Summary of Economic Activity

On balance, business activity in the Third District has continued to hold steady since the prior Beige Book period. Consumer spending on food and manufacturing declined modestly, while most other sectors were little changed. Activity in a few sectors remained below pre-pandemic levels. Employment continued to grow slightly. Wages and prices grew at a moderate pace—slower than in the prior period. Firms continued to indicate that wage and price pressures were, in fact, easing, but remained a challenge. Firms also cited some easing of the ongoing challenges in hiring and supply chains. On balance, expectations for economic growth over the next six months increased for nonmanufacturing firms. Among manufacturers, expectations improved but remained negative. Expectations for all firms remained well below their nonrecessionary historical averages. On average, sentiment appeared more positive in the Greater Philadelphia region compared with the outlying areas of the Third District.

Labor Markets

Employment continued to grow slightly. Contacts described a heightened expectation of a recession, and businesses intensified preparations for a downturn: Multiple firms instituted a hiring freeze, others initiated planning for layoffs if business conditions did not improve, and one firm noted broad-based layoffs were already under way. While the share of firms reporting employment increases declined for the second consecutive period, the share remained near 25 percent for nonmanufacturing firms and near 15 percent for manufacturing firms.

Overall, most firms still describe hiring and retention as a top concern. Most firms—90 percent of manufacturing and 83 percent of nonmanufacturing—reported labor supply as constraining business operations to some extent in the third quarter of 2022. Several contacts noted firms were hesitant to lay off employees, given the difficulty they have experienced hiring workers in recent years.

Firms continued to note that wage growth subsided in recent months. One staffing firm noted that recent year-over-year wage growth—at about 8.5 percent—was down nearly half (from 16 percent in December). 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 below 50 percent—the first time this share fell below 50 percent since September 2021. No firms reported lower compensation.

Prices

On balance, prices rose moderately over the period—slower than in the prior period. Several contacts noted the rate of price increases had relented. However, price growth remained widespread. The share of manufacturers reporting higher prices for factor inputs declined, while those receiving higher prices for their own products edged higher. The share of nonmanufacturers reporting higher prices for their inputs rose, as did the share receiving higher prices from consumers for their own goods and services.

About 60 percent of the manufacturing contacts continued to report they expect to pay higher prices over the next six months, and just over half continued to expect to receive higher prices for their own goods.

Manufacturing

On average, current manufacturing activity appeared to decrease modestly—following a slight decline in the prior period. The index for new orders fell from an already negative reading. The shipments index also
declined, but remained positive, as firms worked through backlogs.

Despite the decline in manufacturing activity from the prior period, a majority of the firms estimated increased total production growth for the third quarter of 2022 compared with the second quarter. Nearly all firms reported labor supply and supply chains as constraints to capacity utilization.

Manufacturing firms’ expectations remained subdued. The indexes for future activity and new orders trended higher but remained well below historical averages for nonrecessionary periods; the index for future activity remained negative. About one-quarter of the firms expect supply chain disruptions to improve over the next three months, while one-fifth expect them to worsen.

**Consumer Spending**
On balance, retailers (nonauto) and restaurateurs reported overall sales declined modestly from the prior period, during which sales held steady. Contacts attributed the decline in sales to both a slowdown in customer traffic and smaller purchases per visit.

Auto dealers reported little change to the weak level of sales observed during the prior period, and sales remain significantly below the levels in 2019. Contacts noted that inventories have improved slightly but remained extremely low. While constrained supply makes it difficult to observe demand, one contact reported that high prices and rising interest rates appeared to reduce demand by pricing some potential customers out of the market.

Overall, tourism continued to grow slightly. Business travel continued its recovery but remains well below 2019 levels. Bookings for domestic leisure travel remained strong, particularly at shore and resort locations. However, one contact noted that the amount of money guests spend at their leisure destinations declined modestly in recent months.

**Nonfinancial Services**
On balance, nonmanufacturing activity appeared to continue growing slightly. The indexes for general activity at the firm level, sales, and new orders increased from the prior period. The share of firms reporting increases in general activity increased, while the share of firms that reported decreases was relatively stable.

**Financial Services**
The volume of bank lending (excluding credit cards) grew moderately during the period (not seasonally adjusted) – at a faster pace than in the prior period, and comparable with the same period in 2019. Growth was balanced, as all loan segments grew modestly to moderately during the period. Inflation is contributing more to the growth during the current year relative to past years.

Loan volumes continued to grow at a moderate pace for home mortgages, with multiple contacts noting an increase in volume of adjustable-rate mortgages. Volumes also grew moderately for commercial and industrial loans, in part reflecting a return to banks from borrowers who previously relied on the bond market for funding, according to a lender. Credit card volumes continued growing moderately – a pace typically experienced this season of the year.

**Real Estate and Construction**
Homebuilders reported that contract signings for new homes were down slightly – contract signings declined modestly in the prior period. Furthermore, contacts noted that traffic of prospective buyers also slowed noticeably in recent weeks.

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, and the average number of days houses are on the market increased. Housing affordability remained a challenge, and rents remained high. The share of 211 calls that sought assistance for housing have edged lower since the prior period, to 34 percent of total calls – 41 percent of those were for rental assistance. Calls for help with utility bills edged up to 21 percent, and calls regarding employment and income edged up to 8 percent.

On balance, construction activity and leasing activity for commercial real estate continued to hold steady. The markets for industrial/warehouse space and institutional projects remained strong. Rents for multifamily housing and industrial/warehouse space were little changed. Contacts noted that high input prices remain a challenge for construction, even as price growth continued to slow. Multiple contacts reported that long-term land development and multifamily projects have been delayed as interest rates rise and inflation concerns persist.