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 fully vaccinated against COVID-19 grew to above 50 percent. As normal activity resumes, labor shortages have worsened. Meanwhile, supply chain disruptions continue to challenge most sectors. Net employment continued at a modest pace of growth, while wages and prices continued to grow modestly and moderately, respectively. Wage pressures have been greatest for low-wage workers following years of stagnant wage growth. Over three-fourths of the firms expressed positive expectations for continued economic growth over the next six months – broadening in anticipation of a further uptake in vaccinations, the reopening of schools, a return to the workplace, and the phaseout of most stimulus measures.

Employment and Wages

Employment continued to grow modestly overall. The share of firms reporting employment increases broadened to over one-third of the manufacturers but edged back to one-fifth among nonmanufacturing firms. Overall, average hours worked rose for over one-fourth of all firms.

Attracting sufficient labor remained a challenge for many firms across all sectors. Contacts at staffing firms reported that they were beginning to see somewhat better candidate flow and were expecting supply to build through September as schools reopen. However, contacts recalled that the labor market was tight before the pandemic and expect it to remain exceedingly tight in the fall. Contacts noted that the pandemic encouraged some early retirements. Moreover, the warehouse industry and the gig economy have created more labor market churn and less workplace loyalty.

Wages continued to rise modestly overall. The strongest wage growth pressure remained largely constrained to lower-wage jobs. Contacts expect wage growth at the lower end to slow again after catching up with years of stagnant growth, but they also expect the increases to eventually move to mid-wage jobs.

Prices

Over four-fifths of the nonmanufacturing firms reported higher wage and benefit costs per employee – comparable with pre-pandemic levels. Almost no firms reported lower compensation. A rural area manufacturer noted that $20 an hour seems to be the wage required to attract entry-level workers. Firms continued to report raising wages and offering signing bonuses, retention bonuses, and referral bonuses to compete for scarce labor resources.

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On balance, prices continued to rise moderately over the period. The share of manufacturers reporting higher prices for factor inputs edged over four-fifths, while those receiving higher prices for their own products rose to above one-half. However, the share of nonmanufacturers reporting higher prices for their inputs remained at one-half, while the share receiving higher prices from consumers for their own goods and services edged up to nearly one-third.

Over three-fourths of the manufacturing contacts reported expectations of paying higher prices over the next six months and expected to receive higher prices for their own goods.
Manufacturing
On average, manufacturing activity continued to grow moderately. However, net increases of new orders waned somewhat from the prior period’s level, while net increases of shipments rose. In turn, the share of firms reporting an increase of order backlogs, inventories, and delivery times retreated from near record levels. Despite the reported strong demand, manufacturing employment and production remained below pre-pandemic levels.

Manufacturers continued to note significant production constraints because of ongoing labor shortages and supply chain disruptions. In response, many firms are raising wages, outsourcing production, and increasing automation.

According to one contact, another firm “overcompensated” last year when the pandemic hit. Expecting a drop in demand, the manufacturer laid off all temporary workers and eliminated overtime. Instead, demand increased. However, the firm hasn’t raised wages to attract workers back and still remains behind on orders.

Consumer Spending
Contacts reported continued modest growth of nonauto retail sales. Survivors in the retail and restaurant sectors reported strong sales against 2019 levels, except in some urban markets and office parks where workers have not yet returned.

Reports from auto dealers suggest that new car sales edged slightly lower from a high level, as a lack of new inventory from manufacturers began to empty sales lots. Contacts noted that some manufacturers were holding cars awaiting microchips, while others had slowed production. Rising prices and strong used car sales continued to boost profits.

Tourism contacts continued to report modest, incremental growth. Domestic leisure travelers were active throughout the region and willingly spent their savings. Business and group travel also improved, but at a much slower pace, which is expected to continue through 2022.

Nonfinancial Services
Nonmanufacturing activity continued to grow moderately, with over half of the firms reporting increases in sales or revenues. However, on balance, output remained below pre-pandemic levels, and some businesses will remain shuttered until the fall.

Businesses that continue to struggle include fitness firms, shopping malls, offices, and restaurants and hotels – especially those that cater to the business traveler. In addition, many nonprofits have managed to get by with various government funding sources, but they don’t expect a full recovery to normal operations until after 2022.

Financial Services
The volume of bank lending fell modestly during the period (not seasonally adjusted); during the same period in 2019, by contrast, loan volumes grew modestly. Commercial and industrial loans contracted significantly, while home equity lines and other consumer loans fell modestly. Auto lending and home mortgages grew slightly, and commercial real estate lending was flat. Credit card volumes grew moderately, as was the case over the same period in 2019.

Bankers, accountants, and bankruptcy attorneys continued to report that relatively few problems with bad debt had emerged. Paycheck Protection Program loans have notably helped many firms, but during the pandemic, many more businesses than usual have also qualified for the extremely beneficial Employee Retention Credit.

One attorney noted that clients were anxious to begin collecting past-due rent and mortgage payments; several clients anticipate problems, including a surge of personal bankruptcies, when the moratoria on evictions and foreclosures are lifted.

Real Estate and Construction
Homebuilders continued to report modest growth, although several noted that the pace of traffic and sales had slowed somewhat. Supply chain disruptions and the high costs of materials continued to challenge builders – resulting in higher home prices and longer delivery times for new homes. Some expect supply chain issues to be worse yet over the next three to four months.

Existing home sales held steady, and availability remained low. Although one broker noted an uptick in new listings, availability remained at or below a one-month supply in many locations.

The relative lack of single-family homes has continued to support demand for multifamily construction. Those projects, along with warehouses and life science labs, continued to offset weakening demand for office space. Both construction and leasing activity held steady overall.

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