



Summary of Economic Activity

On balance, business activity in the Third District was up slightly, after being steady last period. Employment continued to grow at a slight pace, led by hiring among nonmanufacturers. Wage inflation continued at a modest pace, with wage pressures continuing to moderate. Firm price inflation ticked up to a modest pace, despite contacts reporting more pushback against price increases. Activity in staffing and recruitment was reported slightly up this period because of increased demand for labor and more candidates seeking out career opportunities. Sales of existing homes improved slightly, and new listings edged up steadily throughout the period. Average sales prices of homes continued to increase. Expectations for economic growth over the next six months edged down slightly, but there was continued widespread optimism among manufacturers, while expectations for nonmanufacturers moderated and optimism was less widespread.

Labor Markets

Employment grew slightly, unchanged from last period. Based on our April and May surveys, nonmanufacturers reported slight increases in full-time jobs, unchanged from March, and a slight increase in part-time jobs, up from a slight decline. Manufacturing firms continued to report modest declines in employment and overall declines in the average workweek. Meanwhile, the average workweek for nonmanufacturers ticked up.

Staffing and recruitment contacts reported a slight uptick in activity this period, after being steady last period. Contacts reported a stronger demand for labor, as some manufacturers and firms with seasonal staffing needs ramp up hiring. More candidates are also searching for jobs, as evidenced by increased visits to staffing contacts' offices. Several contacts reported less staff turnover and a wider candidate pool. For instance, one contact reported receiving 400 résumés for a finance position within the first day of the vacancy being posted.

Wage inflation remained modest, as wage pressures continued to subside. On a quarterly basis, firms' expectations of the one-year-ahead change in compensation cost per worker fell further to a trimmed mean of 3.3 percent in the second quarter of 2024, down from 3.9 percent in the prior quarter.

Prices

On balance, firm price inflation was modest this period, up from a slight pace in March. Firms reported that increases in prices received for their own goods and services over the past year edged up in the second quarter of 2024 compared with the first quarter. The trimmed mean for reported price changes, based on responses to our quarterly survey, rose to 2.3 percent from 2.0 percent for all firms. Price increases rose to 1.8 percent from 1.2 percent among nonmanufacturers and edged down to 2.8 percent from 2.9 percent for manufacturers.

Looking ahead one year, the increases that firms anticipate in the prices for their own goods fell further. The trimmed mean for all firms fell to 2.3 percent in the second quarter of 2024, from 2.6 percent in the first quarter of 2024. The expected rate of growth fell from 3.5 percent to 2.4 percent for manufacturers and rose to 2.2 percent from 1.7 percent for nonmanufacturers.

Manufacturing

On average, manufacturing activity increased modestly over the April to May period, unchanged from the prior period. The index for new orders rose moderately in April and then declined slightly in May. The shipments index declined and turned slightly negative.

Expectations among manufacturers for growth over the next six months edged down slightly from March but

continued to be widespread. More than 55 percent of the firms expected increases in new orders and in shipments.

Consumer Spending

Retailers (nonauto) continued to report slight decreases in sales. In-store visits continued to be flat to down slightly. Contacts reported that consumers continued to spend less on each trip as they continue to adjust to higher prices.

Auto dealers again reported slightly higher sales of new cars in the current period owing to continued strong consumer demand. Although auto prices have begun to moderate and dealers and manufacturers are offering promotions, affordability remains a concern because of high interest rates. While regulations at the federal level mandate increased sales of electric vehicles, auto contacts are worried about the potential mismatch between the increased supply and the weak demand for electric vehicles even with increased incentives.

Although the start to the year was slow, tourism grew slightly this period, after slowing slightly last period. One contact reported April was a good month for leisure tourism in the Philadelphia area despite some local consumers being more price sensitive and a low number of international visitors. Hotel demand as measured by nights sold and total revenue rose modestly year over year. Corporate and group travel were up slightly but still below pre-pandemic levels.

Nonfinancial Services

Nonmanufacturing activity increased modestly over April and May, following a slight decline last period. The sales/revenues index increased moderately—up from a near-zero reading. The index for new orders was flat on average, after being slightly negative in March.

Firms' current sentiment improved this period. Nonmanufacturers' perceptions of general activity for the region have improved consistently since March but remained in negative territory in May. At the firm level, nonmanufacturers have reported moderate increases in the general activity index over April and May.

Expectations among the nonmanufacturers for their own growth over the next six months were modest, significantly down from March and below historical averages.

Financial Services

The volume of bank lending (excluding credit cards) grew moderately during the period (not seasonally adjusted), up from slight growth last period and unchanged from the moderate pace of one year ago.

District banks reported strong growth in commercial real estate lending and home mortgages. Volumes of home equity lines increased moderately, while consumer lending (other than auto and credit cards) held steady. Auto lending grew modestly, and commercial and industrial lending grew moderately. Credit card volumes fell moderately after modest growth during the same period one year ago.

Banking contacts continued to report good credit quality, with only minor upticks in delinquencies and charge-offs. An overarching concern among contacts was the high cost of capital that prevented capital expenditures and deterred many of their business clients' investment plans.

Real Estate and Construction

Existing home sales continued to grow slightly this period. The inventory of for-sale properties continued to edge up slightly through April—with the spring market bringing a low but constant flow of listings after year-over-year declines last year. Average sales prices continued to grow, and some properties continued to attract multiple offers and above-asking prices.

With still lower-than-normal inventory levels of existing homes for sale and strong demand for housing, new-home builders continued to report strong sales. One contact noted that homes are sold out through May 2025, but with demand still strong, the firm reduced its marketing budget to slow that demand.

In nonresidential markets, leasing activity and transaction volumes continued a slight decline. One contact noted some strength in logistics and warehousing; however, the office subsector remains subdued.

Nonresidential construction activity was muted, unchanged from last period. While some contacts reported less activity in this subsector, another contact that continued to be busy noted that several public infrastructure projects in planning and design could boost activity in the near term. ■

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