Summary of Economic Activity

On balance, business activity in the Third District appears to be teetering on the edge of a decline but managed to hold fast since the prior Beige Book period. Inflation has driven consumers to lower-priced items and lower-priced stores. Rising interest rates have discouraged consumers from buying big-ticket items, including homes and autos. Employment continued to grow slightly, despite the onset of some layoffs. Wage growth and inflation continued to subside but remained at a moderate pace. Overall, firms noted less difficulty in hiring and fewer supply chain disruptions. On balance, expectations for economic growth over the next six months deteriorated for all firms; however, the index for nonmanufacturers remained positive, while the index for manufacturers remained negative. Expectations for all firms remained well below their nonrecessionary historical averages. On average, conditions and sentiment appeared more positive in the Greater Philadelphia region than in the outlying areas of the Third District.

Labor Markets

Employment continued to grow slightly; however, fewer firms reported increases, while more began noting decreases. The share of firms reporting employment increases fell below 20 percent for nonmanufacturing and manufacturing firms; firms reporting decreases rose to nearly 10 percent.

Staffing firms noted that orders are soft across the board and are not keeping pace with the typical year-end hiring surge. Hiring freezes and staff layoffs have begun in the residential real estate sector; layoffs are expected to expand more broadly throughout the home construction sector in the first quarter of the year. Firms from many sectors reported preparations for a potential recession but also remain hesitant to lay off employees, given recent hiring difficulties.

Firms continued to note that wage growth had subsided but remained elevated at a moderate rate. One staffing firm noted that recent year-over-year wage growth was down to 5.75 percent. Wage inflation is also becoming somewhat less widespread. In our monthly surveys, the share of nonmanufacturing firms reporting higher wage and benefit costs per employee fell to nearly 40 percent, while just over half of the firms reported no change and a few reported lower compensation.

On a quarterly basis, firms reported a lower expectation of the one-year-ahead change in compensation cost per worker, with a trimmed mean of 5.1 percent in the fourth quarter of 2022 – down from 5.8 percent in the third quarter and the lowest rate of increase this year. One large retail firm noted plans for 4.0 percent average wage increases next year – a bit higher than its norm. Although the firm's wage plan is lower than the expectations reported by other firms in the survey, the firm noted that it has managed to keep turnover rates low by maintaining a competitive wage within its sector.

Prices

On balance, inflation continued at a moderate pace – comparable with the prior period, but an improvement from a third-quarter spike. Manufacturing firms drove the quarterly change; nonmanufacturing firms have noted moderate increases for most of the year.

Contacts reported that increases in prices received for their own goods and services over the past year fell in the fourth quarter of 2022. The trimmed mean for reported price changes in our quarterly survey questions fell to 6.0 percent from 7.2 percent in the third quarter of 2022 for all firms. Price increases ticked up to 4.6 percent from 4.5 percent for nonmanufacturers and fell to 7.9 percent from 10.4 percent among manufacturers. Moreover, price increases for nonmanufacturing firms were less widespread in recent months – for both inputs and prices received for their own goods.

Looking ahead one year, the increases that firms anticipated in prices for their own goods held steady at a moderate rate – the trimmed mean for all firms remained at 4.3 percent in the fourth quarter of 2022. The expected rate of growth rose to 4.2 percent from 3.5 percent for nonmanufacturers and fell to 4.5 percent from 5.4 percent for manufacturers.

Manufacturing

Manufacturing activity continued to decline modestly. The index for new orders remained negative for a sixth consecutive month. Nevertheless, the shipments index remained positive at low levels, as firms continued to work through backlogs. Delivery times and inventories also continued to fall.

Manufacturing firms' expectations deteriorated. The indexes for future activity and new orders trended lower and were negative. On net, a small portion of firms continue to expect to increase employment and capital spending over the next six months.

Consumer Spending

On balance, retailers (nonauto) and restaurateurs continued to report modest declines in sales. Contacts described lower traffic, lower spending per customer, and a need to offer discounts. In particular, low- and middle-income customers are spending less and shifting to lower-priced items.

Auto dealers reported a slight increase in sales as more inventory has reached their lots. However, high prices and rising interest rates have discouraged buyers. As a result, dealers have a few cars left on their lots at the end of each week, and used car prices are falling.

Overall, tourism held steady – following a slight increase last period. Leisure travel remains strong, while business travel remains below 2019 levels. Moreover, the Philadelphia region has further to recover than the nation. Finding workers has become easier, but firms are beginning to take a wait-and-see attitude on open positions.

Nonfinancial Services

On balance, nonmanufacturing activity appeared to pause after growing slightly in the prior period. Firms were almost evenly divided in reporting increases, decreases, or no change in their sales and new orders.

Financial Services

The volume of bank lending (excluding credit cards) grew moderately during the period (not seasonally adjusted) – comparable to growth in the prior period, but much faster than in the same period one year ago. Growth was pervasive across major loan segments except auto lending. Inflationary effects on home prices and other big-ticket items continue to boost loan volume growth during the current year relative to past years.

District banks reported strong loan volume growth in home mortgages and commercial and industrial lending, moderate growth in commercial real estate, and modest growth in home equity loans and other consumer loans. Auto lending declined modestly. Credit card volumes grew modestly – a pace typical of the season. Credit counselors noted that more low- and middle-income households are putting basic expenses onto credit cards.

Real Estate and Construction

Homebuilders reported that contract signings for new homes plunged after declining slightly in the prior period. Their current backlog will carry construction through the first quarter with only a modest decline in activity, but not much further.

Existing home sales fell steeply in most markets. Brokers reported that sales prices have begun to ease but remain high. They noted that high prices combined with rising interest rates have reduced housing affordability significantly and have driven potential buyers from the market.

Requests for housing assistance continued to dominate the share of 211 calls; however, the share fell to 31 percent. Of the calls for housing assistance, 42 percent were for rental assistance as landlords continued raising rents. With winter approaching, the share of requests regarding utility bills rose further to 24 percent; assistance with employment or income also rose further, to 9 percent.

Market participants in commercial real estate reported steady current construction activity and a slight decline in leasing activity. Most noted examples of delayed deals and a significant reduction in credit availability – concluding that the current pipeline would carry construction through much of 2023, but activity might slow thereafter. The future demand for office space remained a major uncertainty, while contacts described the future impacts of the infrastructure bill as an opportunity, competition for tight resources, or both. ■

For more information about District economic conditions visit:
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