Summary of Economic Activity

On balance, business activity in the Third District continued to grow moderately during the current Beige Book period; however, activity in most sectors remained below levels observed prior to the pandemic. The share of adults who have received at least one dose of a COVID-19 vaccine has climbed well past 50 percent. As normal activity resumes, contacts have reported increasing demand. However, labor shortages and supply chain disruptions have also continued. Some contacts observed that some of the perceived strong demand may represent the broader (duplicative) search efforts of employers for labor and producers for parts. On the housing front, an overly hot market may be discouraging buyers. Net employment continued at a modest pace of growth, while wages and prices continued to grow modestly and moderately, respectively. About two-thirds of the firms expressed positive expectations for continued growth over the next six months – broadening among nonmanufacturers but narrowing among manufacturers since the prior period.

Employment and Wages

Employment continued to grow modestly overall. The share of firms reporting employment increases broadened to one-third among nonmanufacturers, while reported increases edged back to one-fourth among manufacturing firms. Overall, average hours worked rose again but for a smaller share of all firms.

Nearly all firms reported difficulty hiring sufficient labor. Contacts at staffing firms reported ongoing demand for workers, unusually high levels of open orders, and a dearth of qualified job candidates. While demand clearly exceeds the supply, contacts did note that perceived demand may be overstated by clients placing orders with more staffing firms than is typical.

Wages continued to rise modestly. The percentage of nonmanufacturing firms reporting higher wage and benefit costs per employee edged above one-third, while the share reporting lower wages remained very low. Prior to the pandemic, the share of firms reporting compensation increases averaged well over one-third. Across all sectors, firms continued to report raising wages and offering signing bonuses, retention bonuses, and referral bonuses to compete for scarce labor resources.

Prices

On balance, prices continued to rise moderately over the period. The share of manufacturers reporting higher prices for factor inputs remained at about three-fourths, while those receiving higher prices for their own products rose well above one-third. In turn, the share of nonmanufacturers reporting higher prices for their inputs rose to one-half; however, the share receiving higher prices from consumers for their own goods and services fell to one-fifth.

Contacts continued to note severe supply chain disruptions impacting most sectors of the economy. Microchip shortages continued to limit current and future production plans, and container shortages continued to disrupt logistics.

Looking ahead one year, the prices that firms anticipate receiving for their own goods and services rose further still – after the firms reported moderately high expectations last quarter. Firm expectations for compensation increases were slightly higher than those for their own prices, and expectations of general consumer price increases rose the most. Unlike in prior quarters, firms now expect general consumer inflation to be even higher than firm prices.

Manufacturing

On average, manufacturing activity continued growing moderately. About 40 percent of the firms reported that increases of shipments and new orders were somewhat higher. On net, manufacturing activity remained below pre-pandemic levels.

As with perceived demand at staffing firms, many manufacturers have stated that their production would be higher but for labor shortages and supply chain disruptions. A good portion of the perceived demand appears to be real, as order backlogs, inventories, and delivery times increased further and were at or near record levels in May.

Consumer Spending

Contacts reported continued modest growth of nonauto retail sales. Survivors in the retail and restaurant sectors are reporting strong sales and profits even against 2019 levels. Rising vaccination rates and an anticipated return to “normal” are feeding positive expectations for the remainder of the year.

Reports from auto dealers suggest that sales grew moderately. In some markets, year-to-date sales now equal their 2019 sales for the comparable period. Some contacts suggested that buyers may have hastened recent purchases to avoid an anticipated decline in dealer inventory as manufacturers contend with the microchip shortage. Despite the tightening constraint on new car sales, stronger used car sales and higher prices have boosted profit margins.

Overall, tourism continued to grow modestly – reflecting a slow recovery as more potential leisure travelers are vaccinated. Consumers have pent-up demand for travel experiences, and many have extra savings to spend. Contacts also noted improvements in business travel but don’t expect a full recovery this year or next.

Nonfinancial Services

On balance, nonmanufacturing activity continued at a moderate pace of growth. Over one-third of the firms reported increases in sales or revenues; however, most firms continued to note that output remains below pre-pandemic levels.

Financial Services

The volume of bank lending fell slightly during the period (not seasonally adjusted); compared with the same period in 2019, by contrast, loan volumes grew modestly. Commercial and industrial loans, home equity lines, and other consumer loans fell moderately, while auto lending fell slightly. Commercial real estate lending grew, but only slightly, while home mortgages were flat. Credit card volumes were also flat – in contrast, volumes grew at a modest pace over the same period in 2019.

Bankers, accountants, and bankruptcy attorneys continued to report that relatively few problems with bad debt had emerged. Optimism had grown for many of their clients in recent weeks; however, some creditors and landlords have become impatient to collect, evict, or foreclose. A credit counselor reported increasing activity to fix credit scores for prospective first-time homebuyers, to keep current homeowners in their houses, and to consider personal bankruptcy options.

An accountant reported more mergers and acquisitions, with some clients choosing to sell their businesses – giving reasons of retirement, uncertainty, stress, and high valuations as motivating factors. A corporate lawyer noted that a few smaller clients had simply paid their debts and closed down their businesses.

Real Estate and Construction

Homebuilders reported modest growth in new contracts as sales traffic slowed, yet construction activity continued apace. Contacts noted that higher prices and extended delivery times have dissuaded some buyers, while builders remain challenged by the high costs of building materials, ongoing supply chain disruptions, and the unreliability of subcontractor scheduling.

Existing home sales were flat, as new listings continued to fall – availability dropped below a one-month supply in many locations. In the face of ongoing demand, contacts noted a strong sellers’ market in which offers were often above asking price, in all cash, or without inspections or other buyer protections. One contact noted that some potential buyers were giving up, while others commented on the rising unaffordability, especially for buyers who qualify for FHA but not conventional financing.

Philadelphia’s commercial construction activity appeared to have improved slightly to 85 or 90 percent of pre-pandemic levels. Little change was evident in nonresidential leasing activity, although reports of future office downsizing continued to grow. Demand for warehouse space remained strong, and the weak supply of for-sale homes appears to be boosting demand for rental units. ■

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