Summary of Economic Activity

On balance, business activity in the Third District grew modestly – a slower pace than during the prior Beige Book period. Moreover, activity in most sectors had not yet returned to pre-pandemic levels. Since the prior Beige Book, the Omicron variant of COVID-19 has driven up the rate of cases, hospitalizations, and deaths. Contacts noted increased business disruptions as outbreaks occurred at worksites, in employee households, and among their own families. The rate of all persons being fully vaccinated edged up to 66 percent. Net employment growth and price increases slowed to a modest and moderate pace, respectively, while wages continued to rise sharply. However, many firms, especially larger ones, noted strong profits – "the best year ever" for some. Optimism remained high but waned somewhat, as the share of firms expressing positive expectations for continued economic growth over the next six months narrowed – to near two-thirds of the nonmanufacturers and near two-fifths of the manufacturers.

Employment and Wages

Employment grew modestly, with growth in the service sectors more subdued than last period. The share of firms reporting employment increases fell to one-fifth of the nonmanufacturing firms and edged up to two-fifths among the manufacturers. Overall, one-fifth of the nonmanufacturers reported a rise in average hours worked – a bit less than manufacturers' one-third share.

Staffing firms and most employers continued to report significant difficulty attracting and retaining labor. The surge in Omicron cases created staffing challenges in some sectors more than in others.

Employment in leisure and hospitality remains about 10 percent below pre-pandemic levels – more so in the city of Philadelphia – accounting for 175,000 jobs in our three states. While contacts noted great difficulty finding workers, they expect that fewer staff will be required as new technology and lower levels of service (e.g., less frequent fresh towels) are deployed. Likewise, auto dealers are employing about 5 percent (8,000) fewer workers than they did pre-pandemic in New Jersey and Pennsylvania. While dealers noted a need for mechanics, their demand for salespeople is limited while inventories remain scarce and may not fully recover if customers accept and adapt to new sales technologies.

Wages continued to rise substantially. The share of nonmanufacturing firms reporting higher wage and benefit costs per employee held steady at 60 percent. No firms reported lower compensation.

Prices

On balance, prices rose moderately over the period – less than the prior period's sharp increase. The share of manufacturers reporting higher prices for factor inputs decreased to 68 percent, while those receiving higher prices for their own products fell to 51 percent. The share of nonmanufacturers reporting higher prices for their inputs fell to 55 percent, while the share receiving higher prices from consumers for their own goods and services dropped to 34 percent.

Contacts noted that rising wages and higher commodity costs were driving the price increases. Many contacts noted that supply chain disruptions had worsened. Builders also noted the impact from the higher tariff on Canadian lumber.

About 62 percent of the manufacturing contacts reported they expect to pay higher prices over the next six months, and slightly less than that expected to receive higher prices for their own goods.

Manufacturing

On average, manufacturing activity grew modestly – a drop-off from the prior robust pace. The share of firms reporting increases in shipments and new orders fell to levels matching their long-run nonrecession averages. Moreover, increases in net backlogs and delivery times were less widespread, and net inventories held steady.

Consumer Spending

Retailers (nonauto) and restaurateurs continued to report modest growth. Contacts noted that the rise in COVID-19 cases had begun to disrupt worker attendance and may have dampened late holiday season activity.

Supply constraints further reduced inventories for auto dealers – causing new auto sales to fall modestly from already low levels. Contacts expect the limited inventory to preclude the typical year-end sales surge that accompanies year-end bonuses. However, continued demand maintained upward pressure on new and used car prices, and some contacts noted that the high prices were causing some potential buyers to exit the market.

Overall, tourism continued to improve at a modest pace of growth; however, as COVID-19 cases surged in late December because of the Omicron variant, staffing challenges increased and some bookings were canceled, especially within the business travel segment. Resort areas continued to report strong demand but noted that customers had become more demanding – were rougher on resort properties and were refusing to wear masks.

Nonfinancial Services

On balance, nonmanufacturing activity continued to grow moderately, although the share of firms reporting increases in sales retreated to half from nearly two-thirds. The share reporting increases in new orders remained at about one-third.

Financial Services

The volume of bank lending (excluding credit cards) edged higher during the period (not seasonally adjusted); loan volume growth was similar during the same period in 2019. Loan volumes rose modestly in commercial real estate, moderately for home mortgages, and robustly for commercial and industrial lending. However, home equity lines and other consumer loans fell modestly, while auto lending fell sharply. Growth in credit card volume was very strong – a bit stronger than during the same period in 2019.

Bankers, accountants, and bankruptcy attorneys have noted relatively few changes in delinquencies or defaults. However, financial and real estate contacts noted that lenders were becoming increasingly creative at qualifying buyers for new loans. One contact was concerned that a bubble was forming in home mortgages; however, most contacts still felt that home values were sufficient to allow the majority of homeowners to sell their properties and pay off mortgages that had become unaffordable.

Bankers and accountants noted an increasing level of uncertainty on the part of their business clients. Some are choosing to sell their businesses, while buyers find it cheaper to acquire a new business than to grow one – fueling the ongoing high level of mergers and acquisitions. Prior to the surge in Omicron cases, one accounting firm noted a growing fear among its clients of another wave of COVID – that many think the resulting decreased demand would cause them to close their businesses.

Real Estate and Construction

Homebuilders reported no change to relatively high levels of contract signings and construction activity. Contacts did note higher construction costs for materials and labor, increased delays because of supply chain problems, and other negative impacts on sales and production as Omicron variant cases surged.

Existing home sales appeared to hold steady at high levels. Excess demand continued to reward cash buyers with offers above the asking price. Contacts noted that rental units were becoming unavailable, and in some markets, inquiries have increased about mobile home regulations, while some hotels are offering long-term rentals for people stuck between homes.

Construction activity and leasing activity for most segments of nonresidential real estate held steady. Contacts noted that demand for new industrial/warehouse space, institutional projects, and multifamily housing remained strong, while rents continued to rise for existing properties. Uncertainty continued in the office market as analysts debate the extent to which demand will fall. Once again, the recent surge in cases from the latest COVID-19 variant has delayed return-to-office plans and clouded forecasts. ■

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