Summary of Economic Activity

On balance, business activity in the Third District held steady – a pause from the slight growth of the prior Beige Book period. Broad nonfinancial services activity grew slightly, but most other sectors were flat or down. Activity in a few sectors remained below pre-pandemic levels. Employment grew slightly as fears of a recession increased. Wages and prices continued to grow at a moderate and strong pace, respectively. However, firms noted that wage and price pressures were, in fact, easing. Moreover, firms’ expectations for future prices fell. Most firms continued to note hiring difficulty, supply chain disruptions, and high prices as their biggest challenges; COVID-19 cases held steady in the District at relatively low rates. On balance, expectations for continued economic growth over the next six months declined for nonmanufacturing firms but remained positive. Among manufacturers, expectations remained negative and deteriorated further. Expectations for all firms were well below their nonrecessionary historical averages.

Labor Markets

Employment grew slightly – slower than the prior period’s modest pace. Scattered reports of layoffs, attrition, and hiring freezes have increased since the prior period. One staffing company reported slower job orders, noting order activity is approaching levels consistent with prior recessions. The share of firms reporting employment increases edged down from the prior period. However, the share remained near one-quarter among both manufacturing and nonmanufacturing firms despite rising signs of a cooling labor market.

Overall, most firms still describe hiring and retention as a top concern. However, many contacts, including staffing firms, noted a slight easing of labor supply challenges in recent months, with more workers applying for open positions. One contact stated that some workers have explained that they had quit jobs because of poor management, unkept promises, or racist attitudes.

Firms continued to note that wage growth subsided in recent months. However, wage inflation remains widespread and appears to have maintained a moderate pace. In our monthly surveys, the share of nonmanufacturing firms reporting higher wage and benefit costs per employee edged down but remained above 50 percent, as has been true for the past year. Few firms reported lower compensation.

On a quarterly basis, firms reported a somewhat higher expectation of the one-year-ahead change in compensation cost per worker, with a trimmed mean of 5.8 percent in the third quarter of 2022 – up from 5.2 percent in the second quarter.

Prices

Prices appear to have continued growing at a strong pace. Contacts reported that price increases received for their own goods and services over the past year rebounded in the third quarter of 2022 after slowing in the prior quarter. The trimmed mean for reported price changes in our quarterly survey questions rose to 7.2 percent from 6.3 percent in the second quarter of 2022 for all firms. Price increases ticked up to 4.5 percent from 4.4 percent for nonmanufacturers and rose to a high of 10.4 percent from 9.6 percent among manufacturers.

Despite the rise in year-over-year price growth, price increases for firms’ inputs were less widespread in recent months. Additionally, a smaller share of firms reported price increases throughout much of the downstream supply chain, including prices faced by consumers.

Looking ahead one year, the price increases that firms anticipated receiving fell for the third consecutive quarter – the trimmed mean for all firms was 4.3 percent in the
third quarter of 2022, down from 5.0 percent in the second quarter of 2022 and a peak of 5.9 percent in the fourth quarter of 2021. The expected rate of growth was 3.5 percent for nonmanufacturers and 5.4 percent for manufacturers.

Manufacturing
On average, current manufacturing activity continued to decline slightly. The index of new orders fell from an already negative reading. Despite the decline in new orders, the shipments index rose modestly as firms worked through backlogs.

Manufacturing firms’ expectations remained muted. The indexes of future activity and new orders fell further into negative territory; however, expectations of future capital expenditures and employment were positive and even rebounded slightly.

Consumer Spending
On balance, retailers (nonauto) and restaurateurs reported overall sales held steady from the prior period. Most contacts noted no change in customer traffic, but one contact reported smaller purchases per visit.

Auto dealers reported little change to the weak level of sales observed during the prior period, as inventories remained extremely low; sales remained significantly below the levels in 2019. While constrained supply makes it difficult to observe demand, one contact noted that high prices and rising interest rates appeared to slightly reduce demand for vehicles’ most expensive trim options.

Overall, tourism continued to grow slightly. The ongoing recovery of business travel outweighed a slight pullback in leisure travel. Despite the slight slowdown, domestic leisure travel remained strong, particularly at shore destinations. One contact reported that the number of large events, such as conventions and concerts, had returned to near 2019 levels, but attendance at such events remained well below what was seen prior to the pandemic.

Nonfinancial Services
On balance, nonmanufacturing activity grew slightly – at a slower pace than in the prior period. Overall, the share of firms reporting increases in sales and in new orders declined, 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) – at a slower pace than in the prior period, but comparable with the same period in 2019. Growth was balanced as all but one individual loan segment grew modestly to moderately during the period. Inflation is contributing more to the growth during the current year relative to past years.

Loan volumes declined at a moderate pace for commercial and industrial loans. Multiple contacts noted a slowdown in commercial loan demand, as potential borrowers remained concerned about rising interest rates and economic uncertainty. Some contacts also highlighted the amount of untouched stimulus money still on firms’ balance sheets. Credit card volumes appeared to continue growing moderately – at a quicker pace than typically experienced this season of the year.

Real Estate and Construction
Homebuilders reported that contract signings for new homes continued to fall modestly. However, contacts noted that sales traffic rebounded slightly in recent weeks following the introduction of new incentives and lower-priced options.

Existing home sales continued to fall slightly. While prices continued to rise on a year-over-year basis, contacts noted that the percentage of houses selling for more than the asking price declined. Housing affordability remained a challenge, and rents remained high. The share of 211 calls that sought assistance for housing have edged higher since the prior period, to 35 percent of total calls – 42 percent of those were for rental assistance. Calls for help with utility bills edged down to 20 percent.

On balance, construction activity and leasing activity for commercial real estate continued to hold steady. The markets for industrial/warehouse space, multifamily housing, and institutional projects remained strong. Rents for industrial/warehouse space and multifamily housing continued to rise. Contacts noted that high input prices remain a challenge for construction, but price growth has slowed. Multiple contacts reported that new land purchases and long-term projects have been delayed until firms have more clarity on interest rates and inflation.

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