Summary of Economic Activity
On balance, business activity in the Third District continued to grow slightly. Nonmanufacturing continued to grow modestly and reported increasing their workforce. Wage inflation remained modest, with wage pressures at or below pre-pandemic norms. Firm costs and prices continued to rise modestly, although firms noted increasing price competition from rivals in response to consumer pushback. Staffing firms noted little change in overall demand, citing lower turnover rates. Firms reported greater ease of hiring, and job-training nonprofits reported ongoing strong demand for their candidates. Expectations for economic growth over the next six months remained slightly positive overall but differed widely between manufacturers, whose optimism waned considerably, and other firms, among whom positive expectations grew significantly more widespread.

Labor Markets
Employment increased to a modest pace of growth, following a slight pace in the prior period. Based on our June survey, a significant share of nonmanufacturing firms reported increases in full-time and part-time jobs—the broadest dispersion of job gains in the past 18 months. In contrast, more than three-fourths of manufacturing firms reported no change in employment, and the net dispersion was slightly negative. Although several firms noted that they were reducing hours and overtime to adjust for lower demand rather than implementing layoffs, the average workweek ticked up across all types of firms.

Staffing contacts reported little change in demand, noting that clients were holding on to their people and employees were holding on to their jobs. Labor shortages were still noted for specialty trades, engineers, and accountants, but most firms reported it was easier to fill vacancies. One contractor received 20 applications for electrical jobs—"the most I have seen in the last 20 years."

Nonprofit agencies that offer training programs to an unskilled workforce reported that the pool of interested employers and willing trainees continues to expand. They also predicted that demographic trends will continue to cause labor shortages for 15 more years. Meanwhile, many business contacts reported lower employee turnover and little or no wage pressure for most jobs. An accounting firm noted that its overall staff turnover in 2023 was the lowest in company history.

Overall, wage inflation remained at a modest pace. Among nonmanufacturers, the distribution of firms reporting higher wage and benefit costs per employee (28 percent) was slightly lower than in the mid-2010s, when modest wage growth prevailed. Most reported no change. An accounting firm’s clients reported that their planned annual wage increases were lower than last year’s. Moreover, for many clients, increases would be lower than pre-pandemic increases. One staffing firm reported that current wage increases were in the 3 to 4 percent range.

Prices
On balance, firm prices continued to rise at a modest pace. The monthly prices paid indexes edged lower overall and were slightly below their nonrecession averages. In contrast, the monthly indexes for prices received for firms’ own goods and services edged higher and were slightly above their nonrecession averages.

Most contacts noted little to no remaining supply chain issues and few commodity price spikes. Having anticipated higher costs, some sectors, such as construction, saw their margins grow when costs fell instead. With more stable cost trends, many sectors are experiencing price competition as consumers push back on end-user prices.

Manufacturing
Manufacturing activity edged down—a trend observed near the end of the prior period. New orders and shipments remained slightly or modestly negative in June.
Manufacturers’ expectations for growth over the next six months slipped significantly. The percentage of firms expecting increases in new orders and shipments fell from more than one-half to about one-third. The share expecting decreases rose.

**Consumer Spending**

On balance, retailers (nonauto) continued to report slight decreases in real sales. Reports varied from slight pickups of visits and spending to modest drops in traffic and sales. Most contacts noted that they and their competitors were increasingly discounting and bundling products to appeal to a broader base of consumers.

Auto dealers noted that demand for new cars remained high but that the widespread impact of a cyberattack on car dealership software caused June sales (as recorded) to fall modestly. However, July sales may be correspondingly higher as delays in paperwork will cause some actual June sales to be recorded in July.

On balance, tourism activity held steady across the District. Contacts described pockets of growth in Center City Philadelphia and rising demand for outdoor activities aided by a stretch of favorable weather in the mountains and at the shore. However, most contacts noted that tourists’ ongoing price sensitivity was dampening sales at hotels and restaurants.

**Nonfinancial Services**

Nonmanufacturing activity continued to increase modestly in June. The indexes for new orders and for sales and revenues were positive and somewhat lower than their long-term nonrecession averages.

Firms’ current sentiment improved further this period. Nonmanufacturers’ perceptions of general activity for the region edged back into positive territory for just the fourth time in the past two years. At the firm level, nonmanufacturers have reported moderately positive increases for three consecutive months. Expectations among nonmanufacturers for their own growth over the next six months broadened significantly. The share of firms expecting increases doubled since May.

**Financial Services**

The volume of bank lending (excluding credit cards) held steady during the period (not seasonally adjusted), a substantial slowdown from the moderate growth last period and the modest-to-moderate pace of one year ago.

District banks reported modest growth in home mortgages and home equity lines. Commercial real estate lending grew slightly and consumer lending (other than auto and credit cards) was flat. Auto lending edged down, and commercial and industrial lending fell modestly. Credit card volumes rebounded following a moderate decline last period, but the pace was strong during the same period one year ago.

Banking contacts reported two seemingly contradictory trends. Most reported that many of their own clients were holding off on investment plans because of high interest rates and general uncertainty. A few also reported that there was incredible demand for loans, especially for commercial and real estate projects. Accounting and law firms noted that because bank financing is increasingly difficult to secure, some clients are shopping around for loans, which helps explain the apparent contradiction.

One banker observed that lenders need to be careful to adhere to their credit standards with new clients. Most contacts reported that they are being careful and continue to experience very low delinquency rates.

**Real Estate and Construction**

Brokers reported that existing-home sales continued to grow slightly. Likewise, new listings edged higher, adding somewhat to the inventory of for-sale properties. However, brokers continued to describe a hot seller’s market with an increasing use of escalation clauses in buyers’ offers.

New-home builders reported a slight slowdown in demand, especially at higher price points. Contacts cited price fatigue and a rising supply of new and existing inventory as possible factors but were generally unsure of the primary cause of the slowdown. Several builders noted that they had raised prices or reduced marketing in part to quell demand because they had more than a year’s worth of new homes to build under contract.

In the office market, leasing activity and transaction volumes have begun to pick up as “people are now selling at realistic values,” according to one contact. Several contacts noted that workers are continuing to increase their in-office days; however, lease renewals still tend to seek smaller spaces. The problem is largely constrained to the local Philadelphia market, where one Center City building recently sold for a third of its pre-pandemic price.

Nonresidential construction activity held steady at lower levels, as completed projects were replaced in the pipeline by newer entries—largely industrial, institutional, infrastructure, and multifamily projects.

For more information about District economic conditions, visit [www.philadelphiasfed.org/regional-economy](http://www.philadelphiasfed.org/regional-economy).