Summary of Economic Activity

On balance, business activity in the Third District continued to grow modestly in the current Beige Book period. Activity in several sectors had not yet returned to pre-pandemic levels. Since the prior Beige Book, the rate of cases from the Omicron variant of COVID-19 continued to surge to an all-time high in mid-January, then quickly receded to levels last observed in November. Many contacts noted that disruptions to business operations were significant and pervasive, as workers called in sick. The rate of all persons being fully vaccinated rose to 70 percent. Employment grew modestly as firms continued to face challenges in hiring and retaining workers. Wages rose sharply again, but there were signs that the increases may be plateauing. Prices also rose sharply overall, but among manufacturers, price expectations fell significantly in our quarterly survey. On net, expectations for continued economic growth over the next six months flagged somewhat for nonmanufacturers but held steady for manufacturers.

Labor Markets

Employment grew modestly, with growth in most sectors more subdued than last period. The share of firms reporting employment increases remained near one-fifth of the nonmanufacturing firms and edged down to one-third among the manufacturers. Overall, about one-fifth of the firms reported a rise in average hours worked; less than one-tenth reported a decline.

Staffing firms and most employers continued to report significant difficulty attracting and retaining labor, while the surge in Omicron cases created daily staffing challenges. One staffing firm noted that one staff member spent most of two weeks just keeping tabs on COVID cases among its placements.

Wages continued to rise substantially, but reports suggest that the rate of change may be plateauing. In our monthly surveys, the share of nonmanufacturing firms reporting higher wage and benefit costs per employee fell to 54 percent in February from 59 percent in December. Less than 5 percent of the firms reported lower compensation, and that represented an increase from prior months when almost no firms reported lower compensation.

On a quarterly basis, firms reported a somewhat lower expectation of the one-year-ahead change in compensation cost per worker, with a trimmed mean of 5.5 percent in the first quarter of 2022 – down from 5.8 percent in the fourth quarter of 2021.

Prices

On balance, prices rose sharply over the period – more than the prior period’s moderate increase – and were more pervasive. The share of manufacturers reporting higher prices for factor inputs increased to 74 percent, while those receiving higher prices for their own products edged up to 54 percent. The share of nonmanufacturers reporting higher prices for their inputs surged to 70 percent, while the share receiving higher prices from consumers for their own goods and services rose to 45 percent.

Contacts offered a mix of responses regarding inflation, with some expressing optimism that the cost side of inflation will ease first as supply chains improve, but that wage inflation may continue for longer.

From our quarterly survey of firm price expectations, contacts reported further increases in the prices received for their own goods and services over the past year. The trimmed mean for reported price changes rose to 5.6 percent for nonmanufacturers and to 9.4 percent among manufacturers. These price changes have risen steadily since the fourth quarter of 2020, when contacts reported
increases of 1.4 percent and 1.5 percent for manufacturers and nonmanufacturers, respectively.

Looking ahead one year, the prices that firms anticipate receiving edged lower overall – the expected rate of growth fell significantly to 6.4 percent among manufacturers from 7.3 percent in the prior quarter – the first decline since price expectations began rising over one year ago. The rate for nonmanufacturers edged up to 5.0 percent from 4.9 percent in the prior quarter.

**Manufacturing**

On average, manufacturing activity continued to grow modestly. Overall, the share of firms reporting increases in shipments and new orders edged higher than in the prior period; however, reports softened in recent weeks. Reports of rising backlogs were more pervasive, but increases in delivery times and inventories were less widespread.

**Consumer Spending**

Retailers (nonauto) and restaurateurs continued to report modest growth, despite staffing disruptions and customer caution rising with the Omicron surge. Contacts noted rising costs as a threat, but that “supply chains were better but fragile.”

Limited supply continued to constrain new auto sales at very low levels. Contacts broached no guess as to when the microchip shortage or the congestion at the Los Angeles and Long Beach ports would ease.

Overall, tourism declined slightly, as the Omicron surge prompted firms to delay a resumption of business travel and to postpone group events, as well as cause a dip in some leisure travel. Ski resorts seemed exempt from fear of COVID and were constrained only by lack of staff.

**Nonfinancial Services**

On balance, nonmanufacturing activity grew slightly – contacts noted negligible growth early in the period but reported some recovery by the period’s end. Overall, the share of firms reporting increases in sales fell from one-half to about two-fifths, while the share reporting increases in new orders edged down to about one-fourth. However, at the outset of the period, these shares were nearly equaled by the shares of firms reporting decreases in sales and in new orders. Reports of decreases subsequently subsided.

**Financial Services**

The volume of bank lending (excluding credit cards) was flat during the period (not seasonally adjusted); by comparison, loan volumes grew slightly during the same period in 2019. Loan volumes grew modestly in commercial real estate and auto lending and rose moderately for home mortgages and other consumer loans. However, commercial and industrial lending and home equity lines fell modestly. Credit card volumes declined moderately – similar to the seasonal decline observed during the same period in 2019.

Bankers, accountants, and attorneys noted a continued, if not an increasing, level of uncertainty on the part of their clients. Many are flush with cash and making no big plans, except for automating where possible. Finding and paying for labor remains their primary challenge.

**Real Estate and Construction**

Homebuilders reported steady contract signings and construction activity but continued to cite problems securing materials and labor, as well as rising costs for both. Amid a heated market for multifamily housing, a year-end deadline to qualify for a popular 10-year property tax abatement in Philadelphia prompted developers to pull permits for eight times more apartment or condo units than in 2019. Contacts noted that the nearly 23,000 permitted units will not all be built, but that completing even a fourth of the total would put downward pressure on apartment rents and condo prices.

Existing home sales held steady at high levels; however, new listings remained scarce, and available homes continued to sell quickly near the asking price. Contacts noted that housing affordability continues to deteriorate for first-time buyers, generating strong demand for new rental units.

Construction activity and leasing activity held steady for most segments of nonresidential real estate. Contacts continued to cite multifamily housing, institutional projects, and industrial/warehouse space as the strongest markets. Prospects for office space and downtown retail will become clearer once workers return to offices on a consistent basis.

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