Summary of Economic Activity

On balance, aggregate business activity in the Third District maintained a modest pace of growth during the current Beige Book period, although slowing occurred among service sectors and some real estate activity declined. The labor market remains tight, which continued to constrain hiring at a modest pace and to apply moderate upward wage pressures. Price pressures remained modest and eased a bit for service sectors. Nonfinancial services eased back to a modest pace of growth, while manufacturing and nonauto retail sales maintained a modest pace. Auto sales were essentially unchanged, and tourism activity continued to grow slightly. Residential real estate sectors tended to decline, while commercial real estate tended to be flat or down slightly. The growth outlook over the next six months remained positive, with half of the nonmanufacturing firms and over 40 percent of the manufacturers anticipating increases in general activity.

Employment and Wages

Employment growth continued at a modest pace during the current Beige Book period. The share of firms reporting an increase in staff generally ranged between 15 and 25 percent among broad sectors. The firms noted very little change in the average hours worked since the prior Beige Book period.

Many contacts continued to note a tight labor market; however, builders said that construction activity had peaked or was peaking and that residential and commercial contractors were beginning to scramble for new projects to keep their workers employed. Staffing firms reported ongoing difficulty hiring and retaining workers, although one firm noted that orders had slowed a bit.

On balance, wage growth continued at a moderate pace as firms typically cited increases for wages and benefits that averaged 3.0 to 3.5 percent. In one of the District's tightest labor markets, average wage rates were up 6.0 percent over the prior year. The share of nonmanufacturing contacts who reported increases in wage and benefit costs remained steady at just over one-third. One staffing firm noted that wage increases had slowed but that several clients would be evaluating starting wages in early 2019, so wage rate hikes were expected to pick back up in the first quarter.

Prices

Price increases remained modest for most firms. Moreover, compared with the prior period, a lower percentage of nonmanufacturing firms reported higher prices paid for inputs and prices received for their own goods. The share of manufacturing firms reporting increases in prices paid remained just above 40 percent, while prices received by manufacturers and prices paid by nonmanufacturers increased for about 25 percent of the firms. The share of nonmanufacturing firms reporting increases in prices received fell below 15 percent.

Looking ahead six months, nearly 60 percent of the manufacturing firms continued to anticipate paying higher prices for inputs, while those firms expecting to receive higher prices for their own goods fell to 45 percent.

Manufacturing

Manufacturing activity continued at a modest pace of growth – typical for the Third District. The percentage of firms that reported increased shipments fell somewhat, while the percentage reporting an increase in new orders edged up.

The makers of paper products, primary metal products, and electronic equipment tended to note gains in new orders and shipments; the makers of lumber products, chemicals, fabricated metal products, and industrial equipment reported mixed results. Contacts often cited labor supply issues as a deterrent to growth, in addition to supply chain problems, rising commodity prices, and uncertainty surrounding tariffs. Demand for equipment to supply the oil and gas producing sectors has slackened again.

On balance, manufacturers continued to expect general activity to increase over the next six months. Expectations of future increases in new orders, shipments, employment, and capital spending remained nearly the same as the prior period and at high levels.

Consumer Spending

Nonauto retailers reported a continuation of modest growth through the holiday season. Many contacts noted increased traffic per store and greater spending per customer – citing good weather, low gas prices, and an extended holiday shopping season as supporting factors.

Auto sales remained essentially flat compared with high 2017 levels – which continued to surprise dealers. While dealers provided early projections of slight year-over-year increases for December, in January, some dealers observed that year-end sales appeared to have slowed.

Tourism activity continued to grow slightly, according to contacts. A lack of snow hampered ski resort activity, but occupancies and spending at mountain resorts and restaurants remained solid. Growth of total Atlantic City casino revenue remained high in November, while traditional revenue from slots and table games fell again, exclusive of the two new casinos.

Nonfinancial Services

Service-sector firms reported a modest pace of growth – a notable slowdown from the prior Beige Book period. The percentage of firms reporting increased sales fell by over 20 percentage points to about 35 percent, and reports of new orders dropped 10 points to about 25 percent. Meanwhile, reports of declining sales and fewer new orders increased. Despite widespread reports of a slowdown, one large firm noted that its customers remain current on their bills. Expectations of future growth remained relatively strong but did fall to half of firms from two-thirds in the prior period.

Financial Services

Financial firms continued to report modest growth on a year-over-year basis in credit card lending and in overall loan volumes (excluding credit cards).

During the current period (reported without seasonal adjustments), volumes grew moderately in mortgages and in commercial and industrial lending; grew modestly in commercial real estate; and declined somewhat in home equity lines, auto loans, and other consumer loans (not elsewhere classified).

Bankers continued to note a strong underlying economy but reported that clients were "jittery" due to economic uncertainty. Contacts continued to cite strong competition for deposits and quality loans but noted little concern over credit quality deterioration.

Real Estate and Construction

According to homebuilders, activity appears to have fallen modestly – one large builder reported that the market had softened further in November. A smaller central Pennsylvania builder noted slow sales through year-end and the "lowest traffic in eight to 10 years," while a South Jersey builder reported okay sales but that its backlog was down 14 percent compared with last year.

Existing home sales continued to decline moderately across most local markets – hampered by extremely low inventories. However, recent sales and an inventory drawdown have strengthened the Poconos market, which has labored with an excess of foreclosed properties since the Great Recession.

On balance, commercial real estate construction continued to decline slightly off high levels. Contacts noted ongoing strength in industrial/warehouse properties, except in areas with an insufficient labor supply. While architects and engineers remain busy, the pipeline is thinning for new office, retail, and high-rise residential projects. Contractors are preparing for a slight decline in 2019 activity. Commercial leasing activity has held steady, but analysts note an abundance of caution among market participants. ■

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