Summary of Economic Activity

On balance, business activity in the Third District grew slightly – at a slower pace than during the prior Beige Book period. Activity in a few sectors remained below pre-pandemic levels. Since the prior Beige Book, the rate of COVID-19 cases has grown fourfold. Moreover, official statistics appear to be underestimating the actual incidence of COVID-19, as more people take home tests and recover at home. Employment grew modestly, and some firms have begun reassessing their future staffing needs in fear of a recession. Wage and price inflation moderated for most firms, as have inflation expectations; however, wages continued to rise at a moderate pace and prices at a strong rate. Firms continued to cite hiring difficulty and supply chain disruptions as their key challenges; coping with COVID-19 cases has become routine. On net, expectations for continued economic growth over the next six months fell for all firms and were well below their nonrecessionary historical averages. Among manufacturing firms, expectations nearly turned negative.

Labor Markets

Employment grew modestly – at a slower pace than in the prior period. The share of firms reporting employment increases fell below one-fourth of the nonmanufacturing firms and fell to nearly one-fourth among the manufacturers. Contacts described many firms as "hunkering down" in anticipation of a recession – hiring managers are more carefully assessing their future needs, and firms are deploying automation wherever possible. Also, the share of manufacturers that expect to hire more workers fell to one-third from over one-half in December.

Employers and staffing firms tended to describe hiring and retention of employees as their biggest challenge. Firms that can't or won't raise their starting wage reported few applicants and high turnover. Many employers described losing experienced workers to firms offering much higher salaries and to full-time remote opportunities. Firms that carefully calibrate their wage rates above the market averages tended to report fewer difficulties.

On balance, wages continued to increase moderately. However, most firms, including staffing firms, noted that the pace of wage growth is slowly subsiding, as they have reported since year-end. Wage increases remain widespread. In our monthly surveys, the share of nonmanufacturing firms reporting higher wage and benefit costs per employee edged higher to about three-fifths in May; a small percentage reported lower compensation costs.

Firms also expect lower wage growth in the future. On a quarterly basis, firms reported lower expectations for the one-year-ahead change in compensation cost per worker – the second consecutive decline. Expectations (measured as a trimmed mean of all firms reporting) fell to 5.2 percent from 5.5 percent in the first quarter of 2022 and from 5.8 percent in the fourth quarter of 2021.

Prices

On balance, price increases attenuated throughout the supply chain – to a moderate pace for nonmanufacturers and to a still-strong rate among manufacturers. Moreover, while price increases remained pervasive, they were less widespread than during the prior period.

Contacts reported that price increases received for their own goods and services over the past year slowed for the first time in the past six quarters. The trimmed mean for reported price changes in our quarterly survey questions fell to 6.3 percent from a peak of 7.3 percent in the first quarter of 2022 for all firms. Price increases fell to 4.8 percent from 5.5 percent for nonmanufacturers and to 8.1 percent from 9.6 percent among manufacturers.

In addition, the share of firms reporting higher prices for their own goods and services edged down, as did the share of manufacturers that reported higher prices for factor inputs. The share of nonmanufacturers reporting higher prices for their inputs edged up.

Looking ahead one year, the price increases that firms anticipate receiving fell for the second consecutive quarter – the trimmed mean for all firms was 5.0 percent in the second quarter of 2022, down from 5.6 percent in the first quarter of 2022 and 5.9 percent in the fourth quarter of 2021. The expected rate of growth was 4.1 percent for nonmanufacturers and 5.9 percent for manufacturers.

Manufacturing

On average, current manufacturing activity continued to grow modestly. The indexes for shipments and new orders trended lower but remained above historical averages for nonrecessionary periods.

However, sentiment appeared to hover on the verge of turning negative. The index of current general activity fell to nearly zero – its lowest reading since spring 2020 as the pandemic gripped the economy. The index of future general activity also fell to nearly zero – its lowest reading in 13 years. Correspondingly, manufacturing firms lowered their expectations for future capital expenditures, with that index falling to a six-year low.

Consumer Spending

Retailers (nonauto) and restaurateurs reported slight sales growth overall – a weaker pace than in the prior period. Contacts noted that rising prices for food and fuel appear to have lowered the frequency of customer visits and reduced the average spend per visit. Moreover, sales may be weaker after adjusting for inflation.

On balance, auto dealers have reported a modest decline in sales since the prior period; sales are now significantly below the levels in 2019. With demand far outpacing supply, very high prices are ensuring ample profitability.

Overall, tourism grew modestly, as the sector's key components continued their recovery. Domestic leisure travel remains strong – despite rising gas prices – while conventions and other group travel have been resuming with intermittent disruptions from COVID-19 outbreaks. Business travel is recovering more slowly, with less certainty.

Nonfinancial Services

On balance, nonmanufacturing activity grew slightly – slowing from the prior period's pace to that experienced at the height of the Omicron surge. Overall, the share of firms reporting increases in sales and in new orders fell, while the share of firms that reported decreases rose in both categories.

Financial Services

The volume of bank lending (excluding credit cards) grew modestly during the period (not seasonally adjusted) – a similar pace as seen during the same period in 2019. However, inflation is contributing more to the growth during the current year relative to past years – overall and for the lending categories that follow.

Loan volumes grew moderately for home mortgages, home equity lines, and commercial real estate. Auto lending grew modestly, as did commercial and industrial lending. Other consumer loans fell modestly. Credit card volumes grew moderately. Typically, credit card volumes grow modestly during this season of the year.

Bankers, accountants, and attorneys noted that the combined impacts of labor market challenges, inflation, supply chain issues, the war in Ukraine, and lingering COVID-19 disruptions have caused some firms to put plans on pause and to consider their strategic options.

Real Estate and Construction

Existing backlogs will keep homebuilders active into 2023; however, contacts reported that sales traffic and contract signings for new homes fell moderately. If the trend continues, contacts noted, repricing, restructuring, and layoffs are under consideration; already, some land deals have been halted.

Existing home sales fell slightly but remained near recent high levels. Contacts reported that demand remained strong despite some buyers – especially first-time buyers – exiting as prices and interest rates have risen. Quick sales featuring cash offers and waived inspections continued to outpace new listings – suppressing inventory levels and further reducing housing affordability.

On balance, construction activity and leasing activity for commercial real estate held steady and were busy for industrial/warehouse space, multifamily housing, and institutional projects. A contact noted that the rising costs of materials and labor are driving a wedge between project estimates and eventual bids – often resulting in modifications to lower the total expense. Ongoing COVID-19 cases have further delayed return-to-office plans for some firms. ■

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