Summary of Economic Activity

On balance, business activity in the Third District appears to have increased slightly after declining slightly last period. Consumer demand appeared to tick up, but contacts cautioned against comparisons with year-ago sales that were dampened by the Omicron wave. Moreover, bankers and nonprofit agencies warned that lower-income households were buying food and other necessities on credit. Employment resumed a modest pace of growth despite the tight labor market. Wage growth and inflation continued to subside, but both remained moderate. Overall, firms continued to report less difficulty in hiring and fewer supply chain disruptions. On balance, expectations for economic growth over the next six months improved slightly among all firms; however, expectations remained well below their nonrecessionary historical averages.

Labor Markets

Employment growth resumed a modest pace after having maintained a slight pace since July 2022. About one-fifth of the firms reported increased employment; one-tenth reported less employment. Contacts, including staffing firms, noted that hiring continued to be easier, with more applicants, lower turnover, and less wage pressure. One staffing contact commented that billboards advertising jobs were no longer seen in the area.

However, firms continued to describe a very tight labor market in which staffing remained their primary challenge. Contacts pointed to a lack of childcare, baby boomer retirements, disconnected youth, the national immigration policy, and lingering effects of the pandemic as critical underlying factors.

Firms again reported that wage inflation had subsided since the prior month but remained pervasive and moderate. In our monthly surveys, the share of nonmanufacturing firms reporting higher wage and benefit costs per employee was nearly equal to the share reporting no change (at a little under 50 percent); the share reporting lower compensation levels was just over 4 percent.

On a quarterly basis, firms' expectations of the one-year-ahead change in compensation cost per worker essentially held steady, with a trimmed mean of 5.2 percent in the first quarter of 2023 versus 5.1 percent in the fourth quarter of 2022. However, these recent expectations were lower than the 5.8 percent in the third quarter of 2022. Manufacturers expected wage increases of 5.0 percent; nonmanufacturers expected 5.5 percent.

Prices

On balance, inflation continued at a moderate pace – comparable with the prior period. However, reports of price increases were generally less widespread, and expectations of future price hikes continued to fall.

Contacts reported that increases in prices received for their own goods and services over the past year held steady at a moderate pace in the first quarter of 2023. The trimmed mean for reported price changes in our quarterly survey questions remained at 6.0 percent for all firms. Price increases rose to 8.1 percent from 7.9 percent for manufacturers but fell to 4.4 percent from 4.6 percent among nonmanufacturers.

Likewise, reported increases in prices paid and received were significantly less widespread than one year ago. Since year-end, reported increases for prices paid for inputs were also less widespread among all firms; however, increases in prices received for their own goods were more widespread, especially for nonmanufacturers.

Looking ahead one year, the increases that firms anticipated in prices for their own goods subsided further to a

modest rate – the trimmed mean for all firms fell to 4.0 percent in the first quarter of 2023, from 4.3 percent over the past two quarters. Previously, it had fallen steadily from 5.9 percent in the fourth quarter of 2021. The expected rate of growth edged down to 3.9 percent from 4.0 percent for nonmanufacturers and fell to 4.1 percent from 4.8 percent for manufacturers.

Manufacturing

Manufacturing activity declined modestly – after declining moderately in the prior period. The index for new orders was negative for the ninth straight month but was not as deep as last period. Moreover, the shipments index turned positive after dipping negative at year-end.

Contacts confirmed that demand slowed and backlogs fell. Demand tended to be slower for firms supplying construction-related sectors; however, one contact noted an early pickup in orders in anticipation of future infrastructure spending.

Expectations among manufacturers for growth in six months remained muted. The index for future activity turned slightly positive, and the new orders index changed little since year-end. However, expectations for increases in shipments, employment, and capital spending over the next six months were less pervasive.

Consumer Spending

Nonauto retailers and restaurateurs tended to report slight growth because of several positive factors: good weather, early tax refunds, and an easy comparison against year-ago sales, which were dampened by the Omicron wave. Tourism contacts reported steady activity but also noted that comparisons with the first quarter of 2022 "may provide false hope." Auto dealers reported a slight uptick in sales in the new year as manufacturers began delivering more new cars. However, a builder noted that dozens of small businesses in its community neighborhoods were struggling, as their customers became increasingly budget conscious.

Nonfinancial Services

On balance, nonmanufacturing activity appeared to resume a slight pace of growth after two periods of little change. Growth was more widespread, as the share of firms reporting increases in sales and new orders edged out the share of firms reporting decreases. However, the difference was smaller than normal for nonrecessionary periods.

Financial Services

The volume of bank lending (excluding credit cards) grew modestly during the period (not seasonally adjusted) – slower than the prior period but faster than in the same period last year. Inflationary effects on home prices and other big-ticket items continued to boost loan volume growth during the current year relative to past years.

During the period, District banks reported strong growth in home mortgages and other consumer lending, moderate growth in auto loans, and modest growth in commercial and industrial lending. Home equity lines declined modestly, and commercial real estate lending was essentially flat. Banks reported strong declines in credit card volumes – typical of the postholiday season.

Nonprofit contacts noted that some of their clients have begun charging basic food and utility expenses to credit cards and are using "buy now, pay later" online services for movies and dinners. Several contacts noted that as of the end of February, low-income households in our three states will lose significant supplemental SNAP benefits that were made available during the pandemic. Moreover, local food banks are contending with falling levels of donations, higher food prices, and staffing challenges.

Real Estate and Construction

Homebuilders reported an unexpected uptick in sales in early 2023. Contacts attributed the improvement to incentives, discounts on older inventory, and new homes built with smaller footprints and lower-cost features. Builders also noted that homebuyers may have resigned themselves to the current mortgage rate environment.

Existing home sales fell moderately in most markets – following a modest decline in the prior period. Brokers noted that a sellers' market persists as new listings remain scarce. Housing affordability continued to decline.

Requests for assistance with housing and utility bills continued to dominate the share of 211 requests in the three-state region, at 36 percent and 18 percent, respectively. In turn, 39 percent of the housing requests were for rental assistance.

Market participants in commercial real estate continued to report steady current construction activity but noted additional softening of the pipeline as more projects are delayed, canceled, or redesigned. Leasing activity continued to slow modestly. While demand for warehousing and life sciences space remained strong, concerns about other commercial real estate prompted at least one large law firm to gear up for handling distressed properties. ■

For more information about District economic conditions visit:
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