Federal Reserve Bank of Philadelphia

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Summary of Economic Activity

On balance, business activity in the Third District rebounded to a modest pace of growth during the current Beige Book period – the first significant growth since midsummer. However, activity in most sectors remained below levels observed prior to the onset of the COVID-19 pandemic. Net employment appeared to rise slightly after falling slightly in the prior period. Positive wage and price growth trends increased to modest and moderate paces, respectively. Economic gains appeared to reflect waning COVID-19 cases and the relaxation of some business restrictions. However, firms continued to cite disruptions at production sites, consumer outlets, and along supply chains. Moreover, wintry weather conditions have constrained growth in several sectors. More than half of the firms expressed positive expectations for modest growth over the next six months – the percent broadened further among nonmanufacturing firms but narrowed among manufacturers.

Employment and Wages

Employment appeared to increase slightly overall – rebounding from a slight decrease in the prior period. The share of nonmanufacturing firms reporting employment increases for full-time employees just edged out those reporting decreases. Among the manufacturers, employment increases broadened to nearly one-third of the reporting firms, while reported job declines waned. Moreover, average hours worked rose for a larger share of all firms.

Staffing firm contacts reported that strong demand continued for new orders, while qualified job candidates remained a challenge to hire and retain. Employers confirmed data reports that a significant portion of the potential labor force remains sidelined by childcare responsibilities, especially women. Contacts also noted some loss of experienced employees to other firms. Moreover, staffing firms noted an increase in the number of their own temp placements that are being hired by clients into full-time positions.

Wages picked up modestly, after maintaining a slight pace of growth since midsummer. The percentage of nonmanufacturing firms reporting higher wage and benefit costs per employee broadened to nearly one-third. Just over half of the firms reported no change. Staffing firms reported that wages were increasing across the salary spectrum. While several contacts worry about a potential minimum wage increase, one contact said that wages were rising because of demand for labor – "the $15.00 minimum is already here." Another pointed to job ads offering $23 an hour for warehouse jobs.

Prices

On balance, prices appeared to rise moderately over the period – following a modest increase in the prior period and modest increases over most of the prior year. Over half of the manufacturers reported higher prices for factor inputs, but less than one-third received higher prices for their own products. Similarly, about one-third of the nonmanufacturers reported that prices rose for their inputs, and less than one-tenth noted higher prices received from consumers for their own goods and services. Most firms noted no change in prices.

Most respondents continued to cite COVID-related disruptions in production and supply chain logistics as primary reasons for shortages and price spikes of various commodities, including some agricultural products, building materials, cleaning products, and microchips.

Looking ahead one year, firms now anticipate receiving moderately higher prices for their own goods and services – a significant increase from one quarter earlier. Firm expectations also pegged compensation paid to workers as moderately higher; firm expectations for consumer inflation were somewhat lower.

Manufacturing

On average, manufacturing activity appeared to pick up to a moderate pace of growth following a period of no growth. More than 40 percent of the firms reported increases of shipments and new orders. Although some firms have reported increased demand for their products through the pandemic, manufacturing activity as a whole remained below pre-pandemic levels.

Several contacts noted that demand was increasing across most sectors from countries throughout the world. Plant operations continued to be plagued by COVID-19 outbreaks and supply chain disruptions. Contacts noted that backlogs have grown and delivery times have lengthened.

Consumer Spending

Nonauto retail sales appeared to rebound slightly as COVID-19 cases and operating restrictions eased. However, wintry weather limited the snap back in consumer spending.

Auto dealers cited snowstorms as they reported modest declines in year-over-year sales. Much more positive comparisons are anticipated over the next half year against months in which operations were restricted by states. However, dealers are concerned about the supply of new models because of the shortage of microchips needed for production.

Overall, tourism appears to have rebounded slightly but remains constrained by travel and operating restrictions. Contacts noted significant pent-up demand and drew confidence from increases in advanced bookings. Activity is expected to grow as herd immunity is achieved – first for trips to see the grandchildren and for other leisure travel by the initial wave of senior vaccine recipients.

Nonfinancial Services

On balance, nonmanufacturing activity appeared to pick up to a modest pace of growth following a modest decline in the prior period. About one-fourth of the firms reported increases of sales and new orders. On balance, the firms continued to report that output remains below pre-pandemic levels.

Financial Services

The volume of bank lending fell modestly during the period (not seasonally adjusted); in the same period in 2020, by contrast, loan volumes grew modestly. Commercial real estate and auto lending were flat, while home mortgages fell slightly. Commercial and industrial loans fell modestly, while home equity lines continued to fall moderately. Other consumer loans rose modestly. Seasonal factors drove credit card volumes down sharply – at a greater pace than over the same period in 2020.

Bankers, accountants, and bankruptcy attorneys continued to report relatively few problem loans. The Paycheck Protection Program and other stimulus programs were often credited for keeping firms and households afloat. However, most contacts anticipate delinquencies and bankruptcies to increase in the future. In another sign of stress, Pennsylvania utilities have reported that nearly 1 million customers are late on payments, but they are shielded from cutoffs by a routine winter moratorium in effect until the end of March.

Real Estate and Construction

Homebuilders reported moderate growth in contract signings stemming from strong demand across all demographics. Contacts noted challenges to production, ranging from land acquisition to cost of lumber to availability of window packages to scheduling of specialized tradespeople. Existing home sales continued to grow modestly. Limited inventories continued to constrain otherwise strong demand and drive prices higher.

Philadelphia's commercial construction activity appeared to have slowed slightly. The project pipeline and COVID-19 safety protocols continue to support levels at about 80 percent of the prior year.

Commercial leasing activity slowed slightly after falling moderately in the prior period. Contacts continued to note uncertainty about the future demand for office space and don't expect clarity until large downtown offices are able to resume normal operations. ■

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