Summary of Economic Activity

On balance, business activity in the Third District grew moderately—a faster pace than during the prior Beige Book period. Still, activity in most sectors had not yet returned to pre-pandemic levels. The rate of all persons being fully vaccinated against COVID-19 rose to about 64 percent. However, after falling through October, COVID-19 cases are rising again in November, with the highest incidence rates in rural areas. The earlier ability of large professional firms imposing vaccine mandates is now being offset by challenges faced at firms in other sectors in which the workforce is less amenable. There are ongoing reports of supply chain disruptions and labor shortages, both of which have taken a toll. While net employment growth picked up to a moderate pace, prices and wages have risen sharply. Still, optimism was more widespread, with nearly three-fourths of the nonmanufacturers and close to one-half of the manufacturers expressing positive expectations for continued economic growth over the next six months.

Employment and Wages

Employment grew moderately, with service sectors providing the lift from the more modest pace of growth last period. The share of firms reporting employment increases rose to one-fourth of the nonmanufacturing firms and held steady at one-third among the manufacturers. Overall, one-third of the nonmanufacturers reported a rise in average hours worked—an increase since last period that converged with that of manufacturers.

Contacts noted an uptick in workers returning to the hospitality sector. However, most staffing firms and other employers continued to report significant difficulty attracting and retaining labor. Moreover, several contacts noted that baby boomers were leaving jobs and selling businesses to retire early—a trend that was due (1957 marked the peak year for births among baby boomers; those babies turn 65 next year) but has accelerated because of pandemic burnout.

The vaccine mandate has been met with varying levels of acceptance across the labor force. Many large employers in professional services, health care, and other similar sectors have described relatively high cooperation with those mandates, especially in urban areas. However, other large employers in manufacturing and retail, including staffing firms that service those sectors, described vaccination rates of just 40 percent among their workforces and dire expectations for imposing the mandate or conducting weekly testing.

Wages rose substantially. The share of nonmanufacturing firms reporting higher wage and benefit costs per employee climbed to 60 percent. No firms reported lower compensation. Contacts reported significant salary increases for many professional jobs and also noted that job candidates would arrive for interviews with several offers in hand. Some speculate that remote work may be creating competition for workers living in outlying areas between jobs based in their areas and those in New York City and other high-cost areas. Since the prior quarter, firms reported a significantly higher expectation of the one-year-ahead change in compensation cost per worker, with a median of 5.8 percent.

Prices

On balance, prices rose sharply over the period. The share of manufacturers reporting higher prices for factor inputs climbed above 80 percent, while those receiving higher prices for their own products rose to 65 percent. The share of nonmanufacturers reporting higher prices for their inputs rose to 66 percent, while the share receiving higher prices from consumers for their own goods and services exceeded 40 percent.
From our quarterly survey of firm price expectations, contacts reported further increases in the actual prices received for their own goods and services over the past year – the trimmed mean for actual price changes was 8.6 percent among manufacturers and 4.8 percent for nonmanufacturers. Actual price changes have risen steadily since the fourth quarter of 2020, when contacts reported increases of 1.3 percent and 1.4 percent for manufacturers and nonmanufacturers, respectively.

Looking ahead one year, the prices that firms anticipate receiving also rose further – the expected rate of growth was 6.8 percent among manufacturers and 5.9 percent for nonmanufacturers. However, for manufacturers this quarter marked the first – since prices began rising significantly – in which the expected future price increase was lower than the prior year’s change.

**Manufacturing**

On average, manufacturing activity grew robustly – an increase over the prior moderate pace. However, the strongest net increases were for new orders, while shipments merely edged higher. Not surprisingly, net backlogs and delivery times also rose and were more widespread. Net inventories dipped.

**Consumer Spending**

Retailers (nonauto) and restaurateurs reported modest growth. Contacts noted that ongoing supply chain disruptions and labor shortages continued to constrain growth.

Auto sales held somewhat steady at low levels, as supply chain issues continued to plague auto dealers. According to contacts, manufacturers are shipping so few new cars that most are presold and spend little time on dealer lots. Used cars are also becoming scarce.

Tourism resumed a modest pace of growth as the Delta variant wave ebbed. Contacts reported that leisure travel remained relatively robust, while business trips picked up again, especially among small and medium-sized firms.

**Nonfinancial Services**

On balance, nonmanufacturing activity grew moderately – a faster pace than during the prior period. The share of firms reporting increases in sales rose significantly to nearly two-thirds.

**Financial Services**

The volume of bank lending (excluding credit cards) edged lower during the period (not seasonally adjusted); during the same period in 2019, by contrast, loan volume growth was flat. Home mortgages grew modestly; however, commercial and industrial loans continued to contract significantly, while home equity lines and other consumer loans fell modestly. Auto lending and commercial real estate were relatively flat. Credit card volumes grew modestly – an improvement over the slight decline during the same period in 2019.

Bankers, accountants, and bankruptcy attorneys have begun to note a small uptick in some delinquencies, but at very low levels. However, several contacts noted that homeowners who had faced untenable levels of forbearance debt exited their mortgages by selling without a foreclosure and renting elsewhere. The significant increase in home prices has enabled a more graceful exit from debt than during the Great Recession, when many homeowners were underwater on their mortgages. One accountant reported that three major clients sold their multimillion-dollar businesses and retired – citing fatigue stemming from uncertainty.

**Real Estate and Construction**

Homebuilders noted little change. Demand remains strong, but sales are constrained by higher prices and longer delivery times; construction activity remains busy, but efficiency is challenged by supply constraints and contractor availability. One contact noted that the once critical task of scheduling has now become the critical task of rescheduling.

Existing home sales increased modestly as new listings improved. Sales continued to feature multiple offers and cash deals, but inspections were not waived as often. On average, closing prices remained above asking prices in many markets.

Construction activity for nonresidential projects held steady. According to contacts, industrial/warehouse and institutional projects remained strong, while multifamily projects continue to sell despite some concerns. However, the office market is uncertain and quiet. Leasing activity was also strong for industrial and lab space, while demand for office space continued to weaken. The office sublease market stayed active, and many lease renewals requested less space.

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