Summary of Economic Activity

On balance, business activity in the Third District resumed a slight decline—as with most of 2023—following a holiday season uptick. Employment grew slightly overall, with moderate job growth in the broad economy offsetting a modest decline in manufacturing jobs. Wage and price inflation appeared to subside further—to a still-modest pace for wages but to a slight pace for prices. Despite some shipping challenges, supply chain issues were no longer a concern. Labor supply was much improved but still a concern. Contacts continued to note lower consumer spending and rising payment problems among low-income households. Housing costs appear to be a key issue for all households, as higher interest rates have choked off the inventory of for-sale homes. Expectations for economic growth over the next six months remained positive but also remained below historical averages.

Labor Markets

Employment continued to grow at a slight pace, based on our January and February surveys. Since December, nonmanufacturing firms have reported moderate increases in full-time jobs and slight increases in part-time jobs and in the average employee workweek. Manufacturing firms reported a modest decline in employment and little change in the average workweek. Many contacts continued to note an increase in job applicants, although often of poor quality. Staffing firms also noted rising order activity, which had been soft for much of last year. A community agency that trains young people in computer skills for entry-level jobs at wages above $17 an hour described the job market as robust.

Firms reported that wages continued to grow modestly, yet the rate of growth subsided and was just above pre-pandemic levels. On a quarterly basis, firms’ expectations of the one-year-ahead change in compensation cost per worker fell to a trimmed mean of 3.9 percent in the first quarter of 2024, from 4.1 percent in the fourth quarter (and from a peak of 5.8 percent in the third quarter of 2022). Expectations averaged 3.2 percent before the pandemic.

Prices

On balance, firms reported that price increases subsided significantly—still at a pace in the modest range, but now more typical of the lower end of the range observed before the pandemic. Firms reported that increases in prices received for their own goods and services over the past year fell significantly in the first quarter of 2024 compared with the fourth quarter of 2023. The trimmed mean for reported price changes, as indicated by responses to our quarterly survey questions, fell to 2.0 percent from 3.6 percent for all firms. Price increases fell to 1.3 percent among nonmanufacturers and to 2.9 percent for manufacturers.

Manufacturing

Overall, manufacturing activity declined slightly during the period following a moderate decline in the prior period. The index for new orders fell modestly, but the shipments index rose slightly on net.
Expectations among manufacturers for growth in the next six months waned somewhat in January but returned to a modest level in February—still below historical averages. More than 40 percent of the firms expected increases in new orders and in shipments.

**Consumer Spending**
On balance, retailers (nonauto) reported a slight decline in real sales after holding steady through the holiday period. These contacts tend to serve lower- and middle-income consumers. While they have noted further belt-tightening and coupon counting, they have not seen higher-income consumers trading down yet.

Auto dealers reported slightly lower sales of new cars after adjusting somewhat for seasonal trends. Contacts noted that fully electric vehicles are selling slowly and piling up on dealer lots. Other models are selling well. Affordability remains a problem with high prices and high borrowing costs. A law firm’s clients have reported increased repossessions as more customers struggle to keep up with payments.

Overall, tourism continued to slow slightly as various segments normalize following the pandemic. Leisure travel continued to fall from high levels and was further hurt by poor skiing conditions. Business and group travel continued to slowly improve, especially in urban markets.

**Nonfinancial Services**
On balance, nonmanufacturing activity continued to grow slightly. The sales/revenues index continued to suggest a modest pace, while the index for new orders (slightly negative on net) edged closer to zero. A publishing firm noted a widespread decline in advertising dollars. A household moving company noted that weak home sales had driven firms out of business—claiming that conditions “are the worst they have ever been in my career, which dates back to 1968.”

Current sentiment of firms appeared to deteriorate again. The index of general activity for the region returned to negative territory, where it has been for 16 of the past 17 months. The index of general activity at the firm level fell to near zero. Nevertheless, expectations among nonmanufacturers for growth in the next six months improved slightly but remained well below historical averages.

**Financial Services**
The volume of bank lending (excluding credit cards) grew slightly during the period (not seasonally adjusted)—slower than the moderate pace observed last period and the modest pace one year ago.

During the period, District banks reported modest growth in home mortgages, auto loans, and commercial real estate lending. The volume of home equity lines and commercial and industrial loans were essentially flat. Credit card volumes fell significantly as consumers paid down balances that surged during the year-end holiday season. However, other consumer loans rose moderately.

Banking contacts continued to note generally sound credit quality. Banks and business clients agreed that higher interest rates had lowered demand for loans, while tighter access to credit had lowered the potential supply. Contacts from accounting, banking, law firms, service firms, and community service agencies reported higher delinquencies, defaults, nonpayment by consumers, and use of credit to buy necessities.

**Real Estate and Construction**
Brokers reported that existing-home sales edged lower from levels that were already extremely low. The inventory of for-sale properties remained extremely low as it has since the pandemic began. However, brokers noted that higher interest rates have severely limited new listings over the past year and were responsible for the significantly lower level of closings. Stories have re-emerged of multiple offers, cash sales, and buyers paying well above the asking price.

New-home builders continued to report steady sales at relatively strong levels, in part because of the lack of existing for-sale homes. Most expect their pipeline of contracts to keep construction busy through the year.

In nonresidential markets, leasing activity and transaction volumes continued to decline slightly. Contacts noted some strength in retail and in warehousing but continued concern for the office market as leases expire and loans come due. One contact from a large law firm noted that its distressed real estate practice is “back full throttle.”

Current construction activity appears to have slowed slightly, according to contractors and the firms that supply them. The pipeline for most commercial real estate continues to shrink, while projects hold steady for institutions and expand for preliminary land development and for public infrastructure.

For more information about District economic conditions, visit www.philadelphiaced.org/regional-economy.