Summary of Economic Activity

On balance, business activity in the Third District continued to decline slightly. Consumer demand appeared to decline as contacts noted more cautious spending habits by consumers, including fewer visits to stores and substituting toward lower-priced items. High interest rates continued to constrain the listings of existing homes for sale, which has benefited new-home builders. Employment again grew slightly as labor availability continued to improve. Wages and prices continued to grow at a modest pace. Contacts also indicated that wage and price pressures slowly subsided. Overall, contacts reported a steadier cost of goods for their inputs, as most supply chains had returned to pre-pandemic norms. Contacts continued to note a tightening of 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 continued to grow slightly. Contacts described improvements in labor availability and the ability to hire. A staffing firm noted candidates were more willing to accept positions they may have otherwise turned down in recent months, highlighting that it had become easier to recruit employees for night and weekend shifts. Despite the slight growth in employment overall, a few firms across various industries reported layoffs and allowing reductions of their workforces through attrition.

In our monthly surveys, nonmanufacturing firms reported increases in full-time jobs and mostly steady levels of part-time employment. On balance, manufacturing firms reported a decrease in employment levels. The indexes for these categories were little changed from the prior period.

Firms reported that wage inflation continued to slowly abate but remained at a modest pace overall – near pre-pandemic levels. Contacts noted some ongoing wage pressure, particularly from skilled trade workers, as the supply of qualified candidates remained scarce. A contact reported a recent increase in retirements among trade workers but said many returned almost immediately as part-time employees.

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

Prices

On balance, firms reported that prices continued to rise modestly; however, they also continued to note that the rate of price increases appeared to subside. Contacts described lower and less widespread price increases compared with earlier this year but noted that year-over-year price increases remained slightly above the average increases seen before the pandemic.

In our monthly surveys, the prices paid and prices received indexes declined for nonmanufacturers, though the prices paid index remained above its nonrecession average. Among manufacturers, the prices paid index rose, and the prices received index held steady, slightly above its nonrecession average.

The indexes for future prices paid and future prices received continued to suggest that firms expect price increases over the next six months. Both indexes declined relative to last period but remained somewhat above their long-run averages.

Manufacturing

Manufacturing activity declined modestly during the period after slight growth in the prior period. The indexes for new orders and shipments returned to negative
territory after jumping higher in August. Contacts reported slower orders as customers looked to reduce inventories.

The share of firms that estimated increased total production growth for the third quarter of 2023 compared with the second quarter was the same as the share that estimated a decrease. Most firms continued to report labor supply as at least a slight constraint on capacity utilization. Over the next three months, more than one-fifth of the firms expect COVID-19 mitigation measures to be a constraint on capacity utilization, up from zero percent last quarter.

Expectations among manufacturers for growth in the next six months rose but remained somewhat subdued compared with historical averages.

**Consumer Spending**

On balance, retailers (nonauto) reported a modest decline in overall sales – a faster pace than the slight decline in the prior period. One retail contact noted that customers were visiting less frequently and substituting lower-priced goods when possible. A tourism contact reported that travelers were becoming increasingly price sensitive and spending less once they arrived at their destination. Multiple contacts expressed concern that the resumption of student loan payments may be a potential headwind for consumer spending in the coming months.

Auto dealers reported mostly steady sales during the period following a slight decline in the prior period. Contacts continued to report improved inventories, but rising interest rates and high prices weighed on demand.

Tourism activity continued to decline slightly as overall demand for leisure travel slowed from high levels throughout the region. Contacts attributed this slowdown to increased international travel, as well as weakening demand for economy hotels and more budget-friendly destinations. Meanwhile, travel to luxury destinations remained strong.

**Nonfinancial Services**

On balance, nonmanufacturing activity declined modestly after a slight decline in the prior period. The indexes for new orders and sales remained negative, as the share of firms reporting decreases exceeded the share reporting increases for both. Expectations for growth over the next six months remained subdued.

**Financial Services**

The volume of bank lending (excluding credit cards) continued to grow moderately during the period (not seasonally adjusted) – comparable with the same period last year.

During the period, District banks reported strong growth in home mortgages, auto loans, and other consumer loans. Commercial and industrial loans grew moderately, while home equity loans grew modestly, and commercial real estate loans were up slightly. Credit card volumes resumed strong growth following moderate growth last period. The pace was slightly slower than the comparable period last year.

Banking contacts and large service companies continued to report good credit quality – noting only small upticks in late payments and loan delinquencies, which remain at very low levels. Market participants continued to report a tightening of credit standards and noted that higher financing costs were especially challenging for smaller businesses.

**Real Estate and Construction**

Existing-home sales rose slightly in the current period but remained well below the level of sales observed in prior years. Brokers continued to report that inventories and rising costs were a significant constraint on sales, particularly for first-time homebuyers. New-home builders, aided by the dynamics of the existing-home market, continued to report steady sales. Multiple homebuilders noted a slowdown in prospective buyer traffic during the period but highlighted that a larger share of that traffic turned into sales.

Housing affordability remained extremely low, and rents remained high in the current period. Requests for assistance with housing and utility bills continued to dominate 211 requests in New Jersey and Pennsylvania. Roughly one-third of all requests in the two states were related to housing, while 27 percent of the requests involved utility bills.

According to contacts, construction activity for commercial real estate held steady as financing conditions for new projects remained difficult. Despite steady construction overall, contacts reported a slight slowdown in multifamily construction activity. Nonresidential leasing activity continued to fall modestly as contacts described ongoing distress in the office market.

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