



## Summary of Economic Activity

On balance, business activity in the Third District picked up to a moderate pace of growth during the current Beige Book period from a more modest pace in the prior period. The share of adults who have received at least one dose of a COVID-19 vaccine climbed past one-third. With the reduced risk from the coronavirus and the return of spring weather, contacts expressed sentiments ranging from “hot demand” and “on fire” to “giddy and euphoric.” Still, supply constraints were noted in nearly every sector, including a tighter labor market, a diminishing inventory of for-sale homes, and severe supply chain disruptions. Thus, activity in most sectors remained below levels observed prior to the onset of the pandemic. Net employment picked up to a modest pace of growth. Positive wage and price growth trends continued at modest and moderate paces, respectively. More than 60 percent of the firms expressed positive expectations for continued growth over the next six months – the percentage has broadened further among all firms since the prior period.

### Employment and Wages

Employment appeared to increase modestly overall – an uptick from the slight pace of growth in the prior period. The share of firms reporting employment increases broadened to one-fifth among nonmanufacturers, while reported increases remained near one-third among manufacturing firms. The smaller share of firms that reported employment decreases fell further for manufacturers and held steady for other firms. Moreover, average hours worked rose again for a still larger share of all firms.

Staffing firm contacts reported that demand for new orders continued to be strong, while hiring and retaining qualified job candidates remained a challenge. Numerous manufacturing contacts lamented a growing lack of machinists and other skilled workers. Contacts from several sectors noted challenges because of a lack of delivery drivers for trips ranging from commercial long-haul to last-mile deliveries. A homebuilder related that a landscaper had hired 20 laborers in early February and none showed up for work.

Wages continued to rise modestly. The percentage of nonmanufacturing firms reporting higher wage and benefit costs per employee remained near one-third, while the share reporting lower wages fell to near zero. Firms are

competing more aggressively for lower-wage workers. One contact noted a bidding war for housekeepers in that resort location. Signing bonuses – a common practice in the warehouse sector – were reported by several contacts in the hospitality sector; for example, one restaurant had begun offering \$1,000 if workers stayed for at least 90 days. Another retail contact reported possibly raising the firm’s minimum wage to \$15.00 an hour sooner than previously planned.

### Prices

On balance, prices continued to rise moderately over the period. About three-fourths of the manufacturers reported higher prices for factor inputs, but those receiving higher prices for their own products remained near one-third. Similarly, about one-third of the nonmanufacturers reported that prices rose for their inputs, but about one-fourth noted higher prices received from consumers for their own goods and services.

Ongoing disruptions of the supply chain were cited by nearly every sector. In addition to the persistent COVID-related disruptions to production and logistics, the Texas freeze and the Suez Canal blockage further contributed to commodity shortages and price spikes.

Nearly three-fourths of the manufacturing contacts reported expectations of paying higher prices over the next

six months, and half expected to receive higher prices for their own goods.

### **Manufacturing**

On average, manufacturing activity continued growing at a moderate clip. About 40 percent of the firms reported increases of shipments, and about 50 percent reported increases in new orders. On net, manufacturing activity remained below pre-pandemic levels, although some firms have reported increased demand for their products.

Several contacts described demand as nearing pre-pandemic levels in much of the world. However, most contacts continued to note supply chain disruptions from COVID-19 cases and protocols at plants and ports. Order backlogs and inventories grew further and delivery times were reaching record levels.

### **Consumer Spending**

Contacts noted modest growth of nonauto retail sales with ongoing incremental gains among retailers and more of a surge for restaurants as vaccinations and spring weather combined to release “cooped-up demand.” However, pockets of weaker demand persist, especially in urban retail neighborhoods that are oriented toward daytime office workers.

Reports from auto dealers suggest that sales may have grown slightly. As with other sectors, demand is strong, but a lack of inventory on dealer lots is constraining the upside on volumes; however, profit margins are stronger.

Overall, tourism appears to have grown modestly, with the greatest demand from leisure travelers outside of urban areas. Contacts describe business and group travel as still inching back and anticipate several years before those return to pre-pandemic levels.

### **Nonfinancial Services**

On balance, nonmanufacturing activity appeared to pick up to a moderate pace of growth following a modest increase in the prior period. About half of the firms reported increases of sales or revenues; however, most firms continued to note that output remains below pre-pandemic levels.

### **Financial Services**

The volume of bank lending rose modestly during the period (not seasonally adjusted); in the same period in 2020, by contrast, loan volumes grew sharply. Commercial and industrial loans rose sharply this year, but not nearly as much as the massive surge last year when the first Paycheck Protection Program loans were issued. Commercial real estate lending rose modestly, but auto lending and other consumer loans fell modestly, and

home mortgages and home equity lines fell moderately. Seasonal factors drove credit card volumes down moderately – roughly equal to the pace over the same period in 2020.

Bankers, accountants, and bankruptcy attorneys continued to report relatively few problems with loans or debt. Contacts noted that the latest stimulus package had eased the concerns for many harder-hit businesses. Contacts noted that some businesses are beginning to make investment decisions, especially mergers and acquisitions; however, other firms are still waiting. Some firms that provide direct services are unsure whether consumer demand will return to pre-pandemic levels. A few firms are in “deep financial trouble” and are beginning to explore bankruptcy.

### **Real Estate and Construction**

Homebuilders continued to report moderate growth in contract signings stemming from very strong demand across most demographics. Contacts noted that sales and construction would be higher still, but for continued myriad supply chain disruptions and a tight labor market.

Despite strong demand, existing home sales grew slightly, at best, as the supply of available for-sale homes continued to shrink. Growth slowed in nearly all local markets, and several reported declining sales but rising prices.

Analysts reported modest declines in demand for commercial office space – citing negative net absorption and rising vacancy rates throughout the Greater Philadelphia region. Rents edged down in the Wilmington and South Jersey submarkets but edged up in Philadelphia. Many major office tenants continued to operate remotely. Meanwhile, accounting contacts noted that some of their clients (and some of their own firms) have made the decision to permanently increase remote work. In particular, some smaller nonprofits have gone completely virtual. ■

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