



## Summary of Economic Activity

On balance, business activity in the Third District continued to decline slightly. Consumer demand appeared to tick down as contacts detailed more cautious spending habits by consumers, including fewer visits and smaller purchases. High interest rates are continuing to limit listings of existing homes for sale, which has helped new home builders. Employment fell slightly despite improving labor availability. Wages and prices continued to grow at a modest pace. Firms also continued to indicate that wage and price pressures were subsiding. Overall, contacts reported relatively few supply chain disruptions – instead noting that the costs of many of their supplies had stabilized. Contacts continued to note tighter credit standards, although credit quality remained good. On balance, expectations for economic growth over the next six months remained subdued, as both manufacturing and nonmanufacturing firms expected slight growth.

### Labor Markets

Employment appeared to decline slightly after rising slightly during the prior period. Although contacts noted relatively few cases of broad-based layoffs, they detailed targeted layoffs, more selective hiring practices, and fewer hours for employees. Of the firms looking to hire, most reported that hiring continued to be easier as labor availability improved. However, firms noted that shortages remained for certain positions, especially housekeeping staff and cooks in the leisure and hospitality industry and skilled trade workers in the construction and manufacturing industries.

In our monthly surveys, nonmanufacturing firms reported decreases in both full-time and part-time employment. The index for full-time employment in the nonmanufacturing sector turned negative and fell to its lowest level since June 2020. The share of nonmanufacturing firms that reported a decrease in the number of full-time jobs rose to over 25 percent. Manufacturing firms reported mostly steady levels of employment as nearly three-quarters of the firms reported no change in jobs. Staffing firms confirmed that the demand for labor declined from the prior period and that clients were no longer looking to immediately fill all open positions.

Firms reported that wage inflation continued at a modest pace overall but is slowly subsiding. Multiple contacts

across sectors indicated that year-over-year wage increases were back to pre-pandemic levels. Construction and manufacturing contacts noted wage pressures had not eased as much for specialty trades.

In our monthly surveys, the distribution of nonmanufacturing firms reporting higher or lower wage and benefit costs per employee was typical of the pre-pandemic era, when modest wage growth prevailed.

### Prices

On balance, firms reported that prices continued to rise modestly; however, they noted that the rate of price increases appears to be slowly abating. Contacts continued to report fewer supply chain disruptions but indicated that their firms were trying to maintain high profit margins for as long as possible.

In our monthly surveys, reported increases in prices paid and received were significantly less widespread than one year ago and were well below their historical averages. The prices paid and prices received indexes declined for nonmanufacturers, with the prices received index turning negative. Among manufacturers, the prices paid index was little changed, and the prices received index rose.

The indexes for future prices paid and future prices received continued to suggest that firms expect price increases over the next six months. However, both indexes edged lower and were below their long-run averages.

## Manufacturing

Manufacturing activity continued to decline modestly in the current period. The index for new orders was little changed from the last period and was negative for the 13th consecutive month. The shipments index rose for the third consecutive month and turned positive for the first time since February.

Despite the decline in manufacturing activity from the prior period, nearly half of the firms estimated increased total production growth for the second quarter of 2023 compared with the first quarter. Most firms reported labor supply and supply chains as slight or moderate constraints to capacity utilization.

Expectations among manufacturers for growth in the next six months rose but remained tempered compared with historical averages. The indexes for future activity and future new orders turned positive, and the index for future shipments also rose. All three indexes improved to their highest level in over a year.

## Consumer Spending

On balance, consumer spending declined slightly in the current period – after holding steady, at best, in the prior period. Contacts indicated consumers became more careful in their spending. One retail contact reported a decline in the volume of goods sold but noted that year-over-year sales figures were buoyed by higher prices than last year.

Auto dealers reported little change in sales from the prior period despite the continued growth of car inventories. Contacts reported that rising affordability concerns appeared to weigh on demand, keeping year-to-date auto sales in line with last year when sales were constrained by low inventories. Softening demand led some dealers to decrease prices and most dealers to increase incentives.

Tourism contacts continued to report slight growth – noting that the recovery was slowing. Business travel continued to recover, but leisure travel was flattening. Multiple contacts reported that the amount of money guests spend at their leisure destinations declined modestly in recent months. Despite the slowing recovery in tourism in the region overall, one contact highlighted that May was the strongest month for hotel revenue in Philadelphia since the onset of the pandemic, in large part due to an influx of guests for the Taylor Swift concerts in the city.

## Nonfinancial Services

On balance, nonmanufacturing activity continued to decline modestly. However, the decline appeared more widespread than in the prior period. The indexes for new orders and sales both turned negative, as the share of

firms reporting decreases exceeded the share reporting increases for both categories. Expectations for growth over the next six months remained subdued.

## Financial Services

The volume of bank lending (excluding credit cards) grew modestly during the period (not seasonally adjusted) – slower than the moderate growth observed in both the prior period and the same period last year.

During the period, District banks reported strong growth in home mortgages and moderate growth in auto loans, other consumer lending, and commercial real estate loans. Home equity loans were flat. Credit card volumes grew at a moderate to strong pace after rising modestly last period, but the growth was slower than during the same period last year.

Banks reported a moderate decline in commercial and industrial loan volumes after strong growth in the prior period. Most contacts continued to report tightening credit conditions following recent bank failures and described an environment of elevated caution in which most banks want to extend credit only to customers with whom they already have a relationship. Contacts also continued to report good credit quality.

## Real Estate and Construction

Real estate brokers reported that inventories of existing homes for sale remained very low because homeowners have been reluctant to give up their low mortgage rates. Existing-home sales rose slightly in the current period but remained well below the sales observed in prior years during the normally busy spring housing market. Homebuilders once again described their modest sales as better than expected, and noted the industry continued to benefit from the dynamics of the existing-home market.

Housing affordability remained low, and rents remained high in the current period. Requests for assistance with housing and utility bills rose slightly and continued to dominate the share of 211 requests in New Jersey and Pennsylvania. Over 30 percent of all requests in the two states were related to housing, while 28 percent of the requests involved utility bills.

According to contacts, construction activity for commercial real estate held steady, but financing conditions for new projects became more difficult. Leasing activity continued to fall moderately as weakness in the office market continued to materialize. ■

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