumped onto the market and growing retail vacancies. Demand remained strong for warehousing construction and leasing. ■

For more information about District economic conditions visit: **www.philadelphiafed.org/research-and-data/regional-economy**